Guinness Global Equity Income Fund

INVESTMENT COMMENTARY – August 2021

About the Fund

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

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

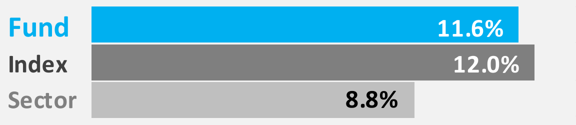
Fund size	£1529m
Launch date	31.12.10
Historic OCF (Y Class)	0.82%
Current OCF (at fund size)	0.82%
Historic Yield** (Y Class)	2.5%
Managers	Dr. Ian Mortimer, CFA Matthew Page, CFA
Analysts	Sagar Thanki Joseph Stephens Will van der Weyden

Performance* — 31.07.21

Past performance does not predict future returns

	1 Yr	3 Yrs	5 Yrs	Launch
Fund	24.3	38.4	71.2	218.8
Index	27.5	41.6	86.2	232.1
Sector	22.9	24.2	50.8	143.1

Annualised % total return from launch (GBP)



Benchmark index	MSCI World Index
IA sector	Global Equity Income

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: FE, bid to bid, total return. Y Class 0.82% OCF.
***Composite simulated performance. Please refer to 'Performance data notes' on the last page of this document for full details on performance and yield calculation.**
****Historic yield reflects the distributions declared over the past 12 months expressed as a percentage of the mid-market price, as at the date shown. It does not include any preliminary charges. Investors may be subject to tax on the distribution**

Summary

In July the Fund was up 1.71% (in GBP), the MSCI World Index benchmark was up 1.14% (in GBP), and the IA Global Equity Income sector was up 0.52% (average, in GBP).

The Fund therefore outperformed the Index by 0.57% over the month and outperformed its peer group by 1.19%.

Strong stock selection – particularly within the Industrials and Healthcare sectors – was the primary driver of outperformance in the month, though no exposure to the weaker Energy and Banking sectors also aided relative performance. The Fund also holds no companies that were caught in the Chinese regulatory crossfire, which led to sharp short-term falls particularly for many large tech and education stocks.

Longer-term, it is pleasing to see that the Fund has outperformed the IA Global Equity Income sector over 1 year, 3 years, 5 years, 10 years and since launch. The Fund also continues to rank as the top performer versus its peers over the period since launch.

% TR in GBP	3 mnths	YTD	1yr	3yr	5yr	10 Years	Since Launch*
Fund	**5.5**	**12.8**	**24.3**	**38.4**	**71.2**	**211.7**	**218.8**
MSCI World Index	4.4	13.1	27.5	41.6	86.2	236.8	232.1
MSCI AC World Index	3.2	11.2	25.7	38.7	82.3	210.6	205.0
Sector Average	2.6	10.6	22.9	24.2	50.8	143.4	143.1
Sector Ranking	3/56	15/56	19/55	7/49	5/42	1/15	1/15
Sector Quartile	1	2	2	1	1	1	1

Source: Financial Express.
Cumulative Total Return % in GBP, as of 31st July 2021
**Fund launched on 31st December 2010*

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Summary: Dividend

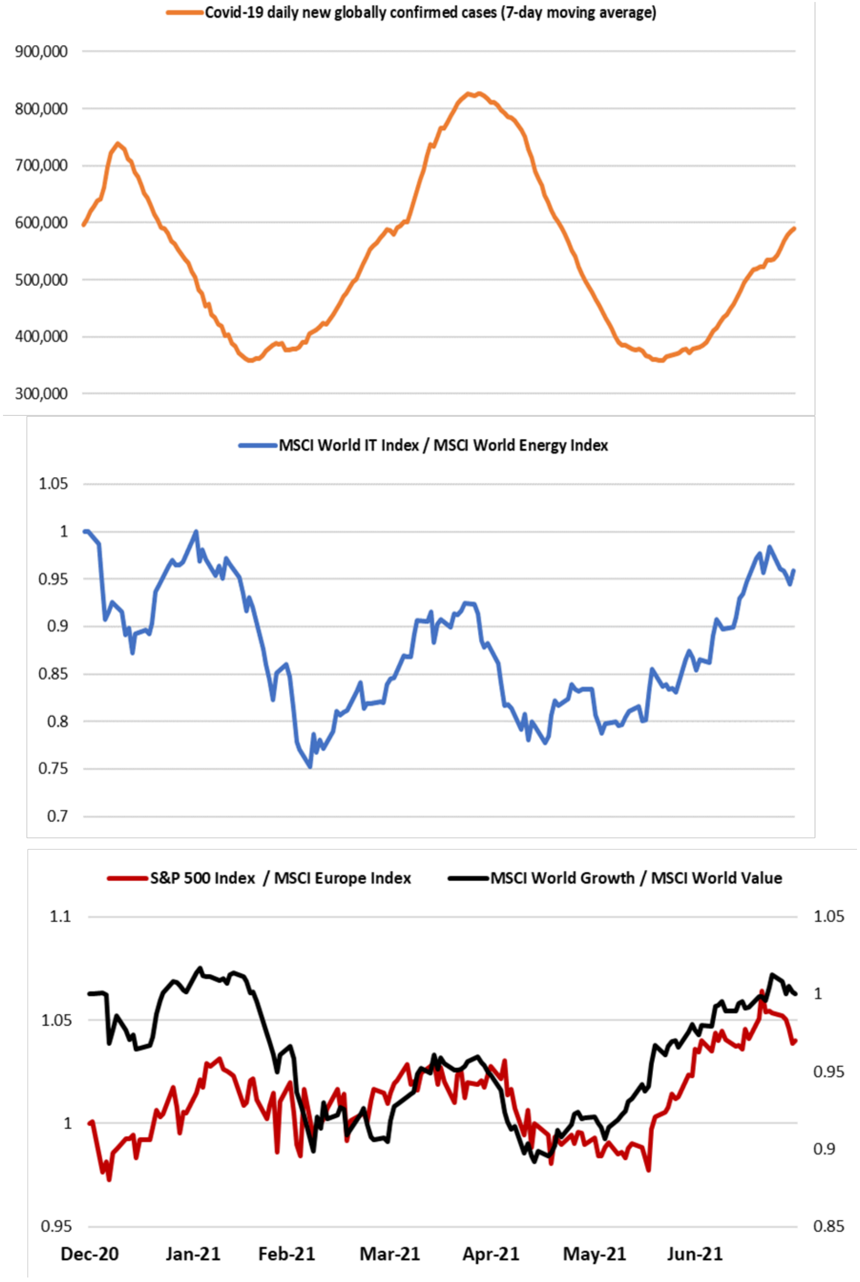
So far, in 2021, we have received dividend updates from 32 of our 35 holdings:

- 28 companies announced growth for their 2021 dividend vs 2020
- 3 companies have announced a flat dividend
- 1 company has announced a modest cut to its dividend
- 0 companies have announced dividend cancellations
- We await the dividend announcements of the 3 remaining companies: Broadcom, Microsoft and VF Corp.

The dividend yield of the Fund at the end of the month was 2.47% (net of withholding tax) vs the MSCI World Index 1.68% (gross of withholding tax).

July in Review

2020 will always be known as the "pandemic year", but COVID-19 is still around and influencing market returns in mid-2021 too. New virus cases, driven by the rapidly spreading Delta variant, seem to be driving the stock market's rotation this year in relative performance of sectors, styles and regions, as the below charts show. Economically sensitive, or cyclical, stocks have outperformed when the global case count declined and the defensive lockdown-leaders and higher quality companies outperformed when cases climbed.



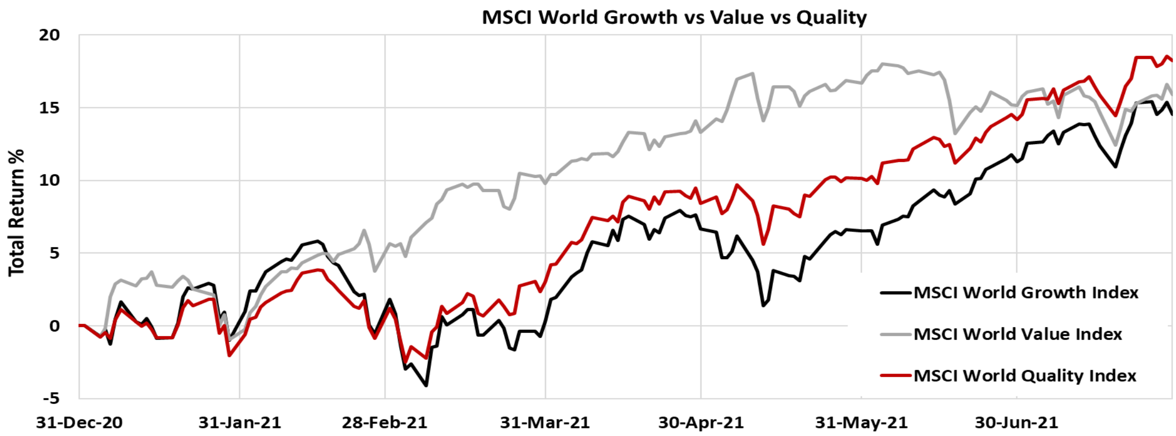
Source: Johns Hopkins University CSSE Covid-19 Data, Bloomberg, data as of 31st July 2021

Consensus on when the virus may be contained is elusive and we have seen sentiment change towards 'reopening' prospects as cases rise and fall across different regions. We have also seen mixed economic data points which have somewhat clouded the overall view and given bulls and bears arguments for their respective cases. On top of this, central banks have played a crucial role in limiting economic shocks and long-term 'scaring' by providing significant stimulus measures, with governments spending big on fiscal support alongside. Investors must therefore grapple not only with the first-order effects of the virus but also the second-order effects of market intervention from central banks and governments and how changes in these responses – which we are now beginning to see discussed in the case of the Fed asset purchase program for example – will affect valuations and importantly investor sentiment towards different areas of the market.

In the Fund, rather than trying to predict the future and how investor sentiment will react to that case, we instead focus on holding high-quality businesses that can weather most economic scenarios successfully and take a long-term view. We currently have a fairly even balance between quality defensive (Consumer Staples and Healthcare) and quality cyclical/growth companies (Industrials, Financials, Consumer Discretionary, Information Technology). Within Financials, however, we do not own any Banks. The Fund also has zero weighting to Energy, Utilities, Materials, Real Estate and Communications.

This year’s swings between cyclicals and defensives, value and growth, and stocks in different regions exemplify the importance of holding a diversified portfolio of quality companies to help reduce overall portfolio volatility.

Further, whilst the long-term trend over the last few years has seen growth stocks outperform their value counterparts, this trend reversed for much of the first half of this year. The “reopening trade” favoured value stocks, whilst inflation concerns (and subsequently an assumption of higher long-term interest rate expectations) weighed on growth stocks. Since mid-May, however, the MSCI World Growth Index has staged a comeback and as can be seen below, has now almost closed the gap with the MSCI World Value Index year-to-date. Further, overlapping both styles to some extent, we find that the *quality* factor has outperformed overall in 2021 so far and seen relatively less volatility:



Source: Bloomberg. As of 31st July 2021

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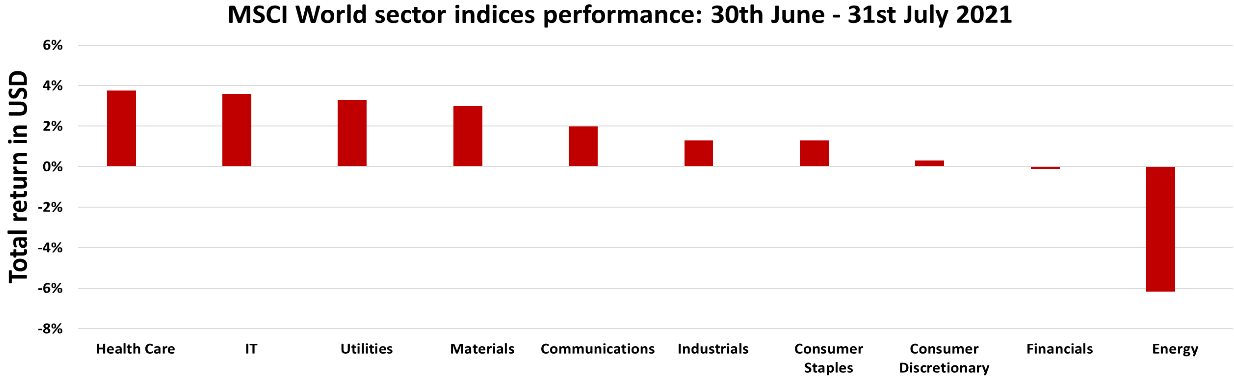
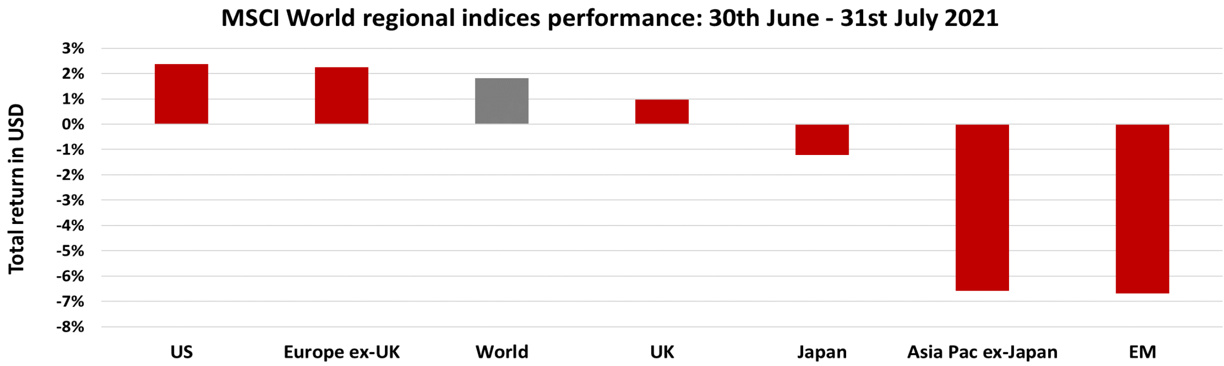
Looking at performance by sector in July, healthcare led, closely followed by IT, whilst Energy and Financials were the two worst performers.



Source: Bloomberg. As of 31st July 2021

No exposure to the Energy and Banking sectors benefitted the Fund, though most of the Fund's performance was attributed to strong stock selection particularly within the Industrial and Healthcare sectors.

Further, the Fund benefitted from its limited exposure to Chinese stocks. Asian and Emerging Market stocks were dragged lower given the regulatory headwinds imposed by Chinese authorities. The announcement of a new regulatory framework for the Chinese education sector, which went far further than markets had anticipated, was the main catalyst for the sell-off, and this led to concerns that regulatory investigations, which have previously only impacted the internet sector, could intensify and/or be widened to other industries.



Source: Bloomberg. As of 31st July 2021

In the Fund, within the Asia-Pacific region, we have one company listed in Taiwan (Taiwan Semiconductor) and one company listed in Australia (Sonic Healthcare). We had one company listed in Hong Kong (Anta Sports), which we sold in the month. Anta Sports was not caught in the regulatory crossfire and our decision to sell was based on valuation; we detail more on this stock later in this commentary.

US and Europe were the strongest performing regions, driven by a strong earnings season and positive economic data releases. In the July Federal Reserve (Fed) meeting, the Fed acknowledged that the economy was making "progress" in-line with its mandate but said that tapering (i.e. slowing the pace of asset purchases) would require additional improvements – particularly in the labour market. It also acknowledged that there was upside risk to the inflation outlook but retained the view that this would be transitory. Should this not be the case and we find that inflation persists for longer, then we still believe that the Fund's high-quality businesses will be an attractive haven given their combination of pricing power, strong balance sheets, and reasonable valuations.

Portfolio Holdings

BAE Systems was the best performer in the Fund in July (+11.1% in USD). The largest defence contractor in Europe is well-positioned to benefit from modernisation efforts by militaries worldwide amid ever-present geopolitical uncertainty. The maker of 500 Typhoon fighter jets, combat vehicles, warfare ships and Astute Class nuclear-powered attack submarines, said its defence business, which accounts for 90% of group revenues, was close to being back to pre-pandemic levels. Recent contract wins in the Middle East and Germany can sustain Typhoon fighter jet production into the 2030s, and BAE continues to demand a leading market share in key defense markets (UK, US, Saudi Arabia, Australia). 45% of sales are derived from services and support, 35% from major programmes such as the F-35 Lightning II and Eurofighter Typhoon fighter jets, with the balance derived from electronic systems & cyber intelligence.

Novo Nordisk also continued its strong recent performance (+10.5% in USD in July). The Danish pharmaceutical company is a leader in the $20bn global insulin market – with 50% market share – and has maintained a concentrated, yet market leading, portfolio of drugs targeting diabetes and obesity. The company recently received a boost after gaining US FDA approval for its weight loss injection, namely Wegovy, which will be available to obese adults. In four late-stage clinical trials, most patients taking Wegovy, alongside interventions like diet and exercise, lost at least 5% of their body weight, with an average reduction of about 15%. This news came alongside encouraging quarterly earnings results which showed better-than-expected earnings and sales growth. Novo Nordisk's strong pipeline of patent-protected drugs and intellectual intangibles give it a wide moat and provide a high barrier to entry for competitors. Hence gross and operating margins are very high, and the company has a very strong balance sheet with very little debt.

Reckitt Benckiser was the worst performer in July (-13.0% in USD). The global consumer goods producer is a leader in the health and hygiene & home products markets, with 20 "powerbrands" making up 70% of total revenue. These include Dettol, Strepsils, Veet, Gaviscon, Mead Johnson, Air Wick, Durex, Lysol and Vanish. Greater cautiousness around hygiene/health over the last year has benefitted Reckitt Benckiser, and weaker recent performance comes after its latest earnings release was weaker than expected. Management revealed lower margin guidance – given rising raw material prices – and a slowdown in demand for many of its products: sales in its health unit fell 5.6% in the second quarter, whilst the hygiene division saw revenue growth of 7.8% (markedly lower vs the 21% growth clocked in Q1 2021). Whilst the share price fall reflects short-term concerns, we are optimistic over Reckitt Benckiser's long-term prospects. Reckitt Benckiser's first-half sales for 2021 were still up 13% compared to the same pre-Covid period in 2019 and the company continues to have a strong balance sheet and steady cashflows. Further, as part of its growth initiative, Reckitt Benckiser has invested more than £1bn into its supply chain, innovation, and marketing budgets over the past 18 months to improve future sales growth and operating margins.

Portfolio Changes

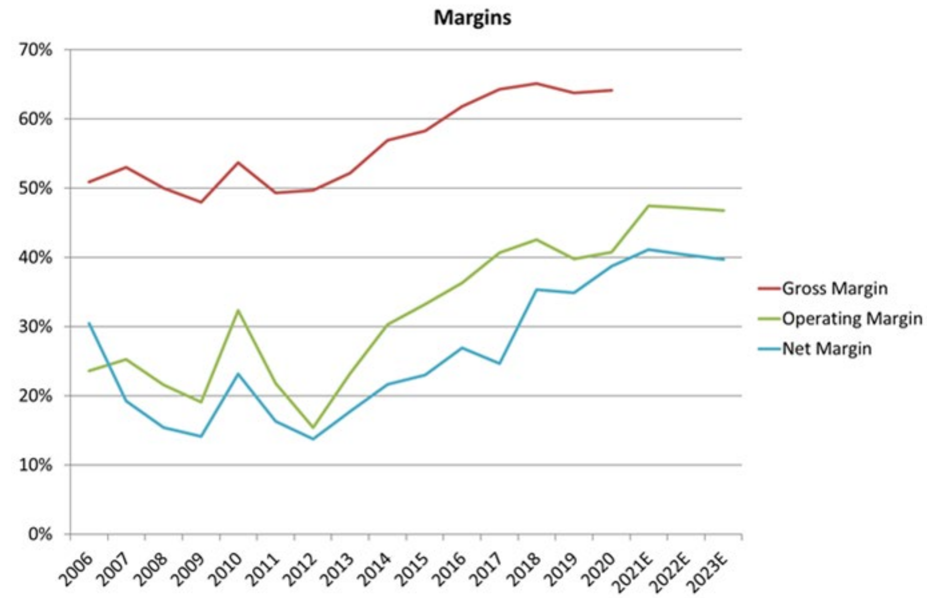
We made one change to the portfolio in the month. We bought a new position in Texas Instruments and sold our holding of Anta Sports Products.

Anta Sports, the leading Chinese sportswear brand has ~15% domestic market and generates revenue through the manufacture of sporting goods, including footwear, apparel, and accessories. This includes their namesake products under the ANTA brand and other popular brands such as Fila and Descente, as well as Salomon and Arc'teryx – both owned by Amer Sports, who ANTA acquired in 2019. Whilst the business continues to have a high revenue growth runway, we decided to sell our full position and take profits given the steeper valuation the company now carries.

We originally bought ANTA Sports in June 2017 when it offered a dividend yield of 3.5% and was trading on a forward P/E ratio of 20.6x. At sale, the stock trades on a dividend yield of 0.8% and a forward P/E of 47x. Since we originally bought into the company it has generated a total return of over 640%, with a significant proportion of that return generated in the last 12 months.

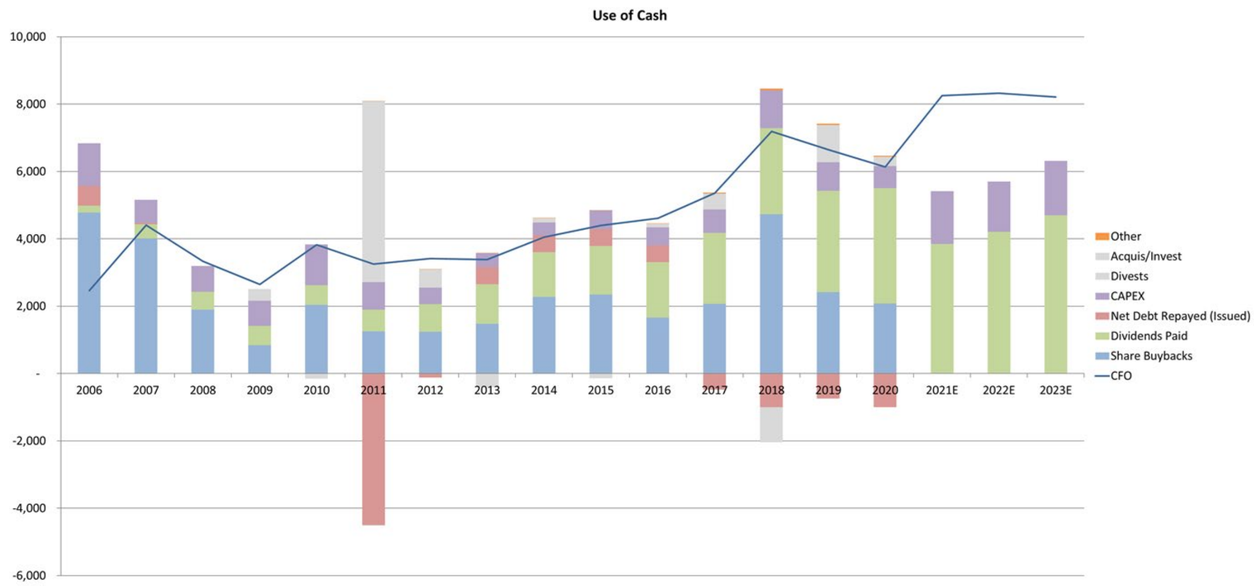
As part of our one-in-one-out process, we replaced our sold position with a new one in **Texas Instruments,** the world's largest manufacturer of analog semiconductors (semiconductors that turn analog inputs such as sound, temperature, etc into digital signals). The chips they make are based on "lagging edge" technology, i.e. not the "leading edge" tech being manufactured by TSMC's latest processes. Analog semis have a strong growth outlook driven by demand from the automotive sector, industrial automation, internet of things, for example.

The company boasts several characteristics that we typically seek in the Fund: return on capital is not only well above the industry average but has been growing, driven by strong margin expansion:



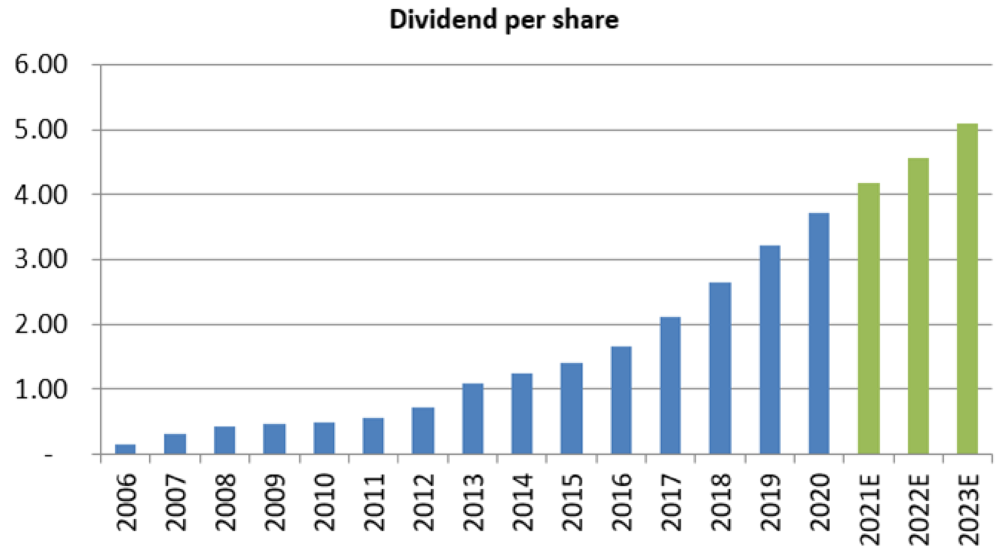
Source: Bloomberg. As of 31st July 2021

Texas Instruments has a strong capital budgeting discipline, as shown in the chart below. The company tends to make small acquisitions, with the exception of National Semiconductor in 2011 (grey bars below), has consistent reinvestment in CAPEX (purple bars), and generally distributes excess cash back to shareholders in a mix of variable share buybacks (blue), and consistent dividend growth (green).



Source: Bloomberg. As of 31st July 2021

This has led to excellent levels of dividend growth which have averaged 39% per-annum over the last five years.



Dividend Growth	
1 Yr	16%
3 Yr (annualised)	21%
5 Yr (annualised)	39%

Source: Bloomberg. As of 31st July 2021

Today the company trades on a forward P/E multiple of 23x and a dividend yield of 2.2%. Whilst the P/E multiple is very similar to that of the S&P 500 Index, the 2.2% dividend yield is 60% higher than the Index's figure of 1.4% (and has faster dividend growth).

With the switch out of ANTA Sports and into Texas Instruments we have improved many of the metrics of the portfolio, including the valuation, dividend yield, margins, and ESG rating (MSCI ESG research rates Texas Instruments AAA, whilst rates Anta Sports BB).

We thank you for your continued support.

Portfolio Managers

Matthew Page, CFA

Dr Ian Mortimer, CFA

Analysts

Joseph Stephens

Sagar Thanki

Will van der Weyden

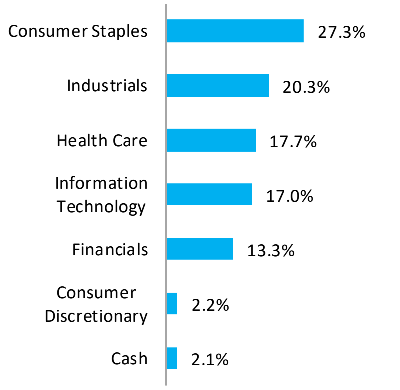
PORTFOLIO

31/07/2021

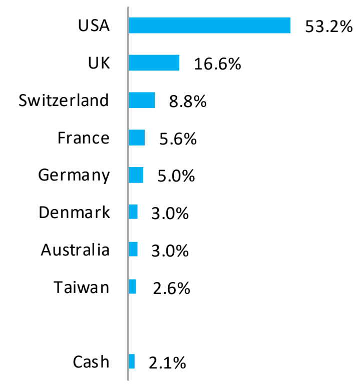
Fund top 10 holdings

Abbvie	3.2%
Otis Worldwide	3.1%
Eaton	3.1%
Imperial Brands	3.1%
Paychex Inc	3.1%
ABB	3.0%
British American Tobacco	3.0%
Novo Nordisk	3.0%
Sonic Healthcare	3.0%
Roche Holding	3.0%
% of Fund in top 10	30.6%
Total number of stocks held	35

Sector analysis



Geographic allocation

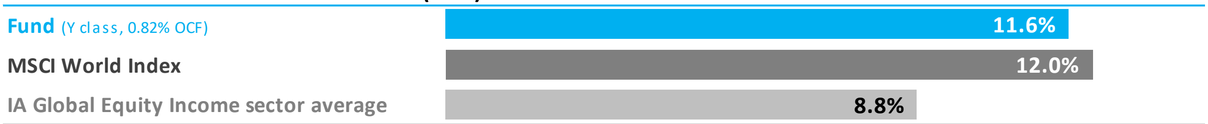


PERFORMANCE* (see performance notes overleaf)

31/07/2021

Past performance is not a guide to future returns

Annualised % total return from launch (GBP)



Discrete years % total return (GBP)	**Jul '21**	**Jul '20**	**Jul '19**	**Jul '18**	**Jul '17**
Fund (Y class, 0.82% OCF)	24.3	-0.7	12.1	12.7	9.9
MSCI World Index	27.5	0.0	11.0	12.4	16.9
IA Global Equity Income sector average	22.9	-7.1	8.8	6.6	13.9

Cumulative % total return (GBP)	**1 month**	**Year-to-date**	**1 year**	**3 years**	**5 years**	**From launch**
Fund (Y class, 0.82% OCF)	1.7	12.8	24.3	38.4	71.2	218.8
MSCI World Index	1.1	13.1	27.5	41.6	86.2	232.1
IA Global Equity Income sector average	0.5	10.6	22.9	24.2	50.8	143.1

RISK ANALYSIS

31/07/2021

Annualised, weekly, from launch on 31.12.10, in GBP	**Index**	**Sector**	**Fund**
Alpha	0.00	-0.30	1.19
Beta	1.00	0.77	0.86
Information ratio	0.00	-0.44	-0.08
Maximum drawdown	-24.58	-22.41	-21.78
R squared	1.00	0.80	0.89
Sharpe ratio	0.58	0.42	0.61
Tracking error	0.00	6.56	4.77
Volatility	14.45	12.41	13.13

*Composite simulated performance (see Performance data notes below) based on actual returns of E share class (available from Fund launch), calculated in GBP.

Source: Financial Express, bid to bid, total return. Fund launch date: 31.12.10. Fund Y class (0.82% OCF): 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.

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.

Performance data notes

1) The performance numbers displayed on the previous page are calculated in GBP. 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. Historic yield reflects the distributions declared over the past 12 months expressed as a percentage of the mid-market price, as at month end. It does not include any preliminary charges. Investors may be subject to tax on the distribution.

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 in English from www.guinnessfunds.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 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.