# Guinness Emerging Markets Equity Income Fund

## INVESTMENT COMMENTARY – August 2018

| | |
|---|---|
| **Launch date** | **23.12.16** |
| **Team** | **Edmund Harriss** (manager)<br>**Mark Hammonds** (manager)<br>**Sharukh Malik** (analyst) |

**Aim**

The Guinness Emerging Markets Equity Income Fund is designed to provide investors with exposure to high quality dividend-paying companies in Emerging Markets world-wide. The Fund aims to provide long-term capital appreciation and a source of income that has the potential to grow over time.

**Performance** 31/07/2018

| | |
|---|---|
| **Fund** | Guinness Emerging Markets Equity Income (Z) |
| **Index** | MSCI Emerging Markets Index |
| **Sector** | IA Global Emerging Markets |

| | 2015 | | 2016 | | 2017 | |
|---|---|---|---|---|---|---|
| | USD | GBP | USD | GBP | USD | GBP |
| **Fund** | - | - | - | - | 38.4 | 26.4 |
| **Index** | -14.6 | -10.0 | 11.6 | 32.6 | 37.8 | 25.4 |
| **Sector** | -15.1 | -10.2 | 9.7 | 30.8 | 36.2 | 24.4 |

| | YTD | | 1 year | | From launch | |
|---|---|---|---|---|---|---|
| | USD | GBP | USD | GBP | USD | GBP |
| **Fund** | -3.0 | 0.0 | 9.5 | 10.0 | 31.5 | 22.0 |
| **Index** | -4.6 | -1.6 | 4.4 | 4.9 | 31.6 | 22.1 |
| **Sector** | -6.4 | -3.5 | 1.6 | 2.1 | 28.4 | 19.2 |

**Annualised % total return from launch**

| | USD | GBP |
|---|---|---|
| **Fund** | 19.7% | 14.0% |
| Index | 20.3% | 14.5% |
| Sector | 17.9% | 12.3% |

**Risk analysis** (annualised, weekly, from launch)

| | Index | | Sector | | Fund | |
|---|---|---|---|---|---|---|
| | USD | GBP | USD | GBP | USD | GBP |
| **Alpha** | 0.0 | 0.0 | 0.0 | 0.0 | 3.6 | 3.6 |
| **Beta** | 1.0 | 1.0 | 0.9 | 0.9 | 0.8 | 0.8 |
| **Info ratio** | 0.0 | 0.0 | -0.5 | -0.5 | 0.1 | 0.1 |
| **Max drwdn** | -15.0 | -15.0 | -14.9 | -14.9 | -13.4 | -13.4 |
| **Tracking err** | 0.0 | 0.0 | 4.3 | 4.3 | 6.2 | 6.2 |
| **Volatility** | 14.1 | 14.1 | 13.0 | 13.0 | 13.1 | 13.1 |
| **Sharpe ratio** | 1.1 | 1.1 | 1.0 | 1.0 | 1.2 | 1.2 |

**Past performance should not be taken as an indicator of future performance. The value of this investment and any income arising from it can fall as well as rise as a result of market and currency fluctuations.**

Source: 0.74% OCF, Financial Express, bid to bid, total return.

# A good entry point into Emerging Markets

We are very positive on Emerging Markets (EM). The weakness in the first part of the year was the result of poor sentiment surrounding trade, the outlook for the dollar, concerns that the global cycle may have peaked and some country-specific issues. However, underlying economic growth is still good and consensus earnings growth for 2018 is 16%. Portfolio outflows in the first half have left global funds with a 7% weight to EM compared to an average of 9%. A return to the average could result in up to $320 billion of inflows to the region. Since the bottom in mid-July, markets and EM currencies have recovered and we see this as an attractive entry point. There are still risks around trade, which is why the gap between Developed Markets (DM) and EM exists. We think our Fund, which focuses on companies with an established record of superior profitability over time, is a good way to gain exposure and mitigate some of the risks.

# Fund & market

- Emerging Markets (EM) rose 2.9% in July (as measured by the MSCI Emerging Markets Index in GBP).
- The Fund outperformed, rising 3.8%, putting it 1.6% ahead of the benchmark for 2018.
- Dollar strength moderated and EM currencies stabilised overall. Brazil, Mexico and South Africa saw their currencies rebound from the lows this year while the Turkish lira remained under pressure.
- China had a more difficult month with trade tensions rising and recent economic data (loan growth, fixed asset investment and factory orders) showing signs of softening. The Yuan declined further and fell 2.9% against the dollar during the month.
- Latin America was the best-performing region, up 9.8%, led by Brazil, which rose 12.4% in GBP terms.

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Europe, the Middle East and Africa (EMEA) rose 5.4% while Asia lagged, rising 1.3%.

- Our strongest two names were Porto Seguro (an insurer) and B3 SA (Brasil Bolsa, the stock exchange), both of which rose by more than 20% in GBP. China Lilang (a clothing retailer) was the weakest in the month, down 14.6%, but it remains by far the best performer over the year to date.

# Events in July

- Andreas Manuel Lopez Obrador (known as AMLO) was confirmed as Mexico's next President. His acceptance speech reassured markets.

- Trade tensions between China and US ratcheted higher. The first group of tariffs took effect on 6th July and were followed a few days later by an announcement of more to come.

- The Chinese Yuan weakened further during the month and the PBoC has since acted to prevent 'herd-like behaviour' by increasing the costs of selling the currency.

- Korea and China have both announced measures to support growth, primarily through fiscal stimulus (both tax cuts and bringing forward spending plans).

- Trade tensions between the US and EU eased, to the benefit of EM Europe which is most exposed to export manufacturing.

# Outlook

- Dollar strength is likely to ease, in our view.

- Company earnings have been revised down this year but seem likely to hold up. Earnings in Asia are forecast to rise 11% in 2018 (China 16%), in Latin America 16% and EMEA 8.5%.

- Companies in the Fund are reporting results that are coming in ahead of expectations and we are looking forward to a better second half of the year as investors reallocate back to EM, which overall is trading at valuations that are lower than average.

# Good companies, not good guesses

Our emphasis on stock picking rather than top-down analysis makes us very different among emerging markets funds. Most of our competitors try to position themselves for cyclical trends and specific events – such as elections. A recent research piece looked at the effect of election cycles in Latin America and what happened when the preferred candidate won or lost. The problem, of course, is that the outcomes are binary (you're either right or you're wrong) and in the case of the 25 elections that were included in the study, the outcomes were evenly split: in 13 cases the preferred candidate won and in 12 cases they lost. If you're sure which way an election is going to go then we would point out that six weeks before the US election the likelihood of a Clinton victory was reckoned at 83%.

However, there are good companies in the emerging markets world whose good business models and management skills can be identified by their many years of returns on capital above the cost of capital. We hold a couple of insurers that fit this mould: Porto Seguro in Brazil and Ping An in China.

It does not matter whether it is Aviva, Axa, Legal & General, Standard Life or Swiss Re: insurance companies are not popular. With poor customer perception and facing intense competition, these businesses are trying to reinvent themselves and to offer a range of services beyond simple compensation. In the Fund we have invested in a couple of names that are making significant efforts to bolster their positions. Porto Seguro in Brazil is a high-price insurance provider in the property and casualty sector but has continued to grow market share. Over the last twenty years it has created an array of services (car parking and repairs to plumbing and electrics for the home) and has advertised them aggressively. People seem to like it. Instead of being simply nice-to-have, the services business is a material source of profit which in 2017 contributed 15% of net profit for the year.

Ping An has probably become the most aggressive in moving its business away from the traditional model. At 30 years old, the company is young compared to its venerable peers but has more than 160m individual customers. It has invested heavily in technology (over £1.1bn last year), enabling faster damage assessment and processing. Car accident claims can often be processed and paid in 24 hours. Ancillary services through its apps can include health advice and car buying. The company anticipates continuing pressure in its core business and is therefore looking at ways to develop scaleable revenue streams in areas that require minimal capital to make the most of its large audience.

Porto Seguro (market cap £3.5bn) has achieved a real return on capital of over 9.5% every year for the past 15 years and has recorded average annual dividend growth of 11% per annum over five years, which is in line with the net profit growth over the same period. The company's historic yield is 3%. Ping An (market cap £124.3bn in total, with £52.3 billion traded in Hong Kong) has achieved a real return on capital of over 9% for the past nine years and has recorded average annual dividend growth of 45% per annum over the past five years. Net profit grew by 35% on average over the same period and the dividend payout ratio increased from 18% in 2012 to 30% in 2017. The company's historic yield is 2.5%.

# Summary view & outlook

We will report on company earnings in more detail next month but the signs so far from Asia have been very good. Information Technology names including Catcher Technology, Elite Material and Novatek Microelectronics have been coming in ahead of expectations and seeing good share price moves in consequence. The second half of the year looks promising, although trade tensions remain a significant overhang and are weighing on sentiment. Any easing of these could stimulate a rally in EM and in the Asian component in particular.

**Edmund Harriss**
**Mark Hammonds** (portfolio managers)
**Sharukh Malik** (analyst)

**Data sources**

Fund performance: *Financial Express, total return*

Index and stock data: *Bloomberg*

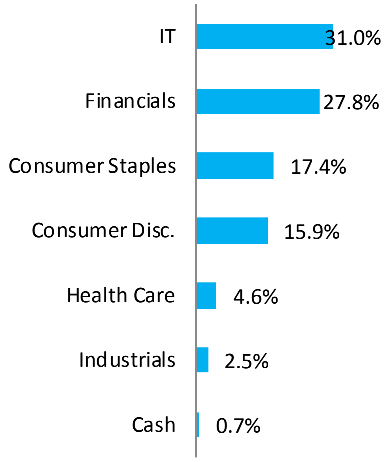
## PORTFOLIO

31/07/2018

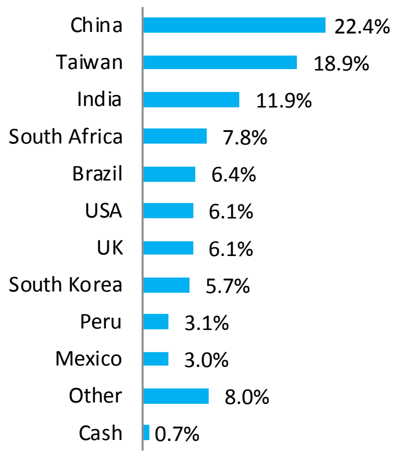
### Fund top 10 holdings

| | |
|---|---|
| B3 SA - Brasil Bolsa Balca | 3.2% |
| Porto Seguro | 3.2% |
| TATA Consultancy Service | 3.1% |
| British American Tobacco | 3.1% |
| Qualcomm | 3.1% |
| Infosys | 3.1% |
| Credicorp | 3.1% |
| Indiabulls Housing Finan | 3.0% |
| Coca-Cola Femsa SAB | 3.0% |
| Taiwan Semiconductor | 3.0% |
| % of Fund in top 10 | 30.9% |
| Total number of stocks | 36 |

### Sector analysis




### Geographic allocation




## PERFORMANCE

31/07/2018

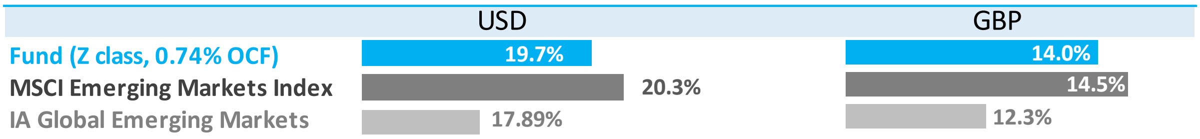
### Discrete years % total return

| | Jul '14 | | Jul '15 | | Jul '16 | | Jul '17 | | Jul '18 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | USD | GBP | USD | GBP | USD | GBP | USD | GBP | USD | GBP |
| Fund (Z class, 0.74% OCF) | - | - | - | - | - | - | - | - | 10.1 | 8.3 |
| MSCI Emerging Markets | 14.7 | 1.7 | -4.8 | 3.5 | -11.7 | 3.9 | 24.2 | 27.8 | 8.6 | 6.8 |
| IA Global Emerging Markets Sector | 14.7 | 1.7 | -7.2 | 0.9 | -11.7 | 3.9 | 23.9 | 27.5 | 5.4 | 3.7 |

### Cumulative % total return

| | 1 month | | Year-to-date | | 1 year | | 3 years | | From launch | |
|---|---|---|---|---|---|---|---|---|---|---|
| | USD | GBP | USD | GBP | USD | GBP | USD | GBP | USD | GBP |
| Fund (Z class, 0.74% OCF) | 3.1 | 3.8 | -3.0 | 0.0 | 9.5 | 10.0 | - | - | 31.5 | 22.0 |
| MSCI Emerging Markets | 2.2 | 2.9 | -4.6 | -1.6 | 4.4 | 4.9 | 29.3 | 53.8 | 31.6 | 22.1 |
| IA Global Emerging Markets Sector | 2.0 | 2.6 | -6.4 | -3.5 | 1.6 | 2.1 | 24.6 | 48.2 | 28.4 | 19.2 |

### Annualised % total return from launch




### Risk analysis - Annualised, weekly, from launch on 23.12.2016

| 31/07/2018 | Index | | Sector | | Fund | |
|---|---|---|---|---|---|---|
| | USD | GBP | USD | GBP | USD | GBP |
| Alpha | 0.0 | 0.0 | 0.0 | 0.0 | 3.6 | 3.6 |
| Beta | 1.0 | 1.0 | 0.9 | 0.9 | 0.8 | 0.8 |
| Information ratio | 0.0 | 0.0 | -0.5 | -0.5 | 0.1 | 0.1 |
| Maximum drawdown | -15.0 | -15.0 | -14.9 | -14.9 | -13.4 | -13.4 |
| R squared | 1.0 | 1.0 | 0.9 | 0.9 | 0.8 | 0.8 |
| Sharpe ratio | 1.1 | 1.1 | 1.0 | 1.0 | 1.2 | 1.2 |
| Tracking error | 0.0 | 0.0 | 4.3 | 4.3 | 6.2 | 6.2 |
| Volatility | 14.1 | 14.1 | 13.0 | 13.0 | 13.1 | 13.1 |

**Past performance should not be taken as an indicator of future performance. The value of this investment and any income arising from it can fall as well as rise as a result of market and currency fluctuations.**
Source: Financial Express, bid to bid, total return (0.74% OCF). Fund launch date: 23.12.2016.

Past performance should not be taken as an indicator of future performance. The value of investments and any income arising from them can fall as well as rise as a result of market and currency fluctuations.

# Important information

**Issued by Guinness Asset Management Limited**, authorised and regulated by the Financial Conduct Authority.

This report is primarily designed to inform you about Guinness Emerging Markets Equity Income Fund. It may provide information about the Fund's portfolio, including recent activity and performance. It contains facts relating to the equity markets and our own interpretation. Any investment decision should take account of the subjectivity of the comments contained in the report.

This document is provided for information only and all the information contained in it is believed to be reliable but may be inaccurate or incomplete; any opinions stated are honestly held at the time of writing, but are not guaranteed. The contents of the document should not therefore be relied upon. It should not be taken as a recommendation to make an investment in the Fund or to buy or sell individual securities, nor does it constitute an offer for sale.

## Risk

The Guinness Emerging Markets Equity Income Fund is an equity fund. Investors should be willing and able to assume the risks of equity investing. The value of an investment and the income from it can fall as well as rise as a result of market and currency movement, and you may not get back the amount originally invested. Details on the risk factors are included in the Fund's documentation, available on our website. Shareholders should note that all or part of the fees and expenses will be charged to the capital of the Fund. This will have the effect of lowering the capital value of your investment.

## Documentation

The documentation needed to make an investment, including the Prospectus, the Key Investor Information Document (KIID) and the Application Form, is available from the website www.guinnessfunds.com , or free of charge from:-

- the Manager Link Fund Manager Solutions (Ireland) Ltd, 2 Grand Canal Square, Grand Canal Harbour, Dublin 2, Ireland; or,
- the Promoter and Investment Manager: Guinness Asset Management Ltd, 14 Queen Anne's Gate, London SW1H 9AA.

## Residency

In countries where the Fund is not registered for sale or in any other circumstances where its distribution is not authorised or is unlawful, the Fund should not be distributed to resident Retail Clients.

**NOTE: THIS INVESTMENT IS NOT FOR SALE TO U.S. PERSONS.**

## Structure & regulation

The Fund is a sub-fund of Guinness Asset Management Funds PLC (the "Company"), an open-ended umbrella-type investment company, incorporated in Ireland and authorised and supervised by the Central Bank of Ireland, which operates under EU legislation. If you are in any doubt about the suitability of investing in this Fund, please consult your investment or other professional adviser.

## Switzerland

The prospectus and KIID for Switzerland, the articles of association, and the annual and semi-annual reports can be obtained free of charge from the representative in Switzerland, Carnegie Fund Services S.A., 11, rue du Général-Dufour, 1204 Geneva, Switzerland, Tel. +41 22 705 11 77, www.carnegie-fund-services.ch. The paying agent is Banque Cantonale de Genève, 17 Quai de l'Ile, 1204 Geneva, Switzerland.

## Singapore

The Fund is not authorised or recognised by the Monetary Authority of Singapore ("MAS") and shares are not allowed to be offered to the retail public. The Fund is registered with the MAS as a Restricted Foreign Scheme. Shares of the Fund may only be offered to institutional and accredited investors (as defined in the Securities and Futures Act (Cap.289)) ('SFA') and this material is limited to the investors in those categories

**Telephone calls** will be recorded and monitored.