

# Guinness Emerging Markets Equity Income Fund

## INVESTMENT COMMENTARY – February 2020

**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** 31/01/2020

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

	2017		2018		2019	
	USD	GBP	USD	GBP	USD	GBP
<b>Fund</b>	38.4	26.4	-14.8	-9.5	19.2	14.6
<b>Index</b>	37.8	25.4	-14.3	-9.3	18.9	13.9
<b>Sector</b>	36.2	24.4	-16.9	-11.8	20.6	16.0

	YTD		1 year		From launch	
	USD	GBP	USD	GBP	USD	GBP
<b>Fund</b>	-4.7	-4.2	7.1	6.9	35.3	25.8
<b>Index</b>	-4.7	-4.2	3.8	3.6	36.0	26.4
<b>Sector</b>	-3.9	-3.4	6.5	6.3	34.8	25.4

### Annualised % total return from launch

	USD		GBP	
	10.2%	7.7%	10.4%	7.8%
<b>Fund</b>				
<b>Index</b>				
<b>Sector</b>	10.1%	7.6%		

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

	Index		Sector		Fund	
	USD	GBP	USD	GBP	USD	GBP
<b>Alpha</b>	0.0	0.0	0.0	0.6	2.0	1.3
<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	-0.1	0.3	0.1
<b>Max drwn</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	5.8	6.0
<b>Volatility</b>	14.5	13.8	13.5	12.3	13.5	13.4
<b>Sharpe ratio</b>	0.4	0.3	0.4	0.3	0.5	0.3

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 fell in January, giving up their earlier gains mid-way through the month. For the month, the MSCI Emerging Markets Net Total Return Index fell 4.7% (all figures in USD unless stated otherwise).
  - The fund underperformed slightly, falling 4.8% for the month.
  - Asia was the best-performing region, falling 4.5% (although the figure is flattered by the closure of markets in the last week for the month for Chinese New Year). EMEA (Europe, Middle East and Africa) followed, down 4.8%. The worst-performing region was Latin America, which fell 5.6%.
  - Of the largest countries in the benchmark, the best-performing in the month were Mexico (+1.4%), India (-0.8%) and Russia (-3.0%).
  - The worst-performing countries were South Africa (-8.8%), Thailand (-8.6%) and Brazil (-7.5%).
  - The strongest performers in the portfolio were Catcher (+6.3%), B3 (+6.1%) and NetEase (+4.6%).
  - The weakest performers were AAC Technologies (-17.8%), Elite Material (-16.6%) and Truworths International (-16.4%).
  - Emerging market currencies fell by 2.3% during the month.
- ## Events in January
- The coronavirus epidemic spread across China, leading to an unprecedented shutdown of Wuhan city. Travel across the rest of the country was restricted. The New Year holidays were extended to February 10<sup>th</sup>, but we expect further disruption.

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- The US and China officially signed phase one of the trade deal. Broadly speaking, existing tariffs will remain in place. The deal requires China to buy at least \$200 billion of goods and services from the US, including agricultural goods, aeroplanes, pharmaceuticals and energy products. The deal also led to commitments by the Chinese to:
  - Not significantly devalue the Renminbi to make Chinese exports more competitive, and to regularly disclose foreign exchange reserve data. (Note China has been bound by these commitments for some years as part of its membership of the G20.)
  - Protect intellectual property rights through stronger legal protections and stop the forced transfer of technology to Chinese firms.
  - Open up the economy to foreign financial companies in insurance, banking and asset management. China has been making progress on this front over the past year; for example, asset management companies will be allowed majority control over their operations in China this year, while last year foreign firms received approval to run majority-owned securities joint ventures.
- The deal does not, however, target the structure of the Chinese economy i.e. the use of subsidies and state owned enterprises (SOEs). This will be a much more contentious discussion which will take time to resolve.
- Using the fallout from the protests in Hong Kong to her advantage, Tsai Ing-wen won the presidential election in Taiwan.
- The UK allowed Huawei into non-core parts of the network, limiting the company to 35% market share. BT estimates it will spend £500m over the next five years to replace Huawei equipment, while Vodafone estimates it will cost €200m to do the same. While both figures sound large, they are just a fraction of each company's capital expenditure.

## Market Update

Emerging markets began the year well, rising on a continuation of the trend from December last year. Optimism was deflated, however, as the scale of the Coronavirus outbreak became clear. Emerging markets sold off as a result, ending the month down 4.7% in USD terms. Declines were fairly broad across the regions, with Asia down 4.5%, EMEA down 4.8% and Latin America down 5.6%.

China, as expected, was weak, falling 4.8% in the month. (The figure is flattered by the closure of markets in the last week of January for Chinese New Year.) The impact of the Coronavirus outbreak took some time to become clear after the first reported death was on 11 January. A market in Wuhan was identified as the possible source of the outbreak.

Unprecedented measures were put in place to tackle the virus, with a ban on travel to and from Wuhan imposed from 23 January. A global health emergency was declared by the WHO on 30 January. The outbreak came at a particularly difficult time, in that the large-scale response coincided with Chinese New Year, when millions of citizens were displaced by holiday travel. The holiday was extended, and workers began to make a slow return to back work in mid-February.

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## Guinness Emerging Markets Equity Income Fund

South East Asian countries were also weak in the wake of the virus, both on concerns over its economic impact and fears it would spread more widely. Thailand fell 8.6% on worry that the country's tourism industry would be impacted severely.

Prior to the outbreak becoming apparent, the market mood was relatively buoyant. The much-anticipated US-China trade deal was finally signed (in a lengthy ceremony in Washington DC), and its provisions were disseminated. The scope of the deal is perhaps more comprehensive than we initially expected, but this goes some way to removing a degree of uncertainty from the market. A key point, however, to be confirmed was that the issues not resolved by the 'phase one' agreement would be deferred until after the election. This gives markets a chance to pause from the gyrations that were persisting in the run up to the phase one deal, and some time to see how both parties react to the provisions agreed.

Elsewhere in emerging markets, South Africa was weak, falling 8.8% and continuing its run of poor performance. Most of the weakness was due to the falls in the rand, which declined 6.8% in the month. The economy continues to be dogged by power generation problems, with significant load shedding employed to tackle the issues. Companies located in the country (including those held in our portfolio) now trade at deep discounts, and there is almost universal pessimism. Our belief is that South Africa will come back – though we cannot say exactly when that will be – and our holdings are likely to benefit from the corresponding re-rating.

## Portfolio Update

Grape King reported results for full year 2019. The company manufactures and sells health-food drinks in Taiwan and China. Management guided towards a strong outlook for 2020, forecasting growth in the main Pro-Partner business of 5-10%. A subsequent update from management in February guided towards revenue growth in the China business (after a sharp contraction in 2019), despite the coronavirus outbreak. Overall, we are encouraged by the company's progress.

Broadcom announced that they had entered into a \$15bn multi-year supply agreement with Apple. The agreement (made to mid-2023) is a strong endorsement for the company's products and reduces the risk that Apple will take the design of some components in-house. Separately, the company is also looking to sell its RF (radio frequency) business. The division is a market leader in filter components that are used to separate radio signals. Reports indicate that the sale of the division could fetch \$10bn.

China Merchants Bank 'pre-announced' 2019 results. The bank grew net profits by 15%, ahead of expectations after benefiting from lower tax rate. Results overall were generally good; particularly, an improvement in asset quality in the fourth quarter, as non-performing loans fell 3bps from the previous quarter. The announced contraction in net interest margin was not unexpected given lower loan pricing.

## Outlook

For now, attention is focussed on the Coronavirus: how well will the disease be contained in China, and will the virus spread outside of the region? Our base expectation is that the disease is not wholly different from other outbreaks we have seen in the region before (such as SARS). We continue to monitor the number of new cases as the situation evolves.

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Otherwise, the focus is on the earnings outlook. Market multiples in 2019 expanded partly on the expectation of better earnings growth this year versus last, and that is reflected in forecasts for earnings growth in 2020 and 2021. It is obviously early in the year to be assessing 2020's prospects fully (not least because companies are just about to release their 2019 earnings) but we will look closely at managements' guidance and outlooks for 2020 over the reporting season.

Clearly, there will be some impact from the virus on earnings, although at present there have been minimal revisions to 2020 earnings forecasts as it is too early to assess the full scale of disruption. To some extent – particularly for companies manufacturing products rather than delivering services – we expect shortfall in demand in the first quarter to be offset by much higher demand in the second quarter. And in the longer term, we do *not* expect the economic impact to be considerable. Again, the situation is dynamic, and we will monitor events as they unfold.

**Edmund Harriss**

**Mark Hammonds** (portfolio managers)

**Sharukh Malik** (analyst)

### Data sources

Fund performance: *Financial Express*, total return

Index and stock data: *Bloomberg*

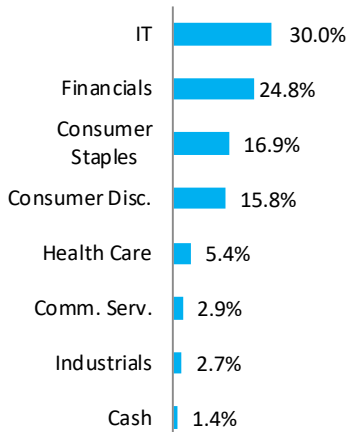
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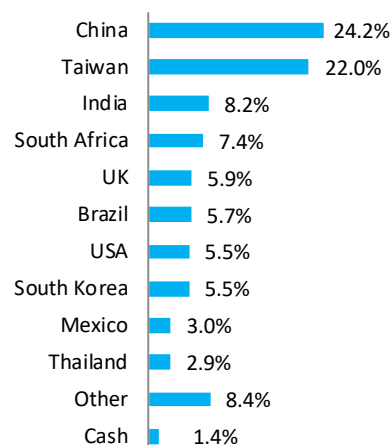
Fund top 10 holdings

Porto Seguro	3.1%
British American Tobacc	3.0%
Taiwan Semiconductor	3.0%
Coca-Cola Femsa	3.0%
Shenzhou International	2.9%
Tisco Financial Foreign	2.9%
Credicorp	2.9%
Netease.com	2.9%
China Merchants Bank	2.9%
China Medical System	2.9%
% of Fund in top 10	29.6%
Total number of stocks	36

Sector analysis



Geographic allocation



PERFORMANCE

31/01/2019

Discrete years % total return

	Jan '16		Jan '17		Jan '18		Jan '19		Jan '20	
	USD	GBP	USD	GBP	USD	GBP	USD	GBP	USD	GBP
Fund (Z class, 0.35% OCF)	-	-	-	-	44.6	27.9	-15.6	-8.7	7.1	6.9
MSCI Emerging Markets	-20.6	-16.0	25.9	41.9	41.5	25.2	-13.9	-6.9	3.8	3.6
IA Global Emerging Markets Sector	-22.5	-18.0	26.5	42.7	37.9	22.0	-16.0	-9.1	6.5	6.3

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)	-4.7	-4.2	-4.7	-4.2	7.1	6.9	-	-	35.3	25.8
MSCI Emerging Markets	-4.7	-4.2	-4.7	-4.2	3.8	3.6	25.5	19.8	36.0	26.4
IA Global Emerging Markets Sector	-3.9	-3.4	-3.9	-3.4	6.5	6.3	23.6	17.9	34.8	25.4

Annualised % total return from launch

	USD		GBP	
Fund (Z class, 0.35% OCF)	10.1%		7.6%	
MSCI Emerging Markets Index	10.4%		7.8%	
IA Global Emerging Markets	10.2%		7.7%	

Risk analysis - Annualised, weekly, from launch on 23.12.2016

31/01/2020	Index		Sector		Fund	
	USD	GBP	USD	GBP	USD	GBP
Alpha	0.0	0.0	0.0	0.6	2.0	1.3
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	0.1
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	0.3
Tracking error	0.0	0.0	0.0	3.7	5.8	6.0
Volatility	14.5	13.8	13.5	12.3	13.5	13.4

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Source: Financial Express, bid to bid, total return (0.35% 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

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](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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