


# Guinness Emerging Markets Equity Income Fund

## INVESTMENT COMMENTARY – November 2020

<b>Launch date</b>	23.12.2016			
<b>Team</b>	Edmund Harriss (manager) Mark Hammonds (manager) Sharukh Malik (analyst)			
<b>Aim</b>	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.			
<b>Performance</b>	31/10/2020			
<b>Fund</b>	Guinness Emerging Markets Equity Income (Z)			
<b>Index</b>	MSCI Emerging Markets Index			
<b>Sector</b>	IA Global Emerging Markets			
	<b>2019</b>	<b>2018</b>	<b>2017</b>	
<b>Fund</b>	14.6	-9.5	26.4	
<b>Index</b>	13.9	-9.3	25.4	
<b>Sector</b>	16.0	-11.8	24.4	
	<b>YTD</b>	<b>1 Yr</b>	<b>3 Yrs</b>	<b>Launch</b>
<b>Fund</b>	-8.2	-5.6	1.3	20.6
<b>Index</b>	3.4	8.3	8.8	36.4
<b>Sector</b>	0.3	4.9	4.6	30.2
<b>Annualised % total return from launch</b>				
<b>Fund</b>	5.0%			
<b>Index</b>	8.0%			
<b>Sector</b>	6.8%			
<b>Risk analysis (annualised, weekly, from launch)</b>				
	<b>Index</b>	<b>Sector</b>	<b>Fund</b>	
<b>Alpha</b>	0.00	0.00	-0.69	
<b>Beta</b>	1.00	1.00	0.98	
<b>Info ratio</b>	0.00	0.00	-0.16	
<b>Max drwn</b>	-22.63	-25.14	-23.11	
<b>Tracking err</b>	0.00	0.00	6.18	
<b>Volatility</b>	14.81	14.11	14.55	
<b>Sharpe ratio</b>	0.30	0.22	0.10	
<b>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.</b>				
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 higher in October in GBP terms. For the month, the MSCI Emerging Markets Net Total Return Index rose 1.8% (all performance figures in GBP unless stated otherwise).
- The fund underperformed, falling 1.4% over the month.
- Asia was again the best performing region, rising 3.0%. Latin America was next, down 1.4%. The worst performing region was EMEA (Europe, Middle East and Africa), which fell 4.4%.
- Of the largest countries in the benchmark, the best-performing in the month were China (+5.0%), Taiwan (+1.1%) and India (+0.9%).
- The worst-performing countries were Russia (-8.8%), Brazil (-2.8%) and Saudi Arabia (-2.8%).
- The strongest performers in the portfolio were China Lilang (+15.0%), Tisco Financial (+12.2%) and China Merchants Bank (+9.9%).
- The weakest performers were Jumbo (-20.7%), British American Tobacco (-10.2%) and Zhejiang Supor (-9.5%).
- Emerging market currencies fell 1.1% in the month.

## Events in October

- The US Presidential election was called for Biden although America's unique system means the formal result is confirmed by Congress on January 6th. This detail would typically not register, but little about this presidency has been typical.

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- The anticipated 'blue wave', which was expected to sweep both houses of Congress, did not materialise. This is likely to constrain policymaking.
- Pfizer and German company BioNTECH reported startlingly good results from their vaccine trial (of ~43,000 volunteers) causing markets to surge. It is worth remembering that its safety, as well as its reported efficacy, will now come into focus. Rapid approval followed by reports of adverse side-effects would be a severe set-back.
- China 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.
- The Communist Party of China (CPC) released some details of its next Five-Year Plan. The summary communiqué did not mention a target goal for GDP growth and instead emphasised higher quality growth, innovation, market reform, domestic demand and final liberalisation. Discussions also included environmental protection, a target for peak carbon emissions by 2030 and carbon neutrality by 2060.
- The Chinese Yuan appreciated a further 1.3% against the dollar. The Korean Won (also a trade-sensitive currency) appreciated 2.5% in October.
- The Thai government imposed a state of emergency in response to protestors who have turned their ire onto the Prime Minister. By contrast, the King has made conciliatory statements toward the protestors.
- South Africa's Medium-Term Budget Policy Statement was presented to Parliament, and largely met expectations. Finance Minister, Tito Mboweni, forecast debt to GDP to stabilise at a level of 95% over the next five years – a projection seen as optimistic by some analysts.

## Review of the portfolio

This month we review results reported by portfolio companies reported during the month.

Ping An Insurance reported results for the third quarter, with strong growth in net profit of 12%. A major contributor was strong life operating profit growth. Outside of the life business, auto premiums rose 11% and non-auto rose 19%. Customer numbers continue to increase, with 37% holding multiple contracts/products with the company.

Suofeiya Home reported good third quarter results, with revenue up 17% and EBIT up 30%. The rise reflects a strong recovery in demand and conversion of existing backlog orders. Operating profit margin increased 1.9% to 19.4%, with a reduction in administrative expense ratio.

Zhejiang Supor results were more muted, after management saw stronger competition in the third quarter, which caused revenue growth to slow to 7% (from 11% in the second quarter). Orders from parent SEB were one of the positive contributing factors. Management expressed caution over the fourth quarter outlook in their earnings call.

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TSMC reported results for the third quarter that beat expectations. Broad strength was seen across the product range, including in High Performance Computing (HPC) and 5G smartphones. Some additional demand is likely to have come from Huawei stock-building ahead of US trade restrictions. The 5nm process node (the newest chip manufacturing process) is recording revenue for the first time, and work is underway on 4nm and 3nm processes. Management guided for 30% revenue growth in 2020 (in US dollar terms), and spending \$17bn in capex.

Largan reported in-line results, but the stock was weaker on concerns over the outlook. The suspension of orders from Huawei and general uncertainty over the prospects for the iPhone and the smartphone market more widely were both contributing factors. Huawei differs from other Android producers in that its models have a stronger focus on high-end cameras, which use the type of lenses that Largan manufactures. So the company has been hurt by a mix-shift away from the premium end of the market. Our belief is that despite this pattern, the long-term trend towards increasing specifications for smartphones (and cameras within that) is still intact. We also take it as a broad positive that management has been shown to be unwilling to sacrifice margin by moving down-market.

Tata Consultancy Services reported a rebound in second quarter revenues (the company has a March year-end), following the easing of pandemic restrictions. The shift to cloud is an area of focus for the company's clients, as COVID has demonstrated the need for increased business and technology resiliency. Longer term trends the company is looking to benefit from include data exploitation. The company also announced a strong hiring outlook, with plans to hire 10,000-15,000 staff in the third quarter.

Hon Hai reported third quarter revenues that beat expectations. The company has benefited from demand for PCs and servers as employees work from home. The launch of the new iPhone range is expected to contribute meaningfully to revenue growth in the fourth quarter.

Bajaj Auto management comments indicate demand for motorbike and scooters in India improving. September volumes returned to prior year levels, though some of this represents pent up demand. Export markets have come back more quickly, as economies have reopened faster than India. A recovery in three-wheeler vehicles has been slower and is contingent on India's COVID restrictions being eased. However, this segment could benefit from people's aversion to using public transport.

## Outlook

The good news on the vaccine front that we hoped for in last month's update came through, with positive results from three different vaccine efforts. The news was strongly welcomed by markets, with November's performance on track to set records.

Attention has shifted quickly to the logistical challenges of vaccine distribution and the challenging issue of how initial limited supplies should be allocated. Clearly there are many issues to work through, but the positive news has brought hope that an end to the pandemic is in sight.

In the meantime, European countries and the US are battling with 'second-waves' of the coronavirus, and it is likely to take several months before vaccination at a meaningful scale commences. So there is still a period of time to be bridged to that point. The virus is still causing economic damage, acting as a drain on public finances, and causing business disruption (though likely much less than previously as many companies have adapted over the course of this year).

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The familiar questions therefore remain: how much short term disruption can the global economy take, and what amount of long term damage will it cause? Markets certainly seem to view the answers to these questions positively, helped by the strong recovery witnessed over the middle part of the year and the recent vaccine optimism, but the longer term consequences will take time to be realised. Nevertheless, if vaccine approval does come soon and an end to the pandemic can be brought about quickly, there is likely to be a huge boom in various industries as pent-up demand e.g. for travel, can be realised quickly.

The election of Joe Biden as US president is also likely to be a calming influence on US-China relations, although there are still loud voices in the Democrat party opposed to China's rise in power. It may be difficult to determine Biden's stance until after the inauguration, but we expect relations to be 'reset' to a certain degree, if only to become more predictable. There is also still a question over what actions Trump will take in his last few weeks in office.

As we wrote last month, 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 makes good sense.

**Edmund Harriss**

**Mark Hammonds** (portfolio managers)

**Sharukh Malik** (analyst)

### Data sources

Fund performance: *Financial Express*, total return

Index and stock data: *Bloomberg*

## Guinness Emerging Markets Equity Income Fund

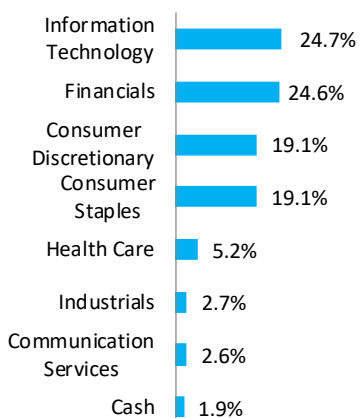
### PORTFOLIO

31/10/2020

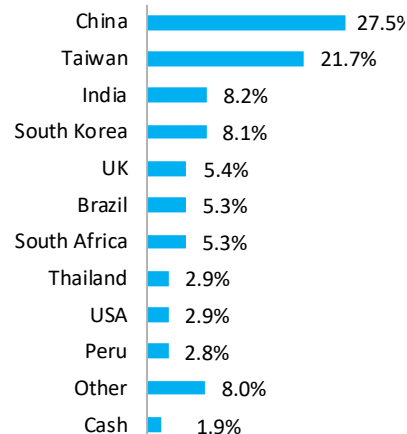
#### Fund top 10 holdings

Tisco Financial Foreign	2.9%
Shenzhou International	2.9%
China Merchants Bank	2.9%
Broadcom	2.9%
Zhejiang Supor	2.9%
Taiwan Semiconductor	2.8%
British American Tobaccc	2.8%
China Construction Bank	2.8%
China Lilang	2.8%
Credicorp	2.8%
% of Fund in top 10	28.5%
Total number of stocks	36

#### Sector analysis



#### Geographic allocation



### PERFORMANCE

31/10/2020

#### Annualised % gross total return from launch (GBP)

Fund (Z class, 0.35% OCF)	5.0%
MSCI Emerging Markets Index	8.0%
IA Global Emerging Markets sector average	6.8%

#### Discrete years % gross total return (GBP)

	Oct '20	Oct '19	Oct '18	Oct '17	Oct '16
Fund (Z class, 0.35% OCF)	-5.6	11.3	-3.6	-	-
MSCI Emerging Markets Index	8.3	10.5	-9.1	16.3	38.1
IA Global Emerging Markets sector average	4.9	12.6	-11.4	14.9	37.0

#### Cumulative % gross total return (GBP)

	1 month	Year-to-date	1 year	3 years	5 years	From launch
Fund (Z class, 0.35% OCF)	-1.1	-8.2	-5.6	1.3	-	20.6
MSCI Emerging Markets Index	2.0	3.4	8.3	8.8	4.6	36.4
IA Global Emerging Markets sector average	1.7	0.3	4.9	4.6	3.8	30.2

### RISK ANALYSIS

31/10/2020

Annualised, weekly, from launch on 23.12.16, in GBP	Index	Sector	Fund
Alpha	0.00	0.00	-0.69
Beta	1.00	1.00	0.98
Information ratio	0.00	0.00	-0.16
Maximum drawdown	-22.63	-25.14	-23.11
R squared	1.00	1.00	0.82
Sharpe ratio	0.30	0.22	0.10
Tracking error	0.00	0.00	6.18
Volatility	14.81	14.11	14.55

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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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