Guinness Emerging Markets Equity Income Fund

INVESTMENT COMMENTARY – September 2018

Launch date	**23.12.2016**
Team	**Edmund Harriss** (manager) **Mark Hammonds** (manager) **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 31/08/2018

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	-6.2	-2.4	2.2	1.3	31.5	22.0
Index	-7.2	-3.4	-0.7	-1.5	31.6	22.1
Sector	-9.9	-6.3	-3.9	-4.7	28.4	19.2

Annualised % total return from launch

	USD	GBP
Fund	17.4%	13.4%
Index	17.7%	13.7%
Sector	14.7%	10.8%

Risk analysis (annualised, weekly, from launch)

	Index		Sector		Fund	
	USD	GBP	USD	GBP	USD	GBP
Alpha	0.0	0.0	0.0	-0.5	5.1	3.2
Beta	1.0	1.0	1.0	0.8	0.9	0.8
Info ratio	0.0	0.0	0.0	-0.5	0.7	0.2
Max drwdn	-18.3	-9.9	-18.4	-9.6	-14.6	-8.1
Tracking err	0.0	0.0	0.0	4.1	6.1	6.3
Volatility	14.1	13.4	13.0	11.8	12.9	12.5
Sharpe ratio	0.9	0.6	0.7	0.5	1.0	0.8

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.

Fund & market

- Emerging Market (EM) currencies have been the big story in the past month. This is in sharp contrast to good news on both economic growth and corporate earnings.

- This divergence between weak sentiment but decent underlying growth and profits underpins our view that now is a good opportunity to build EM positions.

- Emerging Markets fell back 1.4% in GBP terms in August as measured by MSCI Emerging Markets Net Total Return Index.

- Trade worries may have been most talked about, but the Asian region was the best performer, rising 0.5%, even though China accounts for 42% of the MSCI EM Asia Index.

- Latin America and EMEA (Europe, Middle East & Africa) fell 7.2% and 6.5% respectively.

- The Guinness Emerging Markets Equity Income Fund lagged the market by 1% (Z class, total return in GBP) following its outperformance in July. For the year to 31st August, the Fund is down 2.4% but ahead of the market.

- The weakest markets were Turkey, Brazil and South Africa, whose currencies fell 25%, 7% and 10% against the US dollar respectively. The Argentine peso also fell 26% in the month.

- There has been market talk of Emerging Markets 'contagion' but in our view this is an oversimplification. The currency falls described above are the product of issues specific to those countries and the issues themselves are different. The economic linkages between these countries are small.

- The common factor across Emerging Markets has been net outflows especially from yield-seeking fixed income funds unwinding overweight positions. On the equity side, most EM outflows were from Latin America funds.

Events in August

- With respect to the US: intensifying trade tensions with China; sanctions on Iran; sanctions on Russia; doubling of tariffs on Turkey; agreement on trade with Mexico; no agreement reached yet with Canada.

- China moved to make currency bets against the Yuan more expensive. Foreign reserves data from China suggest little currency intervention in August.

- Argentina requested an accelerated timetable for the release of funds from the IMF.

- The Brazilian election campaign showed little change in the relative positions of the candidates but on 6 September the right-wing candidate, Jair Bolsonaro, was stabbed at a rally. He is recovering but the election remains wide open.

Outlook

- We expect more of the same in the short term. Weaker currencies are likely to remain weak. The imposition of additional trade tariffs seems probable and their effects are likely to become evident from 2019. President Trump has recently upped the ante by suggesting that tariffs be imposed on all Chinese goods imported into the US.

- Although Asia is in the firing line on trade, the economies in the region are the most robust and even India, with its rising current account deficit, weak currency and elections next year, looks merely expensive, not worrisome.

- We believe our core focus on good companies with demonstrably stable businesses is a sustainable long-term approach. We continue to focus on the macro-environment but only insofar as it impacts upon our businesses.

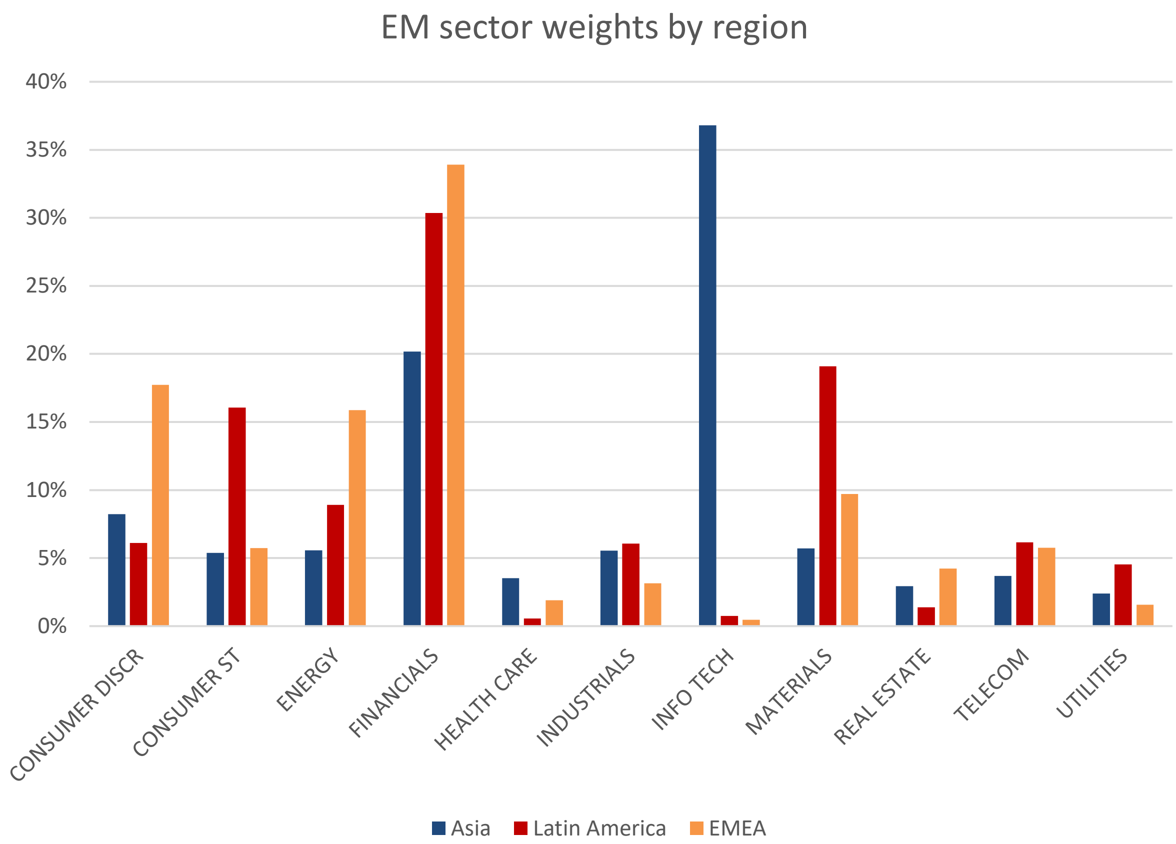
- We think the best long-term stories are to be found in the Consumer, Financial, Health Care and Technology sectors and in certain Industrial companies.

Market and yield analysis

The aim of our Fund is to provide investors with a total return through exposure to significantly different sources of profit and dividend growth to those available from domestic exposure. We are not going in search of income, but instead look for well-established businesses that generate more cash than they need to fund their growth. A focus on a higher dividend can often divert an investor from the real story; a good business is one that can convert its competitive advantage into superior profitability by which it rewards its shareholders with a combination of capital growth and growing dividends. The dividend is therefore an outcome – a natural consequence of good management and good governance.

The long-term structural themes include population growth, mass-market manufacturing, growing household incomes and the improvements in living standards that these bring. However, the Emerging Markets cannot be treated as a single bloc; economic drivers and market sector concentrations can vary widely between regions and sectors. For example, a rising oil price benefits the oil producers such as Brazil, Mexico, Qatar, Russia and Indonesia, but hurts the consumers such as India, Korea, South Africa and Thailand.

The chart below shows the sector exposures in EM by region (based on MSCI Index data as at July 31, 2018):



Source: Bloomberg

Asia accounts for 74% of MSCI Emerging Markets, Latin America 11% and EMEA 15%. All three have significant exposure to Financials, but beyond this, differences become apparent. Asia has a sizable technology manufacturing weight while Latin America and EMEA have major concentrations in Energy and Materials. Consumer Staples, which are now a small component of the Asian investment universe, are still a big part of Latin America.

Our approach is focused upon the companies we buy, the strength of the underlying businesses and the consistency of profit growth, reflected in cash flow growth that translates into dividend growth. Our assessment of macro risks to industries, country and global cyclical and financial conditions are all viewed in terms of their impact on the underlying business and the valuation of its shares.

We estimate the portfolio yield to be around 3%. Below, we show where that yield comes from on both a country and sector basis:

Country

Portfolio Weight		Estimated Yield*
5.6%	Brazil	3.52%
2.8%	Colombia	1.59%
2.7%	Mexico	2.45%
2.7%	Peru	2.07%
14.0%	**LatAm**	**2.63%**
23.9%	China	3.32%
11.3%	India	1.79%
5.8%	Korea	2.79%
3.0%	Thailand	5.61%
19.5%	Taiwan	3.27%
63.3%	**Asia**	**3.09%**
2.9%	Greece	2.53%
8.1%	South Africa	4.03%
11.0%	**EMEA**	**3.64%**
11.7%	**Others**	**3.17%**

Source: Guinness Asset Management

Sector

Portfolio Weight		Estimated Yield*
16.7%	Consumer Discr.	3.16%
16.3%	Consumer Staples	3.44%
27.8%	Financials	3.58%
5.3%	Health Care	2.94%
2.4%	Industrials	3.63%
31.5%	Technology	2.44%

* The estimated yield is based on consensus estimates which we have then adjusted for withholding taxes appropriate to a Dublin-domiciled fund.

Income, as we have said, is the product of good companies generating superior profits that are not the result of accounting tricks but are reflected in cash flows which allow the dividend. All the holdings in the Fund are dividend payers and yield is spread reasonably evenly across the portfolio on a regional and sector basis. There are variations by country: India is a lower-yielding area, for example. The proportion of earnings paid out as dividends (the payout ratio) by Indian companies has averaged 26% since 2001 and has changed little year to year. In comparison, Chinese companies have paid out 32% of their earnings on average, as measured by MSCI China.

Another conclusion to be drawn is that portfolio, in its effort to provide a total return, is not structured in such a way that relies on one group of companies to provide growth and another group to provide the income. In a portfolio with such an arrangement Growth and Value sit uneasily alongside one another, very often accompanied by higher beta as well.

Our approach offers greater consistency and internal integrity, we believe. All companies in the portfolio share the following characteristics:

1. a long track record of superior profitability, all measured by reference to the return on capital over time
2. shares which are under-priced relative to what we believe to be the likely persistence of those returns
3. a regular dividend policy which amounts to a meaningful allocation of capital
4. the capacity to grow their dividends over time

These four characteristics, which are the bedrock of our process, make it far less likely that we will make alarming lurches toward cyclical or macro themes. If the businesses themselves cannot demonstrate a track record of stability for at least eight years, which is longer than most business cycles, then it will not appear in the portfolio.

Summary view & outlook

We believe that investors ought to consider building their positions in EM in the midst of this turbulence. In 2017 the MSCI Emerging Markets Index rose almost 26% in Sterling terms; this year it has fallen 7% as at the time of writing (13 September). There is little insight offered by attributing currency weakness to portfolio flows but we think it is important to recognize that these are the single biggest determinant of short-term exchange rates. These flows are notoriously unpredictable, which is why Alan Greenspan compared exchange rate prediction to the toss of a coin.

In our view the currency falls we have seen in Argentina and Turkey are due to fundamental institutional weakness. Elsewhere, however (Brazil, Indonesia, South Africa, India), they represent a change in view, which can change back again equally fast. We emphatically do not buy into the notion of EM contagion. Levels of external debt are not universally high and current account deficits (which require funding and are measure of a country's external exposure) are not at elevated levels across the asset class. To be sure, we can construct scenarios where individual country stresses spill over, but we can do that for the Eurozone too. Our view is that while sentiment may be poor, overall financial conditions today don't lend themselves to crisis.

If investors can satisfy themselves that the companies in which they are investing are sound and that the cash profits which have distinguished them in the past are likely to continue, then depressed valuations in EM represent an opportunity to accumulate. There are three parts to the total shareholder return: profits, earnings multiple and the dividend. Our approach is designed to seek out sustainable and growing profitability which in turn should underpin a sustainable and growing dividend. In this framework, the earnings multiple is the volatile element and when it is low, we think there is opportunity.

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

Data sources

Fund performance: *Financial Express, total return*

Index and stock data: *Bloomberg*

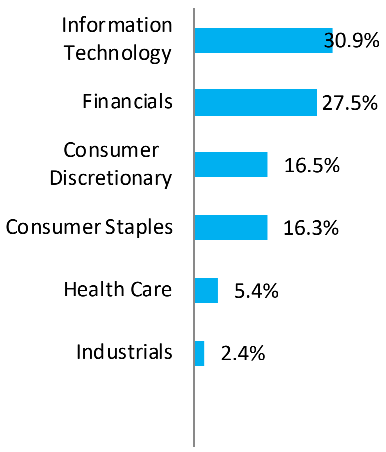
PORTFOLIO

31/08/2018

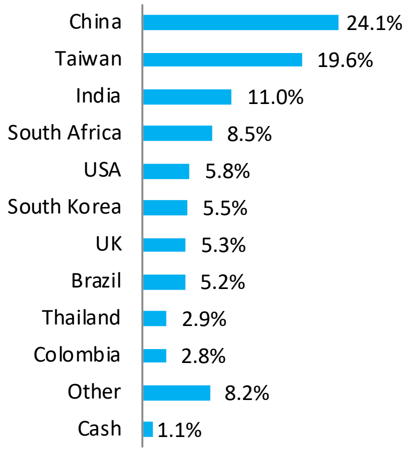
Fund top 10 holdings

Taiwan Semiconductor	3.1%
Broadcom	2.9%
Spar Group	2.9%
Qualcomm	2.9%
Tisco Financial Foreign	2.9%
Catcher Technology	2.9%
Shenzhou International	2.9%
JSE Ltd	2.8%
Ping An Insurance	2.8%
China Construction Bank	2.8%
% of Fund in top 10	28.9%
Total number of stocks	36

Sector analysis



Geographic allocation



PERFORMANCE

31/08/2018

Discrete years % total return

	Aug '14		Aug '15		Aug '16		Aug '17		Aug '18	
	USD	GBP	USD	GBP	USD	GBP	USD	GBP	USD	GBP
Fund (Z class, 0.74% OCF)	-	-	-	-	-	-	-	-	2.2	1.3
MSCI Emerging Markets	20.4	12.1	-22.7	-16.5	12.3	31.8	25.0	27.0	-0.3	-1.2
IA Global Emerging Markets Sector	19.7	11.5	-22.2	-16.0	10.9	30.2	23.2	25.3	-3.9	-4.7

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)	-3.3	-2.4	-6.2	-2.4	2.2	1.3	-	-	31.5	22.0
MSCI Emerging Markets	-2.7	-1.8	-7.2	-3.4	-0.7	-1.5	38.3	63.7	31.6	22.1
IA Global Emerging Markets Sector	-3.7	-2.9	-9.9	-6.3	-3.9	-4.7	31.3	55.4	28.4	19.2

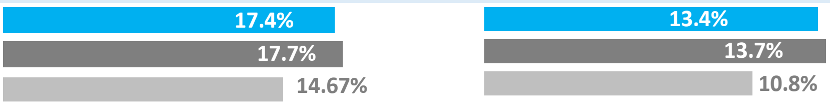
Annualised % total return from launch

USD | GBP

Fund (Z class, 0.74% OCF)

MSCI Emerging Markets Index

IA Global Emerging Markets



Risk analysis - Annualised, weekly, from launch on 23.12.2016

31/08/2018	Index		Sector		Fund	
	USD	GBP	USD	GBP	USD	GBP
Alpha	0.0	0.0	0.0	-0.5	5.1	3.2
Beta	1.0	1.0	1.0	0.8	0.9	0.8
Information ratio	0.0	0.0	0.0	-0.5	0.7	0.2
Maximum drawdown	-18.3	-9.9	-18.4	-9.6	-14.6	-8.1
R squared	1.0	1.0	1.0	0.9	0.8	0.8
Sharpe ratio	0.9	0.6	0.7	0.5	1.0	0.8
Tracking error	0.0	0.0	0.0	4.1	6.1	6.3
Volatility	14.1	13.4	13.0	11.8	12.9	12.5

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.

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.