


Guinness Emerging Markets Equity Income Fund

INVESTMENT COMMENTARY – September 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	31/08/2020			
Fund	Guinness Emerging Markets Equity Income (Z)			
Index	MSCI Emerging Markets Index			
Sector	IA Global Emerging Markets			
	2019	2018	2017	
Fund	14.6	-9.5	26.4	
Index	13.9	-9.3	25.4	
Sector	16.0	-11.8	24.4	
	YTD	1 Yr	3 Yrs	Launch
Fund	-10.0	-9.5	-3.2	18.2
Index	-0.6	4.1	4.7	31.1
Sector	-2.1	2.2	1.9	27.1
Annualised % total return from launch				
Fund	5.6%			
Index	7.2%			
Sector	6.0%			
Risk analysis (annualised, weekly, from launch)				
	Index	Sector	Fund	
Alpha	0.0	-0.7	-1.6	
Beta	1.0	0.9	0.9	
Info ratio	0.0	-0.3	-0.4	
Max drwn	-22.6	-25.1	-23.1	
Tracking err	0.0	3.8	6.3	
Volatility	14.9	14.2	14.5	
Sharpe ratio	0.3	0.2	0.1	
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, Z class (0.35% OCF), bid to bid, total return.				
 <small>on our watchlist: FundCallibre.com</small>				

Fund & market

- Emerging markets were broadly flat for the month of August in GBP terms. For the month, the MSCI Emerging Markets Net Total Return Index rose 0.1% (all performance figures in GBP unless stated otherwise).
- The fund underperformed, declining 1.0% for the month.
- Asia was the best-performing region, rising 1.1%. EMEA (Europe, Middle East and Africa) was next, down 0.8%. The worst-performing region was Latin America, which fell 8.2%.
- Of the largest countries in the benchmark, the best-performing in the month were China (+3.5%), Saudi Arabia (+2.9%) and India (+1.3%).
- The worst-performing countries were Brazil (-10.8%), Malaysia (-5.7%) and Thailand (-4.3%).
- The strongest performers in the portfolio were Shenzhou International (+32.3%), Hanon Systems (+27.6%) and Suofeiya Home (+15.5%).
- The weakest performers were Novatek Microelectronics (-19.0%), B3 (-13.7%) and Jumbo (-13.1%).
- Emerging market currencies fell 0.7% despite the US dollar falling by 1.3% (US Dollar Index).

Events in August

- China's economic data continues to improve: manufacturing confidence, exports and industrial profitability all saw record expansion, building on the positive GDP growth recorded in the second quarter of the year. Industrial profits grew over 19% in July compared to July last year and this makes it the third consecutive month of positive annual growth.

Past performance should not be taken as an indicator of future performance. The value of investments and any income arising from them can fall as well as rise as a result of market and currency fluctuations.

Guinness Emerging Markets Equity Income Fund

- Taiwan's technology sector is looking solid, with export orders and manufacturing confidence in expansion territory. This contrasts with the (smaller) domestic sector which still shows weakness.
- Relations between China and US continue to oscillate. Both sides reaffirmed their commitment to the Phase 1 trade deal, but we also saw the US order Bytedance to sell TikTok's US operations and the addition to its Entity List of 38 companies linked to Huawei, barring any companies using US hardware or software from dealing with them.
- Tensions between China and India along the border rose again. In September, China and India have agreed to a rapid de-escalation and disengagement of troops.
- The US Federal Reserve Chair, Jerome Powell, announced a change in policy at a virtual Jackson Hole summit. The Fed will now move to average inflation targeting.

This month we again review recent company results from our holdings.

Portfolio review

Haitian, a maker of injection moulding equipment, released results for the first half that beat expectations after seeing growth in packaging and medical industries. Margins were boosted by strong cost control on both lower overheads and raw materials costs. The company generates revenue globally, although China represents the majority. Interestingly, the shutdowns globally and the disruption that has followed have shifted more demand *towards* China and to Chinese companies with strong growth in Haitian's European sales.

NetEase (Chinese video gaming) also released results that beat consensus, with revenue growth for the second quarter up to +21% year-on-year. Demand came from games across multiple franchises. The company is also seeing revenue growth in its Cloud Music business. NetEase is having a good year and to the end of August the share price is up c.59% (despite being down on the year for a time in March).

Hon Hai, the electronics assembler, reported good second-quarter results, helped by strong demand for computers driven by increased working from home and remote learning. This demand is likely to persist in the coming quarter, although the business is facing headwinds from increased competition in smartphone assembly. Gross margins increased in the quarter due to the product mix and gains from coronavirus-related subsidies.

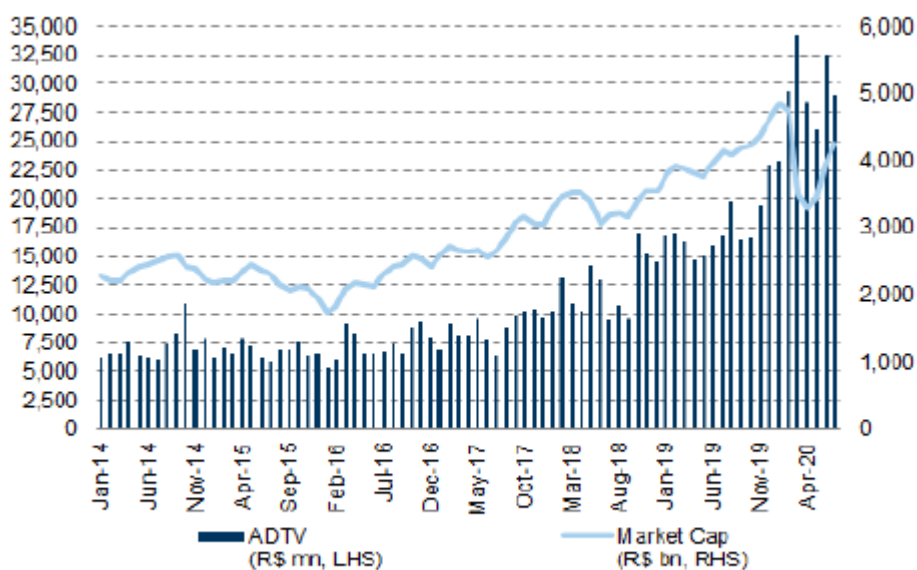
Catcher, a manufacturer of casings for consumer electronics, announced the sale of its Chinese facilities to Lens Technology (a Chinese manufacturer of handset cover glass). The transaction is in cash and due to close by the end of the year. The disposal represents a significant (c.40%) portion of revenues, so the use of the cash proceeds will be critical. Second quarter results reported a lower-than-expected gross margin, indicating greater price competition in the iPhone supply chain and an unfavourable product mix.

B3, the Brazilian stock exchange, continued to benefit from high trading volumes in July, although these have declined from the peak. The derivatives business has seen lower volumes, but these have been offset by higher fees. This chart, from Goldman Sachs, shows the remarkable growth in equities volumes recently:

Past performance should not be taken as an indicator of future performance. The value of investments and any income arising from them can fall as well as rise as a result of market and currency fluctuations.

Guinness Emerging Markets Equity Income Fund

ADTV (R\$m) and Market Cap (R\$bn)



Source: Company Data

Credicorp, our Peruvian bank holding, reported disappointing results due to higher provisions and weaker net interest income. Management have indicated that it may take 2-3 years for profitability to get back to pre-COVID levels, although some of the recent weakness is expected to normalise in the coming quarter. GDP in Peru is on the path to recovery, having fallen 40% in April, 30% in May and 18% in June. Part of the reason that banks in general have been badly affected in the coronavirus outbreak is their diversified exposure to the economy and the forward-looking element of loan provisioning. Credicorp has been taking steps to improve efficiency to compensate for lower profitability, e.g. by closing some branches and continuing to invest in digital services.

Hanon Systems, a Korean car parts manufacturer, appears to be on the path to recovery with a pick-up into June. Management has guided for auto demand to return to around 90% of pre-COVID levels, although results should benefit from the aggressive cost saving efforts deployed so far this year. Dividends for the second quarter were maintained at 68 won.

Shenzhou International, an integrated textile and garment manufacturer, announced good results for the first half helped by sales of face masks and disciplined cost control. The company has a strong position in the garment supply chain and is expanding capacity in Vietnam and Cambodia. As was the case in the prior year comparable period, the interim dividend payout ratio was 49%.

KT&G, the Korean tobacco company, announced results for the second quarter with a 5% increase in sales year-on-year and a small 1% decline in operating profit. For the seventh consecutive quarter, market share in the domestic tobacco market increased. The company also announced a share buyback programme of roughly 2% of outstanding shares. On the earnings call, management announced that further details of its joint project with Philip Morris would be forthcoming. This trailer, relating to the overseas marketing of the 'LiL' heat-not-burn product, was enough to cause the share price to rise strongly.

Past performance should not be taken as an indicator of future performance. The value of investments and any income arising from them can fall as well as rise as a result of market and currency fluctuations.

Guinness Emerging Markets Equity Income Fund

Porto Seguro, the Brazilian auto insurance company, benefited from lower claims in the second quarter, beating consensus earnings expectations. Premiums have come under pressure, with a reduction in the insured fleet and lower pricing.

Outlook

While we hesitate to draw strong conclusions from short-term data, the positive revisions to earnings in both emerging markets and developed markets have added to positive sentiment, accompanied by stronger economic data and activity readings. Earnings for the MSCI Emerging Markets Index were revised up in August by +1.4% for 2020 earnings and +0.5% in 2021 (both expressed in USD terms). There is, however, still some way to go; over three months the revisions are –3.2% for 2020 and slightly negative (–0.3%) for 2021. Developed markets also saw positive revisions in the month, up 0.7% and 0.8% for 2020 and 2021 respectively. Three-month revisions are also positive, at +2.0% and +2.1%.

Earnings estimates can of course be volatile, and recent fears of a second wave of COVID infections are likely to impact on earnings forecasts for developed markets, as analysts had begun to look past the worst of the impact from the pandemic. Arguably, much lower expectations have been priced into emerging market countries (as in some cases, the experience with the virus and economic disruption has been severe), meaning there is room for sentiment to be boosted further if the situation turns out to be not as bad as expected.

The results for our companies in July and August have been generally encouraging, with many companies beating (albeit reduced) market expectations. Commentary regarding the outlook is generally optimistic, though obviously cautious. Many of our holdings are positioned outside some of the industries that have been most affected by the pandemic, and it is most reassuring that the strength of companies' existing business models has largely remained intact – these companies have strong positions in their industries and are likely to reap the benefits when the demand environment improves.

Edmund Harriss

Mark Hammonds (portfolio managers)

Sharukh Malik (analyst)

Data sources

Fund performance: *Financial Express*, total return

Index and stock data: *Bloomberg*

Past performance should not be taken as an indicator of future performance. The value of investments and any income arising from them can fall as well as rise as a result of market and currency fluctuations.

Guinness Emerging Markets Equity Income Fund

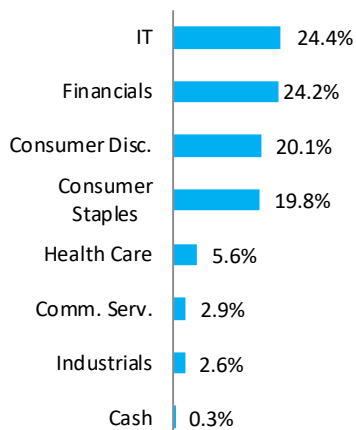
PORTFOLIO

31/08/2020

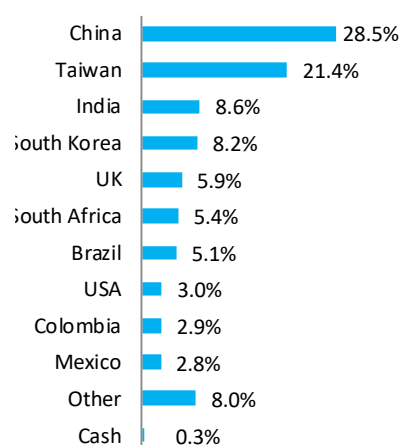
Fund top 10 holdings

Shenzhou International	3.2%
British American Tobaccc	3.1%
China Lilang	3.1%
Broadcom	3.0%
Grape King Bio	3.0%
Tech Mahindra	3.0%
Suofeiya Home Collection	3.0%
Netease.com	2.9%
Banco Davivienda	2.9%
Elite Material	2.9%
% of Fund in top 10	30.0%
Total number of stocks	36

Sector analysis



Geographic allocation



PERFORMANCE

31/08/2020

Annualised % total return from launch (GBP)

Fund (Z class, 0.35% OCF)	5.6%
MSCI Emerging Markets Index	7.2%
IA Global Emerging Markets sector average	6.0%

Discrete years % total return (GBP)

	Aug '20	Aug '19	Aug '18	Aug '17	Aug '16
Fund (Z class, 0.35% OCF)	-9.5	5.7	1.3	-	-
MSCI Emerging Markets Index	4.5	2.5	-1.2	27.0	31.8
IA Global Emerging Markets sector average	2.2	4.6	-4.7	25.3	30.2

Cumulative % total return (GBP)

	1 month	Year-to-date	1 year	3 years	5 years	From launch
Fund (Z class, 0.35% OCF)	-0.8	-10.0	-9.5	-3.2	-	18.2
MSCI Emerging Markets Index	0.2	-0.6	4.1	4.7	5.2	31.1
IA Global Emerging Markets sector average	1.4	-2.1	2.2	1.9	4.6	27.1

RISK ANALYSIS

31/08/2020

Annualised, weekly, from launch on 23.12.16, in GBP	Index	Sector	Fund
Alpha	1.00	0.92	0.89
Beta	0.00	-0.34	-0.40
Information ratio	-22.63	-25.14	-23.11
Maximum drawdown	1.00	0.94	0.83
R squared	0.29	0.21	0.11
Sharpe ratio	0.00	3.76	6.29
Tracking error	14.16	14.16	14.51
Volatility	0.00	-0.70	-1.62

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

Past performance should not be taken as an indicator of future performance. The value of investments and any income arising from them can fall as well as rise as a result of market and currency fluctuations.

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, 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'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

Guinness Asset Management Ltd is authorised and regulated by the Financial Conduct Authority

Tel: +44 (0) 20 7222 5703

Email: info@guinnessfunds.com

Web: guinnessfunds.com