Guinness Global Equity Income Fund

INVESTMENT COMMENTARY – June 2020

About the Fund

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

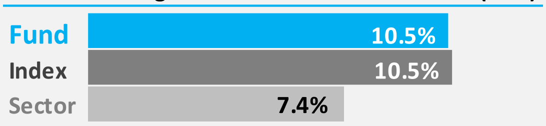
The Fund is managed for income and capital growth and invests in profitable companies that have generated persistently high return on capital over the last decade, and that are well placed to pay a sustainable dividend into the future.

Fund size	£979m
Launch date	31.12.10
Historic OCF (Y Class)	0.88%
Current OCF (at fund size)	0.86%
Managers	Dr. Ian Mortimer, CFA Matthew Page, CFA
Analysts	Sagar Thanki Joseph Stephens

Performance **31.05.20**

	1 year	3 years	From launch
Fund	7.4	23.4	155.1
Index	8.9	24.1	157.1
Sector	-0.4	6.4	95.5

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 0.88% OCF. Please refer to 'Performance data notes' for full details

Summary performance

In May the Fund was up 4.99% (in GBP), versus the MSCI World Index benchmark, which was up 6.95%. The Fund therefore underperformed the Index by 1.96% over the month.

The Fund's peer group – the IA Global Equity Income sector – was up 3.66% in May. The Fund therefore outperformed by 1.33% over the month, and has pleasingly also outperformed its peers' average over all periods in the table below:

	YTD	1yr	3yr	5yr	Since Launch*
Fund	-2.5%	7.4%	23.4%	60.5%	155.1%
MSCI World Index	-1.6%	8.9%	24.1%	64.0%	157.1%
IA sector average	-8.2%	-0.4%	6.4%	32.0%	95.5%
Rank vs peers	12/56	9/55	4/50	3/41	1/18
Quartile	1st	1st	1st	1st	1st

Source: Financial Express. Cumulative Total Return in GBP as of 31st May 2020. *Launch 31st December 2010

Since the Fund's launch at the end of 2010, it ranks 1st out of 18 funds in the IA Global Equity Income Sector.

Underperformance relative to the Index in May comes as a result of the market's continued sharp rebound, led by growth stocks and cyclical sectors. IT, Industrials and Consumer Discretionary were the best-performing sectors in the month, with much of the recent optimism in equity markets driven by easing lockdowns and signs of progress towards a coronavirus vaccine. Being overweight Consumer Staples and underweight IT was a drag on Fund performance in May, whereas zero exposure to banks, Real Estate, Utilities and Energy proved positive.

Summary: dividends

Dividend payments have been front of mind in the current market environment where we have seen significant demand shocks in many sectors of the market, leading to a significant proportion of companies suspending or reducing their dividend payments.

In the Fund, so far, 22 companies (out of 35 holdings) have announced **dividend increases**. Our current expectation is that the 2020 fund distribution will be similar to 2019 – but we note there are some moving parts to this analysis (e.g. FX rates or portfolio changes). We are carefully monitoring the income received for the portfolio and will update our view as the year progresses. To summarise our outlook for the Fund so far, out of our 35 holdings:

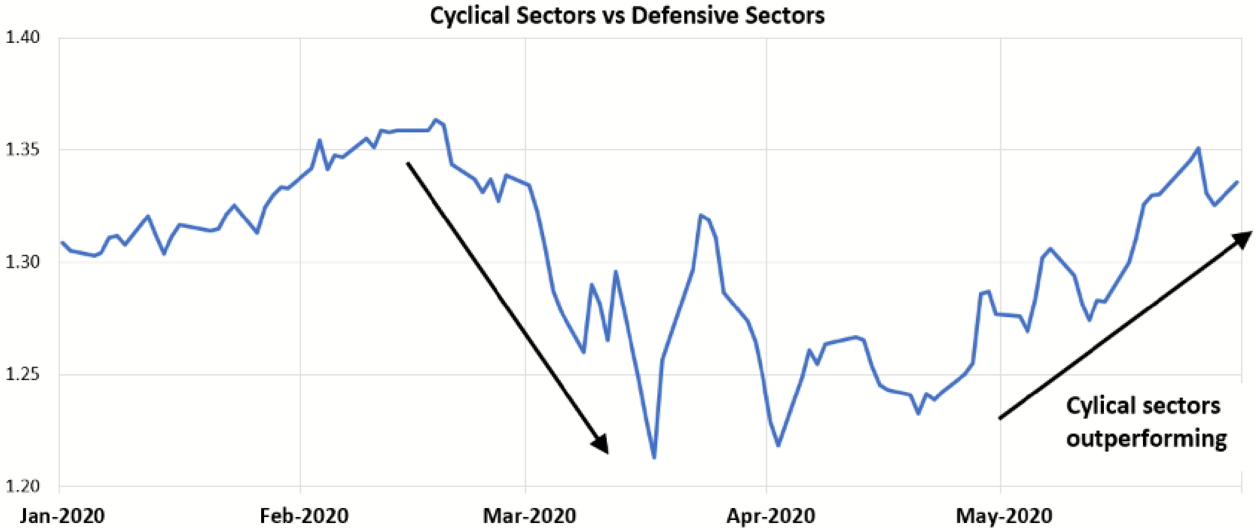
- 5 companies have **paid their full dividend** for the year (or gone ex-dividend)
- 25 companies where we see **high probability** of full payment
- 2 companies where we see **good probability** of full payment
  - *Eaton*: Multi-industrial conglomerate with exposure to aerospace and automotive industries. Eaton grew its first dividend payment for the year by 2.8%. Guidance was withdrawn in Q1 results, though asset disposals were confirmed to be continuing, raising cash and strengthening an already good balance sheet. Share buybacks were announced in Q1 and management maintained an optionality to continue with more in 2020.
  - *Illinois Tool Works*: Industrial with exposure to automotives but well diversified across industries and products. Q1 results were better than expected but full-year guidance was withdrawn and Q2 revenues guided down. Higher than average margins (vs peers) gives some stability and 95% of manufacturing capacity is currently operational. Good liquidity and option to stop buybacks – but management looking at strategic opportunities in light of current valuations. ITW pays quarterly dividends and any growth is typically announced in September.
- 2 with **some uncertainty**
  - *Diageo*: Interim dividend announced at semi-annual results went ex- in late February (representing a 5.0% growth year-on-year). On 9th April Diageo withdrew guidance and cancelled buybacks; the company has not committed to a final dividend yet. Management stated that China is beginning to see a slow return of on-trade consumption, whilst most bars are still shut in US and Europe. Some peers are cutting their dividend
  - *BAE Systems*: Deferred decision on the proposed 13.8p/share Final dividend (which normally goes ex- in mid-April) to July half-year results. No discussion on October interim dividend. Trading update on 3rd April stated, "We recognise the importance of the dividend payment to our shareholders and whilst it remains our intention to pay a dividend, the timing of any payment will be contingent on prevailing macro-economic and social conditions over the coming months".

Defence companies are well placed in the current environment due to long-term contracts and resilient demand, but social/political pressure bears on any dividend decisions.

- 1 **dividend cut** announced for portfolio holdings to date
    - *Imperial Brands*: Final dividend (related to 2019 profits) went ex- in February. First Interim dividend for 2020 (which is when the company has historically declared the growth in the dividend) was announced at the semi-annual results on 19th May and was rebased by 33%. Thereafter, management committed to a progressive dividend policy.
    - The lower dividend saves about £650mn in the current year, which alongside the £1bn cigar business sale, will be used to strengthen the balance sheet by reducing debt (to <3X net debt/EBITDA).
    - This decision to lower the dividend payout was partly due to the delayed expectations of reduced-risk-product profitability. Potential incoming regulation lowers revenue growth expectations and forced management to scale back investment in new products.
    - Although vapor offerings only represent about 3.5% of Imperial Brands' sales globally, such products, along with new reduced-risk offerings, are seen as an increasingly important solution to offset falling cigarette sales.
    - Imperial Brands was the worst performer in the portfolio in May, down -13.3% (TR, in USD).
    - Interim CEO Dominic Brisby insisted that the dividend cut was not related to coronavirus. He said: "Covid-19 has only had a small impact on trading but we expect this to be more pronounced in the second half due to continued pressures to our duty-free and travel retail businesses". With airports largely shut, smokers are missing out on bulk buying cheap duty-free cigarettes. It means that fewer packs are being bought, but customers are having to spend more on their habit in the shops so the value of sales has held up.

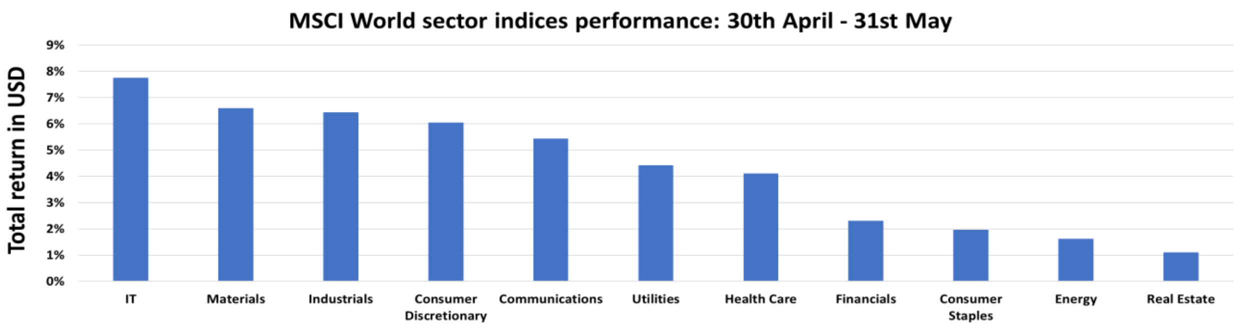
May in Review

After the severe sell-off in March, global equity markets recovered impressively in April and May. Whilst April's rally was a rebound led by large-caps and sectors that previously sold off most (e.g. Consumer Discretionary and Energy), May's rally was broader-based and led by cyclical stocks.



MSCI USA Cyclical Sectors Index/MSCI USA Defensive Sectors Index. Source: Bloomberg. As of 31st May 2020

Cyclicals have in fact outperformed defensives since the Global Financial Crisis, and after a short hiccup, the trend continued in May. This is further reflected in the charts below which show the more economically sensitive sectors outperforming.



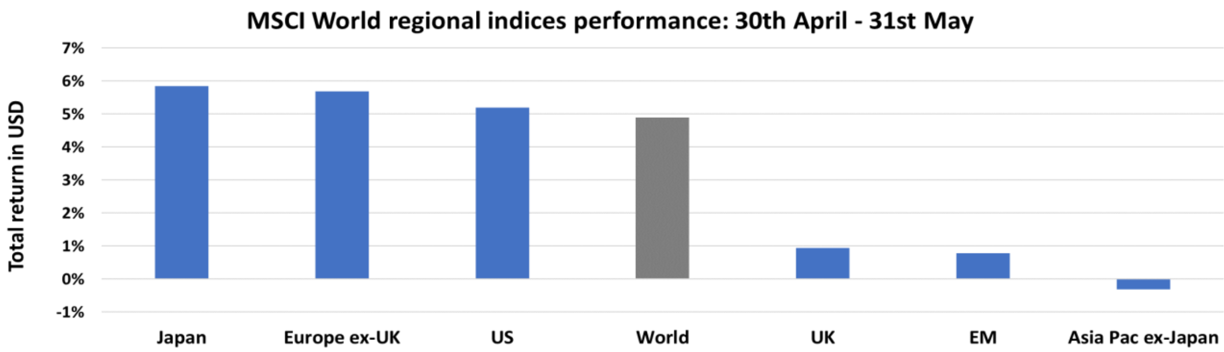
Source: Bloomberg. As of 31st May 2020

The Fund currently has 50% of the portfolio in Consumer Staples and Healthcare companies (vs 21% in MSCI World Index). These are sectors that tend to be more defensive and so earnings and dividends are less sensitive to the economy. Despite Consumer Staples relatively underperforming in May, the sector was the best-performing during the drawdown (19 Feb – 23 March peak to trough) and is in line with market performance year-to-date.

While the defensive names in the Fund tend to have lower beta and hold up better when markets are falling, the cyclical holdings allow the Fund to maintain performance when markets are rebounding and rising. We currently have a good balance of defensive vs cyclical exposure in the Fund, and within these more cyclical sectors we are owning the 'quality' businesses. All the companies we seek to invest in have strong balance sheets and a history of performing well in difficult market environments. Within Financials, for example, we do not own any banks but we do own exchange groups such as CME and Deutsche Boerse (which do well in periods of market volatility as volumes tend to increase, resulting in higher revenues).

As the US corporate earnings season drew to a close in May, Consumer Staples, Healthcare, IT and Utilities saw positive earnings growth in Q1 2020, whereas Financials, Energy and Consumer Discretionary were the worst-hit sectors. Overall, first-quarter US earnings contracted 14% compared to Q1 2019, whilst second-quarter earnings are expected to fall in excess of 40% year-on-year.

Regionally, the strongest performer in May was Japan, where cyclicals account for over 75% of the market. Europe ex UK and the US also led, whereas the UK, EM and Asia Pac ex Japan were relatively weaker.



Source: Bloomberg. As of 31st May 2020

The Fund has no Japanese holdings and is overweight UK; these dragged on performance in May. All regions except Asia Pac ex Japan posted positive gains in USD in the month and the rise in optimism came despite weak economic readings. In the US, real GDP for Q1 was revised down to an annual rate of -5.0%, a bigger decline than the 4.8% drop first estimated. This marked the largest quarterly drop since the 8.4% fall in Q4 2008, and much of the weakness was due to a sharp fall in consumer service spending.

In Europe, equity markets were supported by news of the EU's plans for post-coronavirus recovery. European Commission president Ursula von der Leyen called for €750 billion of borrowing for a recovery fund to support those EU regions that have been worst affected by Covid-19. This would be in addition to the €540 billion rescue package agreed in April. She also proposed a new suite of taxes to pay back the debt. The plan still needs the approval of member states, with the recovery fund expected to be on the agenda for the next European Council summit in June. In addition, comments from European Central Bank (ECB) board members suggested that the ECB's asset purchase target could be increased at the June meeting.

Asia Pac ex Japan equities bucked May's global market trend by posting a loss. Hong Kong, where a new national security law was proposed, was the worst-performing market in the region, whilst China and Taiwan also posted losses as Beijing's relationship with the US became strained once again. Concerns grew amid talk of delisting Chinese companies from US markets and imposing compensatory tariffs for Covid-19. The Fund has low direct exposure to China; we have one Chinese-domiciled company, ANTA Sports, which rose 6.12% (TR in USD) in May as apparel stores began to reopen and see consumer traffic build. We have one other holding in Asia, Taiwan Semiconductor Manufacturing (TSMC), which fell 2.71% (TR in USD). TSMC got caught in the US-China crossfire; national security concerns, geopolitical unrest and the COVID-19 pandemic have all underscored the shortfalls of relying on foundries located abroad and international supply chains. This led TSMC – the world's largest foundry – to announce it would plan to spend billions of dollars building an advanced chip foundry in Arizona with support from the state and US federal government.

As markets continue their ascent up the wall of worry, it is evident that there is a disconnect between 'Main Street' and 'Wall Street', in that stock markets have brushed aside political tensions, social unrest, weak economic readings and the possibility that the recovery from the Covid-led recession won't be V-shaped.

In today's environment, the stock market seems to be high on 'hopium' with regard to the expected success of a reopened economy and also with regard to finding therapeutics or a vaccine for the virus itself. As a case in point, since mid-April, the four best-performing periods for the MSCI World Index came on days there was a significant announcement associated with the virus:

- April 17th – Gilead's drug Remdesivir showed effectiveness in treating COVID-19
- April 29th – Positive data about Remdesivir's trials
- May 18th – Moderna announces early-stage human trials for its COVID-19 vaccine
- May 26th/27th – Novavax announces phase one clinical trial for vaccine; Merck announces plan to work on vaccine alongside IAVI

Monetary and fiscal stimulus – and more recently news on virus treatments or vaccines – have fuelled an huge rally from March lows, though ultimately there is a risk that the stock market is not accurately reflecting second-order and longer-term economic impacts of the virus and attendant economic shutdown (including bankruptcies and temporary layoffs becoming permanent job losses). There is also a risk that the stock market is not accurately reflecting the weakness yet to be fully felt in corporate earnings.

Given the uncertainty, we believe that our perpetual approach of focusing on good quality companies, with strong balance sheets and persistently high return on capital, should stand us in good stead in our search for rising income streams and long-term capital growth.

We thank you for your continued support.

Portfolio Managers
Matthew Page, CFA
Dr Ian Mortimer, CFA

Analysts
Joseph Stephens
Sagar Thanki

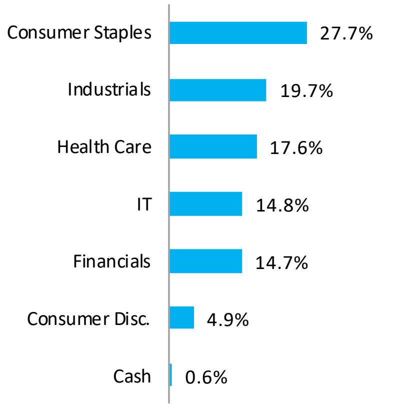
PORTFOLIO

31/05/2020

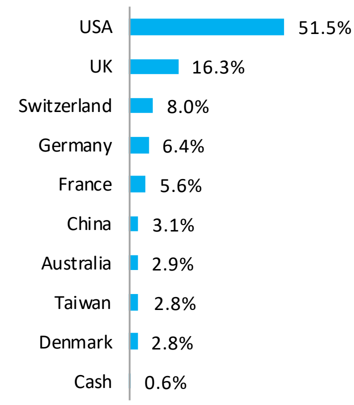
Fund top 10 holdings

Deutsche Boerse	3.7%
Johnson & Johnson	3.4%
Cisco Systems	3.2%
Reckitt Benckiser	3.1%
Anta Sports Products	3.1%
Gallagher, Arthur J	3.1%
Raytheon Technologies	3.1%
Schneider Electric	3.1%
Abbvie	3.1%
Paychex Inc	3.0%
% of Fund in top 10	31.8%
Total number of stocks held	35

Sector analysis



Geographic allocation



PERFORMANCE (see performance notes overleaf)

31/05/2020

Annualised % total return from launch (GBP)

Discrete years % total return (GBP)	May '20	May '19	May '18	May '17	May '16
Fund (Y class, 0.88% OCF)	7.4	9.0	5.4	26.6	2.7
MSCI World Index	8.9	5.3	8.2	31.3	0.7
IA Global Equity Income sector average	-0.4	3.9	2.9	26.8	-2.2

Cumulative % total return (GBP)	1 month	Year-to-date	1 year	3 years	5 years	From launch
Fund (Y class, 0.88% OCF)	5.0	-2.5	7.4	23.4	60.5	155.1
MSCI World Index	7.0	-1.6	8.9	24.1	64.0	157.1
IA Global Equity Income sector average	3.7	-8.2	-0.4	6.4	32.0	95.5

RISK ANALYSIS

31/05/2020

Annualised, weekly, from launch on 31.12.10, in GBP	Index	Sector	Fund
Alpha	0	-0.53	1.36
Beta	1	0.76	0.85
Information ratio	0	-0.43	-0.02
Maximum drawdown	-18.26	-22.41	-21.78
R squared	1	0.80	0.90
Sharpe ratio	1	0.31	0.53
Tracking error	0	6.60	4.69
Volatility	13.83	12.38	13.04

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 (0.88% OCF): Composite simulated performance 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.