Guinness Global Equity Income Fund

INVESTMENT COMMENTARY – August 2020

About the Fund

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

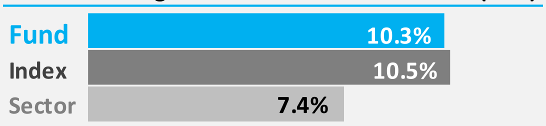
The Fund is managed for income and capital growth and invests in profitable companies that have generated persistently high return on capital over the last decade, and that are well placed to pay a sustainable dividend into the future.

Fund size	£988m
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 **31.07.20**

	1 year	3 years	From launch
Fund	-0.7	25.4	156.5
Index	0.0	24.9	160.4
Sector	-7.1	7.8	97.8

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 July the Fund was down -2.02% (in GBP), while the MSCI World Index benchmark was down -1.36%.

The Fund therefore underperformed the Index by 0.66% over the month.

In USD, the Fund was up 4.07% and the Index up 4.78%. The large differential versus performance in Sterling results from the sharp weakening of the US Dollar over the month (GBPUSD down -5.5%).

This year and over the longer term the Fund has outperformed the IA Global Equity Income Sector average as shown below:

	YTD	1yr	3yr	5yr	Since Launch*
Fund	-2.0%	-0.7%	25.4%	66.6%	156.5%
MSCI World Index	-0.3%	0.0%	24.9%	70.8%	160.4%
IA sector average	-7.1%	-7.1%	7.8%	39.4%	97.8%
Rank vs peers	13/55	9/54	4/50	3/42	1/18
Quartile	1st	1st	1st	1st	1st

Source: Financial Express. Cumulative Total Return in GBP as of 31st July 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.

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.

Summary: Dividends

Our expectation is that the 2020 fund distribution will be similar to that of 2019, but we note that this is subject to factors such as exchange rates or portfolio changes. We are carefully monitoring the income received for the portfolio and will continue to update our view. To summarise, among our 35 holdings:

- 7 companies have paid their full dividend for the year (or gone ex-dividend)
- 27 companies where we see high probability of full payment
- 1 dividend cut announced for portfolio holdings to date (Imperial Brands)
- 0 dividend cancellations

At the beginning of July, we identified two stocks as having potential dividend uncertainty: BAE Systems and Diageo. Pleasingly, both declared that they will pay their full dividend.

Diageo is one of the world's largest producers of spirits and beers with brands including Smirnoff, Johnnie Walker, Baileys and Guinness. Global lockdowns have been punishing for the company and results revealed that operating profits for the year to the end of June plunged 47.1%, while net sales fell 8.7%. They also showed how Diageo's different target markets are exhibiting widely varying consumer responses. The company's prolonged success will depend in large part on how it adapts the two key elements of its sales: the 'on-trade' in licensed venues, and the 'off-trade' from supermarket shelves.

Unsurprisingly, sales in regions where consumption is primarily driven by the on-trade have been hit hardest. In Europe, around half of the company's sales were on-trade and net sales across the region fell by 12%. The picture is even worse in Asia, where sales fell by 16%. India experienced a six-week ban on all alcohol consumption, while in China, where drinking is primarily fuelled by social occasions, demand was stalled by unusually subdued New Year festivities. In the US, where only around 20% of sales come from the on-trade, sales actually rose by 2% as consumers increased their alcohol intake at home.

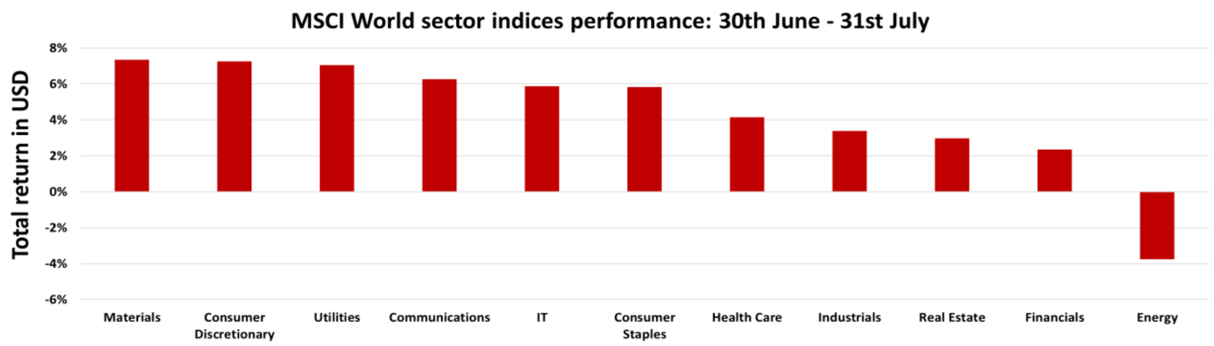
Despite the severe fall in overall sales, Diageo was able to announce a final dividend payment, bringing full-year dividend growth to 2% and reassuring investors of the business's stellar cash generation ability and balance sheet strength. CEO Ivan Menezes said: "The actions we have taken to strengthen Diageo over the last six years provide a solid foundation to respond to the impacts of the pandemic. We are now a more agile, efficient and effective business. We have taken decisive action through the second half of financial year 2020, tightly managing our costs, reducing discretionary expenditure and reallocating resources across the group."

BAE Systems, the largest defence contractor in Europe, reported semi-annual results indicating that half-year profits dropped 11%, but a rosier 2H outlook meant that sales are still expected to increase by 5% for the full year, and earnings are expected to decline 1-5% compared to last year. The maker of Typhoon fighter jets, combat vehicles, warships and Astute Class nuclear-powered attack submarines said its defence business, which accounts for 90% of group revenues, was almost back to pre-pandemic levels.

Pleasingly for investors, CEO Charles Woodburn said: “We expect our defence business to respond positively and deliver a second-half earnings performance very much in line with our original expectations for 2020. Reflecting this outlook we're resuming dividends.” BAE Systems announced it would pay 13.8 pence per share, deferred from April, plus an interim dividend of 9.4 pence per share, making it an outlier at a time when many other British companies have axed or cut their payouts.

July in Review

Underperformance in July can be attributed to idiosyncratic stock movements in both the Fund and the benchmark Index. Performance of the MSCI World Index had large contributions from the weighty mega-caps, which reported robust earnings results towards the end of the month. Apple, Microsoft, Amazon, Facebook and Alphabet are the five largest stocks in the MSCI World Index, making up 14% of the total weighting. As stay-at-home orders have echoed globally in the last few months, these five businesses have reaped rewards in the form of increased usage of their products and services. In July, they contributed 27% of the MSCI World Index return and lifted the performance of the IT, Communications and Consumer Discretionary sectors. The Fund’s underweight positioning in these sectors lowered active performance.



Source: Bloomberg. As of 31st July 2020

All sectors registered gains bar Energy, and the Fund benefitted from zero exposure in the sector. Holding no banks was once again beneficial to the Fund; they have underperformed in recent times due a number of reasons. First, central banks across the world have cut interest rates and reiterated that they will remain near to zero for the foreseeable future. Lower rates in turn squeeze banks’ lending margins. Secondly, with consumers and businesses facing greater financial stress, outstanding bank loans are riskier and have a greater probability of default. Thirdly, regulators in the US ruled that banks must cap dividends and undertake no share buybacks, whilst in Europe, banks are being forced to withhold all dividend payments until at least next year. With the second-quarter earnings season in full swing, the 18 banks in the S&P 500 Index posted a median 77% decline in earnings-per-share versus the prior year. Analysts expect the entire S&P 500 Index to post a 38% decline (source: FactSet).

Having no exposure to Materials and Utilities proved a drag on performance in July as the sectors rallied strongly; gold (+10.9%) had its best monthly performance since 2012 and silver (+34.0%) had its best month in over 40 years. In the US, so far in the second-quarter earnings season, the Utilities sector has reported the largest year-on-year earnings growth (+4.9%), while the IT sector has reported the largest revenue growth (+3.7%). The Energy sector has reported the largest year-on-year earnings and revenue decline (-165.5% and -50.0% respectively).

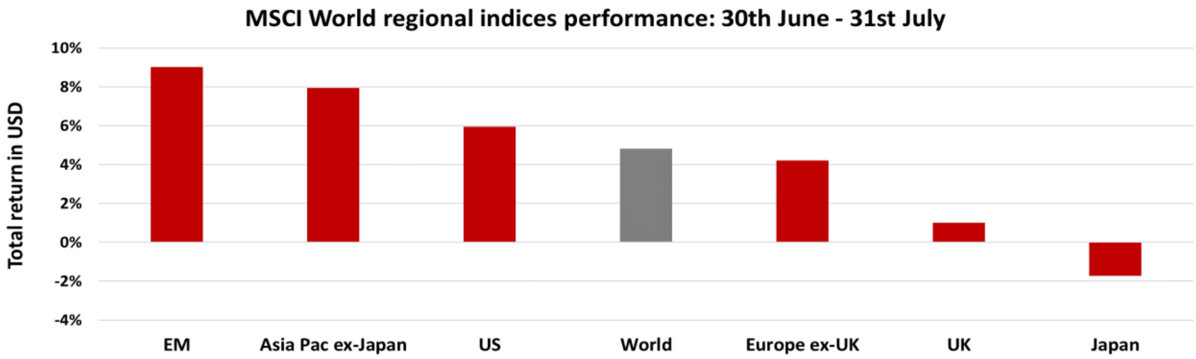
The Q2 earnings season has been relatively positive so far based on the 63% of companies in the S&P 500 Index that have reported. Within this group, 84% of the companies reported EPS above estimates. This is the highest percentage on record going back to 2008 when FactSet first began tracking this data, and above the 1-year (71%) and 5-year (72%) averages. Better-than-expected fundamentals played a part, as did the low bar set by analysts. Companies are also beating on the top line, with 69% of companies reporting sales above estimates, versus the 1-year (59%) and 5-year (60%) averages.

In the Fund, 26 companies have reported so far, of which 22 beat earnings estimates (85%) and 20 beat sales estimates (77%):

Company	Date of announcement	Period	Earnings Surprise	Sales Surprise
Raytheon Technologies Corp	28-Jul	Q2 20	217.5%	4.3%
ABB Ltd	22-Jul	Q2 20	47.5%	9.8%
Illinois Tool Works Inc	31-Jul	Q2 20	43.9%	9.9%
Eaton Corp PLC	29-Jul	Q2 20	32.6%	4.8%
Arthur J Gallagher & Co	30-Jul	Q2 20	29.1%	-3.9%
Schneider Electric SE	29-Jul	S1 20	26.8%	2.4%
Otis Worldwide Corp	28-Jul	Q2 20	26.4%	2.8%
Aflac Inc	28-Jul	Q2 20	21.3%	-1.3%
VF Corp	31-Jul	Q1 21	16.4%	10.0%
Procter & Gamble Co/The	30-Jul	Q4 20	14.7%	4.3%
Unilever PLC	23-Jul	S1 20	13.5%	2.7%
BlackRock Inc	17-Jul	Q2 20	12.7%	3.1%
Johnson & Johnson	16-Jul	Q2 20	11.3%	4.0%
Taiwan Semiconductor Manufactu	16-Jul	Q2 20	8.9%	0.6%
Microsoft Corp	22-Jul	Q4 20	7.1%	4.1%
BAE Systems PLC	30-Jul	S1 20	6.9%	5.1%
AbbVie Inc	31-Jul	Q2 20	5.5%	3.3%
PepsiCo Inc	13-Jul	Q2 20	4.1%	3.3%
Reckitt Benckiser Group PLC	28-Jul	S1 20	2.8%	1.8%
Danone SA	30-Jul	S1 20	2.1%	-0.8%
Paychex Inc	07-Jul	Q4 20	1.3%	0.5%
British American Tobacco PLC	31-Jul	S1 20	0.1%	0.6%
CME Group Inc	29-Jul	Q2 20	0.1%	-1.3%
Deutsche Boerse AG	29-Jul	Q2 20	-0.6%	0.8%
Roche Holding AG	23-Jul	S1 20	-2.6%	-2.6%
Nestle SA	30-Jul	S1 20	-6.4%	-1.2%

Source: Bloomberg

Better corporate releases than expected have propelled stock markets higher, although there remains a disconnect with economic data releases, which have been very mixed.



Source: Bloomberg. As of 31st July 2020

Emerging Markets and Asia Pacific ex-Japan were the best performing regions in July, largely benefiting from a weak US Dollar, ongoing monetary and fiscal stimulus, and a continued recovery in economic data. Equity markets in the regions weathered an acceleration in new Covid-19 cases and the escalation of US-China tensions which led to tit-for-tat consulate closures. While the Fund has no direct EM exposure, we have three companies in Asia-Pac: TSMC (Taiwan), Anta Sports (Hong Kong) and Sonic Healthcare (Australia).

Taiwan Semiconductor Manufacturing Company (TSMC) was in fact the best performer in the month, up 36.8% (in USD), after the world's leading global foundry raised its 2020 sales target as well as the growth outlook for the integrated chip foundry sector. TSMC dominates the advanced node-processing foundry market with about 75% market share. The company's extreme ultraviolet lithography (EUV) process capacity is more than triple that of peers such as Samsung and Intel after it spent more than $3.3 billion on 18 new EUV machines in 2019. TSMC's success in adopting the 5-nanometer node process in mass production this year should allow it to command a higher selling price, helping it maintain its revenue growth amid the Covid-19 pandemic. Further, Intel announced on 23rd July that it is planning to outsource production of some chip products to external manufacturers due to low production yield in its own 7-nm technology under development. This not only will pass more business to TSMC but will extend the latter's lead over Intel and other peers which cannot compete with the high R&D expenditure required. The company's expansion into a new semiconductor packaging business, although less profitable than chipmaking, should also help to retain its market-share leadership amid increasing competition with Samsung.

US equity markets also continued their ascent in July despite some unnerving economic data releases. Although it was anticipated, confirmation that Q2's quarterly contraction in GDP was the worst on record raised questions over a recovery. US GDP fell by an annualised 32.9% in Q2, and initial jobless claims also unexpectedly rose to 1.4 million, ending a 15-week run of declines. Continued jobless claims did ease lower (to 16.2 million), though the ending of the $600 per/week unemployment benefit muted any fanfare.

The Federal Reserve maintained interest rates at near-zero and Chair Jerome Powell reiterated a cautious outlook: “The path of the economy will depend significantly on the course of the virus”. This was the only addition to July’s FOMC policy statement, which otherwise remained unchanged. Powell added in his news statement, however, that more fiscal policy support was essential given the gravity and prolonged impact of the virus-driven shock to the economy.

The UK and Japan were the worst performing regions in July. Although the Fund holds no positions in Japan, it is overweight the UK, particularly in Consumer Staples. Among these are British American Tobacco (-12.1% in USD) and Imperial Brands (-11.9% in USD) which were the weakest performers in July. Sales were impacted as many countries began to re-introduce lockdowns due to increasing coronavirus cases, and with claims circulating that smokers are prone to more severe Covid-19 symptoms, many key markets – such as South Africa – banned tobacco sales completely. This exacerbated falling sales volumes amidst tightening regulation. Longer-term, both companies remain highly cash generative, have strong balance sheets and have potential upside particularly from the sales growth of newer tobacco-alternative products.

Portfolio Changes

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

We thank you for your continued support.

Portfolio Managers
Matthew Page, CFA
Dr Ian Mortimer, CFA

Analysts
Joseph Stephens
Sagar Thanki

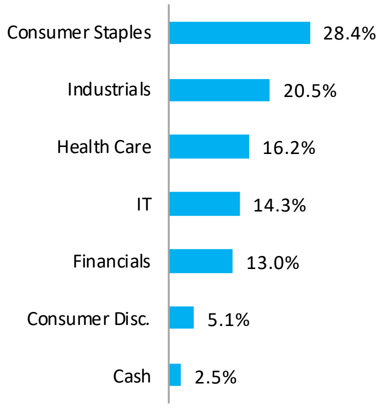
PORTFOLIO

31/07/2020

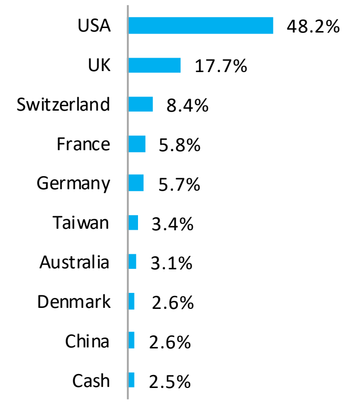
Fund top 10 holdings

Unilever	3.6%
BAE Systems	3.6%
Taiwan Semiconductor	3.4%
Sonic Healthcare	3.1%
ABB	3.0%
Reckitt Benckiser	3.0%
Eaton	2.9%
Schneider Electric	2.9%
Procter & Gamble	2.9%
Microsoft	2.9%
% of Fund in top 10	31.5%
Total number of stocks held	35

Sector analysis



Geographic allocation



PERFORMANCE (see performance notes overleaf)

31/07/2020

Annualised % total return from launch (GBP)

Fund (Y class, 0.88% OCF)	10.3%
MSCI World Index	10.5%
IA Global Equity Income sector average	7.4%

Discrete years % total return (GBP)	Jul '20	Jul '19	Jul '18	Jul '17	Jul '16
Fund (Y class, 0.88% OCF)	-0.7	12.1	12.7	9.9	21.0
MSCI World Index	0.0	11.0	12.4	16.9	17.0
IA Global Equity Income sector average	-7.1	8.8	6.6	13.9	13.6

Cumulative % total return (GBP)	1 month	Year-to-date	1 year	3 years	5 years	From launch
Fund (Y class, 0.88% OCF)	-2.0	-2.0	-0.7	25.4	66.6	156.5
MSCI World Index	-1.4	-0.3	0.0	24.9	70.8	160.4
IA Global Equity Income sector average	-0.9	-7.1	-7.1	7.8	39.4	97.8

RISK ANALYSIS

31/07/2020

Annualised, weekly, from launch on 31.12.10, in GBP	Index	Sector	Fund
Alpha	0.00	-0.54	1.23
Beta	1.00	0.77	0.86
Information ratio	0.00	-0.42	-0.03
Maximum drawdown	-24.58	-22.41	-21.78
R squared	1.00	0.80	0.90
Sharpe ratio	0.48	0.31	0.51
Tracking error	0.00	6.58	4.69
Volatility	14.54	12.48	13.16

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.