Guinness Emerging Markets Equity Income Fund

INVESTMENT COMMENTARY – August 2019

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

31/07/2019

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	11.1	15.6	-2.4	4.6	32.3	32.5
Index	9.2	13.6	-2.2	4.8	31.5	31.7
Sector	12.2	16.7	-0.4	6.7	30.3	30.5

Annualised % total return from launch

	USD	GBP
Fund	11.4%	11.4%
Index	11.1%	11.2%
Sector	10.7%	10.8%

Risk analysis (annualised, weekly, from launch)

	Index		**Sector**		**Fund**	
	USD	GBP	USD	GBP	USD	GBP
Alpha	0.0	0.0	0.0	0.7	3.0	2.4
Beta	1.0	1.0	1.0	0.9	1.0	0.9
Info ratio	0.0	0.0	0.0	-0.2	0.4	0.2
Max drwdn	-24.6	-16.6	-24.6	-16.6	-23.0	-14.8
Tracking err	0.0	0.0	0.0	3.7	6.0	6.2
Volatility	14.6	13.6	13.6	12.2	13.7	13.4
Sharpe ratio	0.5	0.5	0.5	0.5	0.6	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 declined in July, falling 1.2%.
- The sell-off continued into August, accelerating over the first few days before stabilising somewhat.
- The fund outperformed the benchmark in July, falling 0.4% (all figures in USD unless stated otherwise).
- For the year to date, the fund remains ahead of the benchmark, leading by 1.9%.
- This month, Latin America was the leading region, rising marginally by 0.1%. Next was EMEA (Europe, Middle East and Africa), which fell 0.6%. Asia, was the weakest, falling 1.6%.
- For the year to date, Asia is the worst-performing region, although up 8.0%. Latin America is the best-performing region, up 12.8%, closely followed by EMEA, up 12.4%.
- Of the largest countries in the benchmark, the best-performing in July were Taiwan (+3.2%), Brazil (+2.6%) and Russia (+0.3%).
- The worst-performing countries were Korea (-6.2%), India (-5.2%) and Mexico (-3.8%). We comment on Korea and India below.
- The strongest performers in the portfolio were Elite Material (+27.6%) and B3 (+15.2%), also the two best performers for the year to date, up 79% and 64% respectively.
- The weakest performers were Indiabulls Housing Finance (-11.8%) and Truworths (-11.1%). Mirroring the strong performers, these stocks are the worst performers year-to-date, down 35% and 26% respectively.

Events in July

- Korean economic growth in the second quarter recovered to 1.1% quarter-on-quarter following a contraction in the first three months of the year, although this was due to government spending rather than private sector activity. The Bank of Korea Call Rate of interest was cut 0.25% to 1.5%.
- China's economic growth in the second quarter came in at 6.2% compared to a year ago (quarter-on-quarter the rate of growth was 5.9%). This is the slowest pace in 25 years but should not be viewed in 'crisis' terms. Economic growth been slowing since 2010.
- US-China trade talks held in Shanghai were friendly, although little actual progress was made. Two days later, to the evident surprise of both negotiating teams, President Trump signalled his intention to increase tariffs further.
- The US Federal Reserve cut interest rates by 0.25%, not the 0.5% that some were seeking. The Fed Chairman has called this a "mid-cycle adjustment".
- Indian stocks corrected after the government's budget announcement. The measures unveiled included increases in taxes for some foreign investors which led to elevated foreign outflows in equity markets (it was subsequently confirmed in August that this provision would be reversed). Increased rates of income tax for high earners were also announced.

Portfolio changes

This month we made one switch in the portfolio, selling China Minsheng Bank and replacing it with China Merchants Bank.

China Merchants Bank stands out among the Chinese banks both for its solid financial results and for its strong customer orientation. The bank has demonstrated an ability to earn relatively high returns on equity while achieving a good rate of earnings and dividend growth. China Merchants has been developing its retail banking franchise, with technology playing a large role. Customers' use of the bank's apps has increased significantly for both mobile banking and credit cards. The investments that have been made in IT to support this effort are significant, but have obvious benefits for increasing the bank's efficiency (this has parallels with another portfolio company in the China financial sector, Ping An Group, which operates in the insurance sector primarily, as well as in banking). In addition to reducing costs, a greater reliance on technology allows the bank's relationship managers to focus more on the high net worth segment of its retail client base.

The timing of this switch coincides with changes in the Chinese banking sector. Recently we have seen greater pressure on bank profitability as changes to the method of loan pricing, away from the old Benchmark Lending Rate (BLR) to the new Loan Prime Rate (LPR), is likely to reduce interest income. The new LPR mechanism described by the Central Bank is based upon money market rates, specifically the Medium-term Loan Facility Rate, and is intended to bring down the overall cost of borrowing. The other headwind is the likely increase in bad debt pressures as China's domestic economy undergoes a cyclical slowdown, exacerbated by the structural pressures brought on by deleveraging and by the effects of the on-going trade dispute.

The effect of this switch is effectively to 'upgrade' our Chinese banking exposure by cutting our exposure to 'deep value' (China Minsheng) and adding a bank that offers higher quality and better prospects for growth (China Merchants). Nevertheless, this shift is not too dramatic – China Merchants still offers a source of value in a sector that is still largely overlooked by others.

Outlook

We wrote last month that emerging markets were entering a more difficult period, and the evidence we have seen over the past month does nothing to contradict that. Trade tensions continue between the US and China, with increasing signs that China is prepared to 'dig in'. The Chinese government is aware that the run-up to the US election is beginning, with the poll just over a year away, and any perceived weakness in the US economy will not bode well for Trump. The pressure on the Federal Reserve Chairman – exerted by the President – to cut interest rates suggests that the economy is not quite as strong as some believe. Nevertheless, US economic data so far has tended to be resilient.

The outlook for the global economy is not so rosy, with a slowdown evident in Europe, in particular in Germany. India, which we previously regarded as a bright spot, is showing signs of slowing. The measures announced in the recent budget following the election have not be well received by the market, and already some have been rolled back. Not all sectors are exposed to the domestic weakness – the IT services companies we hold in the portfolio are a good example (though they are not immune from a global slowdown).

Difficult economic conditions make for depressed sentiment in financial markets and increased volatility, but this can create opportunities. Our focus on quality companies that have a degree of resilience to tougher macro conditions means we can find attractively valued stocks when markets correct. And overall, a portfolio of such companies provides, we believe, good positioning as we enter a period of greater uncertainty.

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

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

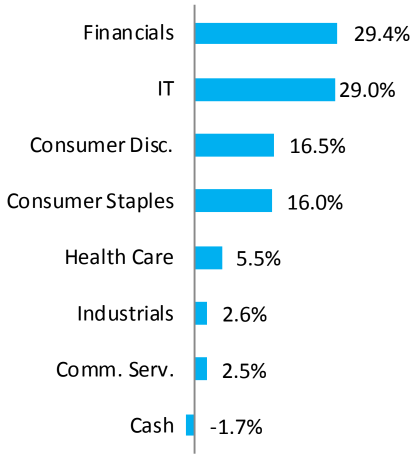
PORTFOLIO

31/07/2019

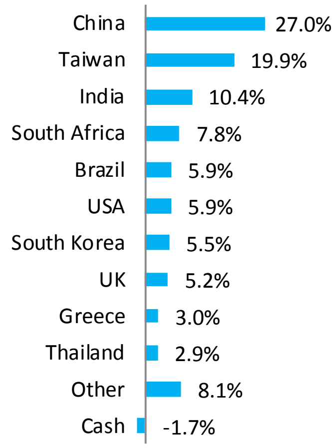
Fund top 10 holdings

Elite Material	3.2%
B3 SA - Brasil Bolsa Balca	3.1%
Broadcom	3.1%
Jumbo	3.0%
Hon Hai Precision Industi	2.9%
TATA Consultancy Service	2.9%
Infosys	2.9%
Catcher Technology	2.9%
Tisco Financial Foreign	2.9%
China Medical System	2.9%
% of Fund in top 10	29.7%
Total number of stocks	37

Sector analysis



Geographic allocation



PERFORMANCE

31/07/2019

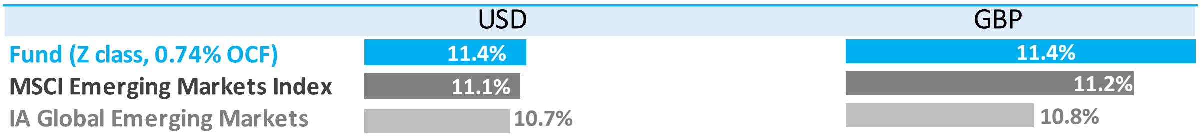
Discrete years % total return

	Jul '15 USD	Jul '15 GBP	Jul '16 USD	Jul '16 GBP	Jul '17 USD	Jul '17 GBP	Jul '18 USD	Jul '18 GBP	Jul '19 USD	Jul '19 GBP
Fund (Z class, 0.74% OCF)	-	-	-	-	-	-	9.5	10.0	-14.8	-9.5
MSCI Emerging Markets	-13.1	-6.0	-0.4	17.1	25.3	26.2	4.7	5.3	-14.6	-9.3
IA Global Emerging Markets Sector	-13.5	-6.4	-0.4	17.1	23.0	23.9	1.6	2.1	-16.9	-11.8

Cumulative % total return

	1 month USD	1 month GBP	Year-to-date USD	Year-to-date GBP	1 year USD	1 year GBP	3 years USD	3 years GBP	From launch USD	From launch GBP
Fund (Z class, 0.74% OCF)	-0.4	3.5	11.1	15.6	-2.4	4.6	-	-	32.3	32.5
MSCI Emerging Markets	-1.2	2.7	9.2	13.6	-2.2	4.8	27.4	38.2	31.5	31.7
IA Global Emerging Markets Sector	-0.8	3.1	12.2	16.7	-0.4	6.7	24.5	35.0	30.3	30.5

Annualised % total return from launch



Risk analysis - Annualised, weekly, from launch on 23.12.2016

31/07/2019	Index USD	Index GBP	Sector USD	Sector GBP	Fund USD	Fund GBP
Alpha	0.0	0.0	0.0	0.7	3.0	2.4
Beta	1.0	1.0	1.0	0.9	1.0	0.9
Information ratio	0.0	0.0	0.0	-0.2	0.4	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	0.5	0.5	0.5	0.5	0.6	0.6
Tracking error	0.0	0.0	0.0	3.7	6.0	6.2
Volatility	14.6	13.6	13.6	12.2	13.7	13.4

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.