Guinness Emerging Markets Equity Income Fund

INVESTMENT COMMENTARY – May 2019

Launch date	**23.12.2016**
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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

30/04/2019

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

	2016		2017		2018	
	USD	GBP	USD	GBP	USD	GBP
Fund	-	-	38.4	26.4	-14.8	-9.5
Index	11.6	32.6	37.8	25.4	-14.3	-9.3
Sector	9.7	30.8	36.2	24.4	-16.9	-11.8

	YTD		1 year		From launch	
	USD	GBP	USD	GBP	USD	GBP
Fund	15.2	12.5	-2.8	2.7	31.8	23.9
Index	12.2	9.7	-5.0	0.3	32.4	24.5
Sector	13.5	10.9	-5.2	0.2	28.5	20.9

Annualised % total return from launch

	USD	GBP
Fund	14.4%	11.4%
Index	13.7%	10.7%
Sector	12.5%	9.6%

Risk analysis (annualised, weekly, from launch)

	Index		Sector		Fund	
	USD	GBP	USD	GBP	USD	GBP
Alpha	0.0	0.0	0.0	0.1	4.4	2.9
Beta	1.0	1.0	1.0	0.9	1.0	0.9
Info ratio	0.0	0.0	0.0	-0.3	0.6	0.2
Max drwdn	-24.6	-16.6	-24.6	-16.6	-23.0	-14.8
Tracking err	0.0	0.0	0.0	3.8	6.1	6.3
Volatility	14.5	13.7	13.6	12.2	13.7	13.5
Sharpe ratio	0.6	0.5	0.6	0.5	0.8	0.6

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

Fund & market

- Emerging markets continued to strengthen in April, rising 2.1% (all figures in USD, unless stated otherwise).
- The Fund finished the month 2.0% ahead of the benchmark.
- For the year to date, the Fund ended ahead of the benchmark by 2.9%.
- EMEA led the emerging market regions in April, up 5.1%. Asia was next, rising 1.8%, followed by Latin America, up 0.4%.
- Asia has been the best-performing region this year, up 13.1%, followed by EMEA, up 10.9%. Latin America has lagged but is still up 8.3%.
- Of the largest countries in the benchmark, the best performing in the month were South Africa (+7.9%), Mexico (+5.2%) and Taiwan (+4.0%).
- The weakest performing were Malaysia (–1.0%), Brazil (–0.8%) and Korea (+0.4%).
- Outperformance in April relative to the benchmark came mainly from a single stock, Qualcomm, which returned 51.0% in the month.
- The surge in Qualcomm’s shares followed resolution of a long-running legal challenge from Apple, discussed further below.
- Other good performers include Hon Hai (+18.1%), NetEase (+17.8%) and Tata Consultancy Services (+12.5%).
- The weakest performer was Indiabulls, which fell 19.3%, giving up the recovery of the previous month (where the stock was the top performer). Elite Material fell 7.0%,

- but remains the one of the fund's best performers this year. China Medical Systems was also weak, falling 6.4%.

- For the year to date, the best performing stocks are Qualcomm (+53.1%), Elite Material (+49.2%) and Novatek Microelectronics (+40.2%).

- The worst performers are Indiabulls (–17.1%) and two of the fund's South African holdings: JSE (–11.1%) and Truworths (–10.9%).

Events in April

- On the trade talks, Xi Jinping's speech at the recent Belt & Road Initiative forum dwelt on steps China will take on intellectual property, market opening and fair competition. (Progress was subsequently thwarted in May after talks broke down and higher tariffs ratcheted up tensions.)

- Chinese economic growth of 6.4% in the first quarter was higher than expected. The data followed improved manufacturing output and trade data in recent months.

- China's onshore bonds began to be included into the Bloomberg Barclays Global Aggregate Bond Index, a process that will continue until the end of 2020.

- Reports indicated Chinese policymakers are considering stimulating auto demand. Proposals include subsidising the replacement of older, dirtier vehicles with new electric vehicles and removing of the vehicle tax for rural residents who change their vehicle to one with an engine size below 1.6L. Auto makers in China and Europe rose on the news.

- Korean preliminary export data in April was weak: exports to China were down 25% and semiconductor exports down 12%. Taiwan also reported weak tech exports for the fifth month in a row. TSMC reported the weakest first-quarter results for seven years but importantly delivered an upbeat outlook for the second half, especially in demand for 5G network equipment.

- South African markets were stronger on macro factors: the upcoming elections and expectations of further reforms, relief that Moody's maintained the sovereign credit rating, portfolio flows attracted by high yields, and diminishing global risk perceptions. South Africa's high dependence on foreign funding combined with its more liquid fixed income markets result in greater swings in sentiment that are manifest in both the exchange rate and in equity markets.

- Higher oil prices are weighing on emerging market currencies and on Indonesia and Korea in particular. Brent crude touched a six-month high in April at $73.87 a barrel. The US administration surprised the market by signalling an end to import waivers (which the market had expected to be extended) granted to some countries to allow continued purchased of Iranian oil. The Korean foreign minister is pressing his case to the US for an extension. However, having triggered this spike, we now expect to see Trump re-issue his demand for lower oil prices.

Portfolio commentary

Qualcomm

The resolution of the dispute between Qualcomm and Apple has received more coverage than we need to add to, but as holders of Qualcomm we have obviously taken a keen interest. The dramatic decision by Apple on the second day of the defining court case in this dispute allows us, I think, to draw some important conclusions:

- Qualcomm does indeed have a competitive advantage in chip design for mobile modems.
- Intel's withdrawal from that business shows it does not have a competitive edge in this market, despite confident assertions to the contrary only recently.
- 5G, with its high data volumes, requires a high-quality solution that is not easily replicable.
- Apple's service revenues are not yet a substitute for handset sales; the risk of a delay to the new 5G handset presents too great a business risk to Apple.
- Apple is under intense competitive pressures. Samsung has been joined by Huawei in the top-end handset space and Apple's brand price premium is no longer secure as evidenced by falling device sales and the comparatively weak response to the recent XR model.

As part of the settlement the two companies agreed a six-year licensing deal and Apple payed Qualcomm the dues which have been held back for the past two years. Intel immediately announced it would withdraw from the 5G modem business and this reaffirms our view that Qualcomm does make the best modems. Apple is under pressure following the relative failure of the iPhone X; the risk of missing the next phone cycle is greater than the benefit (perhaps) of winning against Qualcomm.

Indian IT services

Our two Indian IT services holdings, Tata Consultancy Services (TCS) and Infosys, both reported full-year results in the month. TCS's results were very strong, with the fastest growth in quarterly revenue for 15 quarters at +18.5%. Operating profit margins expanded to 25.6%. Net profit increased 18% and the dividend was up 20%. The company's largest customer segment, banking and finance services, grew by a healthy 12%, but there was good contribution from almost all customer segments.

Infosys trades on a lower valuation but is perceived to have more challenges than TCS. Again, revenue growth was strong at 17%. Operating margins were slightly lower than TCS at 22%. Although the IT consultancies are people-led businesses, worker retention is an area Infosys has struggled with. In particular, the company has been losing valuable people that have 3-5 years' experience. Management is taking steps to address this trend by offering training in new digital skills and improving remuneration. Operating profit grew 10% but asset write-downs and higher tax meant net profit fell 4% for the year. Accordingly, the dividend was raised by a smaller proportion than TCS, up 5%.

Other holdings

Hon Hai Precision continued to perform well following results published at the end of March. Following the month end, the company reported results for the first quarter. While the market was expecting a weak first quarter on lower iPhone volumes, the results were also impacted by one-off factors, including inventory write-downs. A recovery is expected in the second half of the year, particularly if iPhone unit sales fall by less than expected. Better pricing, particularly in emerging markets, where Apple faces strong competition from the Chinese smartphone manufacturers, could help to drive revenues.

Hanon Systems has completed the acquisition of the fluid pressure and control unit of Magna International which makes it a leading supplier of thermal and energy management systems. These improve the efficiency of both conventional and electrified power efficiency and so are applicable to internal combustion engine, hybrid and pure electric vehicles. The unit employs 4,100 people across nine manufacturing and engineering facilities in Europe, Asia and America.

Elite Material is one of our best performers this year after suffering a torrid prior 18 months on slowing revenues and loss of orders. Digitimes in Taiwan reports that the company will replace Panasonic as a major supplier of copper-clad laminates for Apple's 2019 iPhone and has in fact secured as much as 70% of the orders for laminates used in substrate-like Printed Circuit Boards (PCBs). The importance of this is two-fold: first, the material helps the process of miniaturisation of the PCB, a key benefit for the manufacture and design of the overall device, and second, it's harder to produce and so is higher-margin.

Market and Outlook

Our long-term outlook for emerging markets is little changed from last month, but the short-term picture has become more unsettled with further escalation in the US-China trade dispute. Both sides had appeared close to a deal; the Wall Street Journal reported that arrangements for a signing ceremony were being considered, and optimistic language was coming out of both camps. Progress was abruptly thwarted when it was announced that talks had broken down and US tariffs would be increased and extended; China in turn retaliated with its own increases.

It is not clear what the exact medium-term consequences of higher tariffs will be. The timing of the increases still leaves time for an agreement to be reached before the higher rates hit importers. Some pundits expect progress to come from the G20 meeting next month. If no deal is forthcoming and higher tariffs are applied, the key variable to watch will be the response of the Chinese, in particular whether fiscal and monetary stimulus are used to compensate for periods of weakness. In the US, it is not impossible that stimulus measures will also be applied – President Tump's tweets are already hinting strongly of countermeasures from the Fed. Whether the Fed will oblige remains to be seen, but we would expect any such impulse (coinciding with the run-up to the 2020 US presidential elections) to create strong positive momentum in equity markets.

The long-term outlook, however, is unchanged. Trade tensions between the US and China are symptomatic of the rapid progress that China has made in its manufacturing capabilities over the past two decades. China is obviously unwilling to abandon this progress – instead doubling down on the development of its high-tech industries, as its Made in China 2025 policy shows. The impact of tariffs viewed in a long-term context is noise: China's progress is unlikely to be derailed.

More broadly, these sort of macroeconomic events—and the difficulty in predicting them reliably—are a useful example of why we don't form top-down views within the fund. We invest in companies where their competitive positioning and individual company attributes are more likely to determine their long-term outcomes than exogenous events.

Through this perspective, the market volatility created by tariffs, elections or other 'macro' events is really an opportunity for us to rebalance our holdings in quality companies so that we can benefit from the long-term progress we expect them to achieve.

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

Data sources
Fund performance: *Financial Express, total return*
Index and stock data: *Bloomberg*

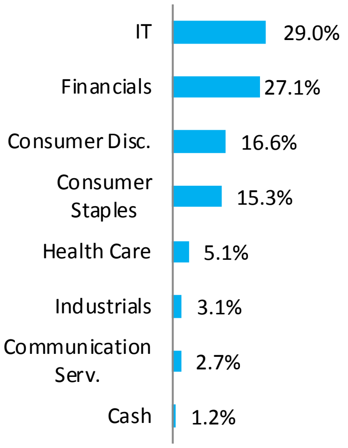
PORTFOLIO

31/03/2019

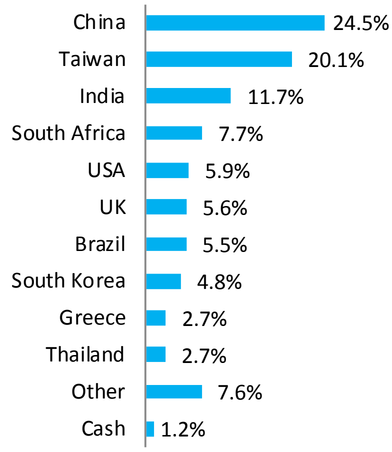
Fund top 10 holdings

Indiabulls Housing Finan	3.7%
Novatek Microelectronics	3.6%
Elite Material	3.5%
Haitian International Hol	3.1%
China Lilang	3.0%
Broadcom	3.0%
Shenzhou International	3.0%
Qualcomm	2.9%
Unilever	2.8%
Truworths International	2.8%
% of Fund in top 10	31.5%
Total number of stocks	36

Sector analysis



Geographic allocation



PERFORMANCE

30/04/2019

Discrete years % total return

	Apr '15		Apr '16		Apr '17		Apr '18		Apr '19	
	USD	GBP	USD	GBP	USD	GBP	USD	GBP	USD	GBP
Fund (Z class, 0.74% OCF)	-	-	-	-	-	-	24.8	17.2	-14.8	-9.5
MSCI Emerging Markets	8.2	18.9	-17.6	-13.5	19.6	35.4	22.1	14.7	-14.6	-9.3
IA Global Emerging Markets Sector	4.8	15.1	-15.8	-11.7	18.5	34.1	18.2	11.0	-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)	4.1	4.1	15.2	12.5	-2.8	2.7	-	-	31.8	23.9
MSCI Emerging Markets	2.1	2.1	12.2	9.7	-5.0	0.3	37.7	54.7	32.4	24.5
IA Global Emerging Markets Sector	2.7	2.6	13.5	10.9	-5.2	0.2	32.7	49.1	28.5	20.9

Annualised % total return from launch

	USD	GBP
Fund (Z class, 0.74% OCF)	14.4%	11.4%
MSCI Emerging Markets Index	13.7%	10.7%
IA Global Emerging Markets	12.5%	9.6%

Risk analysis - Annualised, weekly, from launch on 23.12.2016

30/04/2019	Index		Sector		Fund	
	USD	GBP	USD	GBP	USD	GBP
Alpha	0.0	0.0	0.0	0.1	4.4	2.9
Beta	1.0	1.0	1.0	0.9	1.0	0.9
Information ratio	0.0	0.0	0.0	-0.3	0.6	0.2
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	0.6	0.5	0.6	0.5	0.8	0.6
Tracking error	0.0	0.0	0.0	3.8	6.1	6.3
Volatility	14.5	13.7	13.6	12.2	13.7	13.5

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.