Guinness Emerging Markets Equity Income Fund

INVESTMENT COMMENTARY – October 2020

Launch date	**23.12.2016**
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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.

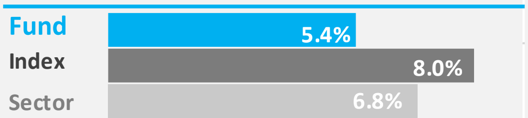
Performance (in GBP) 30/09/2020

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	-7.2	- 5.6	6.4	21.9
Index	1.3	5.4	11.5	33.6
Sector	-1.4	2.0	7.0	27.9

Annualised % total return from launch



Risk analysis (annualised, weekly, from launch)

	Index	Sector	Fund
Alpha	0.0	-0.6	-0.8
Beta	1.0	0.9	0.9
Info ratio	0.0	-0.3	-0.3
Max drwdn	-22.6	-25.1	-23.1
Tracking err	0.0	3.7	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.

ELITE RADAR
on our watchlist: FundCalibre.com

Fund & market

- Emerging markets were higher in September in GBP terms. For the month, the MSCI Emerging Markets Net Total Return Index rose 2.0% (all performance figures in GBP unless stated otherwise).
- The fund outperformed, rising 3.2% over the month.
- Asia was again the best performing region, rising 2.5%. EMEA (Europe, Middle East and Africa) was next, up 0.9%. The worst performing region was Latin America, which fell 1.7%.
- Of the largest countries in the benchmark, the best performing in the month were Korea (+6.8%), Saudi Arabia (+6.1%) and Taiwan (+5.7%).
- The worst performing countries were Thailand (–6.2%), Russia (–4.0%) and Brazil (–3.7%).
- The strongest performers in the portfolio were Spar Group (+23.3%), Novatek Microelectronics (+16.2%) and Tata Consultancy Services (+14.1%).
- The weakest performers were Porto Seguro (–8.1%), Elite Material (–6.5%) and China Construction Bank (–5.2%).
- Emerging market currencies fell 2.2% in the month.

Events in September

- China's economic growth in the third quarter was reported to have been 4.9%. This was a little below expectations, but does not change the market's expectation for ~2% growth for the full year.

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- Thailand is experiencing another bout of political unrest, with protests this time focusing on the King. In addition, the Thai Finance minister resigned after only one month, citing ill-health.

- Ongoing US-China tensions were evident over the forced sale of Tik Tok's US operation and President Trump's expressed intention to penalise US companies that create jobs overseas or block those doing business in China from winning federal contracts.

- The US Federal reserve indicated that interest rates may stay lower for longer.

- The Chinese Yuan appreciated against the dollar to reach levels not seen since April 2019. This reflects the higher interest rates in China, compared to the US, as well as the growth in Chinese exports that has resulted in an increased trade surplus this year.

- Turkey's debt rating downgraded to B2 by Moody's, a new low.

Review of the quarter

In the third quarter the fund rose by 0.9%, underperforming the benchmark, MSCI Emerging Markets Net Total Return Index, which returned 5.0%.

The underperformance came mainly during July, after an initial rally in the first days of the month. Much of the underperformance can be attributed to not holding Tencent or Alibaba, two benchmark heavyweights that do not pay significant dividends. Alibaba in particular represented roughly two-thirds of the relative underperformance.

After the wild swings in prices over the first and second quarter, with a sharp drawdown followed by a very strong rebound, the third quarter was much flatter, though still generated good returns. Emerging markets returned 5.0%, outperforming developed markets, with the MSCI World up 3.5% and the S&P 500 Index up 4.4%.

Within emerging markets, two of the three regions were negative in GBP terms. Asia was the clear leader, matching the pattern of the first six months, up 7.3% in the quarter. EMEA (Europe, the Middle East and Africa) was down 2.4%. Latin America lagged, falling 5.4%.

Reflecting a pattern seen globally, value stocks and growth stocks diverged. The growth component of the benchmark gaining 9.4%, vastly exceeding the modest gains of 0.3% for the value equivalent.

In terms of our portfolio, there were several areas of strength. Our India IT services companies both performed well. The industry is benefitting first from an easing of pandemic related restriction globally as activity picks up again and IT projects resume. Second, the pandemic has underscored the importance to companies of having resilient IT infrastructure, and more companies are looking to accelerate the shift of processes and systems to the cloud, which is a big area for the consultancies. Last in the case of Tech Mahindra, the continued roll out of upgrades to communications infrastructure for 5G is a key area of business that they provide consultancy for. And the recent announcement of the new iPhone range incorporating 5G shows the commitment that the industry has to the technology (having 5G-enabled handsets will also be a catalyst for service providers to continue their roll-out).

Other individual IT holdings also did well. Novatek Microelectronics reported record results during the quarter. The chip designer has seen strength outside of the smartphone segment, with its products used in TVs, notebooks and tablets. The latter two categories have seen strong demand as consumers have purchased devices to work from home.

On the negative side, apart from not holding Tencent or Alibaba as discussed – as was the case in the second quarter – our nil exposure to Materials stocks also hurt performance on a relative basis. Because we are exclusively focused on companies that have demonstrated high and consistent returns on capital, the cyclical nature of the industry mean we typically avoid companies operating in the sector.

Outlook

We are still in the midst of the pandemic, and for now COVID-19 remains a significant source of uncertainty. Progress is being made on a vaccine, and the likelihood that one will prove safe and effective could mean a significant breakthrough is not far off. In the meantime, the appearance of a 'second wave' across Europe – if that continues and is observed elsewhere – is a significant uncertainty currently affecting markets. On the other hand, the strength of the economic recovery coming out of the trough earlier in the year has surprised to the upside. Economic stimulus and direct handouts to citizens have allowed parts of the economy to boom, while spending in other areas has been cut back sharply.

Given this backdrop, the results reported by our portfolio holdings have generally been very encouraging. Many have parts of the business that are doing well, and management has typically focused efforts in those areas where possible. Some have benefitted from the changed spending or behavioural patterns of consumers, as people work from home, seek entertainment online, and so on. And as restrictions on movement and other public health measures have been lifted, so activity has noticeably begun to pick up. Managements obviously need to be well prepared to respond quickly in this difficult environment – the strongest have taken the opportunity to acquire competitors that have been struggling, or hired a bigger workforce in preparation.

What this year has highlighted the most is those businesses that are resilient to disruption, not necessarily because they are in specific industries, rather because they still see strong demand despite the tough economic environment. By and large, while our portfolio companies have faced tough conditions, their business models have not been threatened. They still retain a strong competitive position – which may have even strengthened over the period – enabling them to generate good results in multiple different business environments.

Economic data had been improving over recent months, although very near-term data has taken a step backwards. We have seen positive sentiment in markets as earnings have started to be upgraded. Increasingly, investors' attention will be turning to next year, and assessing how quickly businesses are able to return to their pre-pandemic peak (assuming further disruption from the pandemic does not occur).

A flare up in US-China tensions has been an additional uncertainty that markets have faced, this time with Chinese technology companies caught in the crosshairs. China, meanwhile, is battling to reduce the impact of trade sanctions; companies have been stockpiling components in inventory for some time and efforts toward self-sufficiency are continuing apace. Much may be dependent on the results of the US election, which is now imminent.

Given the multitude of uncertainties and complexities that investors in emerging markets are currently facing, we think the approach of investing in companies with demonstrable track records, good capital allocation, a history of dividend payments, that are available for reasonable valuations continues to make good sense.

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

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

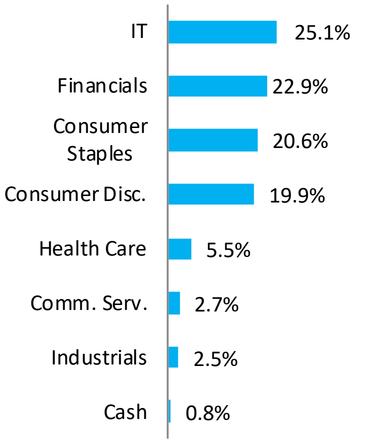
PORTFOLIO

30/09/2020

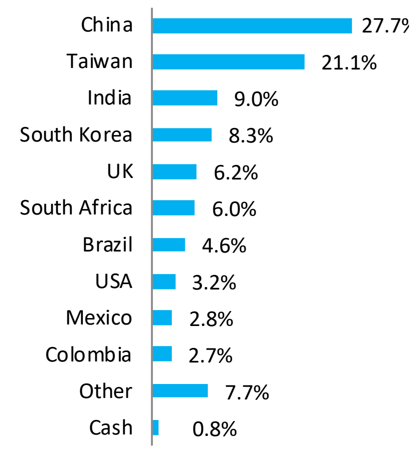
Fund top 10 holdings

Shenzhou International	3.4%
British American Tobaccc	3.3%
Tech Mahindra	3.2%
Spar Group	3.2%
Broadcom	3.2%
TATA Consultancy Service	3.1%
Suofeiya Home Collection	3.0%
China Lilang	3.0%
Unilever	2.9%
KT&G Corporation	2.9%
% of Fund in top 10	31.0%
Total number of stocks	36

Sector analysis



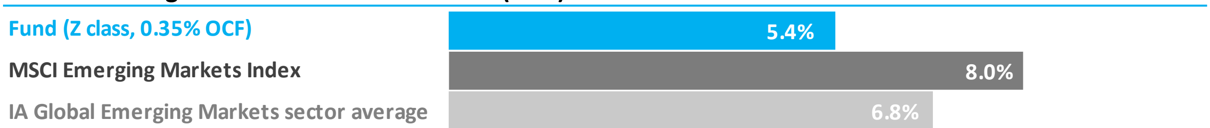
Geographic allocation



PERFORMANCE

30/09/2020

Annualised % gross total return from launch (GBP)



Discrete years % gross total return (GBP)	Sep '20	Sep '19	Sep '18	Sep '17	Sep '16
Fund (Z class, 0.35% OCF)	-5.6	4.5	7.9	-	-
MSCI Emerging Markets Index	5.7	4.1	2.4	19.0	36.7
IA Global Emerging Markets sector average	2.0	6.5	-1.5	17.4	36.5

Cumulative % gross total return (GBP)	1 month	Year-to-date	1 year	3 years	5 years	From launch
Fund (Z class, 0.35% OCF)	3.2	-7.2	-5.6	6.4	-	21.9
MSCI Emerging Markets Index	1.9	1.3	5.4	11.5	4.6	33.6
IA Global Emerging Markets sector average	0.7	-1.4	2.0	7.0	3.9	27.9

RISK ANALYSIS

30/09/2020

Annualised, weekly, from launch on 23.12.16, in GBP	Index	Sector	Fund
Alpha	1.00	0.92	0.89
Beta	0.00	-0.31	-0.27
Information ratio	-22.63	-25.14	-23.11
Maximum drawdown	1.00	0.94	0.82
R squared	0.26	0.19	0.14
Sharpe ratio	0.00	3.73	6.29
Tracking error	14.15	14.15	14.49
Volatility	0.00	-0.62	-0.81

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.

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

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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.