


Guinness Emerging Markets Equity Income Fund

INVESTMENT COMMENTARY – December 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	30/11/2020			
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	- 1.2	0.8	6.2	29.7
Index	9.4	14.7	17.1	44.3
Sector	7.8	12.4	13.1	39.9
Annualised % total return from launch				
Fund	5.4%			
Index	8.0%			
Sector	6.8%			
Risk analysis (annualised, weekly, from launch)				
	Index	Sector	Fund	
Alpha	0.0	-0.3	-1.4	
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	3.7	6.4	
Volatility	14.9	14.2	14.6	
Sharpe ratio	0.4	0.4	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: Financial Express, Z class (0.35% OCF), bid to bid, total return.				
 <small>on our watchlist: FundCalibre.com</small>				

Fund & Market

- Emerging markets rallied sharply in November, as positive news regarding vaccines was welcomed by investors. For the month, the MSCI Emerging Markets Net Total Return Index rose 5.8% (all performance figures in GBP unless stated otherwise).
- The fund outperformed, rising 7.6% over the month.
- Latin America was the best-performing region, bouncing 18.1%. Next was EMEA (Europe, Middle East and Africa), which rose 10.5%. Asia was last, rising 4.2%.
- Of the largest countries in the benchmark, the best performing in the month were Thailand (+21.0%), Brazil (+19.9%) and Russia (+17.1%).
- The worst-performing countries were China (-0.4%), Malaysia (+4.1%) and India (+5.3%).
- The strongest performers in the portfolio were Hanon Systems (+33.8%), Credicorp (+30.1%) and Jumbo (+24.3%).
- The weakest performers were China Medical System (-5.4%), Shenzhou International (-5.0%) and Suofeiya Home (-4.6%).
- Emerging market currencies rose 4.2% in the month.

Events in November

- The US Presidential election was won by Democrat Joe Biden.
- Alibaba's stock market launch of Ant Financial was pulled at the last moment following moves by regulators that would significantly affect the company's business model.

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

- Ten south-east Asian nations plus China, Korea, Japan, Australia and New Zealand signed the Regional Comprehensive Economic Partnership (RCEP), forming the world's largest trading bloc. The agreement does not include India, which withdrew from discussions, but the door is left open to it to join later.
- China has blocked imports from Australia including coal, copper and foodstuffs as relations between the two countries continue to sour.
- Positive data came out from various COVID-19 trials. The BioNTech/Pfizer vaccine prevented 90%+ of trial participants from getting COVID-19. A week later, Moderna's results showed 95% of participants were protected. This news led to a rally in stocks which are deemed to benefit from the rollout of the vaccines and a return to normal life.
- Peru's congress voted to impeach President Martin Vizcarra over bribery allegations. His replacement, Manuel Merino, resigned after just five days in office following a police crackdown on demonstrations in the country.
- Turkey's central bank governor was fired by President Tayyip Erdogan following continued weakness in the currency.

Review of the portfolio

Recent results from portfolio companies have continued to trickle in:

- Novatek reported good results for the third quarter, with gross margins beating both expectations and company guidance. As a result, net profit came in 21% ahead of consensus expectations. The company is benefiting from strong demand for TDDI chips used in smartphones, particularly from non-Huawei Chinese manufacturers, namely Xiaomi, Oppo, and Vivo (TDDI chips combine touch screen controllers and display drivers). Similarly, demand lost from Huawei in the OLED segment has been replaced by those other manufacturers and with wearable OLED DDIC (display driver integrated circuit). While management noted capacity at foundries is currently tight, the company is clearly benefiting from a new handset cycle as manufacturers roll-out 5G models.
- Results from the Chinese banks in the third quarter were positive both for the sector, as net interest margin stabilises and asset quality improves, but also for what they say about the improvement in broader macro economy in the country. China Merchants Bank has seen better performance in its credit card and wealth management parts of its business. The company remains focussed on building on its digital banking strategy.
- Credicorp updated the market after its third quarter results. Management expect that the worst of its provisioning (which is forward looking) is complete. However, there has been a period of rising non-performing loans as grace periods expire, which will take some time to work through. On a positive note, there is a strong emphasis on improving efficiency ratios, which should then translate over time into improving returns as the negative factors abate.

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

- Hanon Systems reported good Q3 results, led by a global recovery in vehicle production. Electric vehicles revenues grew at 31% year on year, leading to an improvement in operating margins to 4% (overall business operating profit margin was 7.4%).
- NetEase reported strong results for the third quarter. The online gaming segment grew revenues 20% year-on-year. The internet services business is growing fast, but with higher sales and marketing expenses which act as a drag on margins.
- Spar Group reported very strong results for the 2020 financial year, with adjusted earnings 23% ahead of consensus. Earnings also grew year-on-year despite the impact of COVID-19. The company announced an 8% increase in the dividend.
- British American Tobacco issued a trading statement that featured revenue guidance at the top of the previous range. Management reiterated goal of £5bn sales from New Categories by FY25, where losses are expected to be peaking. The cigarettes business in developed markets has held up despite COVID-19, with the US being a strong market. Emerging markets have been more varied, with South Africa seeing more illicit trade (after restrictions on cigarette sales). The company has been using capital generated to de-lever the balance sheet, which could now be put to other uses as leverage ratios have reduced. The payout ratio remained at 65%.
- Broadcom reported fourth quarter results (to end October) in line with expectations. The company begins the new financial year with a backlog at record levels, and has seen very strong demand for semiconductors across networking, broadband and wireless categories. Management announced an 11% increase in the quarterly dividend to \$3.60.

Outlook

Certainly enthusiasm for emerging markets has returned, with flows data showing the strongest month of inflows to EM equities in November since January 2018. China's resilience in export manufacture has no doubt helped; export growth has been gaining in momentum throughout the second half of the year, as the country has benefited from relatively uninterrupted supply chains.

The surge in optimism we saw in markets in November began to slow by mid-December. At time of writing, markets are preoccupied with new shutdowns over the Christmas period in Europe and concerns over a new strain of the coronavirus discovered in the UK.

In the US, political consensus on a fresh \$900bn stimulus package has been reached, providing some relief to businesses and consumers. Meanwhile cases of COVID-19 continue to rise, potentially threatening the pace of a recovery over winter.

As we wrote last month, the key questions are: how much short term disruption can the global economy handle, and what will be the long term damage that results from it. With several successful vaccine candidates either approved or in the approval process, a path to eradicating the virus appears clearer (though it is likely to take some time to achieve). As 2021 progresses, we will gain a better understanding of how quickly business can return to normal, without the health threat of the pandemic.

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

With the uncertainties facing emerging market investors heading into 2021, we think the approach of investing in companies with competitively advantaged positions, that have achieved strong returns on capital over time and have a history of dividend payments 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*

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

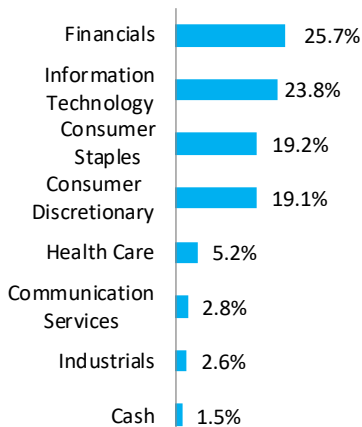
PORTFOLIO

30/11/2020

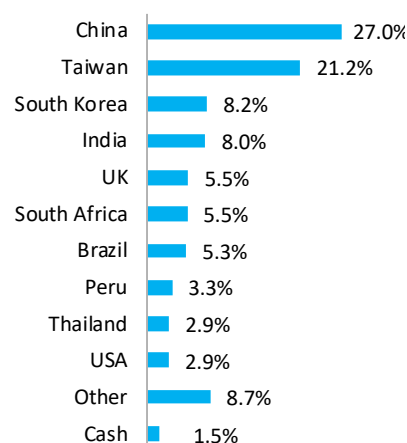
Fund top 10 holdings

Credicorp	3.3%
Hanon Systems	3.2%
China Merchants Bank	3.1%
Grape King Bio	3.0%
Tisco Financial Foreign	2.9%
B3 SA - Brasil Bolsa Balca	2.9%
Broadcom	2.9%
Coca-Cola Femsa	2.9%
Banco Davivienda	2.9%
Jumbo	2.9%
% of Fund in top 10	30.1%
Total number of stocks	36

Sector analysis



Geographic allocation



PERFORMANCE

30/11/2020

Annualised % gross total return from launch (GBP)

Fund (Z class, 0.35% OCF)	5.4%
MSCI Emerging Markets Index	8.0%
IA Global Emerging Markets sector average	6.8%

Discrete years % gross total return (GBP)

	Nov '20	Nov '19	Nov '18	Nov '17	Nov '16
Fund (Z class, 0.35% OCF)	0.8	9.8	-4.1	-	-
MSCI Emerging Markets Index	15.1	6.2	-3.2	23.0	31.2
IA Global Emerging Markets sector average	12.4	8.2	-7.1	23.2	27.1

Cumulative % gross total return (GBP)

	1 month	Year-to-date	1 year	3 years	5 years	From launch
Fund (Z class, 0.35% OCF)	7.6	-1.2	0.8	6.2	-	29.7
MSCI Emerging Markets Index	5.8	9.4	14.7	17.1	5.2	44.3
IA Global Emerging Markets sector average	7.5	7.8	12.4	13.1	4.5	39.9

RISK ANALYSIS

30/11/2020

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.

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