GUINNESS

Emerging Markets Equity Income

Annual review

2018

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Portfolio managers

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Analyst

GUINNESS
ASSET MANAGEMENT

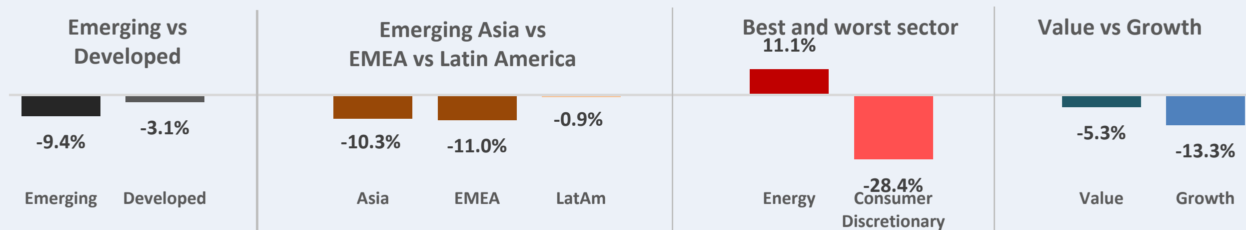
2018

Fund size

Start of year	£0.2m
End of year	£1.4m

What happened in Emerging Markets and the World?

- Trade tensions between the US and China escalated and tariffs were imposed.
- The US Federal Reserve raised interest rates four times, to a target a Federal Funds Rate of 2.25%-2.50%.
- The Brent Crude oil price rose from $66.78 at the beginning of the year to a peak of $86.09 in October before falling back to end the year at $52.65.
- China’s domestic economy showed signs of slowing, only partially explained by trade tensions. Cyclical factors as well as on-going reforms and deleveraging also exerted a drag.
- An agreement with the European Central Bank to refinance EUR20bn of Greek debt allows the country to re-enter the bond markets and spread the financial burden over the next twenty years, which significantly reduces the prospect of a Greek debt crisis.
- Jair Bolsonaro was elected in Brazil, ending the near two-decade rule of the Workers’ Party. Bolsonaro, on the right on the political spectrum, promises to tackle corruption and crime as well as reviving lacklustre economic growth.
- Turkey faced a currency crisis when the US imposed sanctions in August; markets were already worried about the government’s economic policies and at its worst the Lira was down 45% vs the dollar, though it recovered some losses after the central bank resisted political pressure and raised interest rates.
- Lopez Obrador, known as AMLO, and his leftist Morena party won Mexico’s presidential and legislative elections decisively.
- Indonesia successfully tackled its falling currency by raising interest rates six times in 2018; with an economy forecast to grow over 5% this year and next, it can afford to do so.
- South Africa is entering a more troubled period. The optimism that greeted Cyril Ramaphosa’s slender victory has fully dissipated and new elections loom with populist demands focused on racial rather than economic issues.



Total return in USD; MSCI World, MSCI Golden Dragon & MSCI Emerging Markets Index; MSCI China & Hong Kong & Taiwan Index; MSCI China Value & Growth Index.

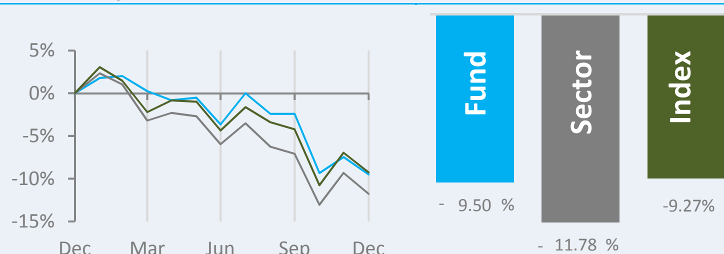
What happened in the Fund?

- The fund fell 9.5% in 2018 (Z class, in GBP terms) compared to the MSCI Emerging Markets NTR Index which fell 9.3%.
- 20 of our 36 names outperformed during the year but these were offset by some hard hits to some of the sixteen underperformers.
- The fund’s top stocks were Porto Seguro, Tata Consultancy Services, Novatek Microelectronics, Infosys and Shenzhou International.
- The weakest stocks were AAC Technologies, China Medical System, British American Tobacco, St Shine Optical and Hon Hai Precision.
- One switch was made. We sold Hollysys Automation and in its place bought China Minsheng Banking Corporation.

Performance (%)

Cumulative since launch

Calendar year 2018



Fund Guinness Emerging Markets Equity Income Fund

Sector IA Global Emerging Markets

Index MSCI Emerging Markets

Cumulative % gross total return, in GBP.
Source: Financial Express, Z Class (0.74% OCF)

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 fluctuation

2018 in review

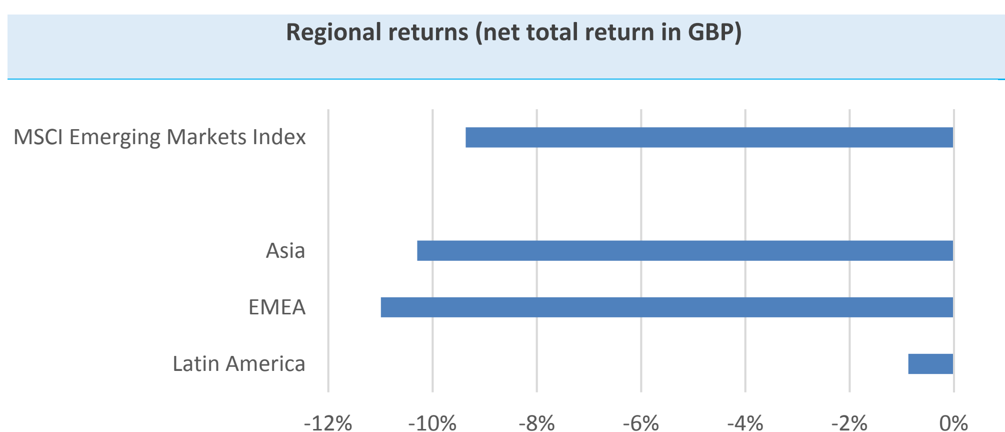
Emerging markets were weak in 2018 with the benchmark MSCI Emerging Markets Index falling 9.3%. The fund marginally underperformed, falling 9.5%. (Unless otherwise stated, fund and index returns measured on a net total return basis in GBP.)

This was a turbulent year for equity and bond markets. Political policy unpredictability and uncertainty has been evident in all regions with the US, of course, being the most influential. In financial markets, the US Federal Reserve has shown its determination to normalise interest rates and has been remarkably successful. Since the middle of 2017 there have been eight increases, from 0.5% to 2.5%, and underlying economic growth in the US does not appear to have suffered significantly in the process. The strength of the US dollar in 2018 was a surprise compared to market expectations at the start of the year and can be attributed in part to rising US interest rates (thereby narrowing the gap between the US and elsewhere) but also to a lack of confidence in prospects for Europe and China.

Emerging markets are generally perceived to be vulnerable to a strong dollar. It may make exports more competitive for some, but more often it comes as a burden. Commodity imports such as oil become more expensive and those that are reliant on foreign borrowings, usually in dollars, are left exposed to higher interest costs and principal repayments. This can be felt both at the company level and at national level.

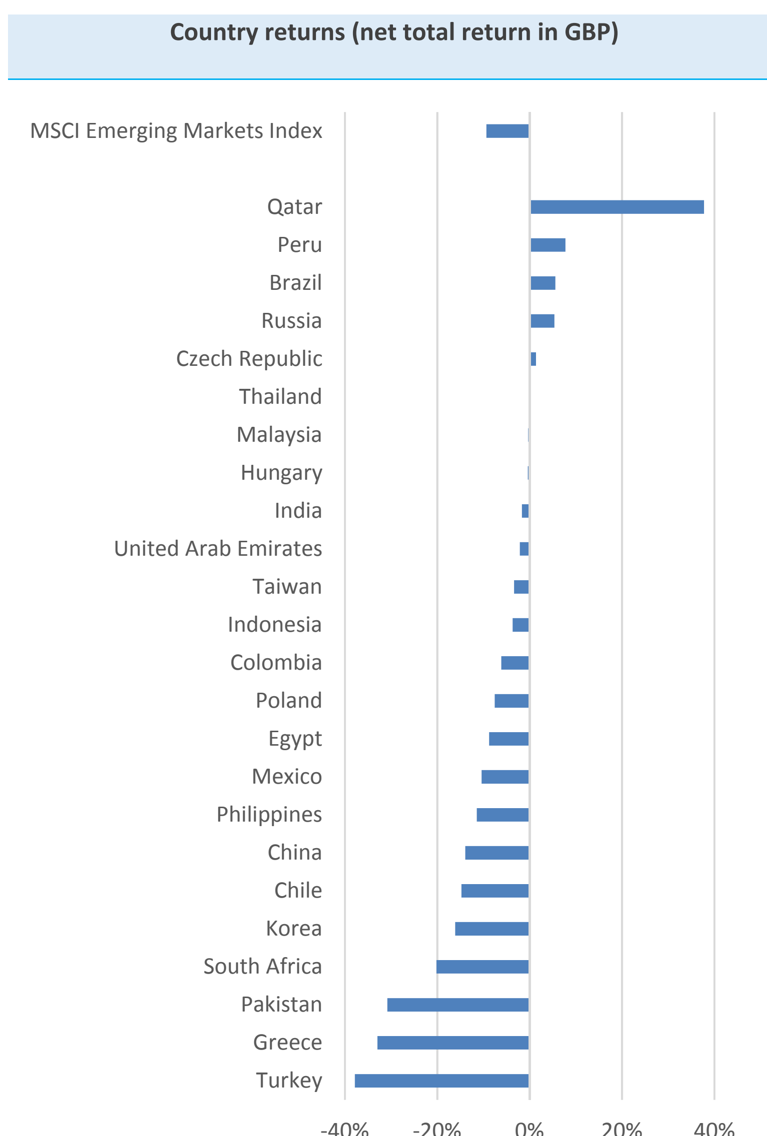
On a regional basis, Latin America fell slightly, by 0.9%. EMEA (Europe, Middle East & Africa) and Asia fell 11.0% and 10.3% respectively.

Regional returns (net total return in GBP)



Source: Bloomberg

On a country basis, returns were as follows:



Source: Bloomberg

Qatar (+37.8%), Brazil (+5.6%) and Russia (+5.4%) were relatively strong markets in 2018.

Qatar was the stand-out performer, although it is a tiny part of the benchmark. In 2017 Saudi Arabia and its local allies cut ties with Qatar and the resulting uncertainty led to the market underperforming in 2017. During 2018, however, the economy has been remarkably resilient given the practical adjustments the country has had to make. Much of the performance has been driven by a multiple re-rating, with FY1 consensus PE rising from 11.5 in January to 13.7 in December.

Russia was relatively stronger compared to other emerging markets. Energy accounts for just under 60% of the country benchmark and with the oil price moving higher for most of the year, Russian equities benefited. However, the US imposed sanctions on certain Russian groups in April. Perhaps because of the fear of additional sanctions, investment in the economy has not picked up following the bounce in oil prices. The fund has no holdings in Russia.

Brazil was also relatively strong. Most of the year was spent anticipating the results of the election in October when Jair Bolsonaro was elected. Brazil was very strong in the run up to the election and broadly kept its gains

following Bolsonaro's win. Expectations of his presidency seem quite high; markets like the appointment of Paulo Guedes, a free-market-oriented economist who will be in charge of economic policymaking. There is hope that the pension system will be reformed in order to lower the very high budget deficit which currently stands at around 7 per cent of GDP. However, there are practical headwinds to face. Bolsonaro does not have a majority in Congress and we question whether his opponents would support necessary but unpopular policies such as pension reform, which will be deeply unpopular with parts of the electorate.

On the other hand, Turkey (-37.8%), Greece (-32.9%) and South Africa (-30.8%) were very weak.

Turkey's problems have been mainly of its own making. Not only does the country have a high current account deficit and so must borrow from abroad to fund its investments, it is issuing short-term debt to make long-term loans. Turkish banks have been too reliant on cheap US dollar debt to fund what was, until 2018, strong economic growth. Foreign currency debt reached $456bn as of June 2018, according to CEIC; following the fall in the value of the lira this could be equivalent to as much as 88% of GDP, the highest among emerging market countries. Much of this foreign debt is short-term with $179bn due for repayment in the 12 months to July 2019, further compounding risks as foreign exchange reserves appear insufficient to cover these as they fall due. Currency mismatches have been another growing problem. Banks borrowed dollars but lent lira, creating a significant risk on Turkey's 'overall' balance sheet.

On top of these structural issues, there are big questions over the independence of the central bank. In July the central bank did not raise interest rates even though inflation was running at 15% in the previous month; in September, however, the bank took a stand and rates were increased by 6.25 percentage points. On the fiscal side, Erdogan appointed his son-in-law as head of the treasury and finance minister, naturally leading to questions over economic mismanagement. There are only a couple of Turkish companies which meet the quality criteria for our investment universe, and in our view, prices were not attractive enough during the weakness in the summer, while currency risk appeared too great.

Nearly a third of the MSCI Greece benchmark is made up of Financials, which is important in explaining why the country was so weak in 2018. The market is still worried that the banks are carrying too many non-performing exposures (NPEs) on their balance sheets. The major banks have agreed to cut NPEs to an average of 20% by the end of 2019, and 15% by 2021. The fear is that to reach these targets, these banks would have to dispose of NPEs at below book value and realise a loss, triggering a capital raise. We do not have a strong view on the Greek banking sector, though we note on a broader level that the Greek economy is recovering, with annual growth of around 2%. The move by the European Central Bank to refinance some EUR20bn of debt by extending the maturities also goes a long way to easing the immediate pressure.

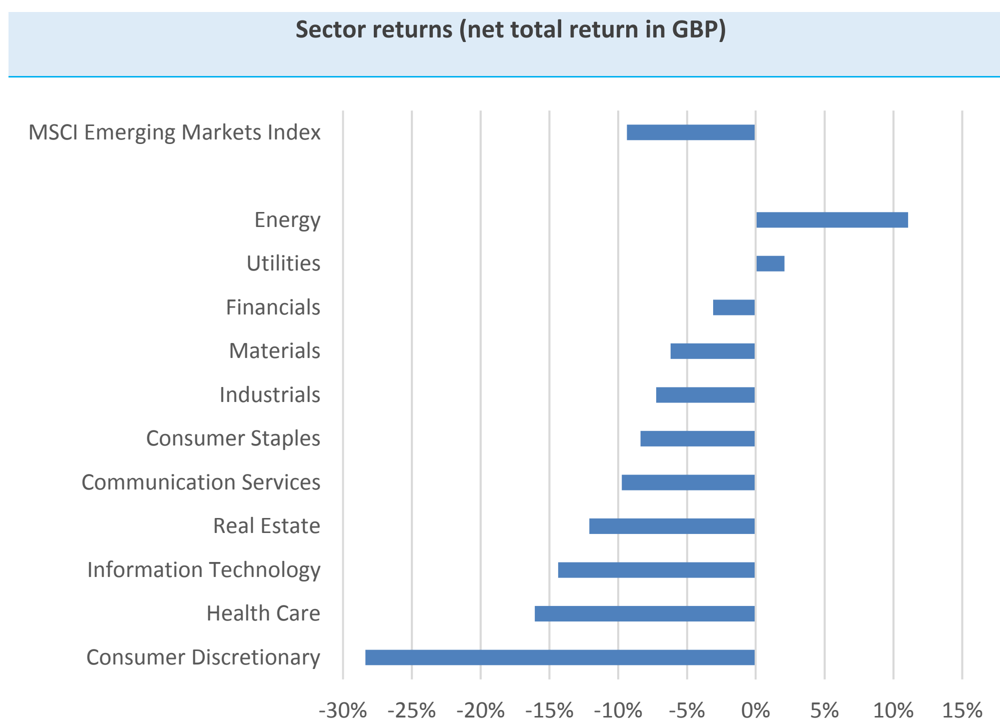
In South Africa, 2018 saw Zuma forced out as President and Ramaphosa taking his place, but only by a slender majority. The economy was weak, falling into a recession in the first half of the year before recovering in the third quarter. Most economic bodies are forecasting a recovery in growth in 2019 to just under 2.0%, but we think there are downside risks to these forecasts. While we acknowledge the higher consumer and business confidence that has arisen as a result of Ramaphosa's presidency, we must remember the economy faces several structural problems which will be difficult to fix. Corruption is rife. The budget deficit is around 4.3% of GDP, which will limit the scope of fiscal stimulus. According to Credit Suisse, only 11% of the real GDP growth that occurred during Zuma's presidency came from investment; only 14% came from an increase in productivity; the other 75% came from an increase in the size of the labour force. These trends cannot simply be reversed because of a bounce in confidence and we remain realistic on our expectations on what Ramaphosa can and can't fix.

In Asia, the trade dispute between the US and China dominated the headlines. The US imposed a 25% tariff on $50bn of imports from China in July and August. This was followed up with a 10% tariff on $200bn in September, with a threat to increase it to 25% by the end of the year if no progress was made between the two sides. The remaining $267bn of imports mostly consists of smartphones, textiles and toys, all of which the American

consumer would be most affected by if tariffs were introduced. In December a temporary truce was announced between the two sides where both sides gave themselves three months to come to some sort of agreement. The uncertainty from this dispute has certainly led to growth in China slowing by more than it otherwise would have done. If China is to rebalance away from investment and towards consumption, which is a more sustainable path, then slower growth is inevitable. But the uncertainty from the trade dispute has impacted investment in China and in the second half of the year, there were clear signs of a slowdown. Industrial profit growth, year-on-year, decelerated in the second half of the year and turned slightly negative in November for the first time since 2015. The government has responded with plans for looser fiscal and monetary policy. Tax rules have been changed to encourage consumption; for example, personal allowances increased and deductions permitted for expenses like education and healthcare. The deleveraging campaign has slowed in order to reduce some stress on small and medium-sized businesses, some of whom are finding it harder to obtain credit from large state-owned banks. It will take time for these looser policies to feed through to the economy.

In terms of market performance in Asia, it was in fact South Korea which was weakest, with China not too far behind. Korea's economy is very well diversified and acts as a bellwether for global trade. The weak Korean stock market reflected slower export growth following greater trade uncertainty and slower global activity following the peak at the end of 2017. On the other hand, ASEAN countries such as Thailand and Malaysia protected on the downside, perhaps because they could be beneficiaries if supply chains were to diversify outside of China.

On a sector basis, returns were as follows:

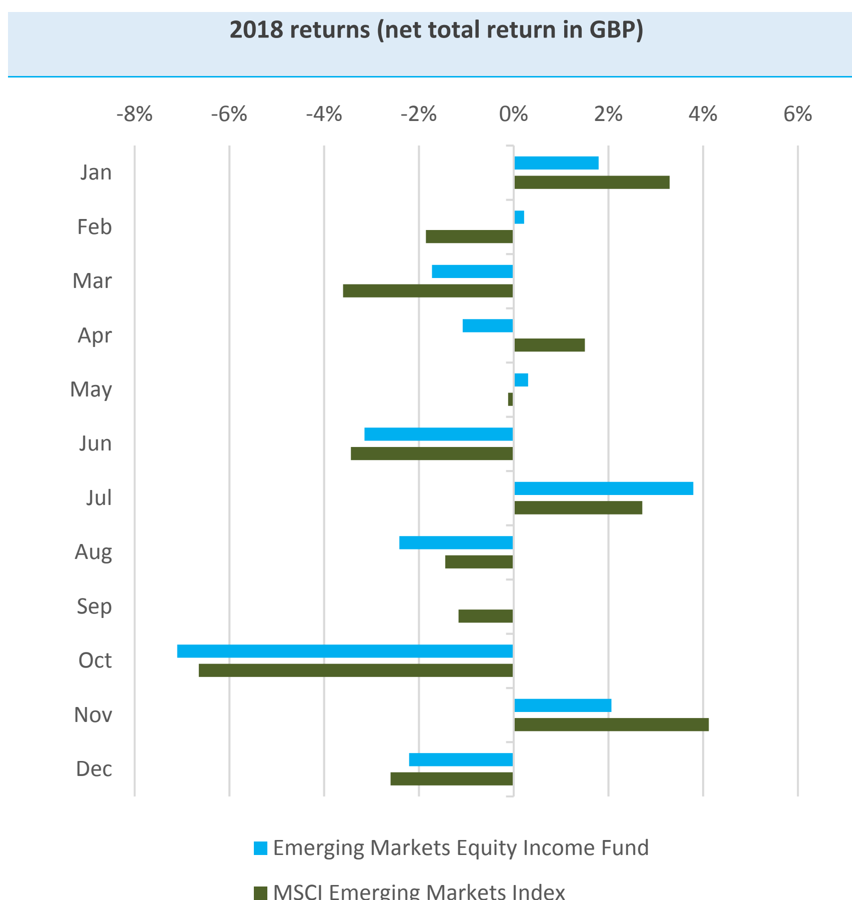


Source: Bloomberg

Fund Review

Below, we review the fund's performance behaviour through the year and look at the reasons behind deviations from expectations.

Overall, the fund performed almost in line with the benchmark falling 9.5% (Z Class, in GBP terms) compared to the MSCI Emerging Markets Total Net Return Index which fell 9.3%.



Source: Bloomberg

The year started with a strong January followed by weakness in February and March when the prospect of faster interest rate hikes in the US led to sharp sell-offs. The fund managed to capture some of the rise in January and defended well over the next two months, which meant it outperformed in the quarter. China Lilang was very strong over the quarter. It is a clothing retailer which targets the casual menswear segment. For more than a decade the business has generated a cash return on investment of around 15%, which is impressive for a clothing retailer. Lilang's main brand, LILANZ, was struggling in 2016 but following renovation of a number of stores, same-store sales accelerated in the second half of 2017. Despite South Africa being one of the weaker markets over the quarter, two of our South African holdings made good gains. Johannesburg Stock Exchange announced earnings for 2017 that beat consensus expectations with an uptick in trading. Expenses were well controlled over the year, with a 17% reduction in planned headcount. Capital expenditure also declined, helped by spending related to regulatory changes coming to an end. Truworths, a South African clothing retailer, also announced good results for the first half of its financial year. With a difficult macroeconomic backdrop in South Africa and

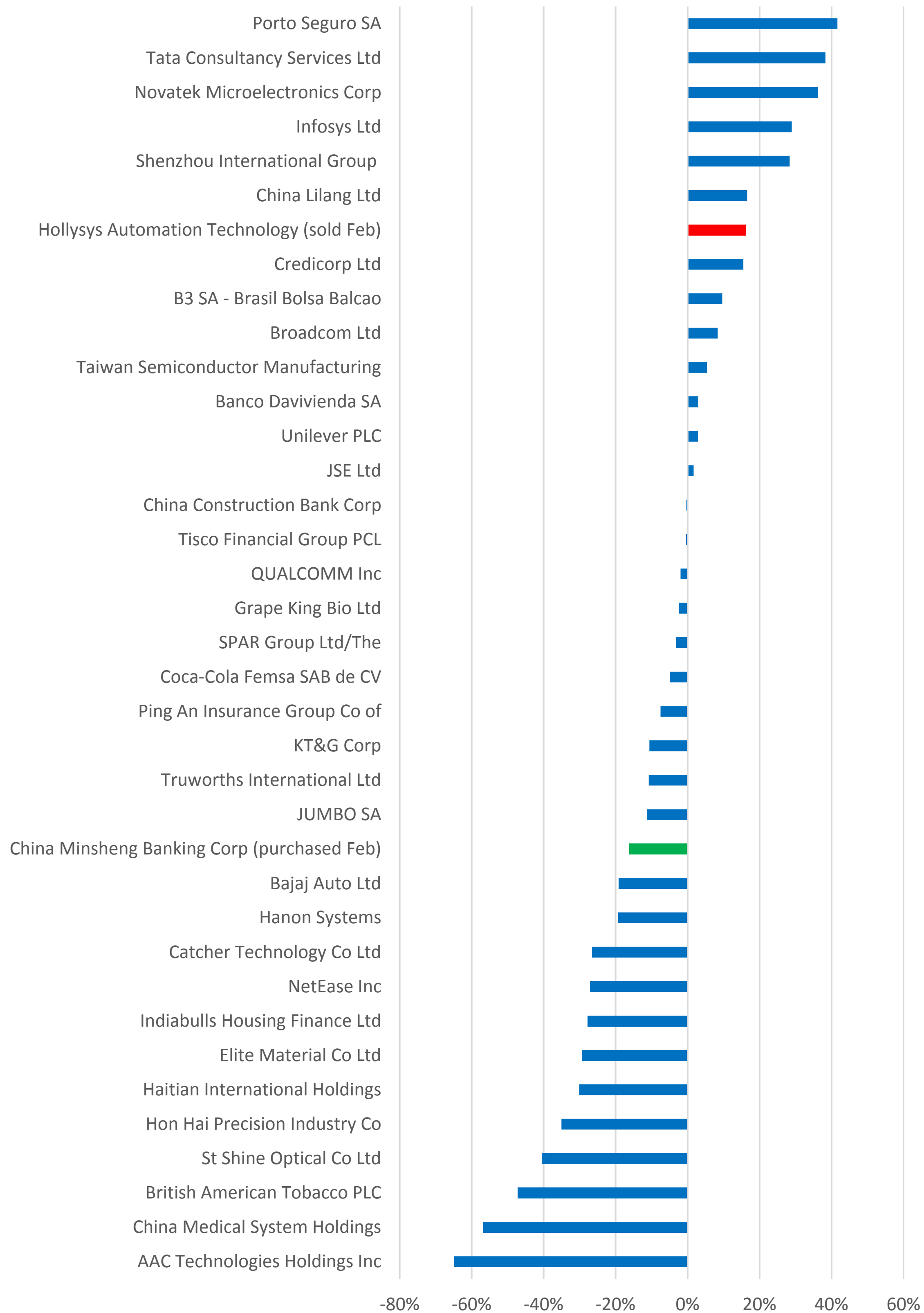
weak consumer sentiment, the company was able to generate an increase in sales over the interim period despite facing pricing pressure.

In the second quarter, the fund underperformed due to weaker performance in April. The fund has low exposure to Energy, Materials and Industrials firms and these underweights meant the fund lagged over the month. Our process leads us away from Energy and Materials because of our requirement for stable long-run returns on capital above the cost of capital, which highly cyclical Energy and Materials stocks cannot sustain. Additionally, the fund's exposure to the Chinese technology supply chain also hurt performance. During April, tension between the US and China continued to escalate. The US released its first list of Chinese goods on which it would impose a tariff. The US also introduced a denial of export privilege on ZTE which banned the company from sourcing US components for several years, though this was soon reversed.

In the third quarter, the fund marginally outperformed. The macro environment appeared to quieten down, and this left room for individual stocks to do well. Most of the Asian companies which were weak after the ZTE incident recovered. The Brazilian market did very well in anticipation of Bolsonaro winning the election and so our two Brazilian holdings, Porto Seguro and Brasil Bolsa Balcao, did particularly well.

In the fourth quarter, the fund did not generate the downside protection expected in October nor the upside capture expected in November. In October, the fund's Information Technology stocks were weak in a month where component manufacturers sold off on concerns over weaker demand for smartphones. Elite Material is a manufacturer of environmentally-friendly circuit board materials and AAC manufactures speaker assemblies, vibration motors and related components. Both companies have significant exposure to smartphones. Smartphone sales, in particular the latest iterations of the iPhone including the iPhone XR, were disappointing, with declining unit sales. These concerns were also reflected in Apple's stock price. In November, markets recovered somewhat and the fund's lack of exposure to Tencent and Alibaba explains part of the underperformance. Tencent pays a very small dividend while Alibaba does not pay a dividend at all and so the fund is not invested. Additionally, British American Tobacco was weak over concerns that the US would ban sales of menthol cigarettes, though any ban would not be likely to be implemented soon, in our view.

Stock Performance



Source: Bloomberg

Leaders

Porto Seguro was the top-performing stock in the portfolio. It is the leading Brazilian auto insurer and reported consistently strong results over the year. In the auto segment, volumes, as measured by the number of insured vehicles, increased. Margins, as measured by the loss and combined ratios, increased due to lower claims and stringent cost control. Porto Seguro's performance was impressive in what was actually a sluggish Brazilian economy. GDP growth ranged between only 0.9% and 1.3% in the first three quarters of the year while Porto Seguro's earnings are projected to increase by just under 15% in 2018. The company continues to achieve a high return on capital and continues to offer us good dividend growth at a sensible valuation.

Tata Consultancy Services (TCS) benefited from strong earnings growth as well as an improvement in the valuation multiple. It is an Indian consulting and services business with most of its earnings coming from the US and Europe. In the Banking and Financial Services segment, large contracts were signed with M&G Prudential and Scottish Widows to improve their financial infrastructure. Although the Retail industry is facing a difficult time, traditional retailers are investing in new infrastructure and TCS is seeing this segment beginning to recover. Additionally, the weakness of the rupee against the euro and dollar boosted earnings. Overall, we like TCS because it is one of the most efficient businesses of its type not just in India, but globally. TCS has the know-how to carry through large and complex deals which not all its competitors are trusted to do – which is why TCS now has four clients who have signed contracts in excess of $100m.

2017 was a testing year for Infosys. A whistle-blower questioned the acquisition of Panaya over accounting irregularities. A cofounder of the business queried the relatively large severance pay for a former CFO, implying standards of corporate governance were falling at the company. The CEO at the time quit along with several board members, and the new CEO Salil Parekh was appointed in December 2017. In 2018 Infosys benefited from the same industry tailwinds and rupee deprecation as TCS, and earnings growth accelerated. We think the industry is picking up and Infosys is showing it is growing along with it. Its second quarter results, covering the three months to September, showed that the business was winning several large deals and has exposure to growing parts of the market such as on-going migration to the cloud and cyber security.

Novatek Microelectronics is a designer of integrated circuits used primarily in flat-screen displays in a variety of applications including TVs, tablets, smartphones and cars. The company has recently benefited from greater adoption of its chips within TFT panels especially for Touch and Display Driver integrated chips. Competitors have struggled this year but Novatek's leading position has enabled it to obtain priority at chip foundries, where capacity has been tight. They have also been able to pass on higher raw materials costs and so reported higher margins than the market expected.

Shenzhou International is a vertically integrated knitwear manufacturer in China, producing both fabrics and finished garments. It is one of the largest garment exporters in the world and its biggest clients include Nike, Uniqlo and Adidas. Most of Shenzhou's exposure is to sportswear, which continues to grow faster than casualwear. In the first half of the year the company managed to increase productivity by enough to offset renminbi strength, holding margins steady. This turned into a tailwind as the renminbi weakened in the second half of the year, which should improve Shenzhou's competitive positioning. Shenzhou is also benefiting from the ramp-up of production in its existing factory in Vietnam, a country with cheaper labour costs than China. Garment manufacturers have for several years been expanding production outside of China in countries like Vietnam, Bangladesh and Cambodia, and we note that Shenzhou is among them.

Laggards

AAC Technologies saw a sharp fall in its share price, after being among our best performers in 2017. Earnings forecasts have been cut and are expected to be 20% down on last year. The share price fall has been exacerbated by its high valuation. It was one of the few stocks in the portfolio whose valuation included a significant portion of future growth expectations, which has now come out. While we are confident in the company and its operational outlook, we ought to have been more alive to this risk. At this point we continue to hold on and add. It is a company in the smartphone supply chain which due to its constant innovation has real pricing power. For example, in 2018 AAC has been promoting its new 'Super Linear Structure' (SLS) product which produces greater volume for the same sized speaker. These products have an average selling price that is 30-50% higher than existing products.

After touching an all-time high in May, China Medical System's (CMS) share price fell significantly due to several headwinds. In 2015 CMS took a 15.7% stake in Faron Pharmaceuticals in a bid to diversify the business away from generics and towards innovative drugs. Faron's main product, Traumakine, failed its phase II trial in May. Assuming CMS's stake in Faron is completely written off, we estimate the actual reduction in FY17 earnings to be only around 2%. CMS's share price fell further in September following a new trial focusing on 11 cities for a central procurement system in China which aims to cut the costs which the state pays for generic drugs. The first major tender was conducted in December and on average, prices fell 45%. For now, none of CMS's products is on the list, but management expects two of its drugs, Deanxit (which treats hypertension) and Plendil (depression and anxiety), to be added eventually. Total revenue could fall by 5% if the two drugs were to be included in the trial, and in a worst-case scenario up to 15% of revenue could be affected. Management argues that for many of its remaining products, competitors have not passed the bioequivalence test. For some products, management does not see any competitor likely doing so, which should limit price cuts. We think the share price implies a worst-case scenario for CMS, but we think it can defend its position. We await details of the final policy.

In its most recent financial year, British American Tobacco (BAT) derived 34% of its revenue from developed markets (defined as OECD) and 66% from emerging markets (defined as non-OECD). The share price was weak in the first half of the year as markets were concerned with the industry's shift towards newer and more

competitive markets such as heated tobacco and vaping. First half results were better than expected and the share price bounced. However, in November the US Food and Drug Administration proposed banning menthol in cigarettes and introducing age-restricted in-person sales for e-cigarettes. Around 20-25% of BATS' profits are at play. Against its history, shares are trading at two standard deviations below the historic average. Against peers it is one of the cheapest in the market. Earnings are expected to grow in spite of the negative sentiment, along with the return on capital.

St Shine Optical was another of our strong performers in 2017 that has had a harder time in 2018. Valuation contraction rather than earnings decline has been the main issue. This reflects slower sales momentum from its US customer Hubble, which accounted for 15% of revenue in 2017, a figure which we think fell back to around 8% this year. This constitutes a 'swing factor' as we look ahead into 2019. Margins have been under pressure this year caused by rising labour costs and higher depreciation charges associated with its capacity expansion last year. The key concerns, however, are rising competition and whether the company is entering a phase of lower growth.

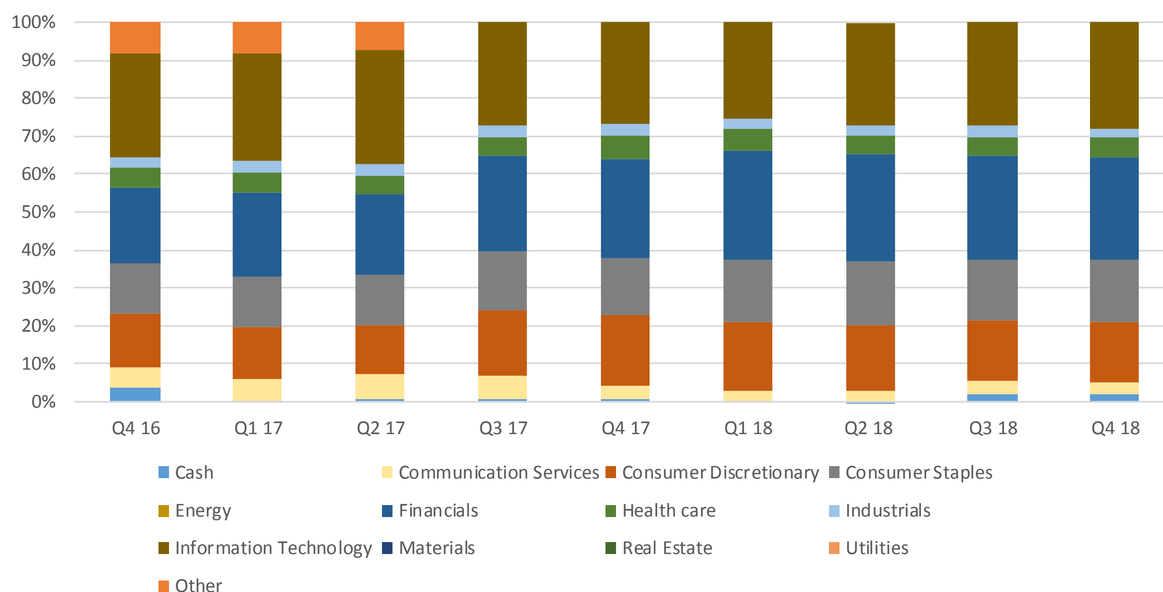
Hon Hai Precision fell due to slowing smartphone volume growth, especially from Apple. The company is a manufacturing conglomerate with interests in a wide range of component manufacturing, but smartphone assembly is a big part of the business which is now facing headwinds. Earnings forecasts have come under pressure as cost concerns have risen, but it seems to us that analysts are exceptionally gloomy. Within the last couple of months Hon Hai has said it needed to achieve $2.5 billion of savings in the coming year, but we were pleased to see recent revenue number ahead of expectations.

Portfolio Changes

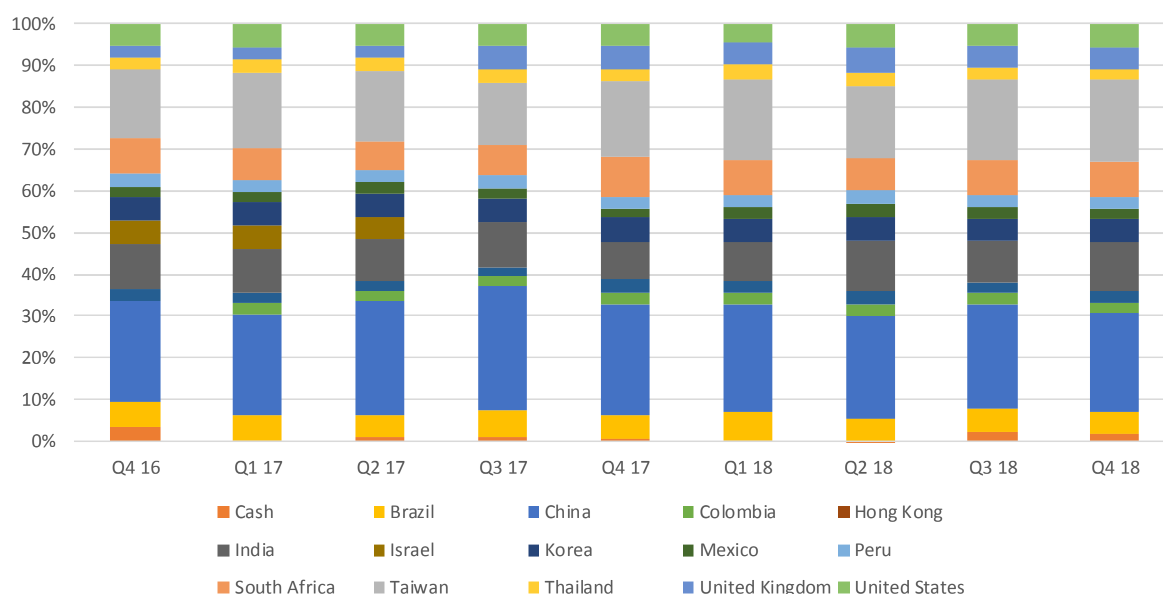
We made one switch in the portfolio, selling Hollysys Automation and buying China Minsheng Bank. Hollysys was a respectable performer for the fund, particularly over the second half of 2017. The company released good results in February showing new orders in its railway division and an increase in revenues from Industrial Automation. However, the yield contribution from the stock was insufficient, so we exited the position.

It its place we purchased China Minsheng Bank, which is also held in the Asian Equity Income portfolio. Minsheng lagged the broader market notably as deleveraging efforts by the authorities have hurt the bank's business model, which is dependent on borrowing in the interbank market. As a consequence, Minsheng has been restructuring its balance sheet on the funding side as well as addressing regulatory requirements for off/on balance sheet items. Asset quality in the banking sector in general has improved as the slowdown in non-performing loan formation has demonstrated. At a 0.6x price-to-book ratio and a 5x P/E ratio, we felt that the stock was acutely undervalued. The stock also offered a 4% dividend yield.

Portfolio Positioning



The fund has no exposure to the Energy, Materials, Real Estate, Telecommunication Services and Utilities sectors. Exposure to Financials increased by one position (2.75%) and exposure to Industrials fell by the same amount. The fund is significantly overweight to the Consumer Discretionary and Consumer Staples sectors, which is offset by significant underweight exposure to Energy, Materials and Telecommunication Services. (The 'Other' group in the breakdown refers to an India ETF held for the first six months of the fund's life which was replaced by direct Indian holdings once local market access was granted.)



Geographic exposures did not change during the year. Note the fund's two British and two American holdings, which put the fund overweight to these two regions, derive more than 50% of their revenue from emerging markets. Aside from these, the fund's bigger overweight is to Taiwan and corresponding bigger underweight is to Korea.

Outlook

These have been testing times for investors and it seems likely that the same worries will persist into 2019. We are still very positive, but then that is to be expected. Still, our confidence stems from the disconnect between the local conditions that the market is pricing in and the conditions that actually prevail.

In Asia, where the majority of the fund is invested, macro-economic indicators show the region to be sound economic health. Most countries are running a surplus on their national current account and those that don't are willing and able to take steps to prevent further deterioration. Banking sectors across the region are well capitalised; bad debt is not an issue for many and for those for whom there is a problem (China and India) there are capital resources and ample liquidity available to manage it. In the immediate term, we are heartened that contrary to earlier times, policy responses to currency weakness (Indonesia, China), bad debts (China, India) or overall deceleration of economic growth (China, Korea, Thailand) have been met with orthodox economic responses and not by a politically-driven release of extra liquidity. This speaks to rational long-term economic management and this is important because it is the long term that we are buying into.

The Asian region in aggregate is a creditor region. This is where much of the world's capital now resides and from where the indebted nations in the developed world must borrow. This Asian wealth is underpinned by long-term industrial policies that have made the region a manufacturing hub in global production. The upgrading of skills, capacity and efficiency have brought with them higher wages and rising investment into long-term productive assets. China now focuses relentlessly on the quality and utility investment to deliver long-term growth over the next 20 to 50 years; it is this process and the policies in place to support it which complicate the trade discussions now underway.

Outside of Asia, problems in Turkey and Argentina were well documented but, we think, isolated cases. While some economies outside of Asia do look vulnerable (e.g. Brazilian government debt looks high, as is South Africa's current account deficit, in our opinion), this is very different to the crisis Asia experienced in the 1990s. Back then, many major Asian economies were funding growth through current account deficits and all sorts of mismatches. Today there are economies with some of these problems, but it is incorrect to say most emerging markets are exposed.

Be that as it may, the fund is focused on investing in individual business that we believe have a long-term role to play emerging markets. The businesses we choose from have demonstrated success, which we measure using return on capital compared to the cost of capital over at least the last eight years. Macroeconomic factors do a play a role in our thinking in terms of the risks they present to individual businesses, in terms of currency risk, and the impact on the overall return to investors.

We believe that investors are currently presented with a very good opportunity to buy into these businesses. With sentiment so poor on a twelve-month horizon, the market is undervaluing the long-term operational superiority of these businesses, delivered in the form of profits and dividends, over the next three, five and ten years. Value opportunities, when they arise, are generally accompanied by the very things we want to avoid and so they are the hardest opportunities to take. We believe that so long as we invest in businesses that provide things that people want to buy, can grow steadily and can continue do so profitably while producing a regular dividend stream along the way, our investors should be confident in spite of market conditions today.

For more information

Read more on the Fund

Visit our website for more information on the Fund and to register for regular email updates on its performance and portfolio.

	Keeping you updated Detailed portfolio and performance analysis	To sign up for updates or search the archive, visit **guinnessfunds.com** or contact our **sales team**
	White papers Our thoughts on a range of topics including: the importance of dividends; whether to meet company management; concentrated portfolio; the effectiveness of economic modelling.	

Contact our sales team

Our sales team are on hand to explain the Fund and its investment process in more detail and answer any queries you might have.

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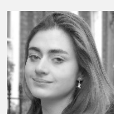	**Flurry Wright** **Sales Manager**	+44 (0)20 7222 3714 flurry.wright@guinnessfunds.com
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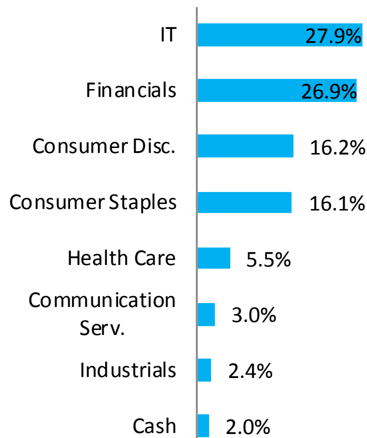
31/12/2018

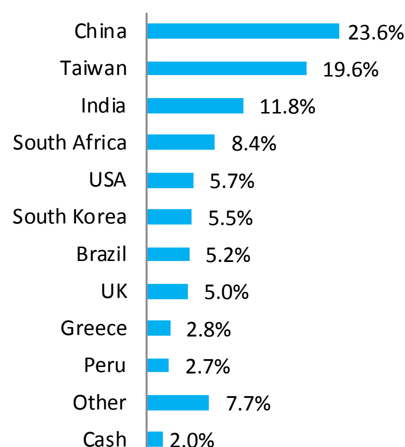
Fund top 10 holdings

Holding	%
Indiabulls Housing Finan	3.3%
Novatek Microelectronics	3.0%
Netease.com	3.0%
Spar Group	3.0%
Broadcom	3.0%
Catcher Technology	2.9%
Taiwan Semiconductor	2.9%
TATA Consultancy Service	2.9%
Bajaj Auto	2.8%
St. Shine Optical Co	2.8%
% of Fund in top 10	29.6%
Total number of stocks	36

Sector analysis



Geographic allocation



PERFORMANCE

31/12/2018

Discrete years % total return

	Dec '14		Dec '15		Dec '16		Dec '17		Dec '18	
	USD	GBP	USD	GBP	USD	GBP	USD	GBP	USD	GBP
Fund (Z class, 0.74% OCF)	-	-	-	-	-	-	38.4	26.4	-14.8	-9.5
MSCI Emerging Markets	-1.8	4.3	-14.6	-9.7	11.6	33.1	37.8	25.8	-14.6	-9.3
IA Global Emerging Markets Sector	-2.9	3.2	-15.1	-10.2	9.7	30.8	36.2	24.4	-16.9	-11.8

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)	-2.4	-2.2	-14.8	-9.5	-14.8	-9.5	-	-	19.1	14.6
MSCI Emerging Markets	-2.7	-2.5	-14.6	-9.3	-14.6	-9.3	30.4	50.9	20.4	15.9
IA Global Emerging Markets Sector	-2.9	-2.7	-16.9	-11.8	-16.9	-11.8	24.1	43.6	16.2	11.8

Annualised % total return from launch

	USD	GBP
Fund (Z class, 0.74% OCF)	9.0%	7.0%
MSCI Emerging Markets Index	10.0%	8.0%
IA Global Emerging Markets	7.7%	5.7%

Risk analysis - Annualised, weekly, from launch on 23.12.2016

31/12/2018	Index		Sector		Fund	
	USD	GBP	USD	GBP	USD	GBP
Alpha	0.0	0.0	0.0	-1.0	3.2	1.2
Beta	1.0	1.0	1.0	0.9	1.0	0.9
Information ratio	0.0	0.0	0.0	-0.5	0.5	0.0
Maximum drawdown	-24.6	-16.6	-24.6	-16.6	-23.0	-14.8
R squared	1.0	1.0	1.0	0.9	0.8	0.8
Sharpe ratio	0.3	0.2	0.2	0.1	0.4	0.3
Tracking error	0.0	0.0	0.0	4.0	6.1	6.4
Volatility	14.9	14.2	13.7	12.7	13.9	13.6

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 (Z class, 0.74% OCF). Fund launch date: 23.12.2016.

Guinness Asset Management

Guinness Asset Management provides a range of long-only actively managed funds to individual and institutional investors. Founded in 2003, Guinness is independent and is wholly owned by its employees.

We believe in in-house research, intelligent screening for prioritisation of research and well-designed investment processes. We manage concentrated, high conviction portfolios, with low turnover and no benchmark constraints. Since our establishment we have developed a variety of specialisms in global growth and dividend funds, global sector funds and Asian regional and country funds. The Guinness equity funds sit within an Irish-listed OEIC. They are managed alongside a range of similar SEC-registered funds offered to US investors by our US sister company, Guinness Atkinson Asset Management Inc. We also offer an Enterprise Investment Scheme (EIS service) investing in UK-based renewable energy projects and AIM-listed companies.

Our Products

Global & Developed Markets	Income	Global Equity Income European Equity Income UK Equity Income
	Growth	Global Innovators Global Equity US Equity
Asia & Emerging Markets	Income	Asian Equity Income Emerging Markets Equity Income
	Growth	Best of Asia Best of China
Energy & Specialist	Growth	Global Energy Alternative Energy Global Money Managers
Tax efficient services for UK investors	Tax	EIS Service AIM EIS Service Best of AIM Service Sustainable Infrastructure Service
Segregated mandates	Segregated Mandates in the strategies above	

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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.