GUINNESS

Emerging Markets Equity Income

ELITE RADAR
on our watchlist: FundCalibre.com

Annual review

2019

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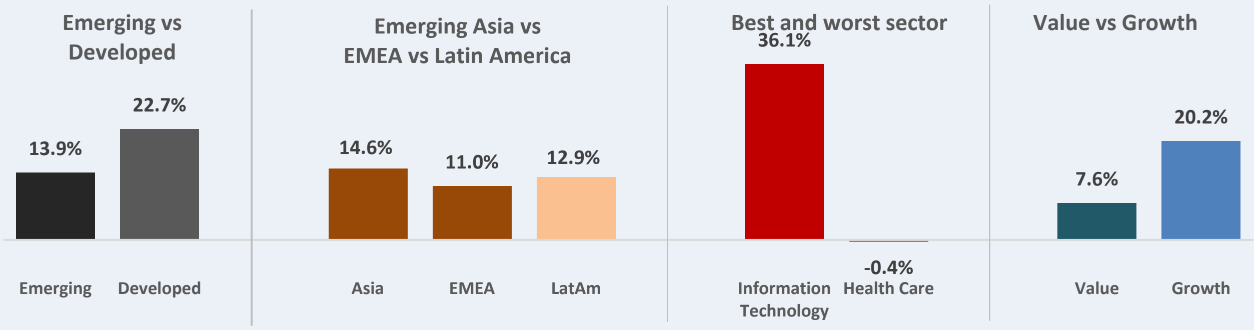
GUINNESS
ASSET MANAGEMENT

2019

Fund size
Start of year £1.4m
End of year £1.4m

What happened in Emerging Markets and the World?

- Trade tensions between the US and China escalated in May and tariffs were increased. Tensions rose further in August as the US proposed a new round of tariffs.
- In September trade talks resumed, and additional tariffs were deferred amidst talk of a 'Phase One deal' to be signed in January.
- Hong Kong was wracked by unrest, initially following the government's attempt to introduce an extradition bill allowing the transfer of suspects to China; the protests spiralled, leading Hong Kong into recession and a toxic political environment.
- MSCI increased the inclusion factor for domestic China-listed A-shares from 5% to 20%, taking their weight to 4.1% in the MSCI Emerging Markets Index.
- The US, Mexico and Canada agreed a new trade deal to replace the North American Free Trade Agreement. Mexico narrowly avoided US tariffs in June after agreeing measures to improve border control.
- Modi won the May election in India decisively. While the initial reaction was positive, the country struggled with an economic slowdown over the year. Moody's downgraded their credit outlook for India from 'stable' to 'negative' in November.
- Brazil's National Congress passed much-anticipated social security reforms.
- The US Federal Reserve cut interest rates three times in 2019 to a range of 1.5% to 1.75%.



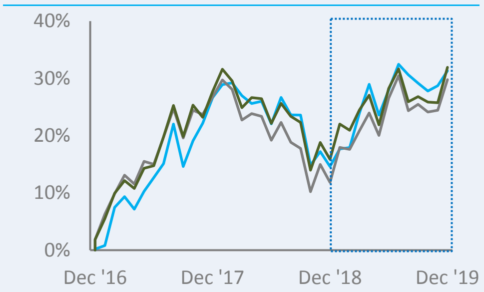
Total return in GBP; MSCI World, MSCI Golden Dragon & MSCI Emerging Markets Index; MSCI China & Hong Kong & Taiwan Index; MSCI China Value & Growth Index.

What happened in the Fund?

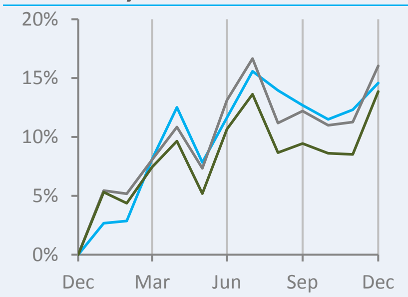
- The fund rose 14.6% in 2019 (Z class, in GBP terms) compared to the MSCI Emerging Markets NTR Index which rose 13.9%.
- Of the 33 stocks held for the full year, 18 outperformed the benchmark, 15 underperformed.
- We bought three new positions: China Merchants Bank, Largan Precision and Tech Mahindra.
- We sold three positions: China Minsheng Banking, Indiabulls Housing Finance and Infosys.
- The effect of the portfolio changes was to increase the quality of our Chinese banking exposure and to increase our weighting to technology.
- Valuations, while above historic averages, still offer attractive value when compared with developed markets. At the end of the year, the fund traded on 14.4x 2019 earnings and 13.0x 2020 earnings, roughly in line with the benchmark which traded at 14.6x 2019 earnings and 12.8x 2020 earnings.

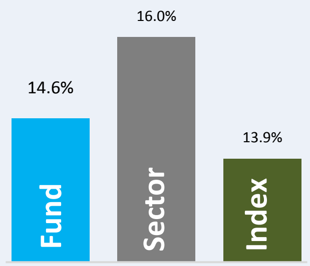
Performance (%)

Cumulative since launch



Calendar year 2019





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 (0.35% 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

Summary Review

2019 brought its fair share of volatility for emerging market investors, but patience and equanimity were ultimately rewarded, with markets rising 13.8% over the course of the year. (Unless otherwise stated, returns measured on a net total return basis in GBP). The fund outperformed, rising 14.6%.

This outperformance is a little better than we would generally expect; our base case is that the fund outperforms in weaker markets and underperforms in stronger markets. Partly our outperformance reflects exposure to areas of the market that performed well, and Information Technology stocks in particular, although this represents to an extent a recovery of the weakness this sector faced towards the end of 2018. Nevertheless, we are encouraged that the fund was able to capture upside well in a rising market.

Multiple expansion essentially drove all the market's returns in 2019 – earnings made a negative contribution overall (in USD terms). One of key events driving the rally in equity markets globally was the shift by the US Fed towards a dovish stance at the start of the year. This position was bolstered later in the year with the subsequent easing from the Fed's interventions in the repo market. As the year drew to a close, market sentiment reached elevated levels.

Set against this optimism during the year was volatility induced by the US-China trade conflict. The ban on US companies trading with Huawei announced in May marked a sharp deterioration in trade relations between the two countries. Fears of a slowing Chinese economy and a potential US recession also affected markets, with the US experiencing an inversion of the yield curve and facing weakness in the manufacturing sector. However, the strong support from the consumer sector proved enough of a counterbalance to offset the contraction.

The fund grew its distribution by 12% over the full year (USD share class). Dividend growth is a key attribute we seek in our investee companies, but we measure this growth over the long term. Companies may pay progressive dividends (where the dividend is maintained at the same level or advanced each year) but this is not typical for emerging markets. Thus the amount received by the investor can vary year by year. Special dividends, stock changes made to the portfolio, and currency fluctuations can also have an impact.

If we look at the underlying holdings in the portfolio, we can strip out some of these effects. The stocks we held throughout 2018 and 2019 grew their dividends by an average of 6% in local currency terms (median growth rate, excluding special dividends). This level of growth is more in line with our expectations, which are that dividends and earnings will grow at mid-to-high single digit rates on a normalised basis over the long term. Rather than necessarily targeting the highest possible forecast growth rates (which may not be realised or even achievable to begin with), our emphasis is on consistency and sustainability – we are looking for companies that can steadily achieve compound earnings growth over time.

The consensus forecast is for emerging markets to grow earnings 14% in 2020, following the lacklustre performance this year. Implied earnings growth for the portfolio is 11%. Please see the outlook section at the end for more details.

In an extension to our investment universe, we have begun to incorporate domestic Chinese A-shares. The opening up of this market has put new companies within reach, though they are as yet untapped investments in the fund. We apply the same criteria as for any other company when assessing inclusion in the universe, and there are around 100 companies listed domestically that have achieved sufficiently high and persistent return on capital. These additions expand the available opportunities without compromising on our quality standards.

Within our investment process, we place emphasis on the following factors:

- Sustainable competitive advantage: companies must have demonstrated the ability to earn returns on capital above the cost of capital, reflecting a competitive advantage that has persisted over time and that can be exploited by management to the advantage of the shareholders.

- Robust business model: the business needs to have a business model that is resilient to external factors, both at an industry and macro level; i.e. the company is able to generate strong cash flows through the cycle, despite facing challenging conditions at times.

- Attractive opportunities for reinvestment and growth: opportunities exist for management to redeploy the capital generated by the existing business at attractive rates. Long-term opportunities for growth exist – these opportunities may offer more moderate (but more consistent and sustainable) growth rates.

- Strong dividend policy: management must be committed to returning a meaningful portion of the cash generated by the business to shareholders.

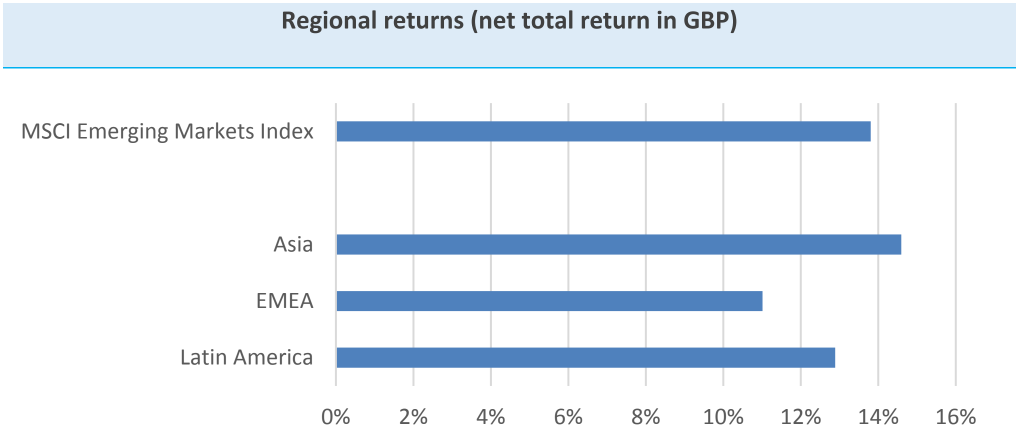
- Attractive valuation: we seek investments that are undervalued by the market. We want valuation changes to be a positive contributor to overall returns and avoid stocks where they may be a detractor.

We think such an approach works well in emerging markets and is suited to the uncertainties in today's economic environment that face both investors in the region and globally.

Market performance

On a regional basis, Asia was strongest, though all three areas performed well. Asia rose 14.6%, Latin America was up 12.9% and EMEA (Europe, Middle East and Africa) rose 11.0%.

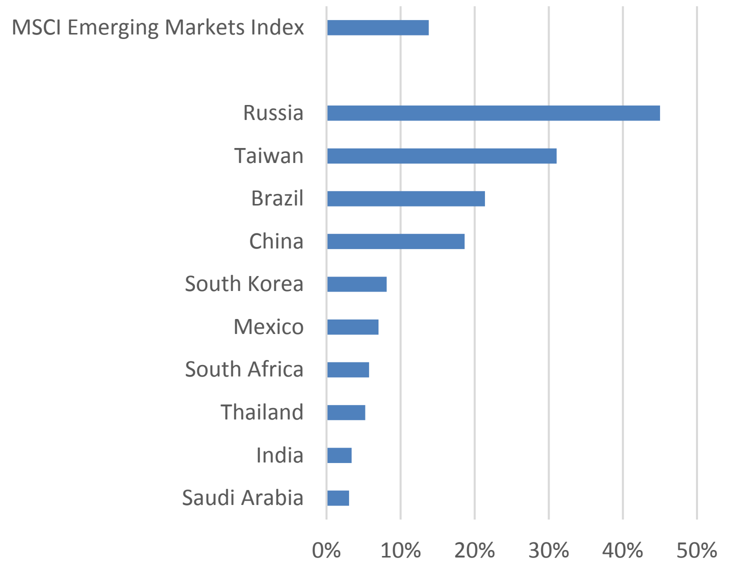
Regional returns (in GBP)



Source: Bloomberg

Looking at the largest countries in the benchmark (as at the end of the year), returns were as follows:

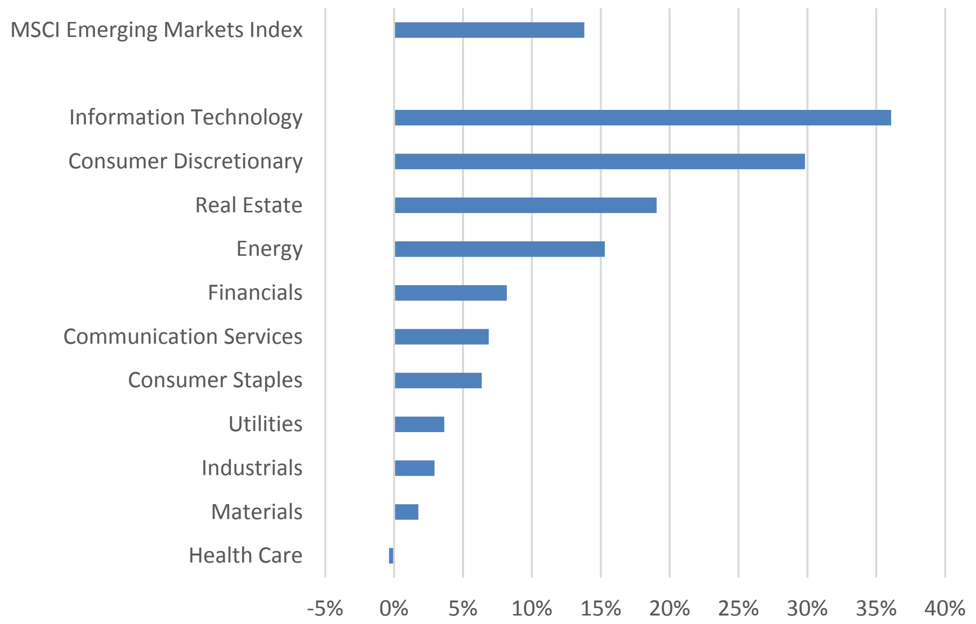
Country returns (largest) (in GBP)



Source: Bloomberg

And sector returns were as follows:

Sector returns (in GBP)



Source: Bloomberg

Russia was the strongest performing country index, rising 45%. Currency strength was a substantial contributor to returns – the ruble appreciated by 12% against the US dollar over the year. The market gained reasonably steadily over the year – three of the four quarters saw double digit returns in dollar terms. The country still trades at deeply discounted levels on several metrics, but due to the economy's dependence on oil and gas it doesn't feature substantially in our universe – only a handful of companies qualify.

Of greater importance from a fund perspective, Taiwan, where the fund holds eight stocks (out of 36), rose by more than 30%. Technology in particular was strong, following weaker performance in 2018. Technology accounts for 63% of the MSCI Taiwan Index, and almost half of the technology in the emerging markets benchmark is Taiwanese. The sector's rally began in September and was driven initially by an improving outlook for semiconductors, especially in memory chips. This was augmented by a better reception to the new iPhone, by rising hopes for 5G telephony and the consequential boost to the component supply chain, and by reduced trade concerns.

Brazil also performed well during the year. The passing of social security reforms through the Brazilian congress was a milestone. The legislation increases the retirement age to 65 for men and 62 for women and is projected to save the government R$800bn (almost $200bn) over 10 years. Better economic data released towards the end of the year were also welcomed by investors, and markets rallied sharply in December. One of our Brazilian holdings, B3, the stock exchange, was the fifth best performing stock in the fund over the year.

Also significant from a fund perspective was the gain in the China index, up 18.6% for the year. Again, this represented to an extent a recovery from weaker performance in 2018. The trade war was a feature throughout the year, but signs of progress in negotiations towards the end of the year led to the good performance. This boost was most evident among Consumer Discretionary names, which include many of the Chinese internet companies listed in the US and is the largest component of the MSCI China Index. Chinese Real Estate, Health Care, Technology, Materials and even Consumer Staples, which together account for 20% of the China Index, all rose significantly, driven mostly by valuation expansion rather than earnings.

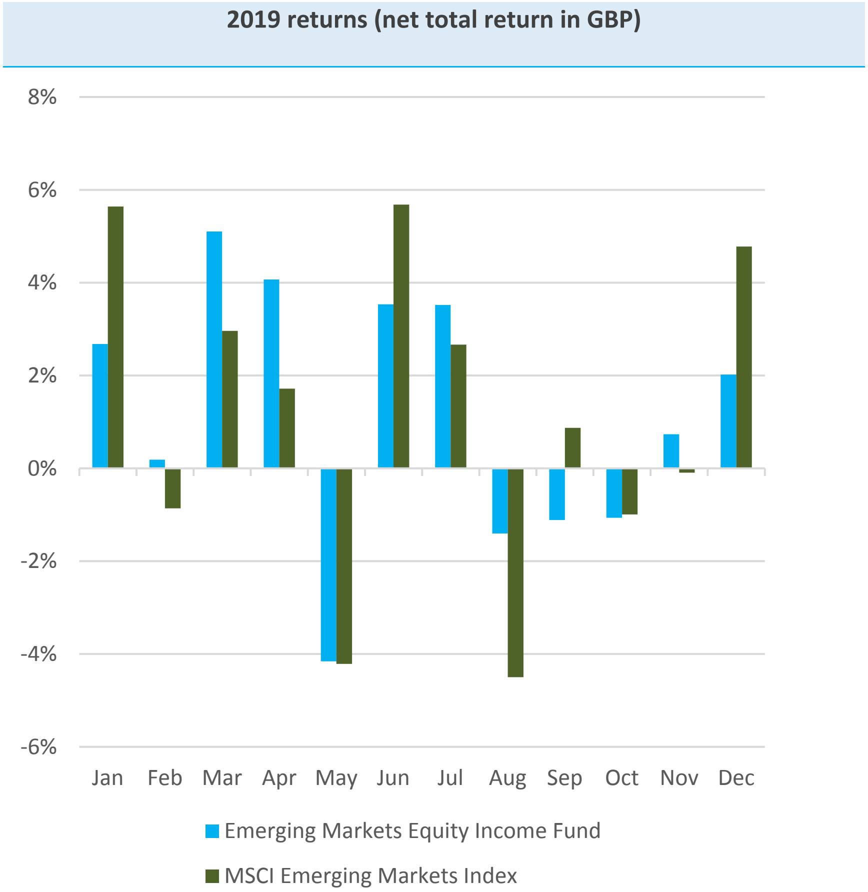
Saudi Arabia's weighting in the MSCI Emerging Markets Index was increased to a full weighting in August. The effect on returns was muted, with the country rising 3.1%. The protracted IPO of Saudi Aramco featured in the headlines for much of the year. Finally, the company listed in December after ambitions were scaled back in a process that focussed on domestic investors. While the IPO initially raised a record $25.6bn, this represented only about 1.5% of the company. The small scale of the free float meant the company represented only 5.8% of the MSCI Saudi Arabia Index at year end (the fifth largest constituent) and doesn't come close to being included in the top ten constituents of the MSCI Emerging Markets Index – the tenth being China Mobile, with a float-adjusted market cap of $51.6bn versus $9.4bn for Saudi Aramco. The largest constituents of the Index and their float-adjusted market caps are Alibaba ($359bn), Tencent ($276bn) and TSMC ($272bn).

India's weakness over the year was notable. Economic growth is decelerating and has been for some time. For 2020, GDP growth is expected to be 5.1%, down from 6.8% in 2019 and below the c.8% levels achieved in 2016 and 2017. A brighter spell is forecast further out, with 6.2% growth expected in 2021. The government has responded to the weaker readings, with cuts to corporate tax rates. These have helped a little, but the economy is still facing the negative effects of earlier reforms, i.e. demonetisation and the goods and services tax. A slowdown in demand has been compounded by weakness in the financial sector, which the government was slow to address (in our view). The problems in the financial sector particularly impacted our holding in Indiabulls Housing Finance (discussed below).

Over the years, India has been on the receiving end of alternating waves of optimism and pessimism, with the election of Narendra Modi in 2014 a key catalyst for raised expectations of economic reform in the country. As investors have now begun to temper their expectations of India's growth, so valuations start to look more reasonable. The difficulties that the economy is facing are considerable – it remains to be seen whether the government will focus on tackling these, or whether religious and nationalist tensions will occupy minds instead.

Fund performance

Overall, the fund outperformed the benchmark, rising 14.6% (Z class, in GBP terms) compared to the MSCI Emerging Markets NTR Index which rose 13.8%. The fund's performance by month versus the benchmark is shown below.



Source: Bloomberg

We would typically expect the fund to outperform in weaker markets and underperform in stronger markets.

The year began with sharp gains in the benchmark in January, with the fund underperforming (in line with expectations). Some of this deficit was then clawed back in three consecutive months of significant outperformance in February to April. The outperformance in March and April especially was better than we might ordinarily expect.

March saw outperformance come mainly from our IT holdings as the sector recovered from the weakness at the end of 2018. Principal contributors were Novatek, Elite Material, Broadcom and Qualcomm. Consumer Staples and Consumer Discretionary holdings were also strong. Indiabulls made a significant individual contribution with the stock bouncing in the run-up to results.

April's outperformance was more concentrated around a single stock, Qualcomm. The shares jumped 50% in the month following the resolution of the company's dispute with Apple. Intel's announcement that it was withdrawing from the development of 5G modems because it had 'no clear path to profitability and positive returns' reaffirmed our belief in the competitive advantage that Qualcomm possesses.

In May, markets experienced a significant pullback coinciding with an escalation in trade tensions between the US and China. President Tump announced an increase in existing tariff rates and the threat of tariffs on further categories of imports. China responded with its own retaliatory tariffs. Market sentiment was also dented by the announcement that Huawei would be placed on an 'Entity List', restricting the ability of US companies to trade with the Chinese manufacturer. The fund outperformed in May, but only marginally; the fund's holdings in IT were particularly hard hit. However, these companies were subsequently in the best-performing group in June as markets rebounded.

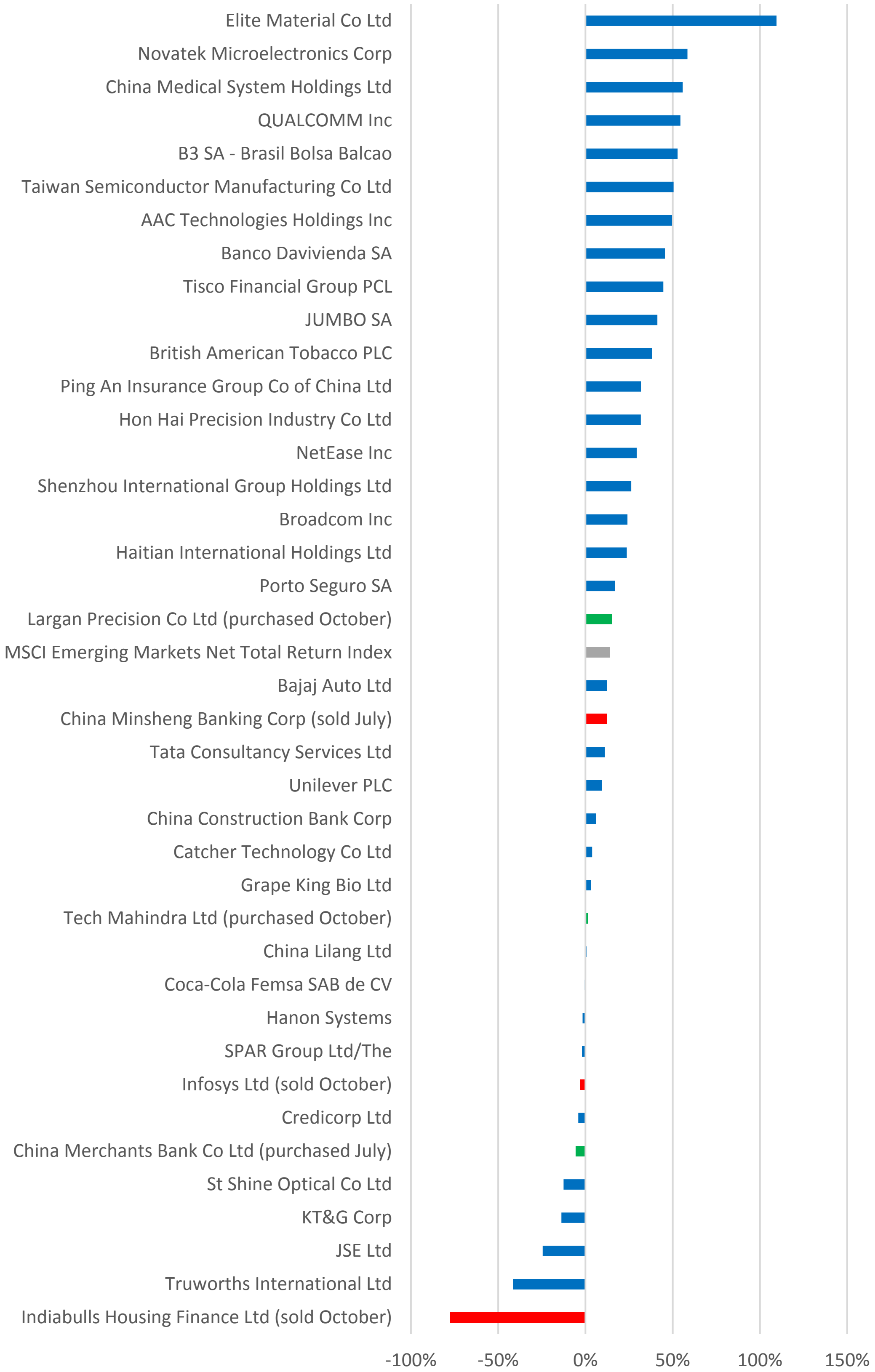
The fund's performance in July and August was better than expected – August was particularly notable with the fund contracting much less than the market. Strong gains in the month from several holdings: China Medical System, Elite Material and Novatek Microelectronics, following good company results (we comment further on the three companies below).

Markets rallied in October but the fund lagged, in part due to falls in the share price of Infosys and Indiabulls (also discussed below under portfolio changes). Markets rallied again in December for a strong end to the year. Again, the fund underperformed in such conditions, lacking exposure to Tencent, Samsung and Alibaba (three of the four largest weights in the benchmark, which are not held in the fund).

As we have said, last year was marked with volatility – in two months the market fell by more than 4%, and in three months markets rose by more than 4%. Ultimately staying the course for the year was a good course of action, as markets fully regained the losses experienced in 2018. The fund's portfolio construction (equally weighted positions, periodically rebalanced) meant that volatility provided opportunities to rebalance the portfolio. By bringing positions back to neutral weight (2.75% of NAV), rebalancing contributes to risk management, ensuring that positions do not come to dominate the portfolio. Furthermore, when stocks suffer temporary set-backs or periods out of favour, we are able to ensure that we have a full weight in those stocks when stock prices recover.

Stock performance and commentary

Individual stock performance in 2019 (total return GBP)



Source: Bloomberg

Leaders

Elite Material manufactures copper-clad laminates which are used to make printed circuit boards (PCBs) and specialises in halogen-free laminates, which are environmentally friendly. Elite regained its market share to provide substrate-like PCBs (SLPs) for the iPhone, which is a high-margin business. SLPs effectively increase the space of a PCB, increasing functionality and allowing for slimmer designs. Elite also began to ship SLPs to its Android customers, and margins rose as operating leverage turned from a headwind into a tailwind. Looking forward, the company does have exposure to datacentres and 5G base stations, which should be another source of earnings growth.

Novatek Microelectronic is making good progress with its Touch & Display Driver Integration (TDDI) product and has considerably increased its market share at the expense of Chinese competitors. This led to consistent earnings upgrades as Novatek's progress surprised the market. We expect rising adoption of TDDIs by smartphones, which should provide a path for sustainable growth. Management also point to rising OLED driver demand and expect shipments in the first half of 2020 to be greater than all of 2019.

China Medical System acts as a pharmaceutical distributor to doctors and hospitals for both branded and generic drugs. The regulatory structure in China is changing as the government seeks to reduce healthcare costs. The changes have introduced significant new competition where alternative offerings are available, resulting in substantial price cuts in certain cases. China Medical System saw a significant drop in its share price that we believe significantly exceeds its exposure to these changes. In addition, the company has tied up with companies in the US, UK, France, Switzerland and Israel to secure rights to sell formulations to treat strokes, brain cancer, respiratory distress down to onychomycosis (which is toenail fungus, for anyone interested). Recent results delivered the consistency we look for: gross profit, operating profit, net profit and dividend growth all moving in line up 10.5%-12.5% and an unchanged dividend payout of 40% of earnings.

Laggards

Indiabulls Housing Finance was a very volatile stock over the year, ultimately generating the worst performance in the portfolio by a significant margin. The company's troubles partly stemmed from extremely harsh conditions for non-bank financial institutions in India following the default of infrastructure lender IL&FS in 2018. Funding costs for the company rose as lending rates were squeezed higher, and loan growth suffered.

The company also faced accusations of impropriety, after allegations that loans were being routed back to companies connected with the promoter group were leaked on social media. A final setback was when the central bank blocked Indiabulls' planned takeover of Lakshmi Vilas Bank. The confluence of these factors put significant selling pressure on the company's shares.

While we had hoped that a recovery for the company was due, in the end the volatility the stock suffered was too great and the risks associated with the company too high. Ultimately we exited the position.

Our 'post mortem' of Indiabulls has reinforced a few key points for us:

- The robustness of the business model is crucially important, and the ability to outperform in a downward cycle is a core part of this.
- Businesses that are dependent on external factors to achieve strong returns are inherently less desirable that those that can produce the returns independently of external variables.
- Financials aren't to be avoided, but the quality element is to be emphasised – this is key in a sector where sentiment can be fickle, and the success of the business itself may come down to the continuation (or cessation) of confidence in a given financial institution.

TRUWORTHS

Truworths, a clothing retailer in South Africa and the owner of Office (shoes) in the UK, struggled amid difficult trading conditions. An update released after the year end showed results that were satisfactory: the South African business had reasonable momentum, but the UK business struggled. Management cited greater uncertainty from Brexit as impacting UK trading, and as customers have shifted towards online shopping, trading space in stores has been reduced. Account sales, comprising more than half of total sales, saw growth, while cash sales contracted. Truworths still generates attractive returns on capital, and the shares trade on a very undemanding valuation.

JSE

JSE is the Johannesburg Stock Exchange (and our second South African holding in the worst performers). Again, the company faced tough trading conditions, with a weak domestic economy (hit by electricity load shedding) and low levels of business confidence. Interim results for 2019 reflected this environment, reporting a 11% reduction in billable equity value traded, leading to a 7% reduction in operating revenue. Operating expenses rose by 11% due to higher personnel costs, causing a significant (28%) reduction in earnings before interest and tax. However, the business model remains attractive, earning good returns on capital, and we think the shares will recover when confidence in South Africa returns. Rand strength contributed slightly to returns in 2019 – over the year the currency rose 2.6% against the dollar.

Portfolio Changes

We made three switches in the portfolio over the course of the year. The first switch was in July, 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 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 banks 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). But as well as 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 coincided 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), are likely to reduce interest income. The new LPR mechanism described by the central bank is based on 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 trade dispute.

The effect of this switch was to effectively '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 good value in a sector that is still largely overlooked by others.

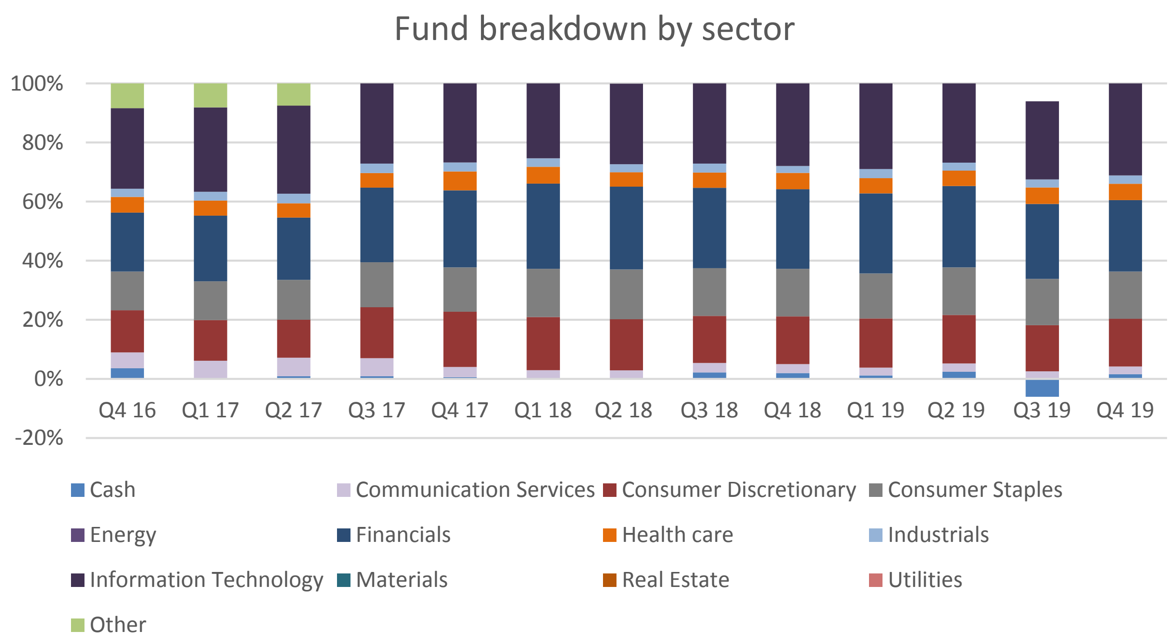
The second and third switches were made in October. We sold Indiabulls Housing Finance (discussed above) and purchased Largan Precision. We sold Infosys and purchased Tech Mahindra.

Largan Precision, a Taiwanese manufacturer of smartphone camera lenses, occupies a dominant position in its niche. The company has benefited over the years from initial adoption of smartphones and – crucially – the continued upgrading of specifications by smartphone manufacturers. The number of lenses incorporated in a phone has increased as front cameras, double rear and now triple rear cameras have been adopted. The quality and sophistication of the lenses has also improved. To illustrate the company's achievements, from 2008 to 2018 revenues grew at a compound annual growth rate of just over 20%. Largan's ability to stay at the forefront of smartphone camera technology and to dominate its niche is what attracts us, and as the move towards 5G is likely to lead to another round of handset upgrades, we believe Largan has good prospects for future growth.

Infosys, like Indiabulls, was also caught up in controversies during the year. We sold the position following a whistleblower complaint to both the Indian Stock Exchange and the US SEC alleging pressure tactics from the CEO to overstate revenues, understate costs and withhold selected information from the board and auditors. Infosys had previously faced issues surrounding corporate governance which we thought had been remedied following management changes. Our expectation was that the company would be able to move on and rebuild commercial momentum. Sadly, although the allegations were unproven, they appeared to be supported by evidence. We felt that they would drag on and impede the company's progress.

Tech Mahindra, another of the Indian IT consultants that we had been following, interested us because of its exposure to telecoms. The telecom industry has been in the doldrums for roughly half a decade and is one of the worst-performing sectors globally. In part, weakness has come from the 4G upgrade cycle coming to an end and telecom providers overpaying for spectrum in the first place. We believe the dynamics for this industry are about to change with the introduction of 5G technology, requiring different hardware and featuring wider applications than merely smartphones. These forces provide an opportunity for the technology consulting companies, and of the Indian consultants, TechM has the biggest presence. It will take time for this area to ramp up, but recently TechM secured a $1bn contract from AT&T (a longstanding customer). As network providers and 5G users increase capex, we believe TechM is well placed.

Portfolio Positioning



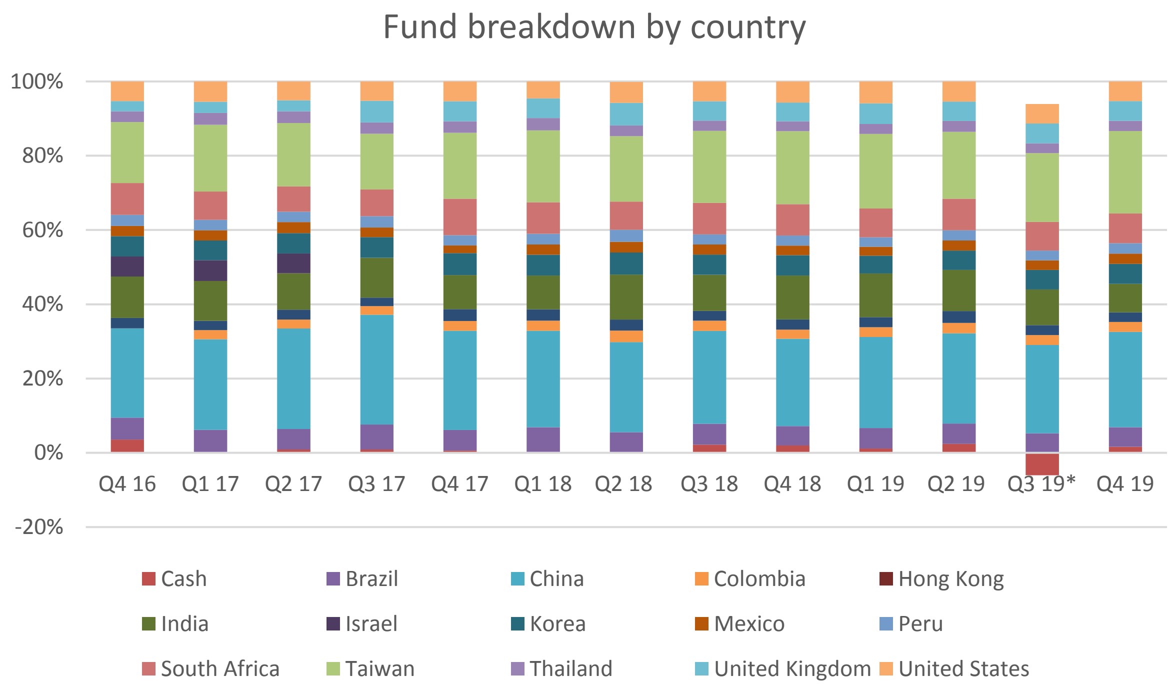
*Outflow in Q3 2019

(Other category refers to an India ETF held for the first six months of the Fund's life which was replaced by direct Indian holdings when local market access was granted.)

The fund has no exposure to the Energy, Materials, Real Estate or Utilities sectors. By weight, the fund is significantly overweight to the Information Technology and Consumer Staples sectors, which is offset by significant underweight exposure to Communication Services, Energy and Materials.

The effect of the switches during the year was to increase exposure to Information Technology by one position (2.75% at neutral weight) and to decrease exposure to Financials by the same amount. By number of companies, our exposure at year end 2019 and 2018 is as follows:

	2019	**2018**
Information Technology	11	10
Financials	9	10
Consumer Discretionary	6	6
Consumer Staples	6	6
Health Care	2	2
Industrials	1	1
Communication Services	1	1
	36	36



*Outflow in Q3 2019

Note that the fund's two British and two American holdings derive more than 50% of their revenue from emerging markets, putting the fund overweight these two regions. Apart from this, the fund's bigger overweight is Taiwan and corresponding bigger underweight is South Korea.

Geographic exposures did not change significantly over the course of the year. The effect of the switches during the year was to increase exposure to Taiwan by one position and reduce exposure to India. Again, by number of companies, our exposure at year end 2019 and 2018 is as follows:

	2019	**2018**
China	9	9
Taiwan	8	7
India	3	4
South Africa	3	3
Brazil	2	2
Korea	2	2
United Kingdom	2	2
United States	2	2
Colombia	1	1
Greece	1	1
Mexico	1	1
Peru	1	1
Thailand	1	1
Total	36	36

The switches did not affect our regional exposure which stood as follows:

	2019	2018
Asia	23	23
LATAM	5	5
EMEA	4	4
Other	4	4
Total	36	36

Outlook

Investors have begun 2020 with a dose of optimism as a strong US economy and signs of a recovery elsewhere have prompted expectations of a period of renewed economic growth. Bloomberg forecasts emerging market GDP growth at 4.5% in 2020 and 4.7% in 2021, up from 4.4% in 2019. World GDP growth is expected to move upwards too, from 3.0% in 2019 to 3.1% in 2020 and 3.3% in 2021.

Within emerging markets, it is still important to be selective. Economies are running at different paces, and we have not recently had a co-ordinated period where all of the large emerging markets are 'firing on four cylinders' – improved growth from the engines of Brazil and India would certainly help in this respect.

Nevertheless, the predicted pickup in emerging markets overall is leading to corporate earnings growth. Implied earnings growth in 2020 for the market is 14%. Looking at the portfolio, implied earnings growth is 11%. Again, this figure perhaps exceeds what we might expect on a more normalised basis, with a growth rate in the mid-to-high single digits being our 'base case'.

Predicted earnings growth at a level below the benchmark does not necessarily trouble us if we think that growth is either more likely to be achieved, or more sustainable heading into the future. Our sector exposures can also have an impact in this regard – with less exposure to Materials and Energy, we will naturally have less sensitivity to the cyclical fluctuations that are a feature of these sectors.

Valuations, while above historic averages, still offer attractive value compared with developed markets. At the end of the year, the fund traded on 14.4x 2019 earnings and 13.0x 2020 earnings, roughly in line with the benchmark, which traded at 14.6x 2019 earnings and 12.8x 2020 earnings.

The fund still provides (in our view) an attractive level of income, yielding 3.4% at time of writing (Z share class, trailing 12-month basis). Dividend growth, as we mentioned, is an important part of our process, and the historic track record of our portfolio companies is very good in this regard – on average, they have grown their dividends at 14% per annum over the past five years. Lastly, our holdings have robust balance sheets. Excluding financials, the average company is close to having zero net debt, or net cash.

From a risk perspective, we are still monitoring the effect of continued monetary stimulus by central banks both on markets and the economy. The easing by the US Federal Reserve in the repo market has clearly help carry markets into the new year, and this programme looks set to continue over the first half of 2020. The economic impact is harder to determine, but US consumer strength has held up, despite weakness in manufacturing. Emerging markets continue to develop domestic demand, but the strength of the US clearly still has a beneficial impact for the region's economies.

Trade also remains a risk, though one that has receded considerably with the recent signing of the US-China trade deal. Signs of tangible progress boosted market sentiment at the end of 2019 and early into the new year. News too that the second phase of the agreement is likely to be delayed until after the US election in November may well dampen the impact that trade concerns has on markets in 2020 – in contrast to the 'on again, off again' nature of talks that roiled markets over the course of last year. Still, eyes will be on China and the degree to which it is able to meet the commitments it has made. In the case of commodity purchases from the US, to an extent this involves merely ‘reshuffling the deck’ – switching imports from one country to another.

We think an approach favouring high-quality, dividend-paying companies works especially well for investors focusing on emerging markets and helps to tackle some the difficulties investors experience in these countries. Given that markets and economic progress rarely move in a straight line, an approach that works in periods of uncertainty should be valued.

While our philosophy and core process are unchanged, we continue to evolve and adapt within the existing framework. The incorporation of domestic Chines A-shares within our investment universe is an example of this evolution. By applying our existing quality criteria to this market we can add to our available investment opportunities while maintaining our quality standards.

Emerging markets more broadly are often attractive to investors because they offer the potential to access new geographic areas as countries’ economies develop and populations prosper. Exposure to this growth is obviously an attraction, and when it feeds through to the listed corporate sector, investors can flourish. However, we still think it is important to apply to these new markets the same disciplined and rigorous standards that are applied to developed markets.

Our approach of focusing on the best individual company opportunities allows us to invest through the cycle in companies that can benefit from the growth the region offers, while also delivering an attractive source of income for shareholders.

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

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.

To sign up for updates or search the archive, visit guinnessfunds.com

or contact our sales team

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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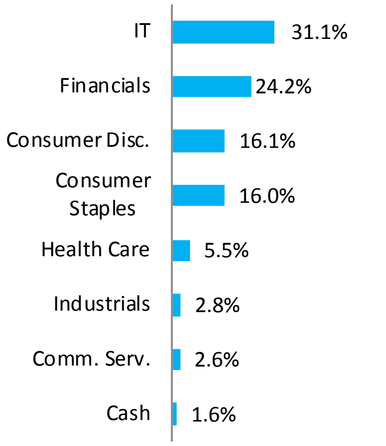
PORTFOLIO

31/12/2019

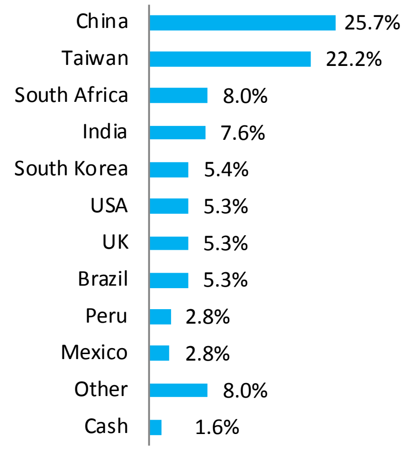
Fund top 10 holdings

AAC Technologies	3.8%
Shenzhou International	3.0%
Novatek Microelectronics	3.0%
Porto Seguro	3.0%
Elite Material	2.9%
Taiwan Semiconductor	2.9%
China Medical System	2.9%
Hon Hai Precision Indust	2.9%
China Merchants Bank	2.8%
Haitian International Hol	2.8%
% of Fund in top 10	30.0%
Total number of stocks	36

Sector analysis



Geographic allocation



PERFORMANCE

31/12/2019

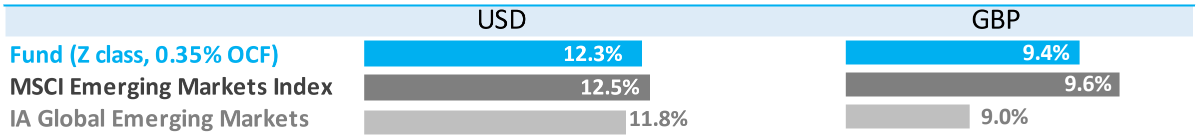
Discrete years % total return

	Dec '15		Dec '16		Dec '17		Dec '18		Dec '19	
	USD	GBP	USD	GBP	USD	GBP	USD	GBP	USD	GBP
Fund (Z class, 0.35% OCF)	-	-	-	-	38.4	26.4	-14.8	-9.5	19.2	14.6
MSCI Emerging Markets	-14.6	-9.7	11.6	33.1	37.8	25.8	-14.3	-8.9	18.4	13.9
IA Global Emerging Markets Sector	-15.1	-10.2	9.7	30.8	36.2	24.4	-16.9	-11.8	20.7	16.0

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)	4.5	2.0	19.2	14.6	19.2	14.6	-	-	41.9	31.3
MSCI Emerging Markets	7.5	4.9	18.4	13.9	18.4	13.9	38.9	29.6	42.6	31.9
IA Global Emerging Markets Sector	6.8	4.3	20.7	16.0	20.7	16.0	36.6	27.4	40.3	29.8

Annualised % total return from launch



Risk analysis - Annualised, weekly, from launch on 23.12.2016

31/12/2019	Index		Sector		Fund	
	USD	GBP	USD	GBP	USD	GBP
Alpha	0.0	0.0	0.0	0.6	2.3	2.3
Beta	1.0	1.0	1.0	0.9	1.0	0.9
Information ratio	0.0	0.0	0.0	-0.1	0.3	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	0.3	0.6	0.3	0.6	0.4
Tracking error	0.0	0.0	0.0	3.7	5.9	6.0
Volatility	14.3	13.3	13.4	11.9	13.3	13.2

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, 0.35% OCF). Fund launch date: 23.12.2016.

Guinness Asset Management

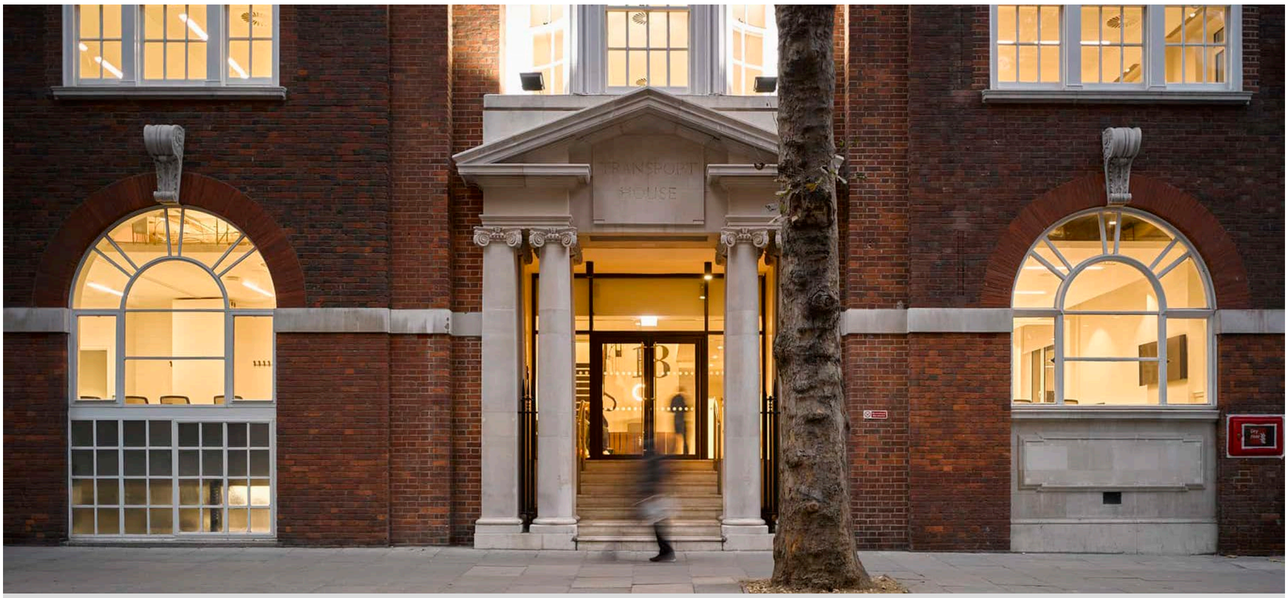
Guinness Asset Management provides a range of long-only actively managed funds to individual and institutional investors. Founded in 2003, Guinness is independent and is wholly owned by its employees.

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

Equity Income	Global Equity Income Asian Equity Income European Equity Income UK Equity Income Emerging Markets Equity Income
Growth & Innovation	Global Innovators Best of China Global Equity US Equity
Specialist	Global Energy Sustainable Energy Global Money Managers

Contact us



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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, 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
This is an advertising document. 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.

GUINNESS
ASSET MANAGEMENT

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