GUINNESS

Global Equity Income Fund

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Annual review

2020

Dr Ian Mortimer, CFA & Matthew Page, CFA
Portfolio managers

GUINNESS ASSET MANAGEMENT

About the Fund

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

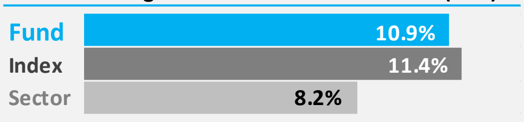
The Fund is managed for income and capital growth and invests in profitable companies that have generated persistently high return on capital over the last decade, and that are well placed to pay a sustainable dividend into the future.

Fund size	£1,320m
Launch date	31.12.10
Historic OCF (Y Class)	0.82%
Current OCF (at fund size)	0.82%
Yield (Y Class)	2.6%
Managers	Dr. Ian Mortimer, CFA Matthew Page, CFA
Analysts	Sagar Thanki Joseph Stephens

Performance 31.12.20

	1 Yr	3 Yrs	5 Yrs	Launch
Fund	8.1	31.9	83.5	182.7
Index	12.3	33.7	91.7	193.5
Sector	3.3	15.4	56.9	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' for full details

Fund Summary

In 2020 the Guinness Global Equity Income Fund produced a total return of 8.1% (in GBP), compared to the IA Global Equity Income Sector return of 3.3%. The Fund therefore outperformed its peer average by 4.8%.

The MSCI World Net TR Index returned 12.3% (in GBP); the Fund underperformed the Index by 4.2%.

- Since launch 10 years ago, the Fund ranks 1st out of 16 funds in the IA Global Equity Income Sector.
  - It has produced a cumulative total return of 182.7% (TR in GBP) compared to the sector average of 119.9% – an outperformance of 62.8%.
  - The Fund has outperformed its sector peer average in 8 of the 10 years the Fund has been in existence and has provided positive returns in each of the last 10 years.

- Equity markets began 2020 buoyantly but saw a sharp sell-off at the end of Q1 as increasing Covid-19 cases induced global lockdowns and recession fears. The Fund's stringent focus on companies exhibiting persistent profitability and balance sheet strength provided it with the defensive characteristics required to preserve capital – and outperform – in this down-market.
  - Since launch, the Fund has outperformed in each of the largest drawdowns, capturing only 66% of market downside on average.

- Unprecedented monetary and fiscal stimulus, later combined with vaccine optimism, drove equity markets higher between Q2 and the year-end. This was led by Growth stocks in general and in particular 'US Big Tech', which increasingly benefitted from 'stay-at-home' orders. The Fund managed to keep up with rising markets overall, and this is attributed to having a roughly equal balance between cyclical and defensive exposures.

- Dividend payments have been front of mind in the current market environment where we have seen significant demand shocks in many sectors of the equity market, leading to a significant portion of companies suspending or reducing their dividend payments. In the UK, for example, the dividend of the FTSE 100 fell by more than 35% year-on-year.

- In the Fund, however, our focus on quality companies with strong balance sheets and long histories of high return on capital meant that we have seen 28 out of our 35 holdings grow their dividend in 2020, 6 keep their dividend flat, and only 1 company cut its dividend. No company completely cancelled its dividend.

- As income investors we target a moderate yield (currently 2.6% net) but look for good potential for dividend growth. On 4th January 2021, the Fund declared its second semi-annual dividend (which represented the income we received in the second half of 2020). Combined with the dividend declared in July 2020, this made for a full-year dividend of £0.3989 (Y class GBP). This compares to £0.4014 in 2019 and equates to a 0.6% fall in distribution. We see this as a positive result compared to the 12.3% decline in the dividend of the MSCI World Index. The annualised growth of the dividend since launch is now 4.9% and as we look forward to 2021, we expect to continue to grow the dividend that the fund pays out.

- The philosophy and process behind the Fund was designed by Matthew Page and Ian Mortimer, and they have co-managed the Fund since launch in December 2010. The philosophy remains the same today:

    - The Fund seeks to invest in good quality businesses with persistently high returns on capital and strong balance sheets, that are highly cash generative, and that are trading at attractive valuations. We believe that such businesses are best placed to pay a sustainable and growing dividend in the future.

    - The Fund takes a long-term view, holding companies for 3-5 years on average, in a concentrated portfolio (35 stocks) of equally weighted positions, with an active share of >90% vs the benchmark.

- We believe the balanced approach of the Fund – seeking a return from a combination of cash flow growth, multiple expansion, and dividends – alongside its focus on quality characteristics makes it well placed whatever the future market direction in 2021 and beyond.

Performance

Covid-19 statistics, tiered lockdowns and recession indicators dominated financial headlines for most of the year, but equity markets fixated on central bank stimulus, and later vaccine optimism, and they ended 2020 with stronger-than-average returns.

	1 year	3 years	5 years	Since Launch (31/12/2010)
Guinness Global Equity Income Fund	**8.1%**	**32.5%**	**84.2%**	**182.7%**
MSCI World Net TR Index	12.3%	33.7%	91.7%	193.5%
IA Global Equity Income Sector	3.3%	15.4%	56.9%	119.9%
Position in IA Sector	12/53 funds	6/49 funds	2/41 funds	1/16 funds
Quartile	**1st**	**1st**	**1st**	**1st**

Figure 1 – Cumulative Total Return in GBP, as of 31st December 2020. Source: Financial Express.

We are extremely pleased that since launch at the end of 2010, the Fund ranks 1st out of 16 funds in the IA Global Equity Income Sector.

The Fund also ranks in the top quartile of the sector over 1 year, 3 years, and 5 years.

	2011	2012	2013	2014	2015
Global Equity Income Fund	**2.7%**	**5.5%**	**26.3%**	**10.1%**	**2.2%**
MSCI World Net TR Index	-4.8%	10.7%	24.3%	11.5%	4.9%
IA Global Equity Income Sector	-2.1%	9.7%	20.4%	6.7%	1.5%
	2016	**2017**	**2018**	**2019**	**2020**
Global Equity Income Fund	**26.9%**	**9.6%**	**0.7%**	**21.2%**	**8.1%**
MSCI World Net TR Index	28.2%	11.8%	-3.0%	22.7%	12.3%
IA Global Equity Income Sector	23.2%	10.4%	-5.8%	18.6%	3.3%

Figure 2 – Calendar year total return in GBP, as of 31st December 2020. Source: Financial Express

The Fund has now outperformed its sector peers in 8 of the 10 years the Fund has been in existence, and we are pleased to have provided positive returns in each of the last 10 years.

Since launch, 10 years ago, the Fund has produced a cumulative total return of 182.7% (in GBP) compared to the sector average of 119.9% – an outperformance of 62.8%

Figure 3 – Cumulative Total Return in GBP, as of 31st December 2020. Source: Financial Express.

Every year – and none more so than 2020 – brings with it many unknown-unknowns and so we seek to position the Guinness Global Equity Income Fund to be capable of navigating whichever direction the market takes. The Fund's focus on quality companies at attractive valuations means it tends to outperform in falling markets whilst keeping up with growing markets. Over the course of the year, as expected, this is generally the outcome we saw.

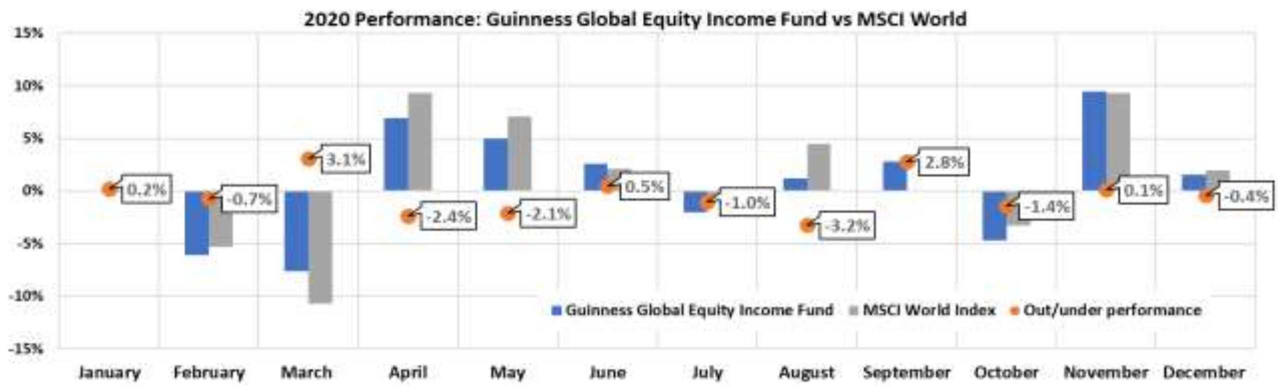


Figure 4 – Monthly total return of fund vs benchmark in 2020, in GBP. Source: Bloomberg

As Figure 4 shows, there were two bouts of negative returns for the MSCI World Index: February-March and October. The Fund outperformed significantly in the first broad-based sell-off and underperformed slightly in the second, which was led by a sharp rotation into defensives and deeper-value sectors such as Utilities, Telecommunications and Banks, which the fund is underweight.

Dividends

Overall, dividend-orientated strategies lagged the market in 2020 as a significant proportion of companies suspended or reduced their dividend payments due to the economic 'sudden stop' caused by the worldwide response to Covid-19. For example, the MSCI World High Dividend Yield Index was down 2.9% (total return in GBP), and the Fund outperformed this Index by 11.4%.

Broadly, the dividend cuts seen in 2020 were concentrated in companies affected by (i) significant loss of revenues from lockdowns (airlines, travel & leisure, retail, energy), (ii) regulatory pressure (European banks, insurance), (iii) government pressure (French state-owned businesses in particular), and (iv) companies with weak balance sheets conserving capital by reducing or cancelling dividend payments.

- In Europe, the overall EuroSTOXX Index dividend declined by over 30% in 2020 compared to 2019; 25% of all companies in the Index cancelled their dividend and a further 25% reduced their dividend. (Source: SocGen)

- Similarly, in the UK, the FTSE100 Index dividend for 2020 declined by over 35%; 30% of companies cancelled and a further 25% reduced their dividend in the year. (Source: SocGen)

- In the US, these figures were much lower owing to a culture of progressive dividend policies, a focus on share buybacks, and more conservative payout ratios.

The Fund has an overweight to Europe (including UK) and an underweight to the US, yet the dividend actions of our holdings were very robust across all regions:

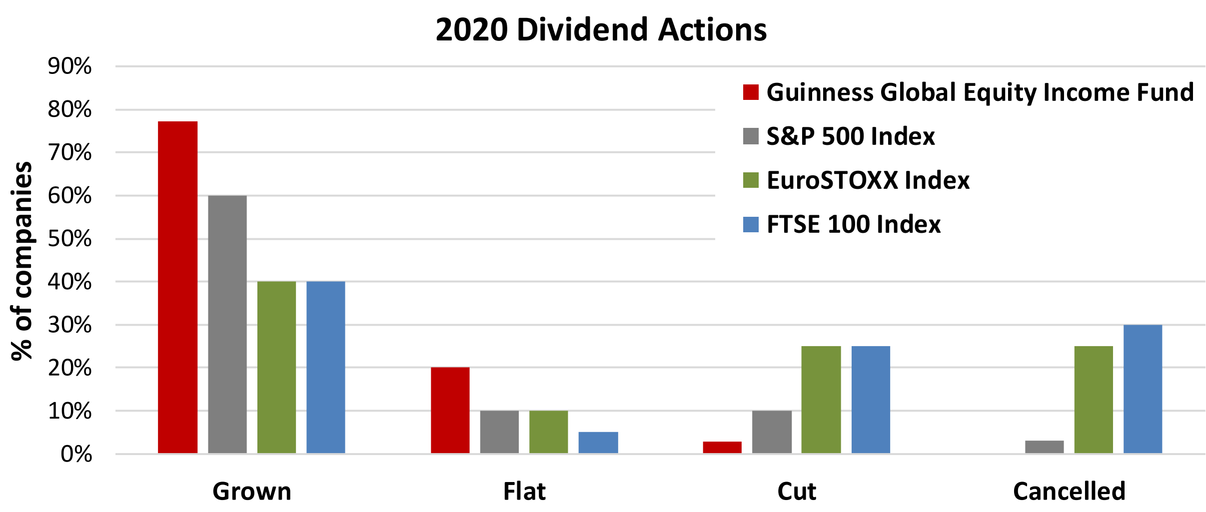


Figure 5 – Source: Guinness Asset Management, SocGen, as of 31st December 2020

Out of our 35 holdings:

- 28 companies **grew** their dividend
- 6 companies kept their dividend **flat**
- 1 company **cut** its dividend
- 0 companies **cancelled** their dividend

The one company to cut its dividend was Imperial Brands, the tobacco manufacturer. The final dividend (related to 2019 profits) went ex- in February 2020 as expected, but the 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%. Management did commit to a progressive dividend policy from this lower level, however. Although the company was able to pay an unaffected dividend, the new management team decided to use the approximately £650mn savings to pay down debt which, alongside the £1bn proceeds from the cigar business sale, will help achieve a target of <3X net debt/EBITDA over time.

Overall, the Fund dividend distribution saw a modest decline of 0.6%. This was owed to the changes we made to the portfolio holdings in February and March, rather than the dividend actions of our investee companies: we sold three stocks (as described below) which previously offered a high dividend yield but where we identified a risk of a dividend cut and capital depreciation due to the implications of the pandemic.

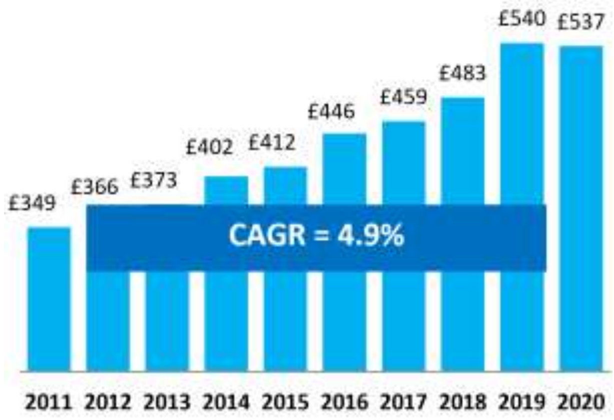


Figure 6 – Dividend Growth. Source: Guinness Asset Management. CAGR (Compound Annual Growth Rate)

The Fund focuses on companies that offer the potential for dividend growth – rather than simply a high dividend yield – and this has meant that the dividend distributed by the Fund has grown every year until 2020. It has also meant that the decline in 2020 was only modest (0.6%), especially considering that the dividend-per-share for the MSCI World Index fell 12.3% (2020 vs 2019).

Based on year-end prices the Fund had a 12-month trailing dividend yield of 2.6% (net of withholding taxes), 44% higher than the benchmark index dividend yield of 1.8% (gross of withholding taxes).

In the coming years we believe income will be more in demand, but dependable and sustainable income will be harder to find. We view this as positive for the dividend-paying companies that we own. We note that the forward dividend yield of the MSCI World Index is currently estimated at 1.9% and 2.1% respectively for 2021 and 2022; that is, the dividend is not expected to recover to its pre-pandemic level until at least 2023, suggesting that many companies which cut their dividend in 2020 will not begin paying at their previous levels any time soon. In contrast, a number of holdings in the fund have already announced dividend growth plans for 2021 and we are confident that all our holdings have the ability to grow their dividends in 2021.

Further, with interest rates around the world currently estimated to stay low, company dividends are likely to provide better income than bonds for some time; companies can also increase their dividends whereas bond coupons are fixed to maturity. Dividend growth that compounds over time is a particularly compelling proposition in an environment with sub-1% Treasury yields leading some to worry about inflation.

The growing dividends that our stocks provide are a result of the companies themselves being able to grow. Our search for persistently high return on capital businesses leads us to companies which have navigated different economic environments well, not least the most recent. Most of the companies we hold today have a history of consistent dividend growth and almost 25% of our holdings are classed as 'Dividend Aristocrats'; that is, they have increased their dividend for at least 25 years in a row.

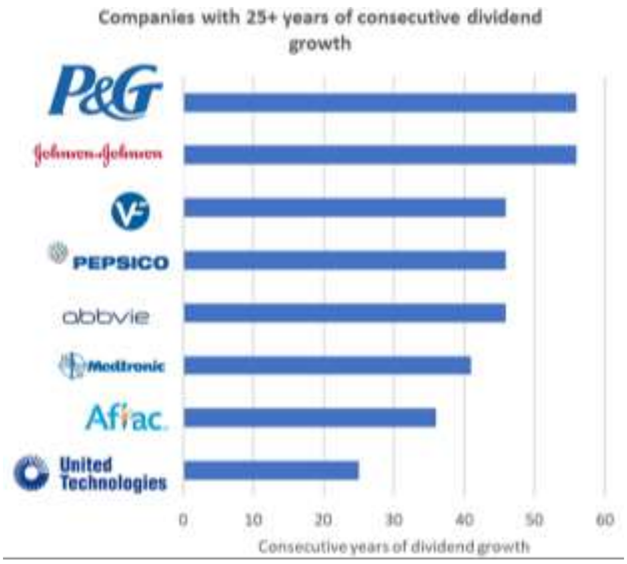


Figure 7 – Dividend Aristocrats. Source: Bloomberg, Guinness Asset Management.

We currently have 45% of the portfolio in Consumer Staples and Healthcare companies (vs 21% in MSCI World Index). These sectors tend to be more defensive and so dividends and earnings are less sensitive to the economy. Using examples of the companies we own in the Fund, dividend growth in 2020 came via firms exhibiting:

- Robust demand (e.g. Nestlé)
- Asset-light business models (e.g. Microsoft)
- No near-term refinancing needs (e.g. Novo Nordisk)
- Significant family ownership (e.g. Roche)
- Strong credit ratings (e.g. Johnson & Johnson)

As sales in some industries collapsed when economies around the world moved into lockdown, internal sources of cash began drying up for many businesses, leaving them reliant on borrowing to meet expenses. Companies with no turnover needed cash desperately and had to quickly rein in expenditures, dividends and share buybacks to ensure survival. This highlighted the importance of balance sheet strength and we therefore think it is important to monitor the credit rating of the companies we own.

Figure 8, below, shows that our holdings have strong credit ratings compared to the MSCI World Index, giving us confidence that they not only have better prospects of survival, but are better positioned to continue rewarding shareholders through dividends and to use any weakness in their competitors to take market share or improve their long-term prospects.

71% of our portfolio companies have a credit rating of at least A+:A-, compared to only 23% in the MSCI World Index.

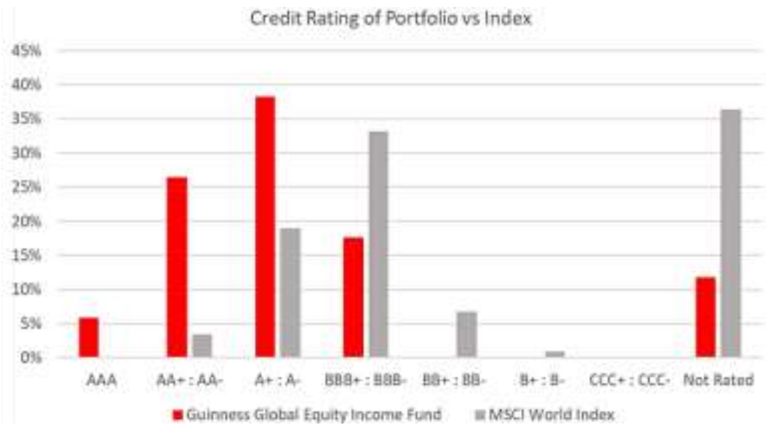


Figure 8 – Source: Bloomberg, S&P Credit Ratings, as of 31st December 2020

Review of 2020

Following a strong 2019, global equity markets began the new decade in a similarly buoyant fashion. The first half of January saw the US and China reach 'Phase One' of an economic and trade agreement, which provided some much-needed assurance to market participants following months of uncertainty. Economic data also showed signs of improvement globally, allaying near-term recession fears, while major central banks provided further support by signalling that they would remain accommodative for the year ahead.

This initial optimism was quickly dampened by the Covid-19 virus and its rapid spread from China throughout the globe. Governments worldwide implemented lockdowns as cases and deaths surged and health services became overwhelmed. In such unprecedented circumstances US jobless claims smashed a new record as three million people registered in one week, more than four times the previous high in 1967. The S&P 500 Index also broke a record, ending the longest bull run in US history in the fastest time – the Index fell 20% in just 22 days.

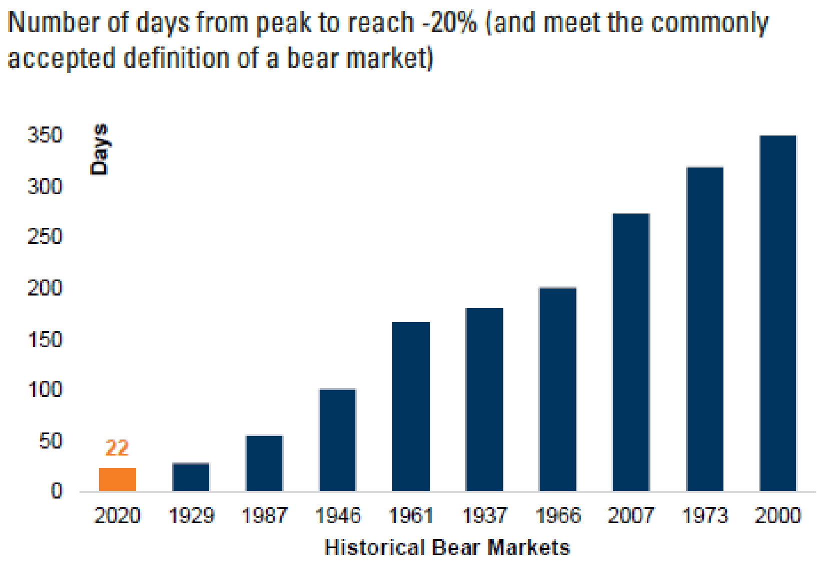


Figure 9 – Source: Bloomberg, Goldman Sachs Research

In the drawdown from the peak of the market on 19th February to the trough on 23rd March, the Fund was down -32.5% (in USD), while the MSCI World Index benchmark was down -34.0%. The Fund therefore outperformed the Index by 1.5% over this period. This is perhaps unsurprising given that the Fund has outperformed in each of the largest drawdowns seen in the last 10 years, i.e. since the launch of the Fund in 2010.

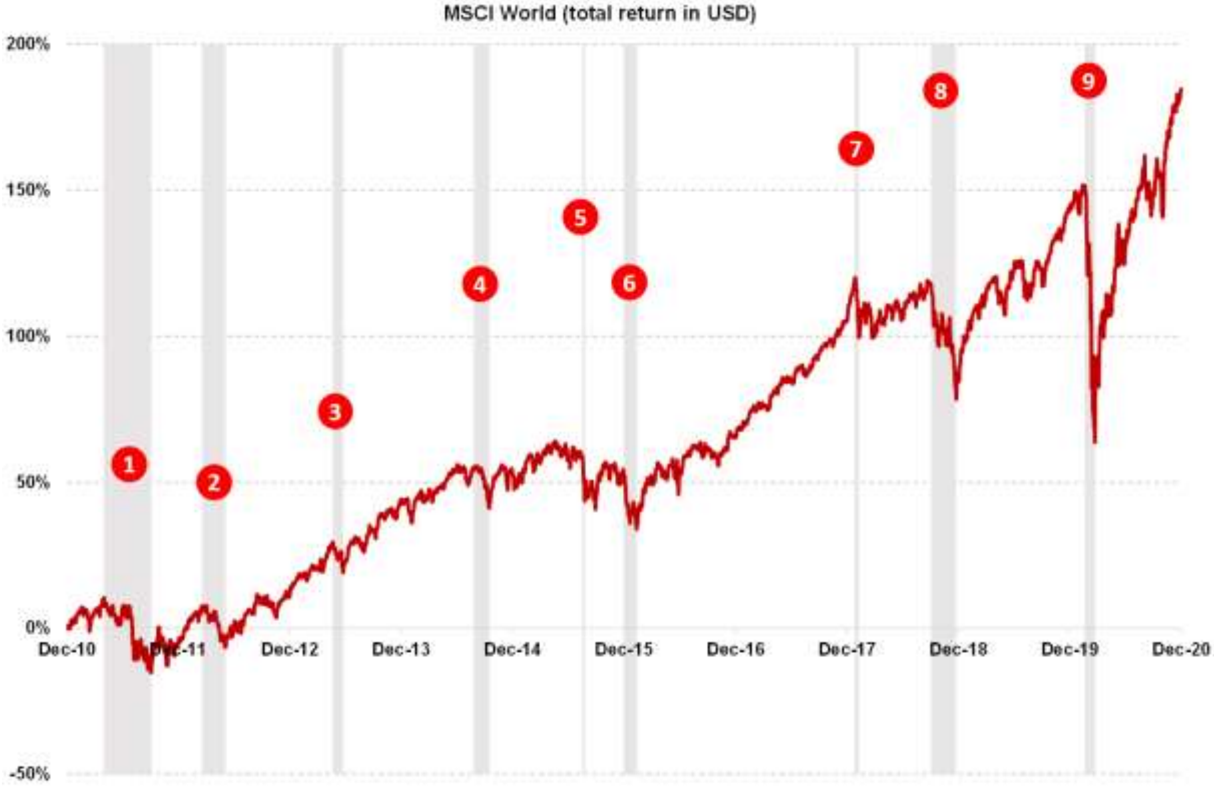


Figure 10 – Largest drawdowns in global equity markets since fund launch (31st December 2010). Source: Bloomberg

	Start date	End date	MSCI World Index	Guinness Global Equity Income	Fund relative performance	Reason for sell off
1	02/05/2011	04/10/2011	-22.0%	-15.6%	6.4%	European crisis / Greece
2	19/03/2012	04/06/2012	-12.5%	-8.9%	3.5%	US credit rating downgrade
3	21/05/2013	24/06/2013	-7.7%	-5.2%	2.5%	"Taper tantrum"
4	27/08/2014	16/10/2014	-8.8%	-8.3%	0.5%	Oil price sell off
5	17/08/2015	25/08/2015	-9.4%	-8.5%	0.9%	Chinese stock market decline
6	31/12/2015	11/02/2016	-11.5%	-6.1%	5.4%	China growth concerns
7	26/01/2018	08/02/2018	-9.0%	-7.1%	2.0%	Volatility spike / inflation concerns
8	03/10/2018	25/12/2018	-17.5%	-12.0%	5.5%	Tech sell off / US-China trade issues
9	19/02/2020	23/03/2020	-34.0%	-32.5%	1.4%	Coronavirus

Figure 11 – Performance of fund vs benchmark in the largest drawdowns since fund launch, in USD. Source: Bloomberg

Looking at Figure 10, the sharp drawdown in Q1 preceded an impressive rebound. Astonishingly, the losses from the record-breaking crash were fully recovered by 26th August, only five months after the market bottomed and while the global economy was still deep in a quagmire. Since then, it has sailed even higher, most recently on the back of positive vaccine news. The sell-off was unusually severe in a historical context, and the recovery was equally, if not more, extraordinary. Falls of this magnitude normally take years to recover from: on the previous three occasions when the market has fallen by more than 30%, it has taken nearly three years or longer for losses to be recovered.

It is no coincidence that the rally began on 23rd March when the Federal Reserve announced it would do everything in its power to alleviate credit stresses, including buying corporate bonds (and even junk bonds) for the first time. Growth in US M2, a broad measure of money supply, was the strongest in 2020 since the Fed's records began in 1960.

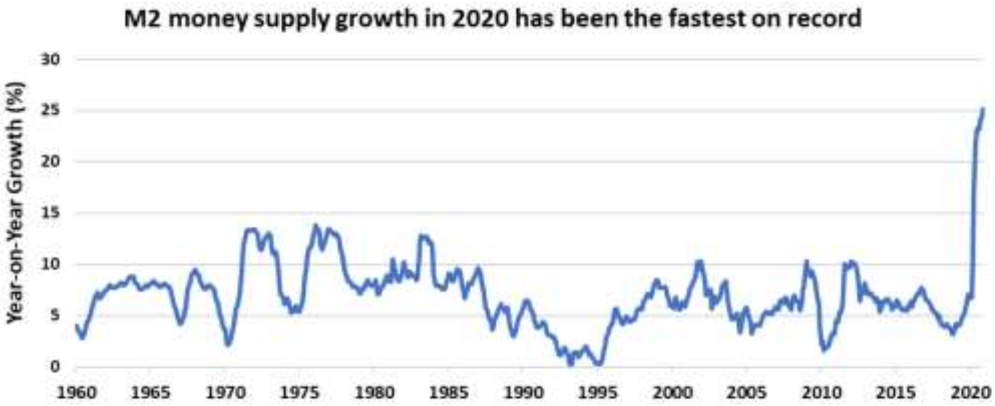


Figure 12 – Source: Bloomberg. Latest data as of 31st December 2020.

The Fed's response in the latest crisis has been swift and very large in scope. Coupled with President Trump's initial $3 trillion coronavirus relief bills (for context, the 2009 stimulus package was $831 billion) and an initial €750bn European Central Bank (ECB) asset purchase programme, unprecedented stimulus faced off with an unprecedented economic contraction.

Following the March sell-off, policymakers essentially provided equity markets a floor. Combined with increased optimism that lockdown measures were having some success in reducing infection rates, Q2's market rally was led by growth sectors and this trend continued for most of the year.

Figure 13 – MSCI World style performance in 2020 (total return in USD). As of 31st December 2020. Source: Bloomberg

The only blip for Growth came in November where we saw a significant rotation into Value stocks driven primarily by two factors.

First, the initial uncertainty about the US Presidential election dissipated as it became clear that Democratic candidate, Joe Biden, had secured enough votes to claim the Presidency, and the Democrats also retained control of the House. Although President Trump was slow to concede, early fears of a disorderly handover and possible social unrest did not materialise. Weighing up the prospect of possibly greater corporate taxes versus greater fiscal stimulus, fewer trade war tweets and generally lower uncertainty, the markets on balance cheered the election outcome.

As Joe Biden started to announce his cabinet, one notable appointment was that of Janet Yellen to head up the Treasury. Having the former chair of the Federal Reserve in charge of government spending is an indication of fiscal and monetary policy co-ordination in the years ahead, and that was seen as a positive for markets after a period in which central banks had been forced to do all the heavy lifting in terms of economic stimulus.

The second major positive for shares in November was the announcement that three vaccines, from Pfizer/BioNTech, Moderna and Oxford/AstraZeneca, showed positive trial results with high efficacy. These vaccines received regulatory approval and began rolling out in December, in turn sparking optimism that unconstrained social and economic life could perhaps return in the not-too-distant future.

The big question going into 2021 is whether the strong equity returns continue and what might lead to its downfall. As ever, rather than trying to pick which way the macro or political winds will blow in the near term, we maintain our focus on companies that can deliver a sustainable, rising income stream alongside capital growth over the long term. Holding good-quality companies that have persistently generated high levels of return on capital gives us confidence that the fund is well placed to weather most market conditions.

Sector & Regional Attribution

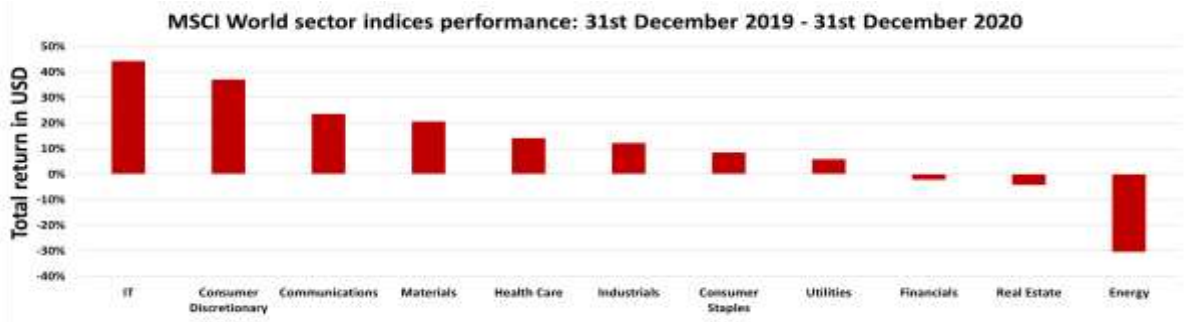


Figure 14 – MSCI World sector performance in 2020 (TR in USD). As of 31st December 2020. Source: Bloomberg

IT, Consumer Discretionary and Communications were the best-performing sectors in the year, and these were aided by the rally in the US 'Big Tech' names. The five largest weighted companies in the MSCI World Index (Apple, Microsoft, Amazon, Facebook and Alphabet) make up c.15% – the largest concentration the Index has ever seen in only five holdings. The strong performance of these stocks was therefore highly influential on the Index's overall performance and on the performance of the IT, Consumer Discretionary and Communications sectors. The general – and somewhat justifiable – perception was that the 'FAMAG' stocks would continue to benefit from long-term revenue and earnings growth having asymmetrically benefitted from the forced changes to work, social and shopping practices during lockdowns.

Being underweight IT was a drag on Fund performance in the year. Looking more closely, the chart below highlights that the Fund's relative underperformance vs the MSCI World Index over the full year is explained by the Index's narrow leadership. The chart compares the Fund's performance to the MSCI World Index including and excluding the five 'FAMAG' stocks.

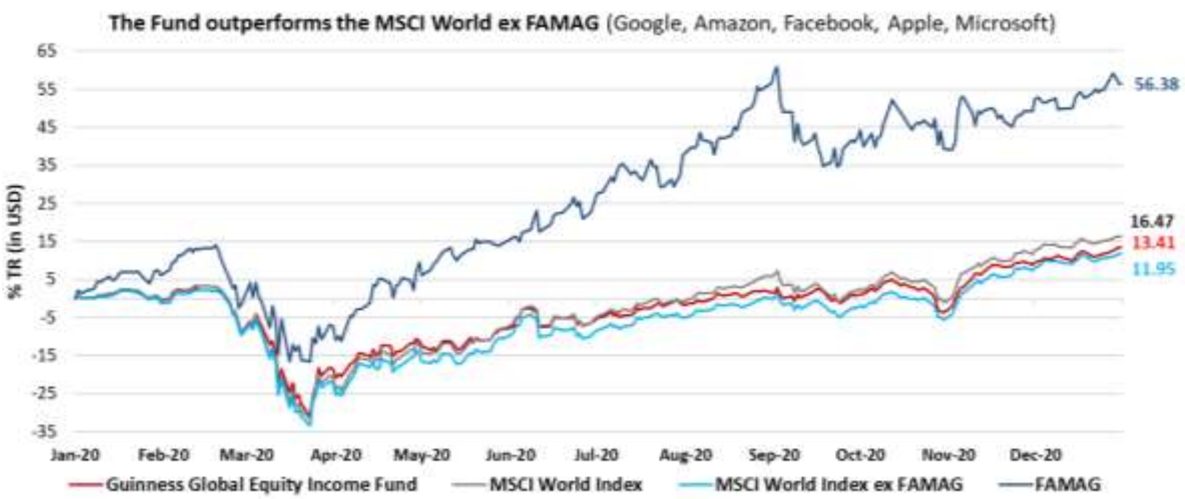


Figure 15 – Source: Bloomberg, as of 31st December 2020

Though there was a rotation in Q3 towards defensive sectors as uncertainty over US elections and fiscal stimulus negotiations weighed on the cyclical sectors, this was not sufficient to buck the broader trend.

Energy was the weakest sector over 2020 as the price of oil plunged after Saudi Arabia failed to convince Russia to back production cuts. The US benchmark WTI fell towards $20/barrel in April, close to its lowest level in 18 years, after starting the year at $60/barrel. Aside from increased supply, demand for the commodity collapsed as most airlines suspended their flight schedules due to the Covid-19 outbreak. Lower oil prices prompted many US energy producers to cut the number of operating drilling rigs and to lower capital expenditure plans. The Fund holds no Energy stocks after selling its one holding (Royal Dutch Shell) in Q1, prior to the OPEC meeting which resulted in a major sell-off in the sector.

Financials also fared poorly over the year as interest rates were cut by central banks globally and the market assessed the risk to corporate credit. The Federal Reserve cut interest rates twice in March for the first time since the Global Financial Crisis and announced unlimited quantitative easing. US interest rates now stand at 0-0.25%. Within the Financials sector, banks led the declines, and having no exposure was beneficial to the Fund. Banks have underperformed in recent times for a number of reasons: first, lower interest rates 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; and thirdly, to rub salt in the wound, regulators in the US ruled that banks must cap dividends and undertake no share buybacks, whilst in Europe, banks were forced to withhold all dividend payments until at least 2021.

In the Fund, we currently have a good balance between defensive exposure (Consumer Staples and Healthcare) and cyclical exposure (Industrials, IT, Financials). Whilst the defensive names 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 believe that within these more cyclical sectors we own 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 at these times, resulting in higher revenues).

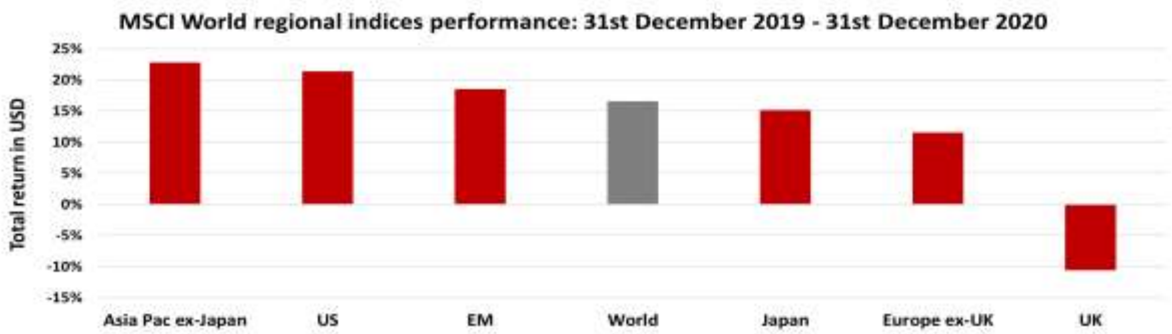


Figure 16 – Regional Performance (TR in USD). As of 31st December 2020. Source: Bloomberg

Regionally, Asia Pac ex-Japan and Emerging Markets were amongst the best-performing regions in the year, largely benefiting from a weak US Dollar, ongoing monetary and fiscal stimulus, and a continued recovery in economic data due to an effective virus response allowing for less restrictions and faster revival in consumption. In China, third-quarter GDP growth was reported at 4.9% year-on-year and the region is set to be the only major one to see positive aggregate economic growth over 2020 relative to 2019. Within the Fund our EM and Asia-Pac exposure comes via three companies: TSMC (Taiwan), Anta Sports (Hong Kong) and Sonic Healthcare (Australia), which all performed well in the year.

US equity markets also continued their ascent in the year despite mixed economic data releases and increasing political uncertainty. Although it was anticipated, confirmation that Q2's quarterly contraction in GDP (-32.9%) was the worst on record raised questions over a swift recovery. Near-zero interest rates in the US have had a depreciating effect on the US Dollar, which has seen a steady decline since its March highs. The weaker Dollar versus a basket of foreign currencies boosts US stocks by attracting foreign investors and export demand. This is not beneficial, however, to foreign-domiciled multinational companies which translate their Dollar earnings into local currency at a less favourable exchange rate. This particularly affects the FTSE 100 Index since the largest UK companies collectively derive over 70% of their earnings overseas. Alongside sector biases towards Financial and Energy stocks, and continued uncertainty over Brexit negotiations, the UK fared as the worst-performing region in the year. Being overweight in the UK proved a drag on Fund performance.

Individual Stock Performance

When we look at how individual companies within the portfolio performed in 2020, we see that out of the top five, we have one Consumer Discretionary stock, two IT, one Financial and one Industrial stock (figure 17). This highlights the benefit of our moderate dividend yield and sector-agnostic approach, which can identify opportunities outside of the traditional high-yield or 'defensive' areas typically associated with income funds.

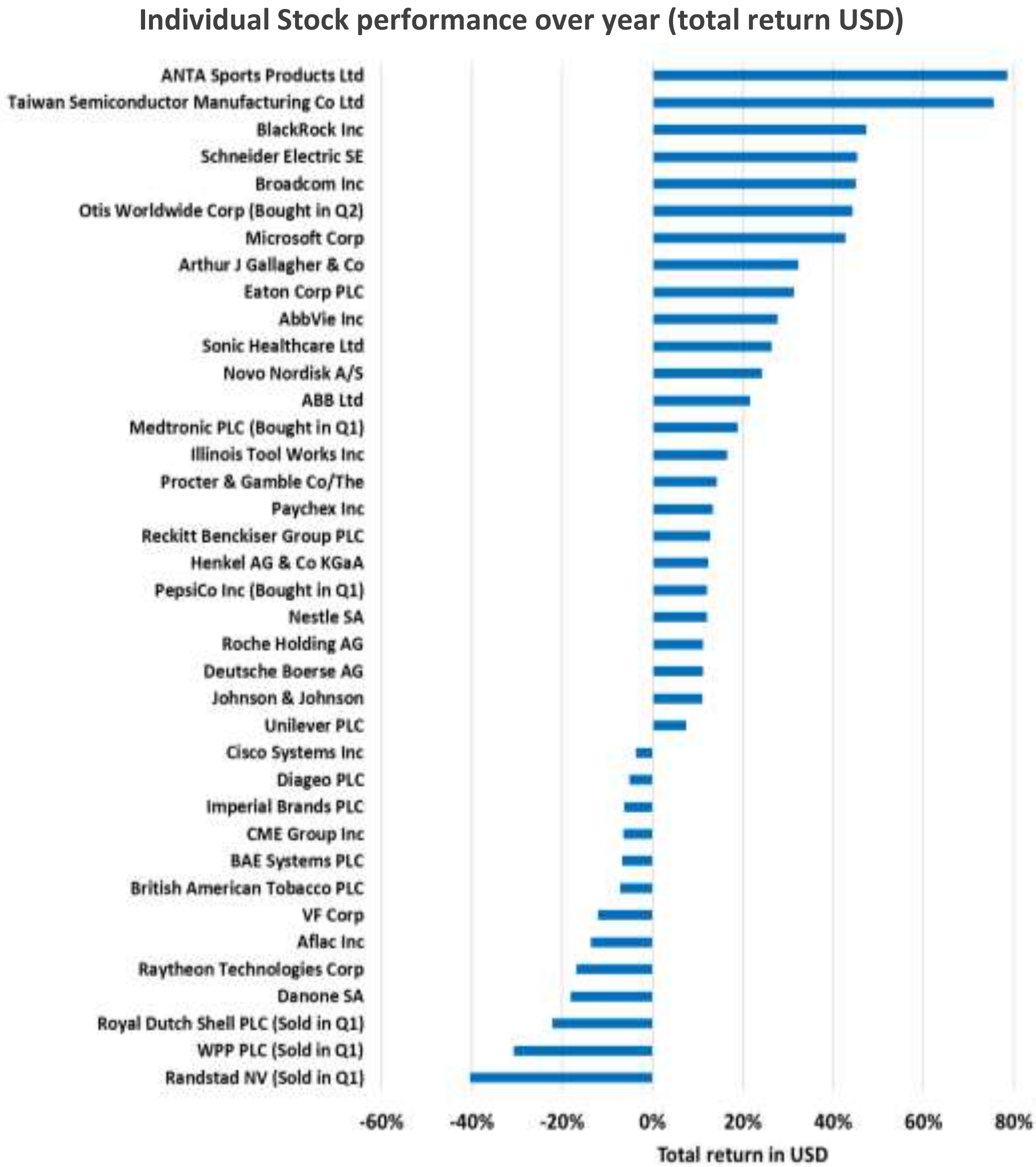


Figure 17 – Individual stock performance over holding period during 2020 (TR in USD). As of 31st December 2020. Source: Bloomberg

The best performer over the year was **Anta Sports** (+78.4% in USD). The company generates revenue through the manufacture of sporting goods including footwear, apparel and accessories. ANTA is poised for greater market share in China as it seeks to woo affluent shoppers with more expensive athletic gear. This includes their products under the ANTA brand and others such as Fila and Descente, as well as Salomon and Arc'teryx – both owned by Amer Sports, which ANTA acquired. ANTA's sales growth is likely to accelerate due to the Amer acquisition; the move to acquire a European company gives ANTA Sports scale to expand geographically, as well as launch new products in China.

TSMC also performed very well in the year (+75.4% 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 its 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 its lead over Intel and other peers which cannot compete with the high required R&D expenditure. 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.

The worst-performing stock over the year – which we continue to hold – was **Danone** (-18.0% in USD). Danone is a global food and beverage company organised into Diary & Plant-based products, Specialised Nutrition, and Water. The company enjoys a leading market share in a range of niche product categories (e.g. yoghurt, soy milk and out-of-home water) which in turn means that brands such as Activia, Actimel, Alpro, Evian and Volvic dominate prime retail shelf space. Recent 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, the company has announced plans to cut costs by €1bn over the next few years, seeking to boost both gross and net margins, while continued efforts to deleverage further strengthens the company's balance sheet.

Amongst the weakest contributors to the Fund in 2020 are the three companies that we sold in the year. We detail our thoughts on these below when referring to the changes made to the portfolio.

Changes to the Portfolio

In 2020 we sold three positions and replaced them with three new positions, leaving the portfolio with 35 positions at the end of the year.

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Buys	8	4	7	2	7	4	5	4	4	3
Sales	9	3	8	3	6	4	5	4	4	3
Total holdings	35	36	35	34	35	35	35	35	35	35

Figure 18 – Number of changes to the portfolio

In the first quarter, we sold three companies and replaced them with two companies. We sold positions in Royal Dutch Shell, WPP and Randstad; we added positions in Pepsi and Medtronic.

Royal Dutch Shell had been a long-term holding in the Fund. Following the long-term shift in oil prices at the end of 2014 as US shale oil production ramped up and expectations of demand from the 'BRIC' nations tempered, Royal Dutch Shell, along with the other oil majors, reset its business models to focus once more on returns over growth. During this transition the safety of the dividend was questioned along with the sustainability of debt that had accumulated in the previous era of growth. Ultimately Royal Dutch did not cut its dividend, although it did move for a time to scrip payments, as capex and costs were cut, and a significant disposal program was executed. Recent results raised some question marks for the company as the buyback program was reduced and we saw weakness across all areas of the business, including in the downstream, which is usually countercyclical. As oil prices fell once again on demand worries in relation to recent events, we took the view that we could potentially see lower oil prices for the medium term. This would affect cash flows that are already under pressure, leading to the dividend once again becoming questionable, but now from a position where costs have already been cut. We sold the position in late February, prior to the OPEC meeting on 3rd March which led to another significant fall in the oil price.

Since 2017 WPP has faced a number of headwinds. The global advertising agency has faced a fall in revenues as consumer goods companies, a traditionally large customer base, have sought to cut advertising budgets. This issue has affected the ad agencies as a group and has led to slower growth for these high-return businesses. The threat of Facebook and Google and programmatic advertising taking market share has also weighed on long-term sentiment. Longstanding CEO Martin Sorrell left WPP somewhat under a cloud in April 2018, and the new CEO Mark Read took over shortly after and implemented a strategy to merge businesses within the group and drive growth. Dividend growth was halted, although the dividend itself was not cut, and a decision to sell a stake in the Kantar Group Unit was announced in July 2019 which helped alleviate pressure on the balance sheet, another market concern. Performance was positive in 2019 with the stock price up 34% (in GBP), outperforming the FTSE All Share by 15%. However, results in February were weak and the stock price reacted very negatively, falling 16% on the day (in GBP) as the market fell alongside. Organic growth for the quarter was weaker than expected, but guidance for 2020 was adjusted downwards to zero growth and did not account for any effects of coronavirus at the time. This led us to conclude that the planned turnaround could well take longer and may also require further investment – which could weigh on operating margins – in an environment where the economic background is less certain, and the long-term competitive headwinds have not yet abated. This uncertainty, coupled with the low probability of a return to dividend growth in the near term (and a higher probability of a reduction in the dividend), led to our decision to sell the position. We sold in late February and the company went on suspend its dividend on 31st March.

Randstad is one of the largest temporary staffing and employment services agencies in the world, operating primarily in Europe, but also in Asia and the US. With the deepening impact of Covid-19 across the world we decided that the outlook for Randstad, which relies significantly on shorter-term employment contracts and has exposure to industrial and automotive sectors, would be very negative in the shorter term, with the potential to be negative in the medium term depending on the length and second order effects of the national shutdowns being implemented. We sold the position in early March and Randstad subsequently went on to suspend its dividend on 23rd March.

Medtronic is the largest pure-play medical device maker (with a current market capitalization of $160bn) and has a diversified product base covering chronic diseases and numerous acute care cases in hospitals. It typically holds significant market share in its core products such as heart devices. The company has continuously invested into new, innovative areas through research and development, which helps to protect from competition and offers new channels for growth in the future rather than purely relying on established products – which is evident from consistently high and stable returns on capital. The balance sheet is strong, and the company has been paying down debt over recent years. More recently the company has focussed on costs, which has driven growing operating margins and led to improved earnings growth. With the potential to capitalise on previous investments to further increase revenue growth, we see a good runway for steady earnings growth in the medium to long term. The dividend yield was back above 2% at time of purchase due to the Q1 2020 sell-off, the dividend growth averaged 8% over the past three years, and the forward PE multiple had fallen to close to the average over the past five years. We saw this as a good opportunity to buy a consistent and high-quality business at a reasonable price which can provide good earnings growth in a market environment where growth has become more uncertain.

The purchase of PepsiCo for the portfolio marks the second time we have owned it – having held the stock at launch in 2010 and sold in late 2012. The global beverage and snack business sits second to rival Coke in many large markets but its integrated business model can potentially lead to advantages in an environment of quickly changing tastes and differences locally. The company has taken a more data-driven approach to tailor products to customers more specifically utilising its agile supply chains, leading to improved returns. Like other established branded consumer goods companies, it has begun to devolve decision making more locally to adapt more quickly and potentially develop new, higher-growth products. Operating margin declines in 2019 were affected by higher investments, which should now be behind the company and lead to incremental improvements in 2020 and beyond. The market expects growth of around 8% in earnings per share over the medium term, which may be affected by the virus in the short term, but should be relatively well insulated. The dividend yield is almost 3% and has been growing 8% on average over the last three years. The stock is below its average PE multiple over the past five years, but is now expected to grow faster, and is at a small discount to peers. The return on capital remains solid and has been improving slightly in recent years. Much like Medtronic (above) we saw a good entry point for a high-quality business at a reasonable price with a strong, growing dividend.

In the second quarter, the changes made to the portfolio related to our holding in United Technologies, which underwent a series of corporate actions at the start of April. The company spun out two businesses: Carrier, a manufacturer of heating, ventilating and air conditioning equipment, and Otis, a manufacturer of escalators and lifts. The remaining business segments related to aircraft engines and aerospace products and services then merged with Raytheon, the US defence company, to create Raytheon Technologies. Following this we decided to (i) sell all our shares in Carrier (ii) buy additional shares in Otis to bring it to a full position in the portfolio and (iii) buy additional shares in Raytheon Technologies to bring it to a full position in the portfolio.

This left the Fund with our stated 35 positions, since in the first quarter we had sold three companies (Shell, WPP, Randstad) and only immediately replaced them with two (PepsiCo and Medtronic).

Our decision to make whole our position in **Otis Worldwide** came as a result of the strong competitive positioning the company holds. Otis is the largest manufacturer of elevators and escalators in the world; its maintenance base is 55%, i.e. where it receives recurring service revenues, and is almost twice the size of rivals' (Kone, Schindler). The large installed base can also be leveraged for margin improvement with new cloud-based software (Otis ONE) which allows remote monitoring and predictive maintenance of lifts and escalators. The company has a return on capital above 20% and management has committed to an investment-grade debt rating, resulting in $500m of debt to be paid down across 2020/21. The guided payout ratio at purchase stood at c.60%, with an indicated dividend yield of 2.6% for 2020.

In the third and fourth quarters, we made no changes to the portfolio.

Changes to the Portfolio

The charts below show the sector and geographic breakdown of the portfolio at 31st December and over the last 10 years. The major effect of the changes we made to the portfolio in 2020 was to increase our Healthcare and Consumer Staples exposure whilst reducing our Communications and Energy exposure. In terms of sector weightings, the Fund has a zero weighting to Utilities, Materials, Real Estate, Energy and Communications. The largest overweight positions are to Consumer Staples and Industrials.

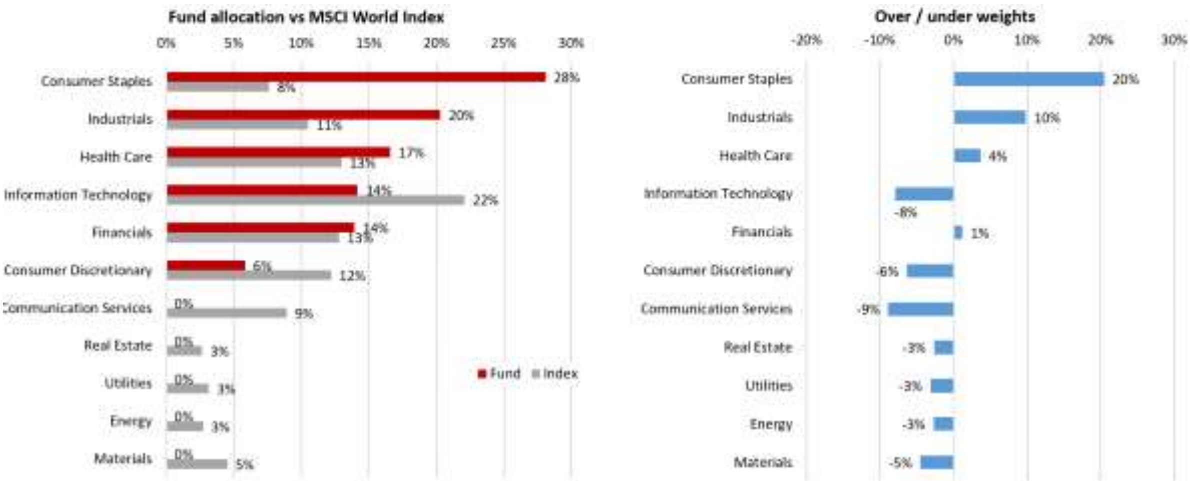


Figure 19 – Portfolio sector breakdown versus the MSCI World Index.
Source: Guinness Asset Management, Bloomberg (data as of 31st December 2020)

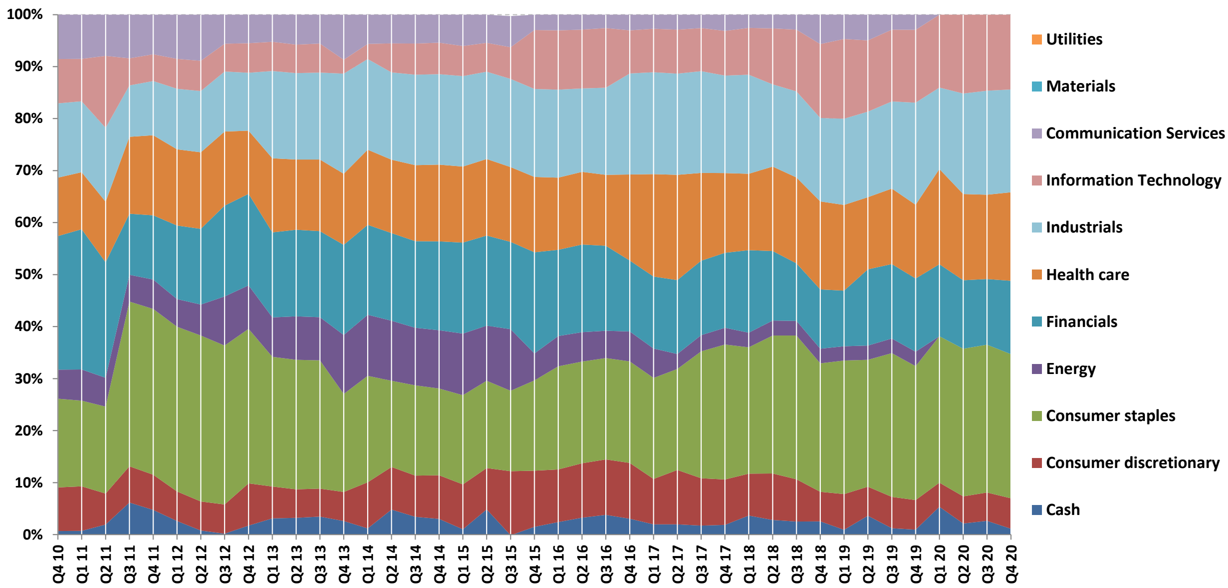


Figure 20 – Portfolio sector breakdown (quarterly to 31st December 2020).
Source: Guinness Asset Management

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.

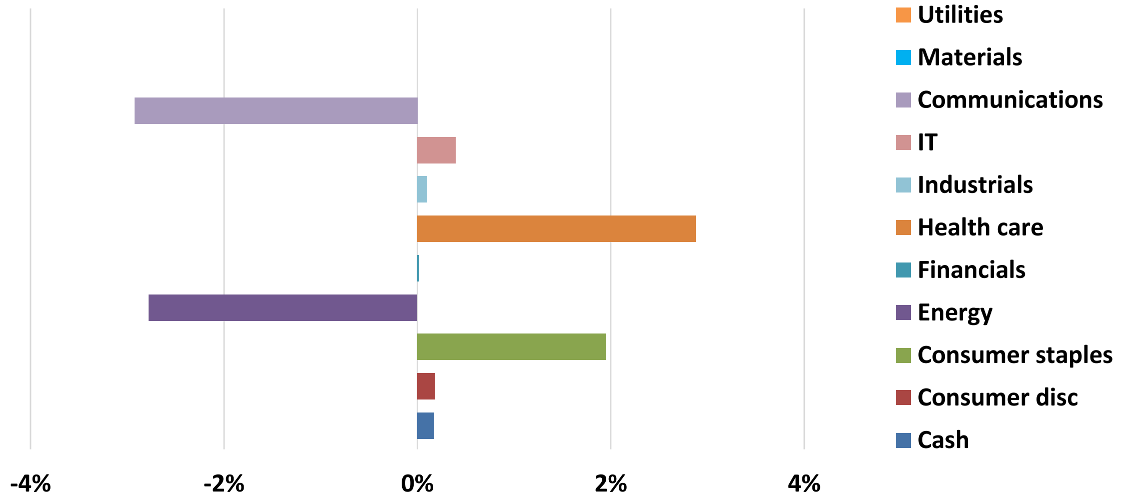


Figure 21 – Year on year change in sector breakdown (31st December 2020 vs 31st December 2019).
Source: Guinness Asset Management

In terms of geographic allocation, we reduced our Europe and UK weighting, while increasing our exposure to the US. This is based on bottom-up, fundamental stock analysis, rather than regional bets.

The Fund is currently approximately 16% underweight the US, and though this was the best-performing region in 2020, there was no meaningful effect on attribution. Any drag on the allocation effect was somewhat offset by good stock selection. In fact, out of the top 10 performing stocks in the Fund, seven were US-domiciled.

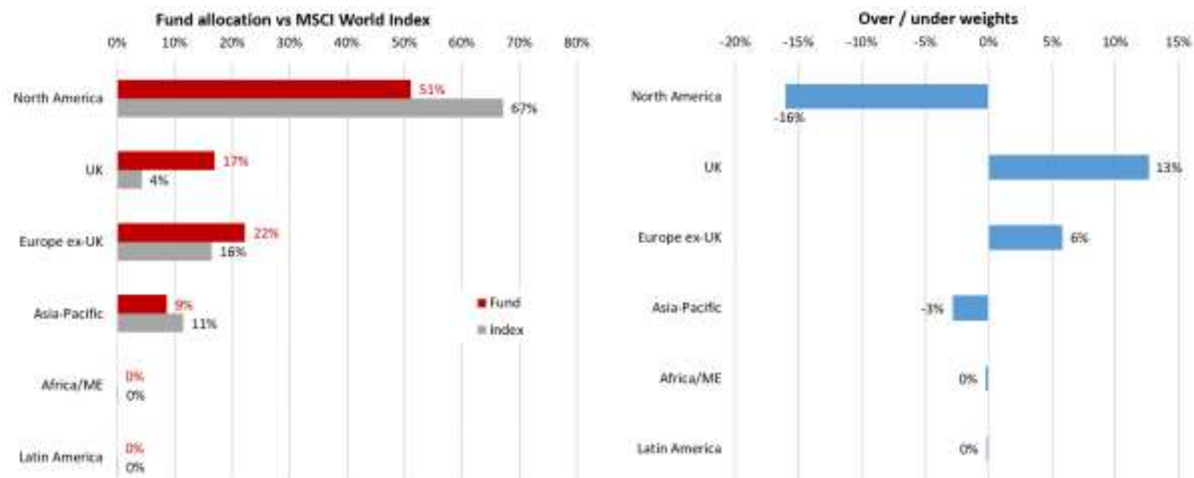


Figure 22 – Portfolio geographic breakdown versus the MSCI World Index.
Source: Guinness Asset Management, Bloomberg (data as of 31st December 2020)

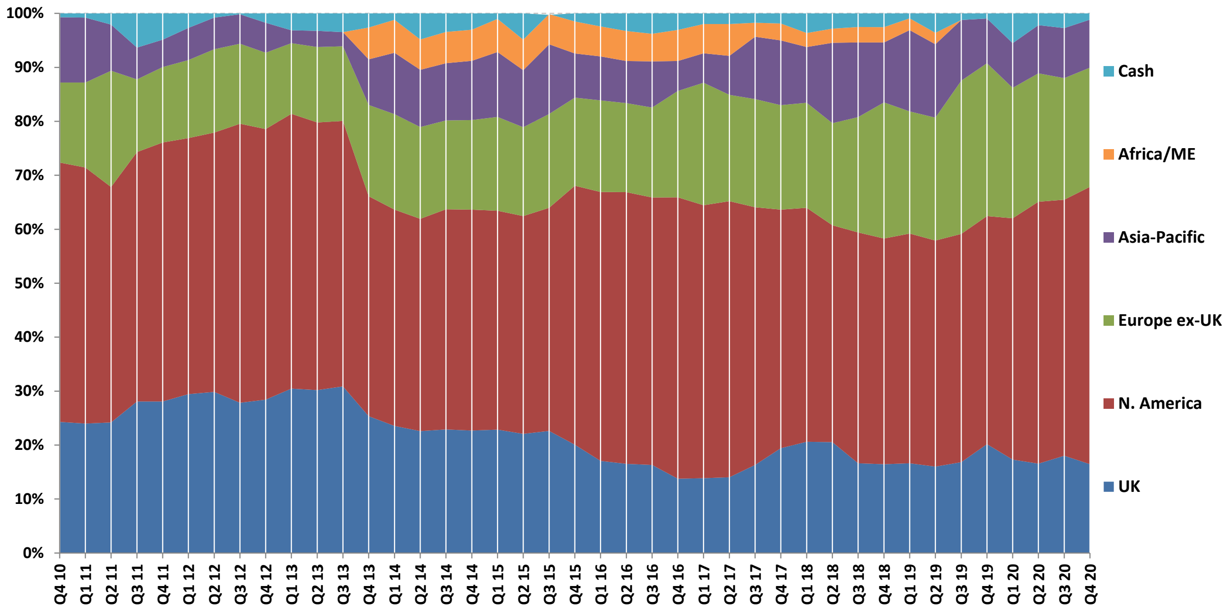


Figure 23 – Portfolio geographic breakdown (quarterly to 31st December 2020). Source: Guinness Asset Management

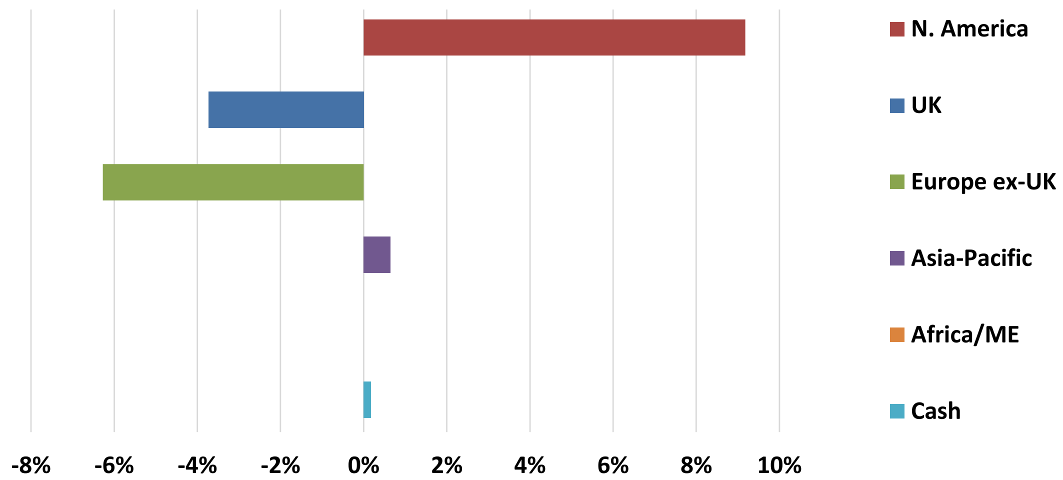


Figure 24 – Year on year change in geographic breakdown (31st December 2020 vs 31st December 2019). Source: Guinness Asset Management

Outlook

The four key tenets to our approach are quality, value, dividends, and conviction. We follow these metrics at the portfolio level to make sure we are providing what we say we will. At the year end, we are pleased to report that the portfolio continues to deliver on all four of these measures relative to the MSCI World Index benchmark.

		Fund	MSCI World Index
Quality	Average 10-year Cashflow Return on Investment	17%	8%
	ROE	23%	8%
	Weighted average net debt / equity	66%	82%
Value	PE (2021e)	17.9	25.4
	FCF Yield (LTM)	6.4%	5.7%
Dividend	Dividend Yield (LTM)	2.6% (net)	1.8% (gross)
	Weighted average payout ratio	53%	80%
Conviction	Number of stocks	35	1650
	Active share	90%	-

Figure 25 – Portfolio metrics versus index. As of 31st December 2020
Source: Guinness Asset Management, Credit Suisse HOLT, Bloomberg

Overall, ours is a high-conviction fund with companies which are on average better quality at better value versus the index and with a higher dividend yield. At the end of the year it traded on 17.9x 2020 expected earnings; a discount of 16.4% to the broad market, with a dividend yield premium of 44%.

As we look ahead to 2021, the news of effective vaccines is unquestionably good news and markets are likely to put expected near-term economic weakness in the context of better times on the horizon, but investors should appreciate there is still some uncertainty around the manner and timing of the benefits the vaccines bring. Within equities, the market's renewed appetite for Value stocks makes sense in the context of the vaccines, but whether the move away from Growth will be sustained is still uncertain. Questions also remain around the outlook for inflation and interest rates, which have underpinned higher valuations for equities in general. We believe the holdings we have selected in the Fund remain very robust and are well placed to weather whatever the new year brings; our perpetual approach of focusing on quality compounders and dividend growers should continue to stand us in good stead in our search for rising income streams and long-term capital growth.

As ever, we would like to thank you for your continued support, and we wish you all a safe and prosperous 2021.

Portfolio managers
Matthew Page, CFA
Dr Ian Mortimer, CFA

Analysts
Sagar Thanki
Joseph Stephens

January 2021

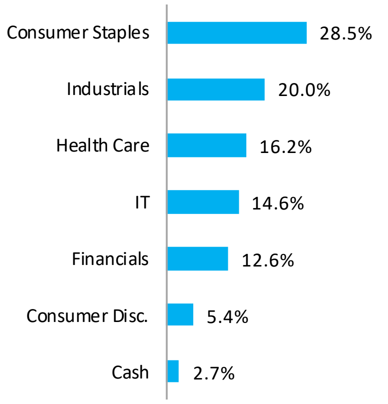
PORTFOLIO

31/12/2020

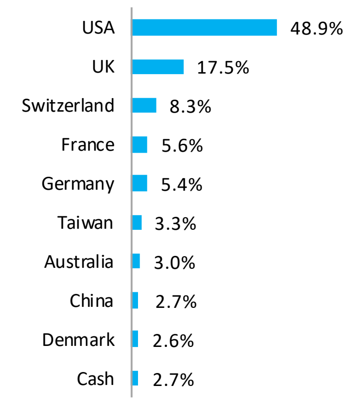
Fund top 10 holdings

Taiwan Semiconductor	3.3%
Unilever	3.2%
Eaton	3.1%
Diageo	3.0%
Sonic Healthcare	3.0%
British American Tobacco	3.0%
Schneider Electric	3.0%
Broadcom	3.0%
Procter & Gamble	2.9%
ABB	2.9%
% of Fund in top 10	30.4%
Total number of stocks held	35

Sector analysis



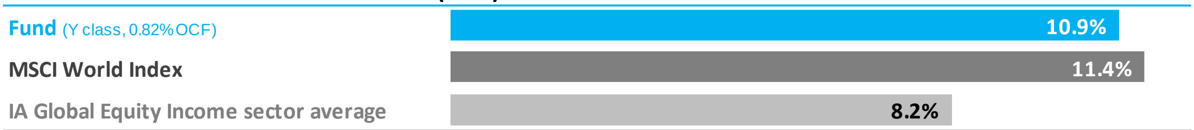
Geographic allocation



PERFORMANCE (see performance notes overleaf)

31/12/2020

Annualised % total return from launch (GBP)



Discrete years % total return (GBP)	Dec '20	Dec '19	Dec '18	Dec '17	Dec '16
Fund (Y class, 0.82% OCF)	8.1	21.2	0.7	9.6	26.9
MSCI World Index	12.3	22.7	-3.0	11.8	28.2
IA Global Equity Income sector average	3.3	18.6	-5.8	10.4	23.2

Cumulative % total return (GBP)	1 month	Year-to-date	1 year	3 years	5 years	From launch
Fund (Y class, 0.82% OCF)	1.55	0.0	8.1	31.9	83.5	182.7
MSCI World Index	1.81	0.0	12.3	33.7	91.7	193.5
IA Global Equity Income sector average	1.54	0.0	3.3	15.4	56.9	119.9

RISK ANALYSIS

31/12/2020

Annualised, weekly, from launch on 31.12.10, in GBP	Index	Sector	Fund
Alpha	0.00	-0.54	1.04
Beta	1.00	0.77	0.86
Information ratio	0.00	-0.42	-0.09
Maximum drawdown	-24.58	-22.41	-21.78
R squared	1.00	0.80	0.89
Sharpe ratio	0.53	0.31	0.55
Tracking error	0.00	6.58	4.76
Volatility	14.57	12.48	13.29

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 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 Ongoing Charges Figure (OCF) 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.