GUINNESS

Emerging Markets Equity Income

ELITE RADAR
on our watchlist: FundCalibre.com

Annual review

2020

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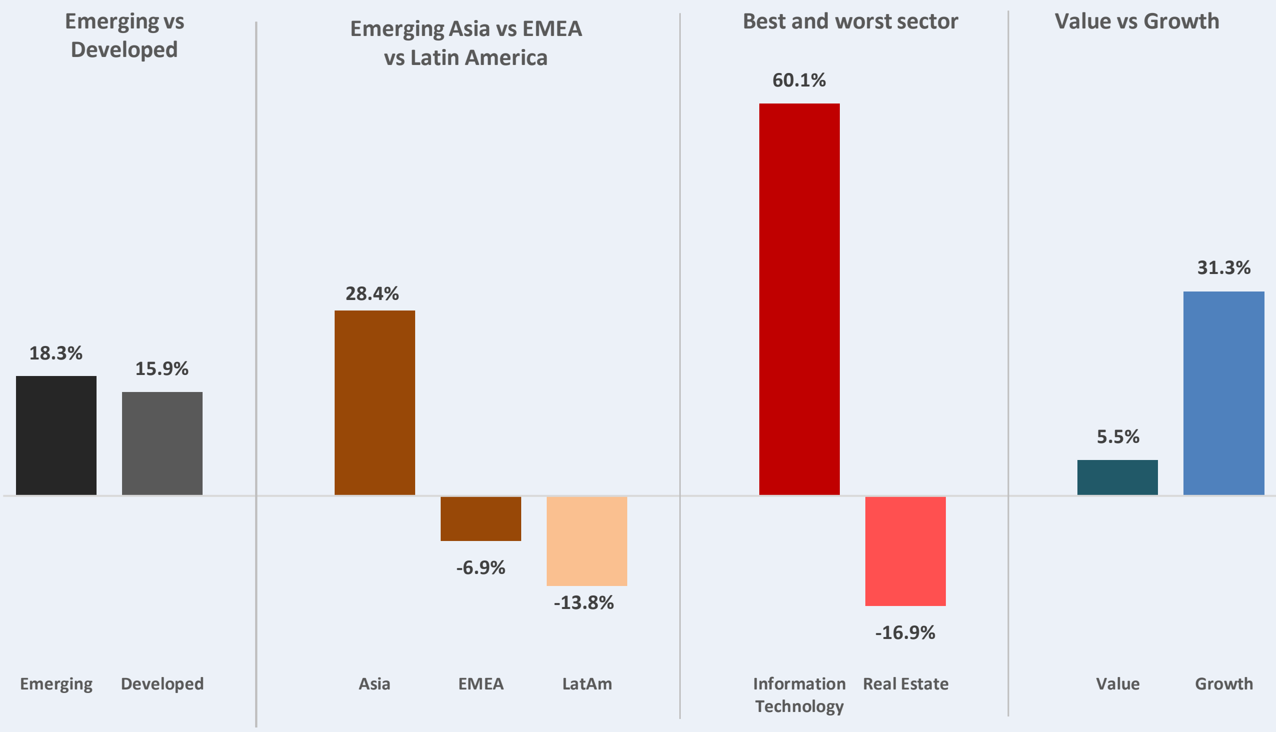
GUINNESS
ASSET MANAGEMENT

2020

Fund size
Start of year **£1.4m**
End of year **£2.7m**

What happened in Emerging Markets and the World?

- The COVID-19 virus emerged in China at the beginning of the year before spreading to Europe, the US, and the rest of the world.
- Major lockdowns were announced in multiple countries, bringing widespread severe economic disruption.
- The Fed cut interest rates to zero in March and offered a range of supportive measures, including $700bn additional asset purchases and dollar swap lines with foreign central banks.
- In the same month, US Congress approved a $2tn package to support the economy, with a combination of spending, business lending and loan guarantees.
- Towards the end of the year, positive news was released on several vaccines, allowing a rollout to commence in several countries in December 2020.
- Ten south-east Asian nations plus China, Korea, Japan, Australia and New Zealand signed the Regional Comprehensive Economic Partnership (RCEP), making the world's largest trading bloc.
- The Chinese government imposed a National Security Law on Hong Kong, making it easier to restrict protests.
- Oil fell dramatically after a breakdown in relations between Saudi Arabia and Russia, and a failure to agree production cuts coincided with a sharp drop in demand due to the coronavirus. The WTI oil price declined 54% in March.
- The US clamped down on Chinese technology manufacturer Huawei, preventing American companies from supplying it and banning the use of its equipment in US telephone networks.
- Joe Biden defeated Donald Trump in the US presidential election. The Democrats retained control of the House.
- Following victory in a run-off race in Georgia in early 2021, Democrats also gained control of the Senate.



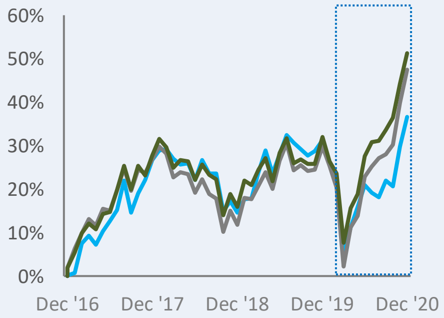
Total return in GBP; MSCI World, MSCI Golden Dragon & MSCI Emerging Markets Index; MSCI China & Hong Kong & Taiwan Index; MSCI China Value & Growth Index.

What happened in the Fund?

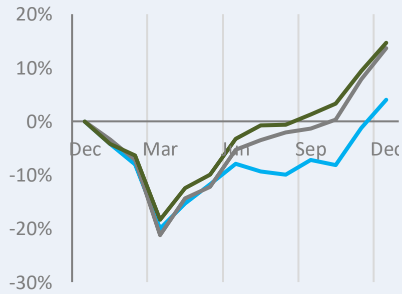
- The fund rose 4.0% in 2020 (Z class, in GBP terms) compared to the MSCI Emerging Markets NTR Index which rose 14.9%.
- Of the 33 stocks held for the full year, 11 outperformed the benchmark, and 22 underperformed.
- The fund's distribution for the period declined by 5.1%, much less than the dividend for the market, which declined 19.4%
- After the most recent distribution, the fund trades on a trailing distribution of 3.2%, significantly above the market.
- We bought three new positions: LG Household & Health Care and two Chinese A-shares, Suofeiya Home and Zhejiang Supor.
- We sold three positions: AAC Technologies, Qualcomm and Truworths.
- The effect of the portfolio changes was to increase our Asian exposure and reduce our weighting to Information Technology.
- Valuations for emerging markets ended the year looking reasonable, both on an absolute basis and on a relative basis compared with developed markets.
- At the end of the year, the fund traded on 15.1x 2020 earnings and 13.0x 2021 earnings, representing a 25% and 14% discount respectively from the benchmark which traded at 20.0x 2020 earnings and 15.1x 2021 earnings.

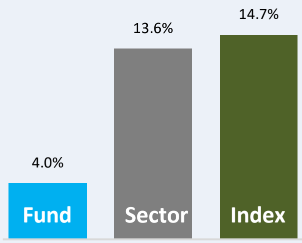
Performance (%)

Cumulative since launch



Calendar year 2020





Fund Guinness Emerging Markets Equity Income Fund

Sector IA Global Emerging Markets

Index MSCI Emerging Markets

Cumulative % gross total return, in GBP.
Source: Financial Express, Z Class (0.35% OCF)

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 fluctuation. Fund returns shown above are for share classes with a current Ongoing Charges Figure (OCF) of 0.35%; returns for share classes with a different OCF will vary accordingly.

Summary Review

2020 was an extraordinary year, as a single extrinsic factor came to dominate both developed and emerging market economies and financial markets. Despite the Covid-19 outbreak wreaking havoc and leading to significant disruption in many emerging market countries, markets ended the year overall higher by 14.9%. (Unless otherwise stated, returns measured on a net total return basis in GBP). The fund generated a positive performance, rising 4.0%, but underperformed the benchmark.

In last year's annual review, we commented on the volatility witnessed in emerging markets in 2019, but this year far surpassed last year. At the trough in March, the Emerging Markets Index was down 21.7%. The rally that followed of 46.9% more than recovered this drawdown. Once again, investors would have been wise to hold course.

After exceeding expectations last year, the underperformance in the fund this year was a little disappointing compared with what we might expect. Our base expectation is that the fund outperforms in weaker markets and underperforms in stronger markets. For several reasons this year, the fund did not exhibit this pattern.

Partly the fund suffered from its tilt towards value stocks, as growth stocks performed much better in 2020. For the year, the value component of the emerging markets index rose 2.5% (more closely matching the performance of the fund), while growth stocks rose 27.6%. Several of the large benchmark weight stocks are classified as 'growth', including TSMC (+70.4% last year), Tencent (+47.0%) and Samsung Electronics (+51.8%), all performing well last year. Alibaba also performed well for the first ten months (+47.2%), before giving up most of its gains to finish up 6.6%.

Partly the fund also suffered from regional and country allocation. While the Covid-19 virus had a significant impact on all regions, it was felt by different countries at different times. The responses of governments across the world also varied – some were much more effective than others. Generally north Asian countries showed more success at bringing the virus under control and/or preventing it from entering. These countries were thus able to return more quickly to normal business conditions.

By contrast Latin America struggled for much of the year. Brazil and Peru were both hit hard by the pandemic and Colombian stocks fell in the wake of lower oil prices. The positive news on vaccines that came out towards the end of the year helped some of the worst affected markets to recover. Moving into 2021, the challenge is to ensure that supply and distribution of vaccines can be coordinated sufficiently quickly around the world.

Last, the portfolio also suffered from individual stock-specific factors. Of particular note was a profit warning and dividend cancellation from AAC Technologies (discussed below), with the result that we sold the stock from the portfolio.

On a more positive note, the fund was able to preserve income relatively well. For the period, the fund's distribution declined by 5.1% – much less than the market which declined 19.4%. The fund has *grown* its distribution over the past three years at an annualised rate of 9.1% per annum. And the historic five-year track record across the portfolio has been for our companies to grow their dividends on average at 13.5% *per annum*.

We move into 2021 feeling upbeat, with economies generally showing resilient performance, despite the increases seen in Covid-19 cases over the last few months. More will become clear over the coming results season as companies comment on current levels of activity and the outlook for the year ahead. Markets are already expecting an economic rebound in 2021, and the portfolio is forecast to grow earnings by 16%. Such growth would return earnings to a more normal level, and will hopefully feed through into dividend payments (though due to the way that payments lag, this is by no means guaranteed at this stage).

The outperformance of growth names has potentially created an opportunity if value stocks can begin to close the gap as we saw in the fourth quarter. Valuations within the portfolio look attractive, especially compared with other available alternatives. We are optimistic that with the upcoming results season, the market will begin to reappraise the more value-oriented names held by the fund, helping to close up this disparity.

As we discussed last year, we have extended our investment universe with the inclusion of Chinese A-shares. This year, we added two of these companies to the portfolio. Both companies have significant exposure to the domestic Chinese economy (in homeware and furniture), and we believe are well placed to benefit: a) in the short term from China's economic rebound after Covid-19 and b) from the long-term trend of rising incomes in China and a growing middle class. We discuss the companies in more detail below.

Within our investment process, we place emphasis on the following factors:

- Sustainable competitive advantage – companies must have demonstrated the ability to earn returns on capital above the cost of capital, reflecting a competitive advantage that has persisted over time and that can be exploited by management to the advantage of the shareholders.

- Robust business model – the business needs to have a business model that is resilient to external factors, both at an industry and macro level i.e. the company is able to generate strong cash flows through the cycle, despite facing challenging conditions at times.

- Attractive opportunities for reinvestment and growth – opportunities exist for management to redeploy the capital generated by the existing business at attractive rates. Long-term opportunities for growth exist – these opportunities may offer more moderate (but more consistent and sustainable) growth rates.

- Strong dividend policy – management must be committed to returning a meaningful portion of the capital generated by the business to shareholders.

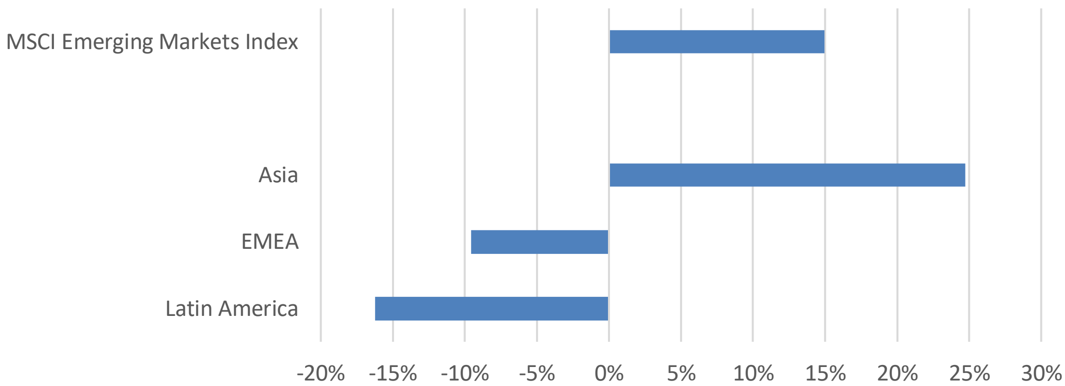
- Attractive valuation – we seek investments that are undervalued by the market. We want valuation changes to be a positive contributor to overall returns, and avoid stocks where they may be a detractor.

We think such an approach works well in emerging markets, and is suited to the uncertainties in today's economic environment that face both investors in the region and globally.

Market performance

Regional performance was far more diverse this year than last. Asia carried the performance of the index overall, as both EMEA and Latin American indices declined. For the year, Asia rose 24.7%, EMEA declined by 9.6% and Latin America fell by 16.2%.

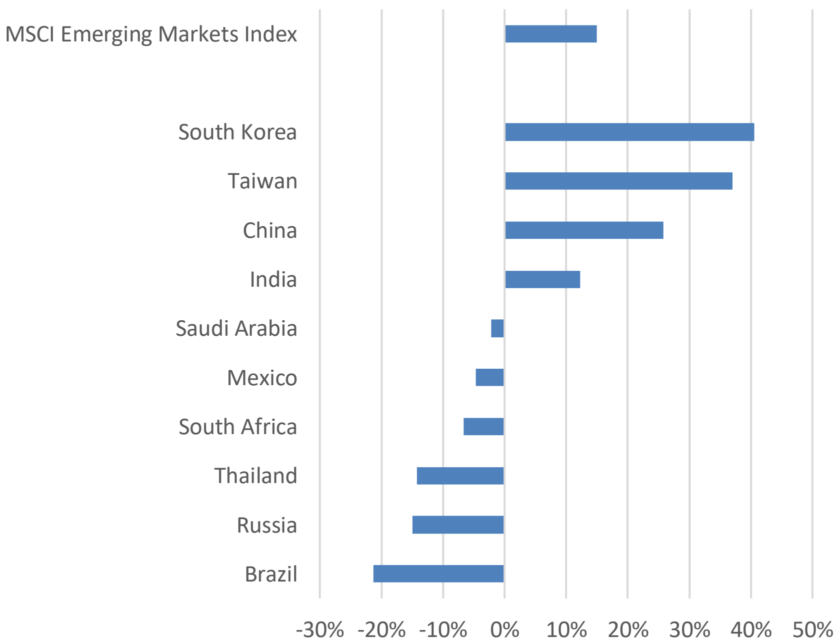
Regional returns in 2020 (in GBP)



Source: Bloomberg

Looking at the largest countries in the benchmark (as at the end of the year), returns were as follows:

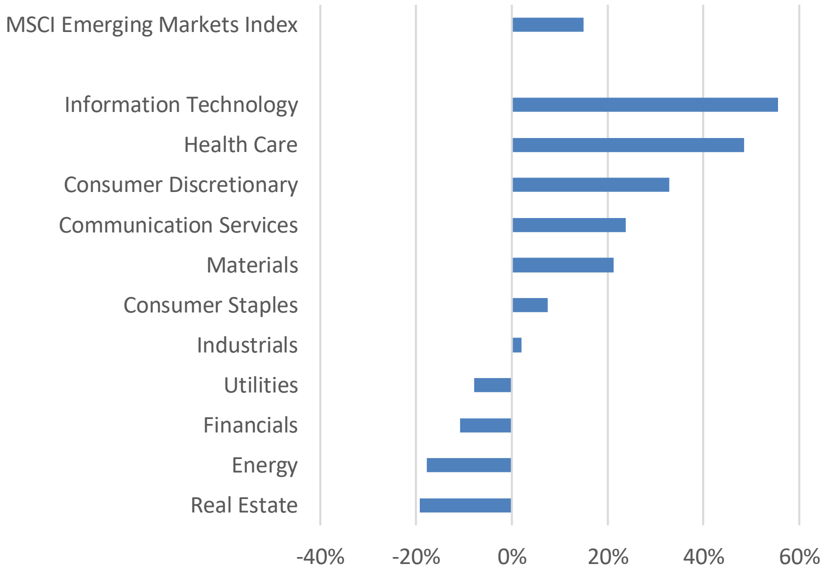
Country returns in 2020 (largest) (in GBP)



Source: Bloomberg

And sector returns were as follows:

Sector returns in 2020 (in GBP)



Source: Bloomberg

In terms of the returns from the largest ten countries in the index, both of the two top-performing countries have significant concentrations in single technology stocks that performed very well during the year. In South Korea, Samsung Electronics gained 51.8%, as mentioned above, and in Taiwan, TSMC gained 70.4%. We hold TSMC in the fund, although our equal weighting portfolio structure meant we were underweight the benchmark (most of the time our equal weighting structure leads to being overweight the benchmark, except for the very largest companies in the index). We do not hold Samsung in the fund as it fails to meet our strict criteria for qualifying as a quality company. Both Korea and Taiwan showed exceptionally strong competence in dealing with the coronavirus. In Taiwan, strict controls on entering the country have ensured a very small number of cases, and in Korea, those cases and small outbreaks that have occurred have been dealt with swiftly and effectively.

China, the third best performing country demonstrated an ability to deal with the virus effectively, after the initial main outbreak in Wuhan. Economic activity recovered relatively quickly, compared with Europe for example, as life in China returned to more normal conditions. And later in the year, in some manufacturing industries it became clear that China was the 'last man standing', providing manufacturing services to the rest of the world as factories were shuttered globally during lockdowns.

India was the fourth best performer, despite the challenges that Covid-19 brought to the country. The country has recently exhibited some success in easing restrictions without allowing a rise in coronavirus cases. Support in the form of spending from central government also picked up towards the end of the year, causing analysts to reduce the size of the expected GDP contraction for the current fiscal year (ending in March). However, as with other countries, the impact of the coronavirus has not been felt equally across the economy – wealthier households have generally seen their incomes less affected, and have actually been able to increase their savings rate, while poorer households have seen significant cuts in income along with job losses. Note the best-performing four large countries are all Asian, contributing to the strong positive performance for the region highlighted above.

Brazil was the worst performer among the larger countries, experiencing significant damage from the Covid-19 virus. The currency was particularly weak, falling 22.5% (against the dollar) over the year, as the government stimulus in response to the pandemic led to a deficit equalling 15.1% of GDP. The economy contracted in the first half of the year (with a record contraction in the second quarter) before rebounding in the third quarter. A sharp increase in unemployment has been accompanied by a decline in participation, indicating a weak labour market. Towards the end of the year, equity markets rallied strongly, reversing some of the earlier damage, on hopes of a recovery in 2021, supported by the vaccine. The performance of our two Brazilian holdings was mixed. While Porto Seguro was in the bottom three performing stocks (discussed below), B3, the Brazilian Stock Exchange, significantly outperformed the country index, rising 12.5% in GBP terms.

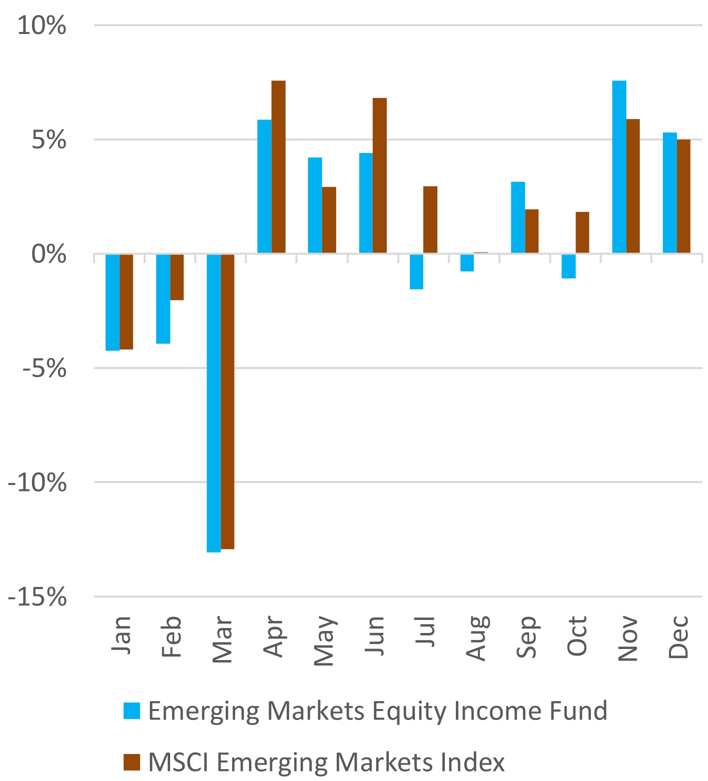
Thailand's economy suffered in 2020 as a result of the global collapse in travel – the country is particularly dependent on tourism. An index of passenger numbers fell early in the year to essentially zero, before recovering only slightly. Here again, the speed of a recovery is likely to be dependent on the ability to roll out a vaccine, particularly in countries that contribute large numbers of tourists to Thailand. While protests have added to political uncertainty, they are not anticipated to have a significant impact on the economy in 2021.

South Africa, where the fund had three positions at the start of the year before selling one of those, also struggled with the economic fallout from lockdowns. The government imposed some of the most stringent coronavirus measures globally. The economy also suffered as a result of power shortages as the state-owned power utility, Eskom, highlighted the effects of low investment and a poor record of maintenance. Current consensus forecasts are for a relatively sharp 7.2% contraction in real GDP in 2020, before a smaller 4.9% recovery in 2021. Towards the end of the year, a new variant of the coronavirus discovered in South Africa concerned health authorities globally, leading to travel bans on arrivals from the country.

Fund performance

Overall, the Fund underperformed the benchmark, rising 4.0% (Z class, in GBP terms) compared to the MSCI Emerging Markets NTR Index which rose 14.9%. While the return in absolute terms – given the events of the year – is satisfactory, the performance in relative terms requires further analysis. The monthly pattern of the fund's performance versus the benchmark is shown in the following chart:

2020 returns (net returns in GBP)



Source: Bloomberg. 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 fluctuation.

We would typically expect the fund to outperform in weaker markets and underperform in stronger markets. This pattern was not as clear during the year as we might have expected.

As news began to break of the Covid-19 outbreak in China, we saw markets decline over the first two months of the year. Our China exposure in the fund did not help, with the fund underperforming most notably in February.

March saw a significant drawdown as the global spread of Covid-19 became clear and lockdowns were imposed in Europe and the US. The fund did not protect on the downside, instead falling with the market, and finishing the month marginally behind. Despite the scale of the drawdowns in March and the first quarter overall, they would subsequently be reversed, with each of the remaining months of 2020 seeing positive returns for the index in GBP terms (although only marginally positive in August).

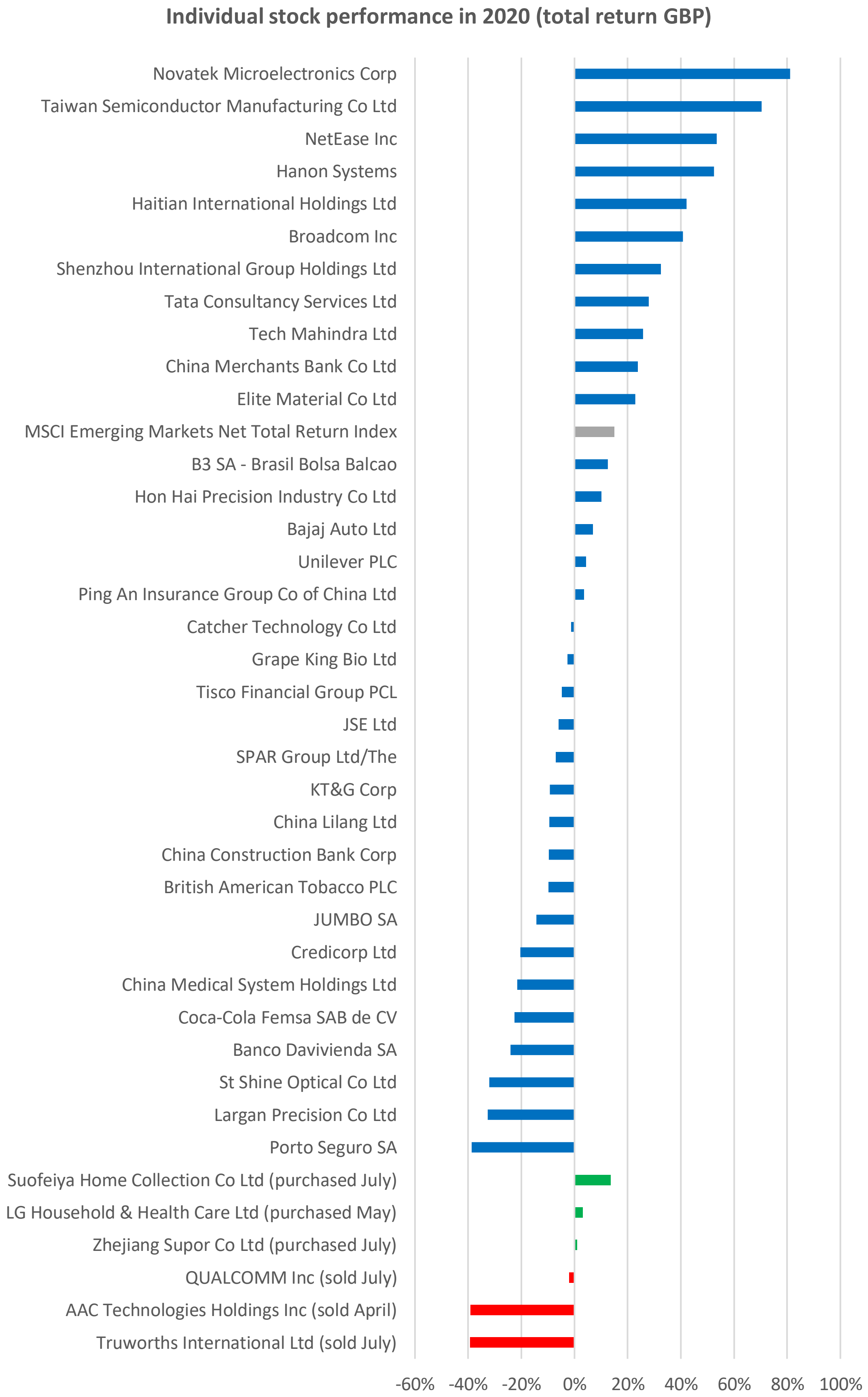
In the sharp rebound of the second quarter, the fund mostly captured the gains well – in May outperforming the benchmark. But towards the end of June the fund underperformed as Tencent and Alibaba (neither of which is included in the portfolio on income grounds) drove much of the performance in the benchmark.

Moving into the third quarter the fund struggled again to keep pace, with the market rallying in July while the fund declined. The fund underperformed over the quarter as a whole, as growth stocks rallied more strongly than their value counterparts. Again Tencent and Alibaba performed well (the latter constituting roughly two-thirds of the underperformance).

In November, after positive news from several vaccine trials, the market rallied strongly, and the fund outperformed delivering its best month for the year overall, up 7.6%. December was also a good month, with the fund gaining 5.3%, and again outperforming the market. Significantly, we witnessed a rotation from growth back towards value, reversing the pattern of the previous quarter.

Given the nature of how 2020 unfolded, how the market responded and the positioning of the fund, we are satisfied with the performance of the fund for the year overall. We think the portfolio looks well positioned going into 2021, and we hope that the continued good performance of our holdings is acknowledged by the market as we enter the upcoming earnings season.

Stock performance and commentary



Source: Bloomberg

Leaders

Novatek Microelectronics is a manufacturer of display drivers used for TVs and, increasingly, smartphones. It has benefited as more people have worked from home since the pandemic started, boosting demand for displays and the associated drivers that come with them. Demand for TVs rebounded in the second half of 2020, which further boosted sales. The company's System-on-Chip (SoC) business, which integrates various components and functions into a single product, is also doing well, particularly in Samsung TVs. The company also seems to be doing a good job in diversifying sales away from Huawei whose sales ex-China have plummeted due to sanctions. Novatek has built good relations with the other major Chinese smartphone vendors which we expect should allow it to capture any "lost" sales from Huawei.

As the world's largest foundry, TSMC has exposure to various trends including 5G, high performance computing, artificial intelligence and the cloud. Despite a tough year, we feel 2020 showed how strong TSMC's competitive advantage really was. Intel announced delays in its plans to develop 7nm nodes, leaving TSMC and Samsung as the only realistic suppliers at this level of production (the 7nm node refers to the process whereby the image of a Central Processing Unit chip is etched onto a piece of silicon. The ability to do so at smaller nodes allows for an increased number of transistors which individually use less power, generate less heat and so enable more calculations). In order to remain competitive, Intel will need to use advanced nodes for its products, so there is a good chance that Intel could turn to TSMC for this if it cannot resolve its own problems – something that would have been considered as very unlikely just five years ago.

NetEase is a Chinese game developer and so has fared well this year as consumer habits have changed, and people have sought entertainment at home. NetEase's legacy games continue to do well while the company has a strong pipeline of both domestic and foreign games, which should further drive sales. Demand for NetEase's education and cloud music businesses also surged. The stock has been one of the beneficiaries of investors' enthusiasm for online/internet companies this year.

Laggards

TRUWORTHS

Truworths, a South African clothing retailer, had very weak performance in the first quarter, after struggling with shutdowns in South Africa, and in the UK, where the company owns the Office shoes retail brand. The stock recovered in the second quarter, but this was not enough to offset the very weak performance in the first quarter. Currency weakness also contributed significantly – in local currency terms the stock was down 29.6% for the period held this year (39.3% when expressed in GBP terms, or 42.5% in USD terms). We sold the position in July.

AAC TECHNOLOGIES

AAC is best known for its acoustics and haptics products used in smartphones and both of these areas have faced more competition in recent years. In an attempt to grow earnings, the company has expanded into lens manufacturing for smartphones, but this segment has not grown to the size we expected. We sold AAC in April after it announced a negative profit warning, in an environment where other smartphone component manufacturers were reporting recovering levels of demand and increased utilisation. Significantly, in our opinion, the company also omitted its final dividend which we did not think was a necessary step.

PORTO SEGURO

Porto Seguro, our Brazilian auto insurance holding, was an underperformer, despite the business benefiting from a reduction in claims due to less travel in 2020. The weakness in the Brazilian economy has not helped with concerns that policies may be cancelled / not renewed if consumers are reducing spending. Here again, currency weakness was also a major factor affecting shareholder returns – in local currency terms the stock was down 18.2% for the year, but this was 38.7% when expressed in GBP terms (36.5% in USD terms).

We continue to hold the position in the portfolio, as the company has a strong track record. Porto Seguro has consistently managed to grow revenues at a compound annual growth rate of 4.2% over the past four years. In addition, the insurance business is profitable: the combined ratio for the first nine months of 2020 was 88.3% (boosted by lower claims), but for the comparable period in 2019 it was 94.2%. The company is therefore able to earn high returns on equity.

Portfolio Changes

In common with 2019, we made three switches in the portfolio over the course of the year. The first switch was made in the second quarter, selling AAC Technologies and replacing it with LG Household & Health Care.

LG Household is a producer of cosmetics, household products and soft drinks. In cosmetics, the business earns very strong rates of return, but recent trading has been somewhat impacted by Covid-19, with duty free sales being weak in particular on falling travel demand. Our expectation is that this will to some extent be offset by sales in other channels, while travel comes back gradually over time.

In the soft drinks business, the company has the Coca-Cola bottling business for South Korea. This has lower margins than the rest of the group; nonetheless, we think it is an attractive operation that offers robust economics.

With LG, we have the ability to purchase the preference share line, which carries essentially the same economics rights as the ordinary, but has the attraction of being available at a roughly 50% discount. This effectively halves the valuation we are paying for the business and doubles the applicable yield.

(We comment on the sale of AAC Technologies above).

The second and third switches were made in July. We sold Qualcomm and Truworths and replaced them with Suofeiya Home and Zhejiang Supor, both domestically listed China A-shares.[1]

Suofeiya Home is a manufacturer of furniture and kitchen cabinets, with a focus on customised/made-to-measure products. The company is one of the leading players in the sector, and its brands have a good reputation. This is important given that the products are sold through franchise operators, and therefore the franchisee's 'buy-in' must be sought and maintained.

Suofeiya also operates very efficiently with short lead times, benefitting the customer from a service perspective and the company by negating excess levels of working capital. Margins are also attractive, with high levels of automation being employed in the company's factory to produce customised products to a high standard, and quickly. In turn, this capital investment acts as a barrier to entry (as competitors find it harder to achieve the same scale and operating efficiency, and harder to make the same capital investment).

Another attractive feature of the investment are high levels of insider ownership – two co-founders hold roughly 40% of the shares between them, helping to ensure incentives are aligned.

Zhejiang Supor is a maker of kitchen products including cookware and small appliances, such as rice cookers and soy milk makers. We like the company's robust cash flow generation profile, its competitive positioning and the market, and we believe it will continue to see strong demand for its products in future.

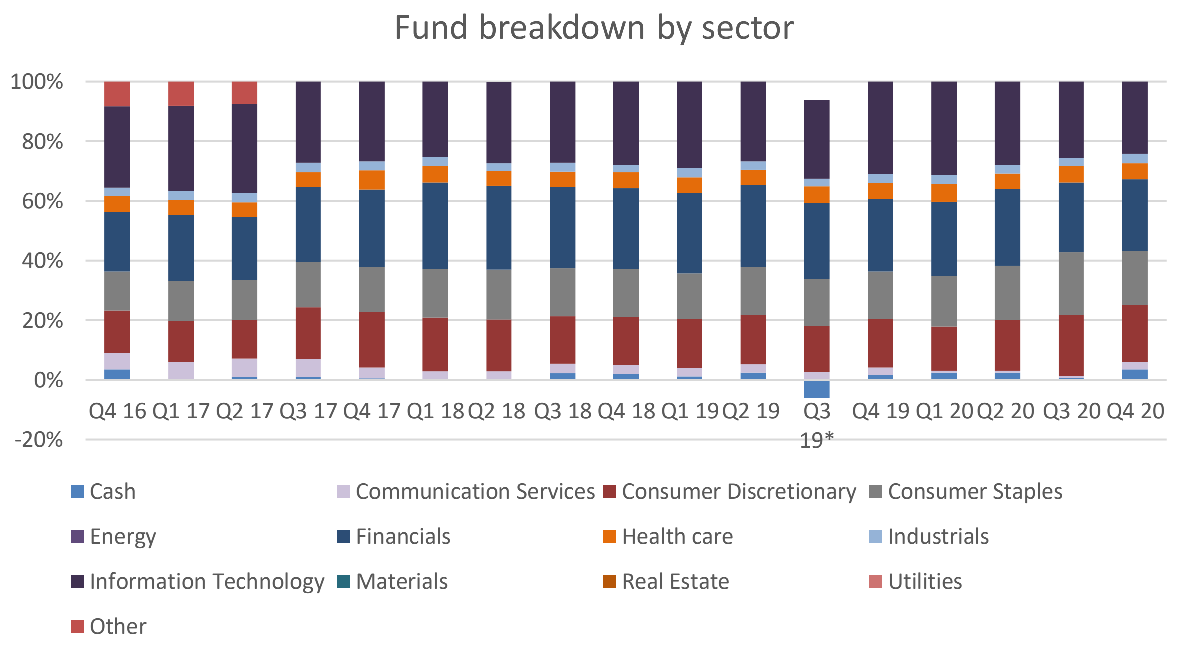
[1] We access the A-share market through Hong Kong via the Stock Connect programme.

The company is majority owned by French parent SEB, owner of the Tefal brand. As well as trade with the parent, Supor and SEB share intellectual property and both can benefit from each other's innovations.

Qualcomm has been a beneficiary of the 5G roll-out, as the company has developed what is widely regarded as a technically superior 5G modem chip. Demand expectations for the 5G roll-out have remained relatively resilient throughout the pandemic. We sold the position after seeing increasing competition in the market that we expect will begin to impact the company in the future.

(We comment on our other portfolio sale, Truworths, above.)

Portfolio Positioning



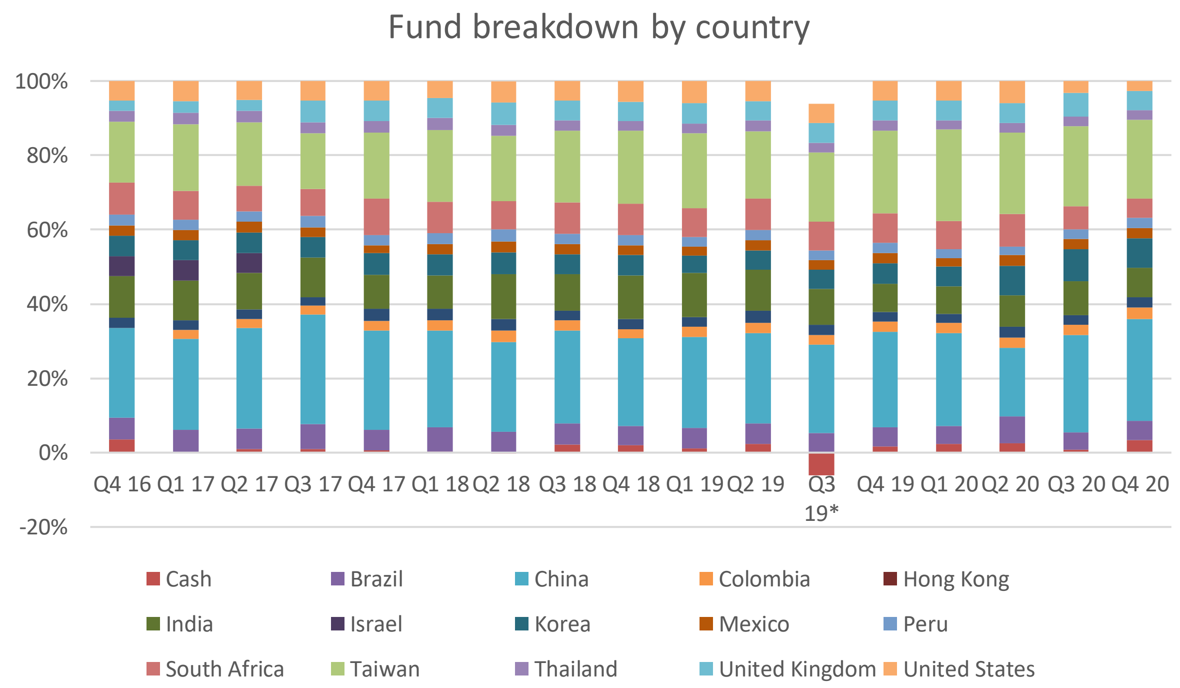
Portfolio sector breakdown at year end 2020. Source: Guinness Asset Management
'Other' category refers to an Indian ETF held for the first six months of the Fund's life which was replaced by direct Indian holdings once local market access was granted.

The fund has no exposure to the Energy, Materials, Real Estate or Utilities sectors. By weight, the fund is significantly overweight in Consumer Staples, as well as the Financials and Information Technology sectors. The fund is significantly underweight in Communication Services, Materials and Energy.

The effect of the switches during the year was to decrease exposure to Information Technology by two positions (2.75% at neutral weight) and to increase exposure to Consumer Discretionary and Consumer Staples by one position each. By *number* of companies, our exposure at the end of 2020 and the preceding three years was as follows:

	2020	2019	2018	2017
Information Technology	9	11	10	11
Financials	9	9	10	9
Consumer Discretionary	7	6	6	6
Consumer Staples	7	6	6	6
Health care	2	2	2	2
Communication Services	1	1	1	1
Industrials	1	1	1	1
Energy	0	0	0	0
Materials	0	0	0	0
Real Estate	0	0	0	0
Utilities	0	0	0	0
Total	36	36	36	36

Portfolio switches by sector at year end 2020. Source: Guinness Asset Management



*Outflow in Q3 2019

Portfolio country breakdown at year end 2020. Source: Guinness Asset Management

Note the fund's two UK holdings and one US holding derive more than 50% of their revenue from emerging markets, putting the fund overweight these two regions. Apart from this, the fund's bigger overweight is Taiwan and the biggest underweights are to China, South Korea and Russia.

Geographic exposures shifted slightly over the course of the year. The net effect of the switches during the year was to increase exposure to China and Korea by one position each and reduce exposure to

South Africa and the United States, also by one position each. Again, by *number* of companies, our exposure at year-end 2020 and the preceding three years was as follows:

	2020	2019	2018	2017
China	10	9	9	9
Taiwan	8	8	7	7
India	3	3	4	4
Korea	3	2	2	2
Brazil	2	2	2	2
South Africa	2	3	3	3
United Kingdom	2	2	2	2
Colombia	1	1	1	1
Greece	1	1	1	1
Mexico	1	1	1	1
Peru	1	1	1	1
Thailand	1	1	1	1
United States	1	2	2	2
Total	36	36	36	36

Portfolio switches by country at year end 2020. Source: Guinness Asset Management

From a regional perspective, the switches increased our number of holdings in Asia by two, and decreased EMEA and 'Other' by one each. The position as year-end was as follows:

	2020	2019	2018	2017
Asia	25	23	23	23
Latin America	5	5	5	5
EMEA	3	4	4	4
Other	3	4	4	4
Total	36	36	36	36

Portfolio switches by region at year end 2020. Source: Guinness Asset Management

Outlook

Despite the wild gyrations seen in global markets in 2020, we enter 2021 with emerging markets looking attractive. From a valuation perspective, at the end of the year the fund traded on 15.1x 2020 earnings and 13.0x 2021 earnings, both representing significant discounts from the benchmark which traded at 20.0x 2020 earnings and 15.1x 2021 earnings.

The implied earnings growth for the portfolio in 2021 is 16%, which we believe would take earnings back to a more normalised level. Earnings growth forecast for the market is approximately double, but the market generally tends to exhibit more earnings volatility (in both directions). This is illustrated by using the dividend as a proxy, the fund's distribution declined by 5.1% this year – significantly less than the dividend for the market, which declined by 19.4%.

After the most recent distribution, the fund trades on a trailing distribution of 3.2%. At the portfolio level, the prospective yield for 2021 of 3.4% (net of withholding tax) looks attractive relative to the benchmark which trades on a *gross* (i.e. before withholding tax deduction) yield of 2.3%. On average, the portfolio companies pay out roughly two-thirds of their earnings, so the dividends do not look stretched on this basis, while affording some room for growth. The historic dividend growth track record across the portfolio is impressive: our companies on average have grown their dividends over the past five years at 13.5% *per annum*.

The extraordinary events of 2020 have made clear the weaknesses in attempting to predict macro events and the direction of markets. Even knowing ahead of time that a global pandemic would strike, it would be difficult to have reached the correct conclusion on the overall direction of markets. And while Covid-19 impacted all regions, it did so at different times during the year, with different effects in each. This illustrates why we don't try to make such predictions in emerging markets and why we don't make top-down allocations within the fund.

Looking back on our outlook from last year, we cited global monetary policy, and US-China trade and relations as being the areas of risk we were most focussed on. Clearly we didn't alight upon the main risk that would later transpire, but it's striking that these remain key concerns.

In the case of monetary policy, Covid-19 has amplified the risk as even greater levels of stimulus have been applied by central banks. Interest rates in the bond markets have shown tentative signs of moving higher in recent weeks, so it will be interesting to see whether this trend will continue, and whether central banks will be able to hold rates down in the face of it. Huge quantities of fiscal stimulus have also been poured into economies by governments, rightly helping individuals and businesses that have suffered as a result of the lockdowns and interruptions to specific industries (hospitality for example). The short-term effects have been very beneficial to markets (see the rise of the 'Robinhood trader'), but the longer effects will take time to work through. Parts of the economy will have remained relatively unscathed; will they be able to carry the weight this year and allow growth to resume?

US-China relations looked to be settling down at the beginning of last year, with the signing of a trade agreement in January – which now seems like a long time ago – pressure did appear to subside, despite President Trump repeatedly laying blame for Covid-19 at China's door. But China's swift recovery from the virus and the recovery of business activity has reminded the world of China's importance, both as a manufacturer to the rest of the world (even more so when facilities in other countries are closed) and as an economic powerhouse, capable of stimulating global growth.

China, like the rest of the world, appears to be looking forward to the arrival of a new US president, and it may take some time before we have a clear idea over the direction of future US-China relations. There is plenty of support for the 'China hawks' in the US from both political parties, so a sudden reversal from Joe Biden would seem unlikely. Rather we might expect a gradual easing in relations and a relaxing of restrictions to take place over some time.

Of course unexpected events happen all the time (as last year illustrated) and they contribute to the unpredictability of financial markets. So it may be these risks that affect markets in 2021, or it may be something else. Our job is not to foresee the exact events that will unfold; rather, it is to *know that* unusual events will occur, and to build a portfolio that is robust to this.

Our approach is to identify companies that have prospered through periods of difficulty by ensuring that they have maintained consistently high returns on capital over time. We think such companies have demonstrated a track record of being robust to external circumstances, typically in virtue of having a superior competitive advantage.

Such an approach we think can work well in emerging markets. We are inherently looking at businesses with more consistency and stability than average, rather than some of the more variable or cyclical business that are present in the region. The businesses earning consistently high returns can typically afford to reward shareholders with dividends, while investing to grow the business (and thus the dividend) over time. Where we can pick up these companies trading at a discount to their intrinsic value, we think the rewards to shareholders over the long term will be attractive.

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

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

For more information

Read more on the Fund

Visit our website for more information on the Fund and to register for regular email updates on its performance and portfolio.

Keeping you updated

Detailed portfolio and performance analysis

White papers

Our thoughts on a range of topics including: the importance of dividends; whether to meet company management; concentrated portfolio; the effectiveness of economic modelling.

To sign up for updates or search the archive, visit

guinnessfunds.com

or contact our sales team

Contact our sales team

Our sales team are on hand to explain the Fund and its investment process in more detail and answer any queries you might have.

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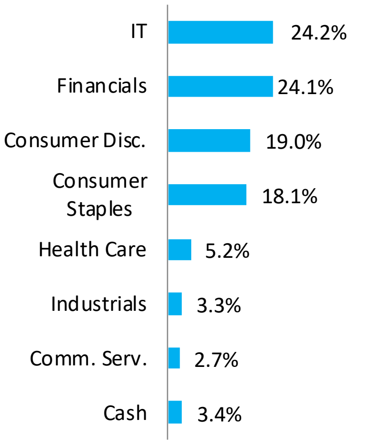
PORTFOLIO

31/12/2020

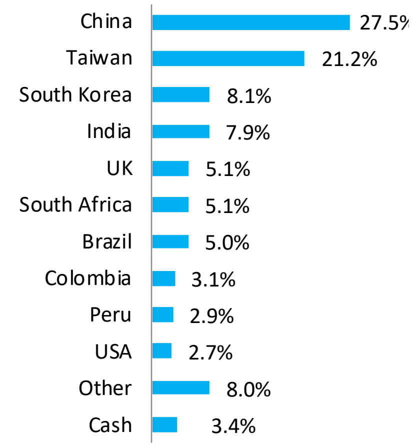
Fund top 10 holdings

Haitian International Hol	3.3%
Novatek Microelectronics	3.1%
Banco Davivienda	3.1%
Credicorp	2.9%
Hanon Systems	2.9%
Hon Hai Precision Industi	2.8%
Shenzhou International	2.8%
Catcher Technology	2.8%
Zhejiang Supor	2.8%
China Construction Bank	2.7%
% of Fund in top 10	29.1%
Total number of stocks	36

Sector analysis



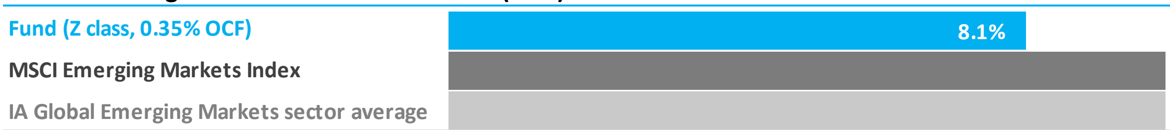
Geographic allocation



PERFORMANCE

31/12/2020

Annualised % gross total return from launch (GBP)



Discrete years % gross total return (GBP)	Dec '20	Dec '19	Dec '18	Dec '17	Dec '16
Fund (Z class, 0.35% OCF)	4.0	14.6	-9.5	-	-
MSCI Emerging Markets Index	15.0	14.3	-8.9	25.8	33.1
IA Global Emerging Markets sector average	13.7	16.0	-11.8	24.4	30.8

Cumulative % gross total return (GBP)	1 month	Year-to-date	1 year	3 years	5 years	From launch
Fund (Z class, 0.35% OCF)	5.3	4.0	4.0	7.9	-	36.6
MSCI Emerging Markets Index	4.9	14.7	14.7	18.5	5.0	51.3
IA Global Emerging Markets sector average	5.4	13.7	13.7	16.4	4.4	47.5

RISK ANALYSIS

31/12/2020

Annualised, weekly, from launch on 23.12.16, in GBP	Index	Sector	Fund
Alpha	0.0	0.1	-0.9
Beta	1.0	0.9	0.9
Information ratio	0.0	-0.2	-0.3
Maximum drawdown	-22.6	-25.1	-23.1
R squared	1.0	0.9	0.8
Sharpe ratio	0.4	0.4	0.3
Tracking error	0.0	3.7	6.3
Volatility	14.8	14.2	14.6

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 (Z class, 0.35% OCF). Fund launch date: 23.12.2016.

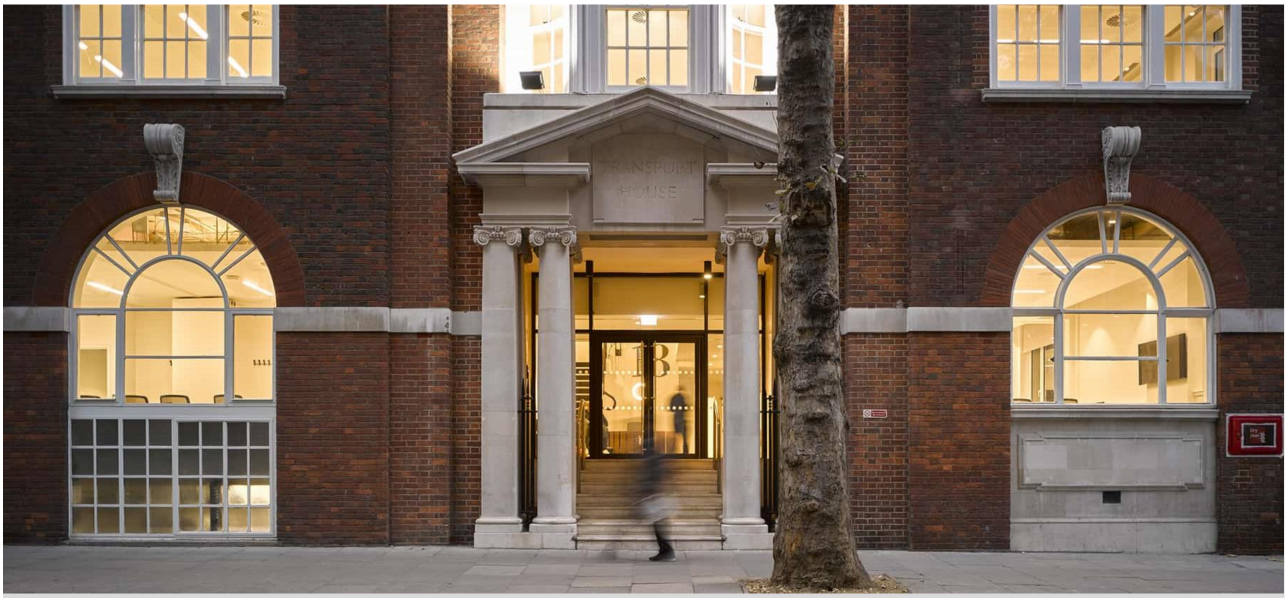
Guinness Asset Management

Guinness Asset Management provides a range of long-only actively managed funds to individual and institutional investors. Founded in 2003, Guinness is independent and is wholly owned by its employees. We believe in in-house research, intelligent screening for prioritisation of research and well-designed investment processes. We manage concentrated, high conviction portfolios, with low turnover and no benchmark constraints. Since our establishment we have developed a variety of specialisms in global growth and dividend funds, global sector funds and Asian regional and country funds. The Guinness equity funds sit within an Irish-listed OEIC. They are managed alongside a range of similar SEC-registered funds offered to US investors by our US sister company, Guinness Atkinson Asset Management Inc. We also offer an Enterprise Investment Scheme (EIS service) investing in private companies across a range of sectors and an AIM EIS investing in AIM-listed companies.

Our products

Equity income funds	Global	Global Equity Income Fund
	Regional	European Equity Income Fund Emerging Markets Equity Income Fund Asian Equity Income Fund
Growth funds	Global	Global Innovators Fund
Specialist investment funds	Energy	Global Energy Fund Sustainable Energy Fund
	Financials	Global Money Managers Fund
	China	Best of China Fund
Tax efficient services for UK investors	EIS	Guinness EIS AIM EIS
	Inheritance planning	Sustainable Infrastructure Service

Contact us



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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.

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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'Ile, 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.