

# Guinness Emerging Markets Equity Income Fund

## INVESTMENT COMMENTARY – October 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** 30/09/2019

**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
<b>Fund</b>	-	-	4.8	7.9	-1.3	4.5
<b>Index</b>	22.5	18.6	-0.8	2.1	-2.0	4.0
<b>Sector</b>	21.3	17.4	-4.3	-1.5	0.7	6.5

	YTD		1 year		From launch	
	USD	GBP	USD	GBP	USD	GBP
<b>Fund</b>	9.0	12.7	-1.3	4.5	29.9	29.2
<b>Index</b>	5.9	9.4	-2.0	3.7	27.5	26.8
<b>Sector</b>	8.6	12.2	0.7	6.5	26.1	25.5

### Annualised % total return from launch

	USD		GBP	
	<b>Fund</b>	9.9%	9.7%	9.7%
<b>Index</b>	9.2%	9.0%	9.0%	9.0%
<b>Sector</b>	8.8%	8.8%	8.8%	8.8%

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

	Index		Sector		Fund	
	USD	GBP	USD	GBP	USD	GBP
<b>Alpha</b>	0.0	0.0	0.0	0.7	3.0	2.4
<b>Beta</b>	1.0	1.0	1.0	0.9	1.0	0.9
<b>Info ratio</b>	0.0	0.0	0.0	-0.2	0.4	0.2
<b>Max drwdn</b>	-24.6	-16.6	-24.6	-16.6	-23.0	-14.8
<b>Tracking err</b>	0.0	0.0	0.0	3.7	6.0	6.2
<b>Volatility</b>	14.6	13.6	13.6	12.2	13.7	13.4
<b>Sharpe ratio</b>	0.5	0.5	0.5	0.5	0.6	0.6

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

## Fund & market

- Emerging markets recovered in September, rising at the beginning of the month before giving up some of their gains. Overall, the MSCI Emerging Markets Net Total Return Index rose 1.9% (all figures in USD unless stated otherwise).
- The fund followed a similar path but underperformed the Index and was flat for the month.
- For the third quarter, the fund outperformed the benchmark, falling by 2.3% versus a decline of 4.2% for the benchmark.
- For the year to date, the fund remains ahead of the benchmark, leading by 2.9%.
- In September, Latin America was the best-performing region, rising 2.6%. Asia followed, up 2.0%. The worst-performing region was EMEA (Europe, Middle East and Africa), which rose 0.9%.
- For the year to date, the order is the same: Latin America up 6.3%, Asia up 6.0% and EMEA up 5.1%.
- Of the largest countries in the benchmark, the best-performing in September were Korea (+7.2%), Taiwan (+4.2%) and Russia (+3.2%).
- The worst-performing countries were South Africa (-1.3%), Thailand (-1.0%) and Saudi Arabia (unchanged).
- The strongest performers in the portfolio were AAC Technologies (+23.7%), Catcher (+13.2%) and Haitian International (+10.2%).
- The weakest performers were Indiabulls (-43.1%), Tata Consultancy Services (-6.0%) and Unilever (-4.9%). We comment further on Indiabulls below.

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## Guinness Emerging Markets Equity Income Fund

- For the quarter, the strongest performers were Elite Material (+37.4%), China Medical System (+32.4%) and TSMC (+14.4%).
- The weakest performers were Indiabulls (−58.3%), Truworths (−27.9%) and St Shine (−15.1%).

### Events in September

- Technology stocks rallied in September following a successful launch of Apple's new iPhone, which saw strong demand due to competitive pricing and was also driven by expectations of a recovery in semiconductor (memory) prices.
- The price of oil rocketed in September following the attacks on Aramco's facilities. The market had not focused on quite how much of Saudi Arabian output goes through this facility. Prices came back down on expectations of a reasonably speedy resumption of operations.
- The Indian economy remains sluggish and consensus estimates for earnings have continued to come down, but the market received a boost from an unexpected decision to cut the corporate tax rate to around 25% from the previous average rate of 35%.
- The Indian rupee strengthened following the withdrawal in August of short and long-term capital gains tax, which prompted foreign flows back into equities.
- Emerging market currencies rose 0.6% in September. Among the largest gainers was the Turkish Lira after figures showed inflation hitting a 15-month low in August. The government also unveiled a 'New Economic Programme' to support growth and employment. The Russian ruble strengthened after the rally in oil prices.
- FTSE Russell decided to defer a decision to exclude Malaysian bonds from its World Government Bond Index (WGBI). It also decided against including Chinese bonds. The WGBI is a compact index, focusing exclusively on government bonds and has a wide passive following.

### Review of the quarter

In the third quarter, the fund fell by 2.3%, outperforming the benchmark, MSCI Emerging Markets Net Total Return Index, which fell 4.2%.

This quarter saw a reversal of the pattern of the previous quarter, with Asia being the best-performing region within Emerging Markets. All regions recorded negative performance: Asia fell 3.4%, Latin America fell 5.6% and EMEA (Europe, Middle East and Africa) fell 7.0%. The fund's exposure to Asia helped it during the quarter but has been a drag on relative performance over one year.

Among the larger countries, the best performers during the quarter were Taiwan, Russia and Mexico. Poor performers were South Africa, Malaysia and Thailand. From a sector perspective, Information Technology was the standout top performer, while Materials, Real Estate and Financials were weaker.

Emerging markets have continued to lag developed markets, clocking their eighth consecutive month of underperformance in September. The trade conflict between the US and China has undoubtedly depressed sentiment, but relations have recently moved in a positive direction with the announcement

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of progress towards a preliminary trade deal. Expectations of further monetary stimulus in the US and Europe have also improved the outlook. While local economies have slowed, GDP growth expectations are still respectable. Valuations remain at attractive levels.

Strong performances from Elite Material and China Medical Systems contributed significantly to performance. Elite Material benefited from stronger sales of the latest iPhone as the smartphone sector rebounded from a weaker period. TSMC and Catcher also benefited from the same sector trends. China Medical Systems reported good interim results and was buoyed by a recovery in the healthcare sector in China.

The main detractor to performance was Indiabulls, a Housing Finance Company in India. The stock had been suffering from a very challenging environment for non-bank financial institutions in India following the default of infrastructure lender IL&FS last year. Indiabulls shares were hit further after allegations that loans were being routed back to companies connected with the promoter group. The central bank also blocked the company's planned takeover of Lakshmi Vilas Bank, which further impacted the share price. We will comment further on Indiabulls in next month's brief.

## Outlook

Emerging markets have entered a more challenging period, as global growth has slowed and the uncertainty of the US-China trade war has continued to weigh on markets. The US economy, previously seen as a key area of strength, appears to be weakening. The ISM manufacturing index readings below 50 (indicating contraction) highlight a slowdown in part of the economy, although it remains to be seen whether the weakness will spread to other areas. So far the consumer economy has proved relatively resilient, with consumer confidence holding up well.

Relations between the US and China have shown some signs of improvement with the announcement of a 'phase one' deal. The deal addresses some of the points of contention between the two sides but leaves issues such as state subsidies unresolved. Furthermore, the deal may only involve pausing future tariff increases, rather than rolling back tariffs to the *status quo ante*, as sought by the Chinese. Provisions to address foreign exchange matters relating to the transparency of movements in the renminbi could be beneficial to emerging markets, in so far as they allow the US dollar to weaken.

The other key factor in the global economy is the response from policymakers faced with a slowdown. Monetary stimulus in particular may be sufficient to head off concerns that we are entering a period of recession. A 'jolt' from the central banks could re-stimulate activity, ensuring that the economic weakness is relatively short-lived. Bankers have already started to provide easing to the markets in this way, and there are signs that it is providing a positive boost to activity.

Our focus continues to be on individual companies that meet our criteria for returns on capital sustained above the cost of capital. We believe these companies should be in a good position to withstand a slowing economy and have demonstrated the ability to generate good returns for shareholders over the long term.

**Edmund Harriss**

**Mark Hammonds** (portfolio managers)

**Sharukh Malik** (analyst)

### Data sources

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

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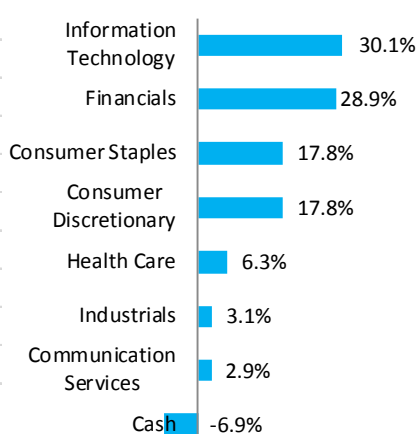
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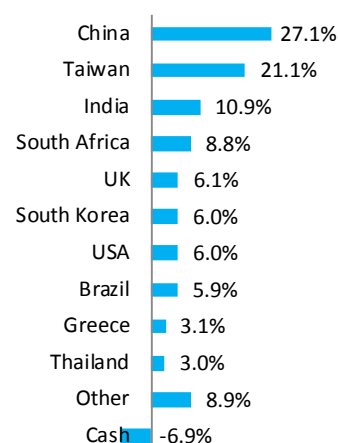
Fund top 10 holdings

St. Shine Optical Co	3.2%
Catcher Technology	3.2%
Ping An Insurance	3.1%
China Medical System	3.1%
Haitian International Hol	3.1%
Infosys	3.1%
British American Tobacc	3.1%
Jumbo	3.1%
Novatek Microelectronics	3.1%
KT&G Corporation	3.0%
% of Fund in top 10	31.1%
Total number of stocks	36

Sector analysis



Geographic allocation



PERFORMANCE

30/09/2019

Discrete years % total return

	Sep '15		Sep '16		Sep '17		Sep '18		Sep '19	
	USD	GBP	USD	GBP	USD	GBP	USD	GBP	USD	GBP
Fund (Z class, 0.35% OCF)	-	-	-	-	-	-	4.8	7.9	-1.3	4.5
MSCI Emerging Markets	-19.3	-13.6	16.8	36.2	22.5	18.6	-0.8	2.1	-2.0	4.0
IA Global Emerging Markets Sector	-20.0	-14.4	17.0	36.5	21.3	17.4	-4.3	-1.5	0.7	6.5

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, 0.35% OCF)	0.1	-1.1	9.0	12.7	-1.3	4.5	-	-	29.9	29.2
MSCI Emerging Markets	1.9	0.9	5.9	9.4	-2.0	3.7	19.0	25.5	27.5	26.8
IA Global Emerging Markets Sector	2.1	-1.1	8.6	12.2	0.7	6.5	16.9	23.2	26.1	25.5

Annualised % total return from launch

	USD	GBP
Fund (Z class, 0.35% OCF)	9.9%	9.7%
MSCI Emerging Markets Index	9.2%	9.0%
IA Global Emerging Markets	8.8%	8.8%

Risk analysis - Annualised, weekly, from launch on 23.12.2016

31/10/2019	Index		Sector		Fund	
	USD	GBP	USD	GBP	USD	GBP
Alpha	0.0	0.0	0.0	0.5	2.8	2.0
Beta	1.0	1.0	1.0	0.9	1.0	0.9
Information ratio	0.0	0.0	0.0	-0.1	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	0.4	0.3	0.4	0.3	0.5	0.4
Tracking error	0.0	0.0	0.0	3.7	5.9	6.1
Volatility	14.5	13.4	13.5	11.9	13.6	13.2

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Source: Financial Express, bid to bid, total return (0.74% OCF). Fund launch date: 23.12.2016.

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## 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](http://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, 18 Smith Square, London SW1P 3HZ.

### 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](http://www.carnegie-fund-services.ch). The paying agent is Banque Cantonale de Genève, 17 Quai de l'Île, 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.

**GUINNESS**

ASSET MANAGEMENT

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