Guinness Global Equity Income Fund

INVESTMENT COMMENTARY – March 2021

About the Fund

The Guinness Global Equity Income Fund is designed to provide investors with global exposure to dividend-paying companies.

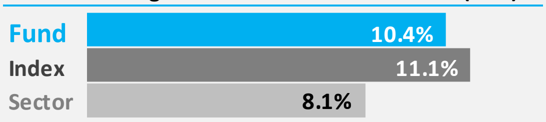
The Fund is managed for income and capital growth and invests in profitable companies that have generated persistently high return on capital over the last decade, and that are well placed to pay a sustainable dividend into the future.

Fund size	£1259m
Launch date	31.12.10
Historic OCF (Y Class)	0.82%
Current OCF (at fund size)	0.82%
Managers	Dr. Ian Mortimer, CFA Matthew Page, CFA
Analysts	Sagar Thanki Joseph Stephens

Performance **28.02.21**

	1 Yr	3 Yrs	5 Yrs	Launch
Fund	11.0	28.0	70.0	173.0
Index	18.2	34.0	92.8	191.4
Sector	11.1	18.0	56.2	119.9

Annualised % gross total return from launch (GBP)



Benchmark index	MSCI World Index
IA sector	Global Equity Income

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. Y Class 0.82% OCF. Please refer to 'Performance data notes' on the last page of this document for full details.

Summary performance

In February, the Guinness Global Equity Income Fund was down -1.38% (in GBP), while the MSCI World Index benchmark was up 0.74%. The Fund therefore underperformed the Index by 2.12% over the month.

In USD terms, the Fund was up 0.41% and the Index rose 2.56%. These large differences versus Sterling performance is a result of Sterling strength relative to the Dollar over the month.

Global equity markets ended February with positive returns in USD despite a drop towards the end of the month. The rotation in favour of Value and small-caps continued due to expected post-pandemic normalisation and rising bond yields. Energy and banks were the two best-performing industries in February, and this dragged on the Fund's performance since it has no exposure. Staples and Healthcare, where the Fund is overweight, fared relatively poorly in the month as investors focused on cyclical stocks amid receding fears of future lockdowns. The sharp rise of bond yields in late February also turned the spotlight onto frothy valuations – particularly in non-profitable IT companies.

Longer-term, it is pleasing to see that the Fund has outperformed the IA Global Equity Income Sector over 3 years, 5 years, 10 years and since launch. The Fund also continues to rank as the top performer versus its peers since launch.

	1yr	3yr	5yr	10 yr	Since Launch*
Fund	**11.0%**	**28.0%**	**70.0%**	**172.1%**	**173.0%**
MSCI World Index	18.2%	34.0%	92.8%	186.0%	191.4%
IA Sector average	11.1%	18.0%	56.2%	120.7%	119.9%
Rank vs peers	23/52	11/47	8/40	1/16	1/16
Quartile	2nd	1st	1st	1st	1st

Source: Financial Express. Cumulative Total Return in GBP as of 28th February 2021. *Launch 31st December 2010

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Summary: Dividend

So far, in 2021, we have had dividend updates from 20 of our 35 holdings.

- 16 companies announced increases for their 2021 dividend vs 2020.
- 3 companies have announced a flat dividend vs 2020.
- 1 company (Danone) has announced a modest cut to its dividend vs 2020.
- 0 companies have announced dividend cancellations.
    - This follows the Fund seeing 0 cancellations also in 2020.

So far, the median dividend growth among portfolio holdings announced for 2021 is 5.9%, and our Financial holdings have declared the largest year-on-year dividend increases:

- **Aflac**: To grow its dividend by 17.9% for 2021. This follows the 3.7% growth in 2020.
- **Blackrock**: To grow its dividend by 13.8% for 2021. This follows the 10.0% growth in 2020.
- **Arthur Gallagher**: To grow its dividend by 6.7% for 2021. This follows the 4.7% growth in 2020.
- **CME Group**: To grow its dividend by 5.9% for 2021. This follows the 13.3% growth in 2020.
- **Deutsche Boerse**: To grow its dividend by 3.4% for 2021. This follows the 7.4% growth in 2020.

The Fund holds no banks and has never done so. Banks tend to be screened out of our universe as we search for companies with persistently high profitability. From a dividend perspective, having no exposure to banks proved beneficial in 2020 after European regulators asked banks to pause dividend payments in order to preserve cash.

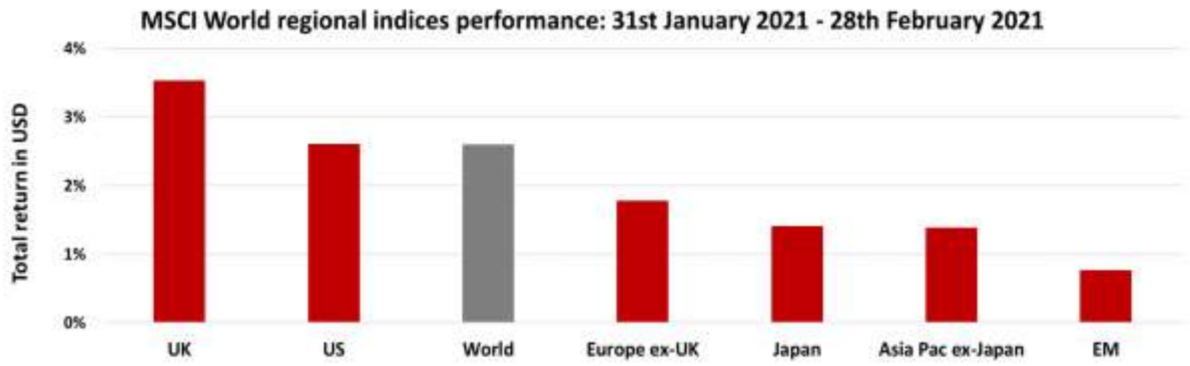
The three companies which held their dividend flat for 2021 – Henkel, Reckitt Benckiser, and ABB – all cited caution and uncertainty as reasons for capital preservation. These companies continue to have strong balance sheets and low leverage, and we believe they have the ability to continue growing their dividend in the future.

- Henkel and ABB both have a low net-debt-to-equity of 11%.
- Reckitt Benckiser's figure stands at 97%, though this is a result of the company re-leveraging to finance the $18bn acquisition of Mead Johnson. The debt is very manageable given the cash-generative nature of RB's business, and the interest expense is covered 11 times by earnings.

Danone, the only company to announce a cut in its dividend (by 7.6%) for 2021, also grew its dividend in 2020 (by 8.3%). The global food and beverage company is organised into Dairy & Plant-based products, Specialised Nutrition, and Water, and enjoys a leading market share in a range of niche product categories (e.g. yoghurt, soy milk and out-of-home water). This in turn means that brands such as Activia, Actimel, Alpro, Evian and Volvic dominate prime retail shelf space. In recent years organic growth has come via strong demand in China and greater direct-to-consumer sales online. However, Danone has lagged other consumer staples businesses in terms of growth and profitability, which is reflected in lower valuation multiples paid for the company today. To address this, and boost both gross and net margins, the company has announced plans to cut costs by €1bn over the next few years. Combined with continued efforts to deleverage, these plans further strengthen the company's balance sheet for the future, but in the short-term have meant that management has decided to reduce the dividend payment to reflect 2020's lower earnings. The reduced dividend (€1.94/share) is exactly the equivalent of the dividend paid by the company in 2019, and 7.6% less than 2020 (€2.10/share). This reflects the company's 13.2% decline in earnings in 2020 (from €3.85/share in 2019 to €3.34/share in 2020).

February in Review

Global equity markets ended February with modest gains despite making new all-time highs earlier in the month. Positive market sentiment was buoyed by the White House's fiscal stimulus promises, rapid vaccine rollout programmes, and a pledge by the Fed Chairman, Jerome Powell, to keep interest rates lower-for-longer to help support the economic recovery. All regions registered gains.



Source: Bloomberg. As of 28th February 2021

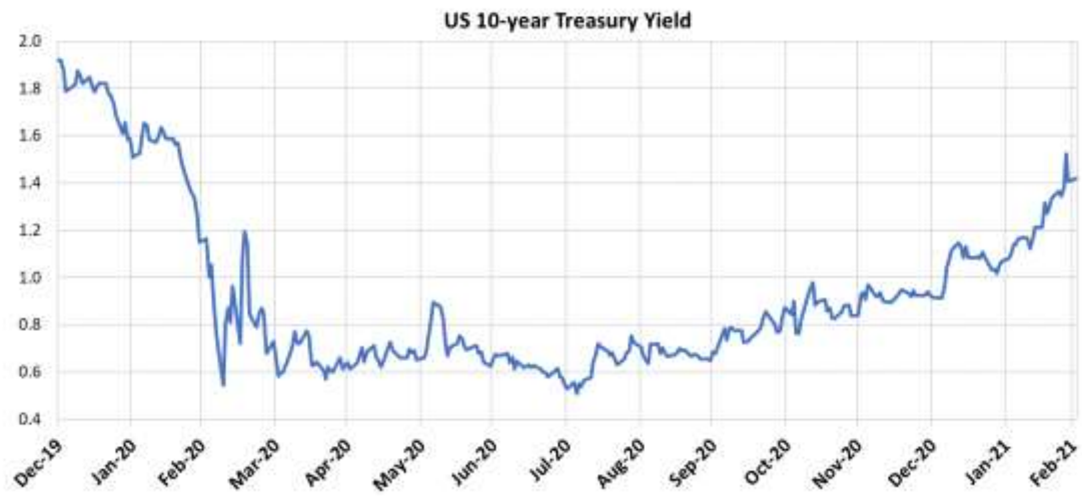
This positive sentiment, however, was put to the test late in the month as choppy trading returned to the market and bond yields surged higher.

The yield on 10-year US treasuries is up more than 50 basis points since the beginning of the year. On Thursday 25^{th} February, the yield on the 10-year hit 1.60% – which is higher than the S&P 500 dividend yield – before settling at 1.42% the next day. While the sharp intra-day moves were triggered by weak demand at a government bond auction, broader moves in recent weeks have been driven by a marked rise in optimism around the economic recovery in the US and associated concerns around higher inflation.

There are three drivers for this:

- President Biden's proposed $1.9 trillion fiscal package (9% of US GDP).
- A successful vaccine rollout which has seen 13% of the US population receive at least one jab, with the pace of inoculation faster than in most of the world.
- Positive economic data surprises in the US, especially in consumer spending and housing activity.

Despite the Fed's reassurances that interest rate will remain low, the sharp rise in yields sparked a sell-off in global equity markets due to fears that rates may not remain supportively lower-for-longer if there is a material spike in inflation.

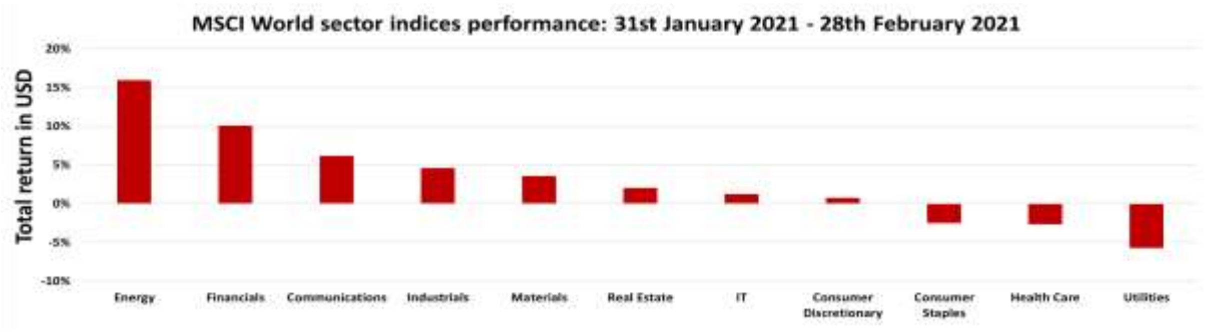


Source: Bloomberg. As of 28th February 2021

This particularly dragged on the outlook for Growth stocks (which are expected to see earnings growth further out into the future and so are more vulnerable to higher discount rates). Growth stocks carry significant weightings in large-cap indices and therefore caused their decline also. In contrast, Value stocks performed relatively better as the 'stay-at-home' trade gave way to the 're-opening' trade.

Source: Bloomberg. As of 28th February 2021

Not surprisingly, the sectors that are most sensitive to the economic cycle – such as Energy, Financials, and Industrials – performed best over the month, whilst defensive sectors, such as Consumer Staples and Healthcare, lagged. This was a drag on the Fund's performance in February.



Source: Bloomberg. As of 28th February 2021

Energy was the best performer for the second month running, with both WTI and Brent crude oil prices hitting new one-year highs. WTI was up over 17% for the month, while Brent increased 20%. Commodities and banks are seen as the beneficiaries of higher inflation and interest rates, and so have participated in what is known as the reflationary trade. This also helped markets such as the UK perform strongly due to sector biases.

Portfolio Holdings

Eaton was the best performer in the Fund in February (+10.6% in USD) after it reported stronger-than-expected FY2020 earnings and revenues. The global power management company manufactures engineered products for industrial, vehicle, construction, and aerospace markets. Recent portfolio restructuring has included the sale of its Lighting and Hydraulics businesses and acquisitions of Tripp Lite and Cobham Mission Systems, which boost Eaton's exposure in, respectively, the fast-growing electrical equipment segment and the steady defence aerospace business. After a decade of focusing on margin expansion, the company is now prioritising growth initiatives and benefits from a number of mega-trends including electrification of vehicles, electricity grids, data centre growth, and greater demand for energy efficiency products.

Unilever was the worst performer in February (-9.5% in USD) and marked its worst monthly return since June 2008. The company reported FY2020 earnings which underwhelmed; Covid-induced lockdowns particularly impacted revenue growth in Emerging Markets – origin of 60% of Unilever's total revenue – while lower-than-expected margins sparked concerns about Unilever's growth strategy. Management outlined a long-term annual sales target of 3-5%, and while this disappointed versus analyst expectations, CEO Alan Jope did say that the group is "targeting higher growth, with categories such as hygiene, skin care, prestige beauty, 'functional nutrition' and plant-based foods likely to be made a priority".

As one of the world's largest consumer goods producers, Unilever's makes products used by 2.5 billion people daily. The company owns over 400 brands, of which 13 generate annual revenues over €1bn and account for more than half of the total revenue. Unilever has a strong balance sheet and cash flow generation, enabling its dividend to grow annually for the last 25 years. We also see the stock currently trading at an attractive valuation given that its one-year forward price-to-earnings ratio (17.5x as of 28th Feb 2021) is well below its 10-year average and below its peers.

Portfolio Changes

We made no changes to the portfolio holdings in the month.

Portfolio Managers

Matthew Page, CFA

Dr Ian Mortimer, CFA

Analysts

Joseph Stephens

Sagar Thanki

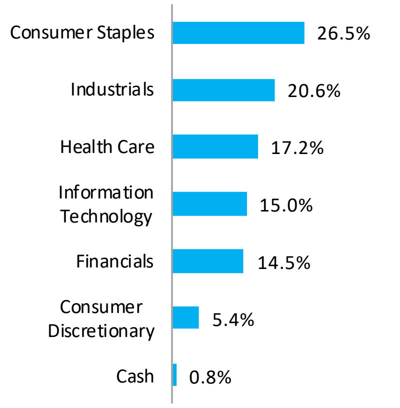
PORTFOLIO

28/02/2021

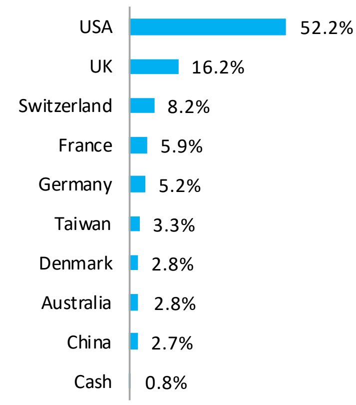
Fund top 10 holdings

Taiwan Semiconductor	3.3%
Broadcom	3.2%
CME Group	3.2%
Aflac	3.2%
Illinois Tool Works	3.2%
Eaton	3.1%
Medtronic	3.1%
Abbvie	3.0%
Microsoft	3.0%
Raytheon Technologies	3.0%
% of Fund in top 10	31.2%
Total number of stocks held	35

Sector analysis



Geographic allocation



PERFORMANCE (see performance notes overleaf)

28/02/2021

Annualised % total return from launch (GBP)

Discrete years % total return (GBP)	Feb '21	Feb '20	Feb '19	Feb '18	Feb '17
Fund (Y class, 0.82% OCF)	11.0	9.5	5.3	5.3	26.1
MSCI World Index	18.2	9.0	4.0	6.0	35.8
IA Global Equity Income sector average	11.1	4.3	1.8	4.5	26.6

Cumulative % total return (GBP)	1 month	Year-to-date	1 year	3 years	5 years	From launch
Fund (Y class, 0.82% OCF)	-1.4	-3.4	11.0	28.0	70.0	173.0
MSCI World Index	0.7	-0.7	18.2	34.0	92.8	191.4
IA Global Equity Income sector average	0.4	0.0	11.1	18.0	56.2	119.9

RISK ANALYSIS

28/02/2021

Annualised, weekly, from launch on 31.12.10, in GBP	Index	Sector	Fund
Alpha	0.00	-0.54	0.80
Beta	1.00	0.77	0.86
Information ratio	0.00	-0.42	-0.13
Maximum drawdown	-24.58	-22.41	-21.78
R squared	1.00	0.80	0.89
Sharpe ratio	0.51	0.31	0.51
Tracking error	0.00	6.58	4.76
Volatility	14.63	12.48	13.30

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. Fund launch date: 31.12.10. Fund Y class (0.82% OCF): Composite simulated performance (see Performance data notes below) based on actual returns of E share class (available from Fund launch), calculated in GBP. Fund returns are for share classes with a current Ongoing Charges Figure (OCF) stated above; returns for share classes with a different OCF will vary accordingly.

Performance data notes

1) The performance numbers displayed on the previous page are calculated in GBP (Sterling). Please note: The Fund's Y class was launched on 11.03.15. The performance shown is a composite simulation for Y class performance being based on the actual performance of the Fund's E class, which has an OCF of 1.24%, and has existed since the Fund's launch. The Fund's E class is denominated in USD but for the purposes of this performance data its performance is calculated in GBP.

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 Global 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 Global 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 Administrators (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.