Guinness Global Equity Income Fund

INVESTMENT COMMENTARY – December 2019

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.

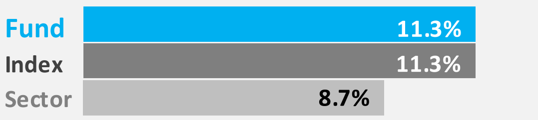
Fund size	£902m
Launch date	31.12.10
Historic OCF (Y Class)	0.98%
Current OCF (at fund size)	0.87%
Managers	Dr. Ian Mortimer, CFA Matthew Page, CFA
Analysts	Sagar Thanki Joseph Stephens

Performance

30.11.19

	1 year	3 years	From launch
Fund	15.1	35.9	160.2
Index	13.0	37.0	159.9
Sector	10.2	26.3	110.5

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 0.98% OCF. Please refer to 'Performance data notes' for full details

Summary performance

In November, the Guinness Global Equity Income Fund produced a total return of 2.47% (in GBP) versus the MSCI World Index return of 2.82%. The Fund therefore underperformed by 0.35%.

The slight underperformance in November can be attributed to stronger markets led by growthier stocks; there was a renewal of confidence in risk assets as investors took heart from slightly better news on manufacturing, trade wars and earnings. Central banks globally have created looser financial conditions, the US and China are seemingly working on a 'Phase One' trade agreement, and economic conditions are not as bad as initially feared. Although investors still face a multitude of geopolitical risks, equity markets in November – and in 2019 generally – have continued to 'climb a wall of worry'.

Through the year the Fund has kept pace with rising markets and has tended to outperform in times of market weakness. It is pleasing to see that both the short and long-term performance of the Fund's strategy remains strong versus IA Global Equity Income Sector peers.

	YTD	1yr	3yr	5yr	Since Launch*
Fund	20.6%	15.1%	35.9%	68.5%	160.2%
Index	22.1%	13.0%	37.0%	75.8%	159.9%
IA sector average	17.3%	10.2%	26.3%	50.2%	110.5%
Rank vs peers	17/54	9/53	8/48	9/41	2/18
Quartile	2nd	1st	1st	1st	1st

Source: Financial Express. Cumulative Total Return in GBP as of 30th November 2019. *Launch 31st December 2010

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November in Review

The topic of the year continues to dominate headlines as we enter the final month of the decade. November – like many previous months – was heavily influenced by the US-Chinese trade tensions, and so far, President Tump has levied tariffs on $360 billion of Chinese goods. While that is more than half of China's total exports to the US, it is only about 2.5% of China's GDP and a small fraction of total world trade. So how do tariffs on this tiny slice of global output have such a seismic effect? The answer in one word: uncertainty.

The uncertainty shock dwarfs the direct impact of tariffs, and proverbially makes the 'tweet mightier than the tariff':

Source: Bloomberg Economics, National Institute Global Econometric Model. As of 31st August 2019

The scenario analysis above includes levies set to go into effect on 15th December 2019 and assumes Chinese retaliation of 10% tariffs on all imports from the US not covered by existing levies.

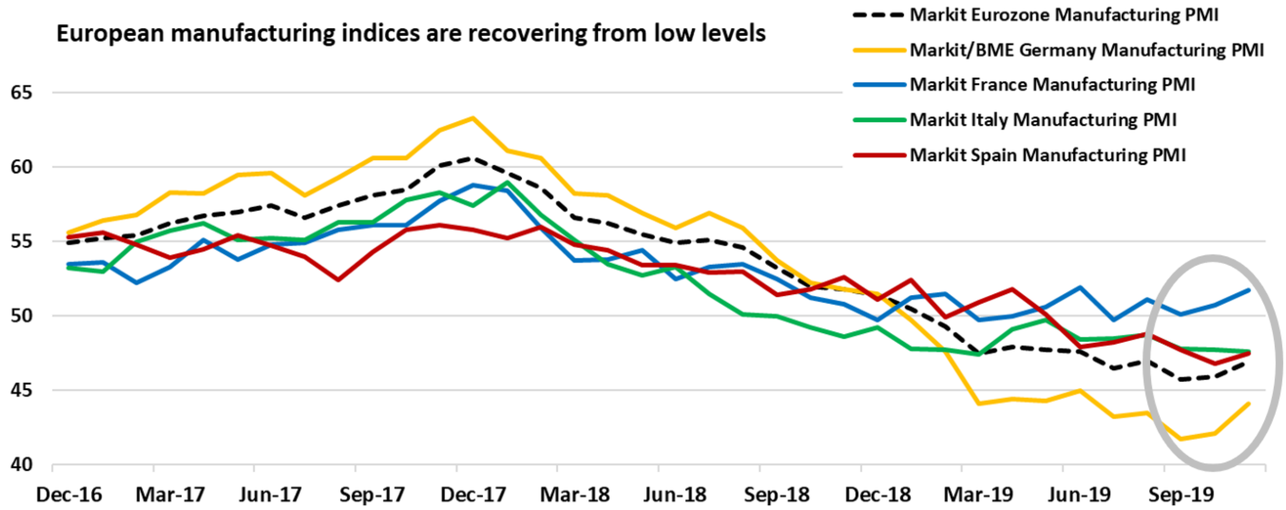
Based on this, by 2021:

- Tariffs lower global GDP by 0.3%
- Combined with contagion and the impact of uncertainty, global GDP would be 0.9% lower, compared to a no-trade-war scenario.

It is not the tariffs that that do the most damage, but the suggestion that the rules under which the global trading system have operated for decades may be meaningless.

Although President Trump likes to say that China is paying for the trade war, the biggest economic losers so far have been countries such as Germany and Japan which are highly integrated in global supply chains and dependent on global trade. Industrial production in both nations was lower in the third quarter of 2019 than a year earlier. Germany narrowly avoided recession in the third quarter and for 2020, it is expected to achieve GDP growth of only 0.4% – less than half the forecast for the Eurozone as a whole (1%).

Nonetheless, last month saw some encouraging news from the Eurozone, as the latest Markit purchasing manager indices (PMI) showed a pattern of recovery, albeit from a low base. The Fund is currently overweight in Europe and this bodes well especially for the more cyclical holdings.



Source: Markit, Bloomberg. As of 30th November 2019

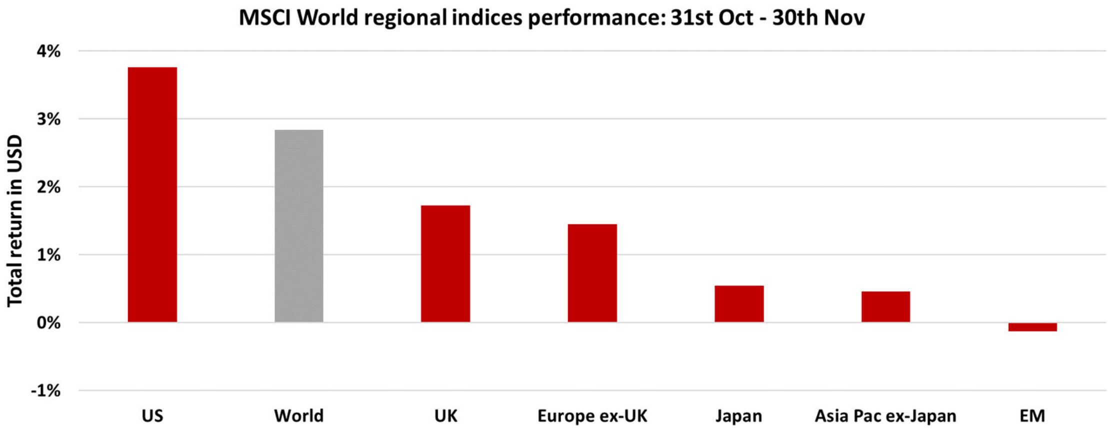
Across the Atlantic, thanks to the US consumer, the American economy remains in good health, but the manufacturing sector looks increasingly as though it is in recession. The latest estimate of third-quarter US GDP rose from an initial 1.9% to 2.1%, meaning there was an increase compared to the 2.0% annualised growth seen in quarter two. However, the manufacturing purchasing manager's index (PMI) is now at 48.1 and has been below 50 for four months in a row.

There have been two other global manufacturing slowdowns since the global financial crisis: the first in 2012, during the Eurozone crisis, and the second in 2015, amid rising concerns about emerging market economies. So far, the current US manufacturing downturn is comparable to the one at the end of 2015, which also lasted four months and bottomed at a PMI of 48. That one ended with huge Chinese stimulus and we saw a recovery without a recession.

What is different now, however, is that the manufacturing slowdown in the US is worse than in China. For most of the last decade, the US manufacturing PMI has been higher; it has now dropped 2 points below the Chinese equivalent. Early last year, prior to the introduction of the first tariffs, the US was briefly 10 points ahead. Based on these numbers, the trade war has had a large negative impact for the US manufacturers it was meant to help.

Source: ISM, China Federation of Logistics and Purchasing. As of 30th November 2019

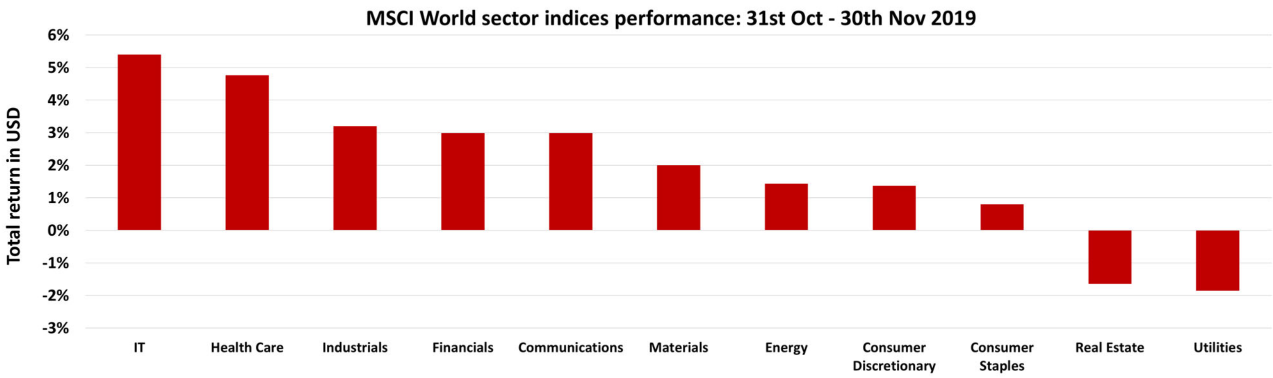
In the Fund, we are currently underweight the US and overweight China (compared to the MSCI World). This was a drag on performance in November since the US was the best-performing region, whereas Asia and EM were the worst.



Source: Bloomberg, as of 30th November 2019

US equity markets were buoyed by a robust earnings season; around 80% of companies beat earnings estimates for the quarter, which is higher than the historical average. Protests in Hong Kong and the US's decision to sign the Hong Kong Human Rights and Democracy Act contributed to weaker performance in Asia and EM. The act, signed by President Trump, requires the US secretary of state to decide every year whether the 'one country, two systems' formula that guarantees Hong Kong's independent legal system and civil liberties is intact. If determined it is not, the US could revoke special economic and commercial privileges that it extends to Hong Kong.

Additionally, further US tariffs on Chinese goods (delayed from September) are currently scheduled to increase on 15th December unless a deal is reached or the deadline is pushed back.



Source: Bloomberg, as of 30th November 2019

By sector, Healthcare and IT were the best performers as investors were given reasons for optimism.

IT has benefited every time investors have sought growth stocks, and Healthcare stocks had strong corporate earnings releases. Revenues for the Healthcare sector grew 15% year-on-year, the best of the 11 S&P 500 sectors. Profits rose 9% and the sector produced among the biggest upside surprises on both the top and bottom lines. Healthcare companies are relatively insulated from the US-China trade conflicts and the sector has broadly benefited from increased spending related to demographic trends.

Utilities and Real Estate were the worst-performing sectors and having no exposure helped the Fund. These sectors are amongst the most defensive and yield-sensitive and have suffered as central banks have maintained low interest rates and as investors have favoured growth. Consumer Staples, a sector in which the Fund is overweight, also underperformed. Good stock selection offset some of the negative allocation effect, with our tobacco holdings faring best in the month.

British American Tobacco (+13.2% in USD) was the top performer in November. The company announced that it expects full-year 2019 revenue growth to hit the high end of its 3-5% guidance range and operating profit growth the top of its 5-7% range. The world's second-largest tobacco manufacturer claimed that growth in cigarette sales is offsetting the slowdown in the US vaping market – a concern that has been worrying investors for the past two years. Furthermore, the tobacco industry benefited from US regulators shelving plans to lower the amount of nicotine in cigarettes. This is a boost for British American Tobacco (BAT), which has the largest market share in the US after its 2017 acquisition of Reynolds American, and it also opens the door to lenience from regulators over mooted bans of flavoured vaping products.

Federal regulators recently responded to cases of lung illnesses caused by vaping that led to thousands being injured and dozens of people dying. The Juul vaping device was singled out most often by those who had fallen ill, and this has proved detrimental to the sales growth for the relatively new competitor. However, for BAT, this has created an opportunity. BAT recently submitted to the FDA its pre-market tobacco application (PMTA) for its Vuse e-cig. Only Philip Morris has a submitted and approved PMTA, for its IQOS device, and other makers may not be able to afford or handle the complexity of the process. If BAT can make it through the regulatory labyrinth, it may be one of only a select few allowed on the market. Currently Vuse is the third-largest e-cig with around a 10% share, down sharply from the 17% share it held two years ago when it was the second-biggest.

From a fundamental perspective, the company has a stellar cashflow return on investment profile, achieving above 20% for the past 20 years. Revenues and gross margin have been growing for the past four years and the trailing 12-month dividend yield currently stands at 6.8%. On a 1-year forward price-to-earnings basis, the company trades at an attractive valuation; at 9.3 times, this is two standard deviations below its 10-year history, and nearly half the market multiple. We note that the market is worried about the long-term structural issues affecting the companies in the tobacco industry, but we believe that this has led to over-discounted valuations, making them compelling holdings in the Fund.

Cisco (-4.6% in USD) was the worst performer in the month. The world-leading IT infrastructure equipment vendor has been making a transition to a balanced revenue mix of hardware and software, with a goal of deriving 50% of sales from software by 2020. Its move to software is best measured by its recurring revenue, which now accounts for around 33% of sales. Further, Cisco's new product sales have been strong – in particular its new line of programmable switches, the Catalyst 9000 series, have been selling well, leading to claims by CEO Chuck Robbins that the 9000 series is the fastest-growing new product in Cisco's history.

Cisco designs and sells networking hardware such as routers and switches that facilitate the connection to the internet, as well as the software which optimises the data flow. Cisco commands a market-leading position in almost all end-markets versus peers such as Arista, F5 Networks and Juniper.

The recent weak performance comes as a result of lower enterprise spending due to weakening global economies. Cisco may be more sensitive to macroeconomic dynamics than some of its networking peers due to its large exposure to small and midsize enterprise IT spending. Enterprise accounts for about two-thirds of Cisco's sales, with the remainder from telecom service providers and cloud data-centre customers. Cisco's recent fiscal results showed signs of a potential slowdown, as enterprise orders fell by 5%. China softness and Brexit-related uncertainty were cited as reasons for order declines and the company therefore guided revenues lower for 2020. We view Cisco's 14x price-to-earnings valuation as modest given the good end-market growth potential and on-going shift to software offerings. The company also boasts a 3.1% trailing 12-month dividend yield with a 5-year annualised dividend growth rate of 13%.

We made no changes to the portfolio during the month

We thank you for your continued support and wish you a very Merry Christmas.

Portfolio Managers
Matthew Page, CFA
Dr Ian Mortimer, CFA

Analysts
Joseph Stephens
Sagar Thanki

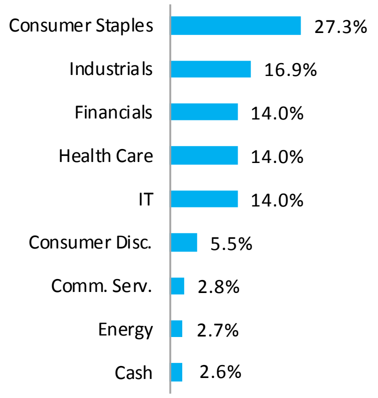
PORTFOLIO

30/11/2019

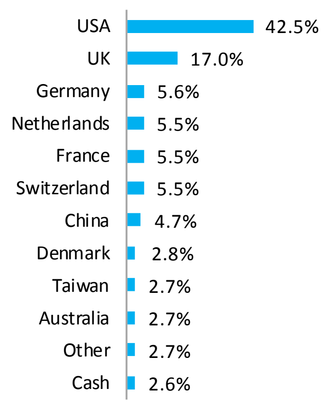
Fund top 10 holdings

Abbvie	3.0%
British American Tobacco	3.0%
VF Corp	2.9%
Eaton	2.9%
Blackrock	2.9%
WPP	2.8%
Broadcom	2.8%
Reckitt Benckiser	2.8%
Randstad	2.8%
Microsoft	2.8%
% of Fund in top 10	28.9%
Total number of stocks held	35

Sector analysis



Geographic allocation



PERFORMANCE

30/11/2019

Annualised % total return from launch (GBP)

Discrete years % total return (GBP)	Nov '15	Nov '16	Nov '17	Nov '18	Nov '19
Fund (Y class, 0.98% OCF)	0.4	23.5	9.7	7.7	15.1
MSCI World Index	3.3	24.3	14.1	6.2	13.0
IA Global Equity Income sector average	0.1	18.8	12.8	1.5	10.2

Cumulative % total return (GBP)	1 month	Year-to-date	1 year	3 years	5 years	From launch
Fund (Y class, 0.98% OCF)	2.5	20.6	15.1	35.9	68.5	160.2
MSCI World Index	2.8	22.1	13.0	37.0	75.8	159.9
IA Global Equity Income sector average	2.0	17.3	10.2	26.3	50.2	110.5

RISK ANALYSIS

30/11/2019

Annualised, weekly, from launch on 31.12.10, in GBP	Index	Sector	Fund
Alpha	0	0.29	1.50
Beta	1	0.75	0.86
Information ratio	0	-0.38	0.00
Maximum drawdown	-18.26	-15.50	-16.34
R squared	1	0.79	0.89
Sharpe ratio	1	0.46	0.64
Tracking error	0	6.09	4.45
Volatility	13.83	11.20	12.09

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 (0.98% 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 annual management charge 0.75%, 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

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.