

WHY DIVIDENDS (STILL) MATTER



This is a marketing communication.
Please refer to the prospectuses, KIIDs and KIDs for the Funds, which contain detailed information on their characteristics and objectives, before making any final investment decisions.

POSITIVELY DIFFERENT

GUINNESS
GLOBAL INVESTORS

WHY DIVIDENDS (STILL) MATTER

Risk

The Guinness Global Equity Income Fund and TB Guinness Global Equity Income Fund are equity funds. 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. Further details on the risk factors are included in the Funds' documentation, available on our [website](#).

The Funds are actively managed with the MSCI World Index used as a comparator benchmark only. The Funds invest primarily in global equities which provide a yield above the yield of the benchmark (MSCI World Index).

WHY DIVIDENDS (STILL) MATTER

In 2012 we wrote a paper discussing the benefits of investing in dividend paying companies and why these income streams were particularly beneficial in periods of market distress. In 2020 the paper was republished as we felt it was appropriate to address the market turmoil created by Covid-19 and the potential impact on dividend payments. In 2022 the conclusions remain the same.

Ian Mortimer & Matthew Page

Portfolio Managers, Guinness Global Equity Income
July 2022.



Introduction

In this paper we aim to show that, for the long-term investor, the power of dividends from equity investing has not diminished. We highlight how dividends have, in fact, continued delivering their gradual but potent contribution to long-term total returns, and mitigating the effects of both market falls and inflation. We will investigate the ability of dividends to:

1	Both instil and indicate efficient capital management in mature businesses.	<i>Dividend policies “leave no room for vanity projects or frivolous uses of capital”.</i>
2	Provide a simple but powerful stock selection guide for total return investors.	<i>“Dividend payers have outperformed the broad market, and non-dividend payers significantly underperformed.”</i>
3	Deliver a proportion of total return that grows considerably over the life of an investment.	<i>“The importance of dividends increases over time. Over a 20 year holding period, dividends accounted for an average 57% of total returns.”</i>
4	Deliver an even greater proportion of total returns in periods of low growth.	<i>“The importance of dividends increases dramatically in low growth decades; in the 1940s and 1970s, dividends accounted for over 75% of total returns.”</i>
5	Deliver an income stream that is much more consistent than company earnings.	<i>“Dividends are much less volatile than earnings. Since 1940 there have been 8 years of dividend cuts, versus 25 years where earnings declined.”</i>
6	Provide a hedge against inflation.	<i>“Dividend-paying companies can, over the long term, provide an inflation hedge – dividend income grows in line with (or often at a higher rate than) inflation.”</i>

WHY DIVIDENDS (STILL) MATTER

Profits are a matter of opinion; dividends are a matter of fact

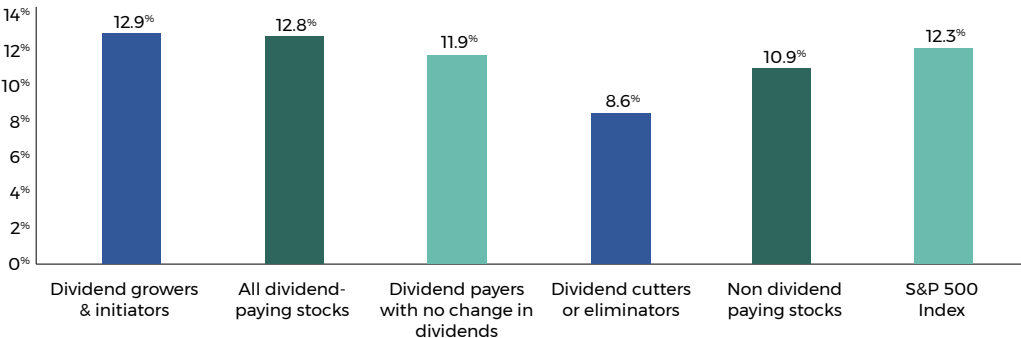
Dividends are paid from real earnings and in ‘hard’ cash. They cannot be manipulated by creative accounting. A pound paid out to the investor is just that.

If a company has a long history of paying a dividend and the intention to do so in the future, it is highly likely that management will begin each new year by first deciding the dividend payout and then thinking about how best to use the rest of the free cash flow. This leaves no room for vanity projects or frivolous uses of shareholders’ capital. A focused management team that uses the cash available to them efficiently is central to creating a well run – and profitable – company that is able to grow and thrive in the future. Steady and constantly growing dividends are a good indication that these elements are in place. Dividend payments can act as a useful identifier of companies that are disciplined and efficient in their capital allocation and cash flow management.

There exists an argument, however, that companies who pay a dividend are just struggling to find new growth opportunities and uses for their cash. We think quite the opposite. In the early stages of a company’s life it is quite right that cash is used to establish the business. It is often right that the company continues to re-deploy cash into the business as it moves through its early growth phases. However, once at maturity, when competition has entered the market place and the opportunities for continuing high growth have diminished, we think it entirely sensible that the company carefully allocates cash only to those projects where it can achieve high returns, and gives the rest back to shareholders. Why would shareholders want management to plough back all the company’s cash regardless of the returns available?

There are always exceptions to any rule, and there will always be examples of companies that have such a unique product or service that they can continue to grow for much longer than the average company. Simple mathematics, however, dictate that even these companies cannot grow forever. Indeed, looking at the historical evidence for the benefits of company management focusing on dividends, there is a strong relation between a company’s approach to dividend policy and total return performance. The evidence for this is laid out in Figure 1 below. By dividing all the companies in the S&P 500 (the leading index of the US stock market) into separate buckets depending on their approach to dividends, we can see that dividend payers have outperformed the broad market, and non-dividend payers significantly underperformed.

Figure 1 - Annualised total return of rising and falling dividend stocks
(S&P 500 categorised by dividend history, average annual total return in USD, 1972-2019)



Source: Ned Davis Research, 31.12.2019.

WHY DIVIDENDS (STILL) MATTER

Historical perspective

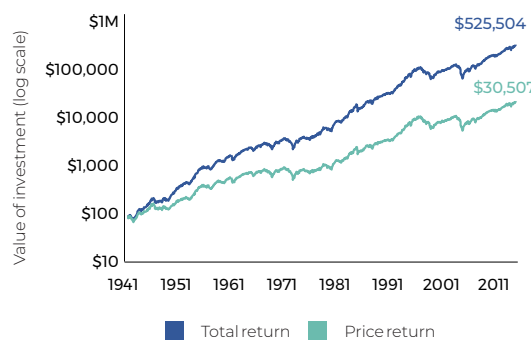
Over the long term, dividends have been the main contributors to total return in equity investments. Figure 2 illustrates this point by looking back at the S&P 500 returns since 1940. In this period, dividends and dividend reinvestments accounted for 94% of the index total return. If you had invested \$100 at the end of 1940, with dividends reinvested this would have been worth approximately \$525,000 at the end of 2019, versus \$30,000 with dividends paid out.

This is a hugely powerful phenomenon, and one that in recent times seems to have been overlooked; investors have chased quick profits through short-term trading strategies, which come with much increased risks. The average holding period for NYSE-listed stocks between 1950 and 1970 was approximately six years. Today it is under one year, and in fact may be closer to one day when accounting for quantitative trading strategies. We believe investors should think about their investments in the long term and employ a 'buy and hold' strategy. This way investors can harness the power of dividends and dividend reinvestments.

Figure 3 shows how the importance of dividends to total returns increases over time. For an average holding period of one year, dividends accounted for 27% of total returns for the S&P500 since 1940. If we increase the holding period to three years, dividends account for 36%, five years it increases to 40%, over a ten-year period it rises to 47%, and with a twenty-year holding period dividends account for some 57% of total returns. It is important to note, too, that here we are just looking at the S&P 500 as a whole, and not focusing purely on companies that actually pay a dividend. If we did, these results would likely be even more striking.

Figure 2 - S&P 500 price and total returns, in USD

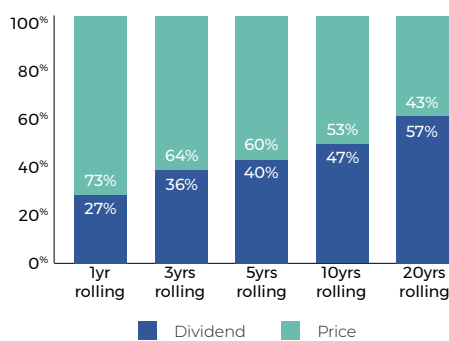
\$100 invested, 31.12.1940 to 31.12.2019



Source: Bloomberg, Guinness Global Investors

Figure 3 - Proportion of S&P 500 returns due to price and dividends

Analysed over different moving average periods, 31.12.1940 to 31.12.2019, in USD



Source: Bloomberg, Guinness Global Investors



1,453.85

1,278.37

1,025.65

894.92

704.31

30.5 \$

70.2 \$

53.6 \$

55.8 \$

42.0 \$

1,516.05

1,508.80

1,478.68

1,408.92

1,327.04

1,042.09

WHY DIVIDENDS (STILL) MATTER

Dividend characteristics

In the previous section we saw how significant dividends were to the total return of the S&P 500 over the last 80 years. If we break down this analysis into individual decades, we can see that the significance of dividends to total returns is not the same in every decade; dividends become more important in lower growth periods.

Figure 4 - S&P 500 returns for individual decades since 1940, in USD

	Total return	Price appreciation	Dividends	Dividends as % of total return
1940s	143.1%	34.8%	108.3%	75.7%
1950s	467.4%	256.7%	210.7%	45.1%
1960s	109.5%	53.7%	55.8%	51.0%
1970s	76.9%	17.2%	59.7%	77.6%
1980s	389.2%	227.4%	161.8%	41.6%
1990s	423.2%	315.7%	107.5%	25.4%
2000s	-9.1%	-24.1%	15.0%	<i>Not meaningful</i>
2010s	256.4%	189.7%	66.7%	26.0%
<i>Average</i>	<i>232.1%</i>	<i>133.9%</i>	<i>98.2%</i>	<i>48.9%</i>

Source: Bloomberg, Guinness Global Investors.

As Figure 4 shows, the minimum contribution to total return was 25.4% (not an insignificant sum) in the 1990s, when markets rallied strongly up to the peak of the 'technology bubble' at the start of the 2000s. What we find more compelling, however, is that the importance of dividends to total returns increases dramatically in low growth decades, which are defined by some combination of sluggish economic growth, rising inflation, increasing oil prices, and high unemployment. In low growth periods such as the 1940s and 1970s, dividends accounted for over 75% of total returns.

But why should dividends hold up better in difficult markets? There is no magic formula for why this might be the case – companies could stop their dividend payments to reserve cash and protect their balance sheets, and some have in the past. What we see in aggregate, however, is that companies as a group might reduce their dividend payments in particularly austere times, but rarely, if ever, collectively cut their dividend dramatically. The market sees a long history of dividend payments as establishing the credentials of a company and its management team, making significant cuts by company management more unlikely. In other words, dividends reflect the long-term earnings power of a company, and are therefore set at a level that is sustainable. If we look specifically at the last five recessionary periods in the US, as illustrated in Figure 5 below, we can see that dividends per share (DPS) for the S&P 500 dropped by 8% on average, compared to an average drop of 42% in earnings per share (EPS), i.e. dividends were cut by less than a fifth of the percentage fall in earnings over those periods (based on weighted average of total dividends and earnings).

WHY DIVIDENDS (STILL) MATTER

Dividend characteristics continue

Figure 5 - S&P 500 DPS and EPS falls in the last 5 US recessionary periods, in USD

US Recessionary period	Dividend per share (DPS) trough date	Earnings per share (EPS) trough date	Peak to trough (%)	
			DPS	EPS
Nov 1973 - Feb 1975	Dec 1975	Sep 1975	-1%	-15%
Jul 1981 - Oct 1982	No decline in DPS	Mar 1983	nm	-19%
Jul 1990 - Feb 1991	Dec 1991	Jun 1992	-1%	-32%
Mar 2001 - Oct 2001	Jun 2001	Dec 2001	-6%	-54%
Dec 2007 - May 2009	Mar 2009	Mar 2009	-24%	-92%
Average			-8%	-42%

Source: Robert J. Shiller, stock market data used in "Irrational Exuberance", Princeton University Press, Guinness Global Investors

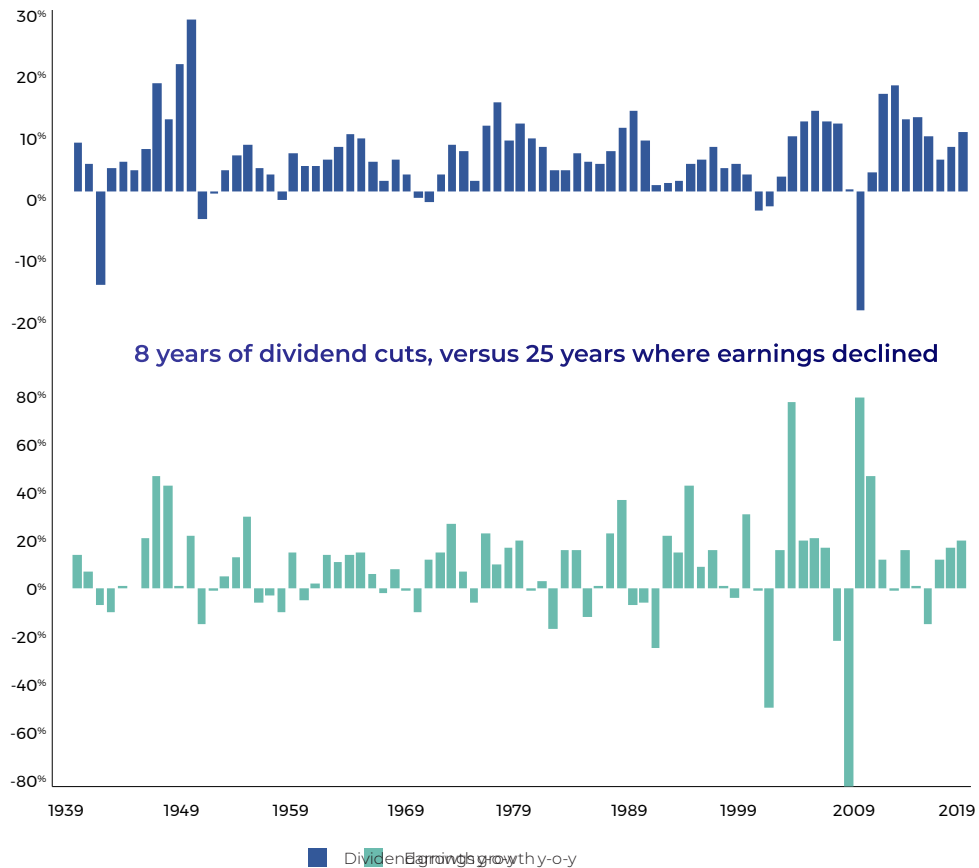
Looking at the historic year-on-year growth (or decline) in the earnings per share and dividends per share of the S&P 500, it is clear that dividends are much less volatile than earnings, as shown in Figure 6 opposite. Not only can this provide the investor with a kind of 'cushion' during recessionary and/or low growth periods; it can also allow long-term investors to take automatic advantage of short-term periods of low stock prices, if they re-invest their dividends throughout the business cycle (a subject we look at in detail in the next section).



WHY DIVIDENDS (STILL) MATTER

Dividend characteristics continued

Figure 6 - S&P 500 dividends per share and earnings per share year-on-year growth



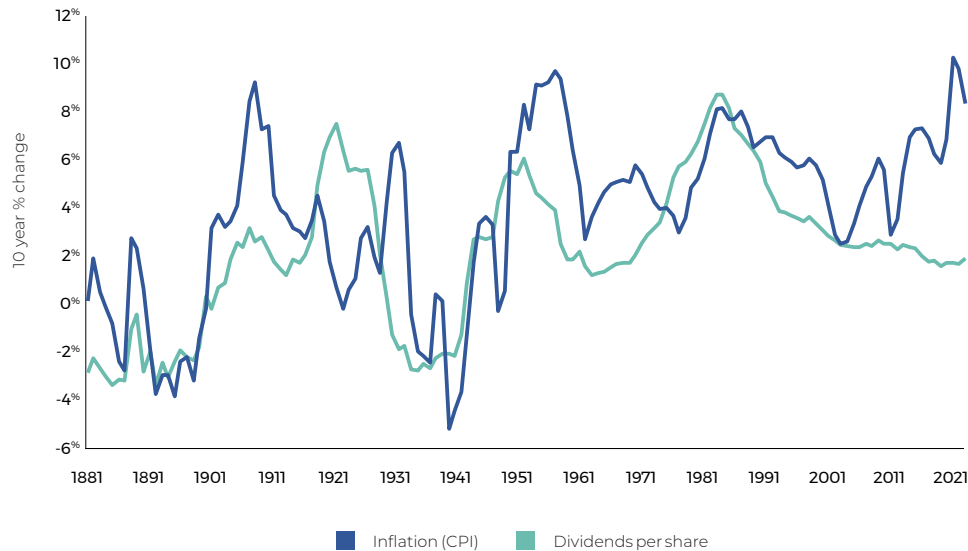
Source: Robert J. Shiller, stock market data used in "Irrational Exuberance", Princeton University Press, Guinness Global Investors *Earnings growth: 345% (12 months to Jan 2010)

Figure 6 also illustrates the striking phenomenon that, over the long term, dividend growth is not only positive but is sustained at a reasonably high rate. Since the 1940s, over rolling ten-year periods to each year end, the average growth in the S&P 500 dividends per share is 4% per year. Over the same period, inflation grew at 2% (consumer price index (CPI) calculated by the US Bureau of Labor Statistics). Indeed, looking at the correlation of dividend growth to inflation over rolling ten-year periods, as shown in Figure 7 below, we can see a strong relationship (correlation 0.81). This shows that investing in dividend-paying companies can, over the long term, provide an inflation hedge, in the sense that the income received in the form of dividends grows in line (or often at a higher rate) than inflation.

WHY DIVIDENDS (STILL) MATTER

Dividend characteristics continued

Figure 7 - Rolling 10-year growth in inflation (CPI) and S&P 500 dividends per share January 1881 to January 2021, in USD



Source: Robert J. Shiller, stock market data used in "Irrational Exuberance", Princeton University Press, Guinness Global Investors.

The benefit of compounding

One counter-intuitive phenomenon of dividend investing is that an investor might often be pleased if the share price of the company they own actually decreases in value. Why? The idea is that investors should benefit from the fact that, if the company they own continues to pay a dividend despite the fall in its share price, the shareholder will receive a greater number of shares upon reinvestment of their income than they would have if the share price had not fallen (i.e. the investor gets to buy more shares for their account per dollar they are re-investing.) This combination of income distribution and reinvestment at more attractive valuations can be an extremely effective way to accumulate capital with relatively low risk over the long term. The key to this approach is threefold:

1. Investors must be prepared to invest over the long term – so the day-to-day fluctuations in the value of their investments due to short-term market movements do not require the investor to sell down their holdings.
2. The investor can identify a good quality company that can generate sustainable cash flows through a variety of market environments.
3. The investee company maintains a disciplined approach to its dividend policy, and is able to continue to pay a dividend even if its share price is falling.



WHY DIVIDENDS (STILL) MATTER

The benefit of compounding continued

As an example, Aflac, an insurance business, has increased its dividend payment every year for the last 36 years. If we invested \$10,000 on January 1st, 2007, we could calculate the number of shares we would have bought initially and also the number of shares we would subsequently have acquired by re-investing any dividends received. Figure 8 illustrates the share price performance of Aflac over the period, and Figure 9 breaks down how our shareholding would have changed with the reinvestment of dividends in each year over the period.

Figure 8 - Share price of Aflac

USD, 01.01.2007 to 31.12.2019



Source: Bloomberg, Guinness Global Investors

Figure 9 - Price history and dividend payments for Aflac

USD, 01.01.2007 to 31.12.2019

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Aflac: average share price for year	\$29.37	\$32.79	\$39.58	\$42.71	\$45.76	\$53.16	\$57.44	\$34.44	\$50.59	\$46.90
Aflac: dividend per share in year	\$0.23	\$0.30	\$0.38	\$0.44	\$0.55	\$0.80	\$0.96	\$1.12	\$1.14	\$1.23
Dividend growth y-o-y		30%	27%	16%	25%	45%	20%	17%	2%	8%
Initial investment	\$10,000									
# Shares held at start of year	418	421	425	429	433	438	445	452	467	476
Total dividend income received in year	\$96.15	\$125.42	\$158.86	\$183.95	\$229.93	\$334.45	\$401.34	\$468.23	\$476.59	\$514.21
# Shares purchased with re-invested dividends in year	3	4	4	4	5	6	7	15	9	12
# Shares held at end of year	421	425	429	433	438	445	452	467	476	488

WHY DIVIDENDS (STILL) MATTER

The benefit of compounding continued

Looking at the table (figure 9), four things become apparent:

1. Aflac increased its dividend per share payout in every single year;
2. The number of Aflac shares held gradually increased throughout the holding period from our initial purchase of 437 shares in 2007 to 598 shares at the end of 2019 – an increase of over 30%;
3. The number of shares we were able to buy with our re-invested dividends fluctuated between 7 and 8 shares in 2007/08 to the 18 shares you would have been able to buy in 2009 as the share price fell;
4. During the period 01.01.2007 to 31.12.2019, the 437 shares originally held would have yielded a price return of 130%; the 18 shares bought with the dividends paid in the 2009 sell-off gave an average return of 263% from their respective pay dates until 31.12.2019.

So, although the share price fall during the 2008/9 recession was painful when we were looking at our account balance at that time, we actually benefitted from being able to purchase the largest number of 'extra' shares with our dividend income in those years. The compounding benefit of purchasing those shares at much reduced valuations then continued into later years as the increased share balance provided a greater dollar amount of income in subsequent periods.

This is just one example of the powerful compounding effects of dividends and dividend re-investments, but there are always others out there from which the astute, long term investor can benefit.



WHY DIVIDENDS (STILL) MATTER

Summary

In our opinion, when looking over the long term, dividends' contribution to total return is compelling. We believe investors should continue to focus on companies which can maintain and grow their dividends over time. Investors should also recognise that it's not just the blue-chip stalwarts which pay a dividend. Over the last ten years we have seen more companies in 'non-traditional' income sectors such as Information Technology initiate dividends. These 'new' dividend-paying companies can also provide the investor with the ability to capture a potentially growing income stream, which acts to further compound many of the positive effects such as inflation hedging, or the benefits of compounding over the long term, as we have illustrated in this paper.

The key benefit to investors of such a dividend strategy is that it offers a more systematic approach to reach financial goals over the more common 'buy low, sell high' strategy.

Ian Mortimer & Matthew Page, July 2022.



Dr Ian Mortimer, CFA

Portfolio Manager,
Guinness Global Equity
Income



Matthew Page, CFA

Portfolio Manager,
Guinness Global Equity
Income

Dr Ian Mortimer joined Guinness Global Investors in 2006, and is co-manager of the Guinness Global Equity Income Fund, Guinness Global Innovators Fund, and the Guinness European Equity Income Fund. Prior to joining Guinness, Ian completed a D.Phil. in experimental physics at Christ Church, University of Oxford, and graduated in 2006. He graduated from University College London with a First-Class Honours Master's degree in Physics in 2003. Ian is a CFA charterholder.

Matthew Page joined Guinness Global Investors in 2005, and is co-manager of the Guinness Global Equity Income Fund, Guinness Global Innovators Fund, and the Guinness European Equity Income Fund. Matthew previously worked for Goldman Sachs as an analyst in Fixed Income Currencies and Commodities (FICC). He graduated from New College, University of Oxford with a Master's Degree in Physics. Matthew is a CFA charterholder.

ABOUT GUINNESS GLOBAL INVESTORS

Long term, long only

Guinness Global Investors, the investment manager of Guinness Global Equity Income Fund and TB Guinness Global Equity Income Fund, offers a range of specialist, quality funds that focus on compelling global investment areas and ideas for long term investors. We believe that active investment management, when coupled with the discipline and intellectual integrity of our investment process, is the best way to achieve superior returns in our specialist areas. Our portfolios are intelligently constructed to enable investors to benefit from the new structural drivers of growth in today's economy.

Our investment approach

Our core investment process, applying intelligent use of screening tools to identify a pool of potential value investments with good growth potential, enables us to:

identify - anomalies and value opportunities in the market that other investors haven't yet noticed;

control - the impact of emotion or sentiment-driven investing in our portfolios;

prioritise - our fundamental research by narrowing and defining the list of candidates for potential purchase or sale, while screening out the impact of short-term noise;

and deliver - clear and simple portfolios that we believe will achieve superior returns in the long term.

All our funds are run as concentrated portfolios with a value bias, low turnover and strong sell discipline. We seek to invest with conviction for the long term.

Our structure

Guinness is wholly independent and has a stable management team. The company is 100% employee-owned.

IMPORTANT INFORMATION

Issued by Guinness Global Investors which is a trading name of Guinness Asset Management Limited which is authorised and regulated by the Financial Conduct Authority.

This report is primarily designed to inform you about the Guinness Global Equity Income Fund and the TB Guinness Global Equity Income Fund. It may provide information about the Funds' 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 Funds or to buy or sell individual securities, nor does it constitute an offer for sale.

GUINNESS GLOBAL EQUITY INCOME FUND

Documentation

The documentation needed to make an investment, including the Prospectus, the Key Information Document (KID), Key Investor Information Document (KIID) and the Application Form, is available in English from www.guinnessgi.com or free of charge from:-

· the Manager: Link Fund Manager Solutions (Ireland) Ltd (LFMSI), 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. LFMSI, as UCITS Man Co, has the right to terminate the arrangements made for the marketing of funds in accordance with the UCITS Directive.

Investor Rights

A summary of investor rights in English is available here: <https://www.linkgroup.eu/policy-statements/irish-management-company/>

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 KID for Switzerland, the articles of association, and the annual and semi-annual reports can be obtained free of charge from the representative in Switzerland, Carnegie Fund Services S.A., 11, rue du Général-Dufour, 1204 Geneva, Switzerland, Tel. +41 22 705 11 77, www.carnegie-fund-services.ch. The paying agent is Banque Cantonale de Genève, 17 Quai de l'Île, 1204 Geneva, Switzerland.

Singapore

The Fund is not authorised or recognised by the Monetary Authority of Singapore ("MAS") and shares are not allowed to be offered to the retail public. The Fund is registered with the MAS as a Restricted Foreign Scheme. Shares of the Fund may only be offered to institutional and accredited investors (as defined in the Securities and Futures Act (Cap.289)) ("SFA") and this material is limited to the investors in those categories.

TB GUINNESS GLOBAL GLOBAL EQUITY INCOME FUND

Documentation

The documentation needed to make an investment, including the Prospectus, the Key Investor Information Document (KIID) and the Application Form, is available in English from www.tbaileys.co.uk or free of charge from:-

T. Bailey Fund Services Limited ("TBFS")
64 St James's Street
Nottingham
NG1 6FJ
General enquiries: 0115 988 8200
Dealing Line: 0115 988 8285
E-Mail: clientservices@tbailey.co.uk

T. Bailey Fund Services Limited is authorised and regulated by the Financial Conduct Authority.

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.

Structure & regulation

The Fund is a sub-fund of TB Guinness Investment Funds, an investment company with variable capital incorporated with limited liability and registered by the Financial Conduct Authority.

Telephone calls will be recorded and monitored.



Guinness Global Investors is a trading name of Guinness Asset Management Ltd., which is authorised and regulated by the Financial Conduct Authority (223077).