# Guinness Global Equity Income Fund

Investment Commentary - February 2022

This is a marketing communication. Please refer to the prospectus and KIID for the Fund before making any final investment decisions. Past performance does not predict future returns.

## ABOUT THE FUND

| | |
|---|---|
| **Fund size** | £1,791m |
| **Launch date** | 31.12.10 |
| **Historic Yield** (Y Class)** | 2.2% |
| **Managers** | Dr. Ian Mortimer, CFA<br>Matthew Page, CFA |
| **Analysts** | Sagar Thanki<br>Joseph Stephens<br>Will van der Weyden |

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.

## RISK

◀ Lower risk | Risk & reward | Higher risk ▶

| 1 | 2 | 3 | 4 | 5 | 6 | 7 |
|---|---|---|---|---|---|---|

Typically lower rewards | Typically lower rewards

The risk and reward indicator shows where the fund ranks in terms of its potential risk and return. The fund is ranked as higher risk as its price has shown high fluctuations historically. Historic data may not be a reliable indicator for the future.

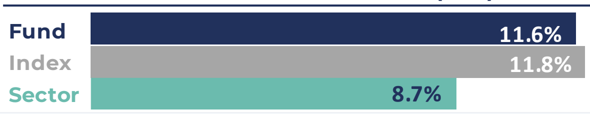
## PERFORMANCE*

### Past performance does not predict future returns

| | |
|---|---|
| **Fund** | Guinness Global Equity Income (Y Cls) |
| **Index** | MSCI World Index |
| **Sector** | IMA Global Equity Income |

| | 1 Yr | 3 Yrs | 5 Yrs | Launch |
|---|---|---|---|---|
| **Fund** | 21.8 | 53.5 | 73.1 | 237.2 |
| **Index** | 19.3 | 55.3 | 74.7 | 245.0 |
| **Sector** | 15.5 | 35.8 | 45.6 | 153.1 |

**Annualised % total return from launch (GBP)**




Source: FE, bid to bid, total return. Y Class 0.80% OCF.

*Simulated past performance. Performance prior to the launch date of the Y class of the fund (11.03.15) is a composite simulation for Y class performance being based on the actual performance of the Fund's E class (1.24% OCF), which has existed since the Fund's launch on 31.12.10. The Fund's E class is denominated in USD but the performance data above is calculated in GBP.

**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.

## FUND PHILOSOPHY

Over the 12 months to 31st January the Fund returned 21.8% (in GBP), the MSCI World Index returned 19.3%, and the IA Global Equity Income Sector average return was 15.5% (average). The Fund is actively managed with the MSCI World Index used as a comparator benchmark only.

The Fund therefore outperformed the Index by 2.5% over the last 12 months and outperformed its peer group by 6.3%.

In January, despite a late rally, the MSCI World Index fell -4.4% (in GBP) and the IA Global Equity Income Sector average fell -3.0% over the month. Global equity markets broadly sold off as investors digested concerns over inflation, the prospects of rising interest rates, and the pace of global economic recovery. Growth stocks – and those on higher valuation multiples – were most affected, while defensive sectors and Value-orientated stocks performed relatively better.

As we have seen repeatedly since the launch of the Fund, our focus on high-quality and persistently profitable businesses, as well as a good mix between defensive and cyclical holdings, has generally meant that the Fund's performance has tended to provide better downside protection during market downturns while keeping up with rising markets.

In January, the Fund's lack of exposure to the Energy and Banking industries (the best-performing in the month) proved to be a drag on performance, however, this was offset by good allocation and stock selection within the Consumer Staples and Industrials sectors – with particularly strong performance from our tobacco and defence holdings.

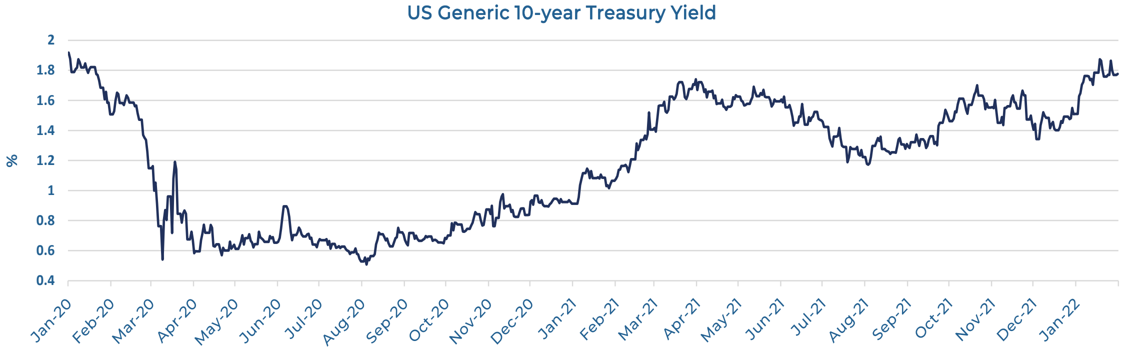
Longer-term, it is pleasing to see that the Fund has outperformed the IA Global Equity Income Sector average over 1 year, 3 years, 5 years, 10 years and since launch. The Fund also continues to rank as the top performer versus its peers since launch.

| **Cumulative % total return in GBP to 31/01/2022** | **1yr** | **3yr** | **5yr** | **10yr** | **Launch*** |
|---|---|---|---|---|---|
| Guinness Global Equity Income Y Dist | 21.80 | 53.55 | 73.19 | 225.95 | 237.90 |
| MSCI World Index | 19.27 | 55.30 | 74.66 | 250.57 | 245.03 |
| MSCI AC World Index | 15.89 | 50.75 | 70.05 | 223.95 | 215.10 |
| IA Global Equity Income Sector Average | 15.50 | 35.81 | 45.57 | 153.68 | 153.09 |
| IA Global Equity Income Sector ranking | 7/54 | 5/48 | 3/43 | 2/22 | 1/12 |
| IA Global Equity Income Sector quartile | 1 | 1 | 1 | 1 | 1 |

Source: FE fundinfo. , as of 31st January 2022. The risk profile of peer funds may vary.
*Fund launched on 31st December 2010

## JANUARY IN REVIEW

2022 began with the US Federal Reserve dealing equity and bond markets with a sharp blow. On January 5th, the Fed released the minutes from December 2021's Federal Open Market Committee (FOMC) policy meeting. While the Fed had already signalled that it would likely hike short-term rates, perhaps starting as early as March, the big surprise – alongside more aggressive rhetoric – was that the minutes also indicated that the Fed was considering quantitative tightening, i.e. shrinking its balance sheet. This led to equity markets selling off and the bond market also reeled, with yields closing at their highest levels in two years.



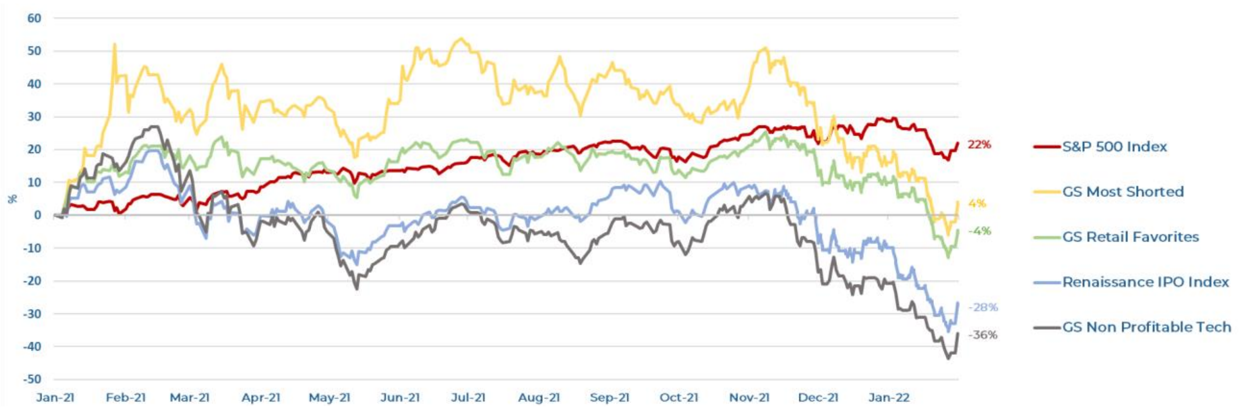

*Source: Bloomberg, data as of 31st January 2022*

Few anticipated that quantitative tightening would start so soon after rate hikes given that after the Global Financial Crisis (GFC) the Fed waited two years, after hiking rates in December 2015, to end its quantitative easing programme.

The Fed's current approach reflects the starkly different economic backdrop today compared to the years after the GFC: economic growth is high, a tight labour market is pushing up wages, and inflation has spiked to its highest level in decades. Moreover, real interest rates – i.e. adjusted for inflation expectations – have been steeply negative for the past few years, contributing to very loose financial conditions. This heightens the risk that an overheating economy will push inflation even higher, and calls for central bank intervention that balances slowing inflation vs tipping the economy into a recessionary downturn.

The prospect of higher interest rates has dented the performance outlook for companies with elevated stock valuations or weak fundamentals. The areas undergoing the most intense selling pressure are the speculative areas of the market which steamed ahead in 2020 and the early part of 2021.

In the US, stocks within 'frothier' segments – unprofitable tech companies, companies hit by short sellers, special purpose acquisition companies (SPACs), newer initial public offerings (IPOs), and retail crowd favourites – have weakened substantially over the past 12 months and this continued at the start of this year too:




*Source: Goldman Sachs (GS), Bloomberg, as of 13/01/2022.*
*GS most-shorted basket: 50 highest short interest names with a market cap greater than $1bn in the Russell 3000.*
*GS retail favorites basket: US-listed equities that are popularly traded on retail brokerage platforms.*
*GS non-profitable tech basket: non-profitable US-listed companies in innovative industries.*
*Renaissance IPO Index: portfolio of US-listed newly public companies.*

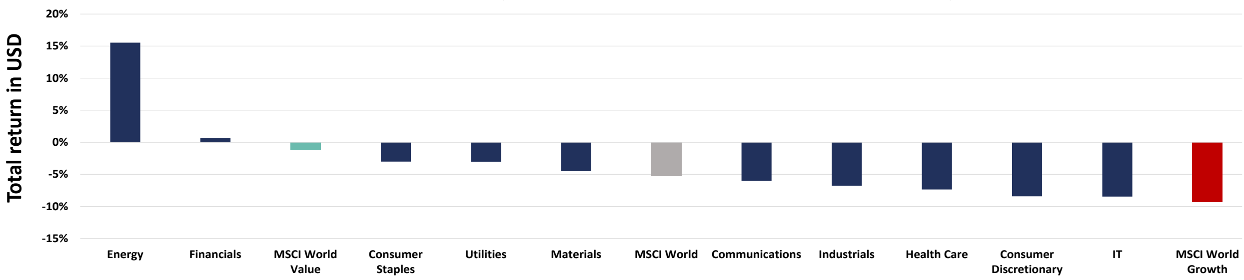
As speculative fervour drained in January, investors turned back to defensive dividend shares in a bid to protect their portfolios and this was beneficial for the Fund. The MSCI World High Dividend Yield Index climbed to its highest relative gain vs the MSCI World Index since May 2021 and broke its recent trend of underperformance. The recent move highlights the increasing importance to investors of a stable income stream.

MSCI World High Dividend Yield Index / MSCI World Index

*Source: Bloomberg, data as of 31st January 2022*

Despite a late rally, IT was the worst-performing sector in January. Investors took profits amid concerns that higher interest rates would reduce the present value of future cashflows for many high-growth tech companies that have been trading on high valuation multiples. This also contributed heavily to the MSCI World Growth Index underperforming its Value counterpart. In the Fund, our focus on high-quality companies at attractive value keeps us away from the richly-priced areas of the market, and this proved beneficial in the month.

**MSCI World sector indices performance: 31st December 2021 - 31st January 2022**




*Source: Bloomberg. As of 31st January 2022*

Energy and Financials were the best-performing sectors in January, and stood out as the only ones that ended the month with a gain. The oil price had its best start to the year in 30 years as the price of Brent crude oil reached $90 a barrel for the first time since October 2014. Demand outpaced supply as US oil stockpiles decreased and rising political tension between Russia and Ukraine increased the possibility of sanctions and a further fall in oil supply.

Inflation-sensitive Financials also performed well, with Banks in particular faring strongly given the positive correlation with higher interest rate expectations. For the Fund, holding no Energy stocks and no Banks dragged on performance in the month, though this was offset by good stock selection within the Consumer Staples and Industrials sectors. Within Financials, whilst owning no Banks dampens the Fund's cyclicality, holding insurance names (Aflac and Arthur J Gallagher) and exchanges (CME Group and Deutsche Boerse) provides defensive qualities when uncertainty and volatility spikes, as it did in January.

## PORTFOLIO HOLDINGS

**British American Tobacco (BATS) and Imperial Brands, our two tobacco holdings, were the best performers in January, returning 14.9% and 7.6% respectively (in USD).**

BATS is the world's largest cigarette and tobacco manufacturer by revenue, selling well-known brands such as Lucky Strike, Dunhill, Kent, Pall Mall, B&H and Camel. Low manufacturing costs, inelastic demand and significant pricing power enable BATS to maintain high profit margins, and in turn return capital to shareholders. Gross margins are consistently c.80%, and BATS has a strong balance sheet with high cash flow conversion; the dividend yield is 6.7% and the 1-year forward price-to-earnings ratio stands at 9.2x.

Similarly, Imperial Brands has an 8.0% dividend yield and trades on a 1-year forward price-to-earnings ratio of 7.2x. Imperial Brands focuses on lower-priced cigarettes compared to BATS, and brands include Kent cigarettes, Drum tobacco, Golden Virginia (world's best-selling hand rolling tobacco) and Rizla (world's best-selling rolling paper).

While the threats to both businesses are well known and priced into the valuation (e.g. fall in cigarette smoking, increased regulation, higher taxes, slow growth of alternative products), the share prices of BATS and Imperial Brands both performed well in January as investors sought companies with high dividend yields and low valuations. The addictive nature of cigarettes gives tobacco businesses significant pricing power and with that, low cyclicality. This tends to protect against macro headwinds, while giving investors the opportunity to earn a growing dividend income as well as capital appreciation.

Whilst the prominence of health regulations has weighed on the returns generated by tobacco companies in the last few years, there is potential upside from the ESG initiatives that the likes of BATS and Imperial Brands are undertaking to facilitate the transition from cigarette smoking to alternative tobacco – and less harmful – products, as well as to mitigate environmental externalities. Taking the example of BATS, the company has positioned itself to capture growth in new nicotine categories such as vaping products, heated tobacco and nicotine pouches. Albeit from a low base, these 'better-ESG' business lines are fast-growing and have potential to meaningfully contribute to a higher earnings growth profile for BATS. Further, the lower health risks associated with next-gen products may dampen fears over regulatory intervention in the cigarette business, which could well lead the market to rerate the company's currently depressed valuation multiples.

Amongst its ESG targets, BATS says that it seeks to increase the number of its non-combustible product consumers from 11 million to 50 million by 2030 and to achieve at least £5 billion in New Categories revenues by 2025. The company's wider ESG targets also include being completely carbon neutral in its own operations (scope 1 and 2 emissions) by 2030 and in its wider operations (scope 3 emissions) by 2050; as well as making sure that all plastic packaging used by the company is recyclable or compostable by 2025.

**Sonic Healthcare was the worst performer in the month (-21.1% in USD).** The Australian healthcare company provides medical diagnostic services to clinicians, hospitals, community health services and private patients globally, and most revenue (c.85%) is generated from Pathology. Although the company's share price has benefited from increased demand for Covid PCR tests over the last two years – and particularly in December 2021 due to the Omicron variant – investors took profits in January with most expecting Covid to become endemic and demand to moderate. Furthermore, Sonic Healthcare disclosed that some testing clinics in Australia – Sonic's largest revenue market – had to close due to supply chain issues which led to a shortage of testing equipment.

In the longer term, we see Sonic Healthcare as having a strong market position in a consolidating industry, which provides opportunities to gain market share and boost organic growth. The company has a strong balance sheet with little debt, and a high persistent cashflow return on investment. Further, the dividend has grown every year for the last 10, and the company is currently attractively valued at a 1-year forward price-to-earnings multiple of 12.1x.

**Portfolio Managers**

Matthew Page

Ian Mortimer

**Investment Analysts**

Sagar Thanki

Joseph Stephens

William van der Weyden

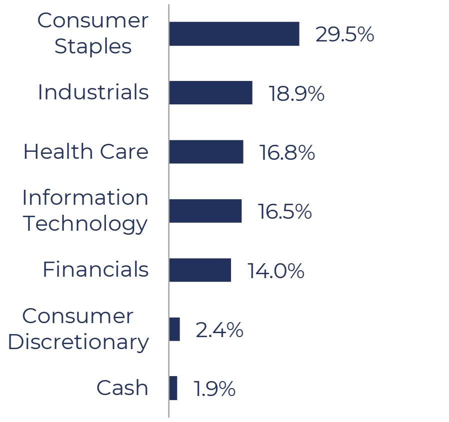
# Guinness Global Equity Income Fund

## PORTFOLIO

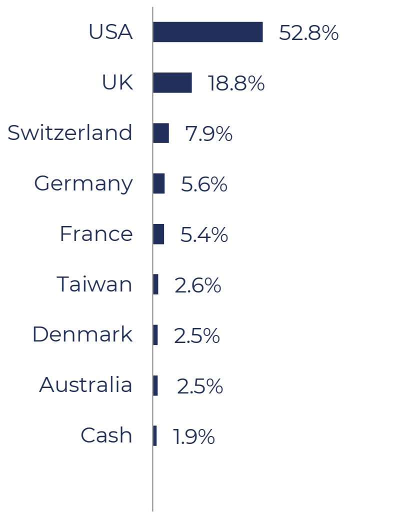
### Fund top 10 holdings

| | |
|---|---|
| British American Tobacco | 3.9% |
| Abbvie | 3.4% |
| Imperial Brands | 3.4% |
| Aflac | 3.2% |
| BAE Systems | 3.1% |
| Johnson & Johnson | 3.0% |
| Deutsche Boerse | 3.0% |
| Broadcom | 3.0% |
| Microsoft | 3.0% |
| Unilever | 2.9% |
| | |
| % of Fund in top 10 | 31.9% |
| Total number of stocks held | 35 |

### Sector analysis




### Geographic allocation




## PERFORMANCE*

Past performance does not predict future returns

**Annualised % total return from launch (GBP)**


| Discrete years % total return (GBP) | Jan '22 | Jan '21 | Jan '20 | Jan '19 | Jan '18 | Jan '17 | Jan '16 | Jan '15 | Jan '14 | Jan '13 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Fund** (Y class, 0.80% OCF) | 21.8 | 5.7 | 19.2 | 2.6 | 9.9 | 25.6 | 0.0 | 18.6 | 12.6 | 12.3 |
| MSCI World Index | 19.3 | 10.8 | 17.5 | 1.0 | 11.3 | 32.0 | 0.5 | 17.1 | 12.0 | 15.4 |
| IA Global Equity Income sector average | 15.5 | 3.3 | 13.8 | -2.1 | 9.4 | 28.0 | -4.5 | 14.0 | 7.9 | 16.0 |

| Cumulative % total return (GBP) | 1 Yr | 3 Yrs | 5 Yrs | 10 Yrs | Launc |
|---|---|---|---|---|---|
| **Fund** (Y class, 0.80% OCF) | 21.8 | 53.5 | 73.1 | 225.8 | 237.2 |
| MSCI World Index | 19.3 | 55.3 | 74.7 | 250.6 | 245.0 |
| IA Global Equity Income sector average | 15.5 | 35.8 | 45.6 | 153.7 | 153.1 |
| IA Global Equity Income sector ranking | 9/54 | 6/48 | 4/43 | 3/20 | 1/12 |
| IA Global Equity Income sector quartile | 1st | 1st | 1st | 1st | 1st |

**RISK ANALYSIS** **31/01/2022**

| Annualised, weekly, from launch on 31.12.10, in GBP | Index | Sector | Fund |
|---|---|---|---|
| Alpha | 0.00 | -0.12 | 1.43 |
| Beta | 1.00 | 0.76 | 0.86 |
| Information ratio | 0.00 | -0.41 | -0.03 |
| Maximum drawdown | -24.58 | -22.41 | -21.78 |
| R squared | 1.00 | 0.79 | 0.89 |
| Sharpe ratio | 0.56 | 0.42 | 0.61 |
| Tracking error | 0.00 | 6.55 | 4.81 |
| Volatility | 14.31 | 12.25 | 13.00 |

*Simulated past performance. Performance prior to the launch date of the Y class of the fund (11.03.15) is a composite simulation for Y class performance being based on the actual performance of the Fund's E class (1.24% OCF), which has existed since the Fund's launch on 31.12.10. The Fund's E class is denominated in USD but the performance data above is calculated in GBP. Source: Financial Express, bid to bid, total return. Fund Y class (0.80% 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.

## IMPORTANT INFORMATION

**Issued by Guinness Global Investors.** Guinness Global Investors 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 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.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 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