Guinness Global Equity Income Fund

INVESTMENT COMMENTARY – March 2020

About the Fund

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

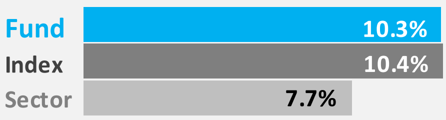
The Fund is managed for income and capital growth and invests in profitable companies that have generated persistently high return on capital over the last decade, and that are well placed to pay a sustainable dividend into the future.

Fund size	£992m
Launch date	31.12.10
Historic OCF (Y Class)	0.88%
Current OCF (at fund size)	0.84%
Managers	Dr. Ian Mortimer, CFA Matthew Page, CFA
Analysts	Sagar Thanki Joseph Stephens

Performance **29.02.20**

	1 year	3 years	From launch
Fund	9.5	21.4	146.0
Index	9.0	20.2	146.6
Sector	4.3	11.0	97.9

Annualised % gross total return from launch (GBP)



Benchmark index	MSCI World Index
IA sector	Global Equity Income

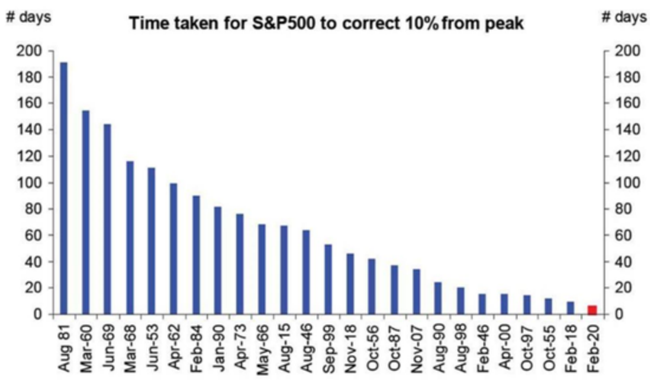
Past performance should not be taken as an indicator of future performance. The value of this investment and any income arising from it can fall as well as rise as a result of market and currency fluctuations.
Source: Financial Express, bid to bid, total return. Y Class 0.88% OCF. Please refer to 'Performance data notes' for full details

Summary performance

In February, the Guinness Global Equity Income Fund produced a total return of -6.06% (in GBP) versus the MSCI World Index return of -5.52%. The Fund therefore underperformed by 0.54%. Relative to peers, the fund ranked in the top quartile of the IA Global Equity Income Sector over the month, outperforming more than 75% of peer funds.

Global equity markets rallied in the first half of February but fell particularly strongly between 19th February and month-end; the MSCI World Index fell 10.64% in GBP. Over the same period the Fund fell 9.92%, therefore outperforming by 0.72%.

Looking at the US, the sell-off saw the fastest 10% correction the S&P500 has suffered on record; the Index fell 10% from its peak in six days.



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.

Guinness Global Equity Income Fund

It is satisfying to see the fund performing well in a variety of market conditions with the performance top quartile over the sell off last month but also over longer positive periods of 1, 3, 5 years and since launch.

	1 month	YTD	1yr	3yr	5yr	Since Launch*
Fund	-6.1%	-6.0%	9.5%	21.4%	55.1%	146.0%
Index	-5.5%	-5.6%	9.0%	20.2%	61.0%	146.6%
IA sector average	-6.7%	-7.1%	4.3%	11.0%	37.2%	97.9%
Rank vs peers	13/56	18/56	5/54	5/48	7/41	2/18
Quartile	**1st**	**2nd**	**1st**	**1st**	**1st**	**1st**

Source: Financial Express. Cumulative Total Return in GBP as of 29th February 2020.
***Launch 31st December 2010**

The coronavirus outbreak, which originated in China in January, spread further around the world in February. Outside China, South Korea and Italy have had the largest number of cases. The extinguishing of January's hopes that this would be a China-only issue has knocked market confidence and increased uncertainty. Equity markets sold off particularly hard over the last week of February after rapid growth in the number of cases in South Korea and Italy and the number of new countries reporting cases increased each day.

On Monday 2nd March the OECD lowered its growth forecast for the global economy in 2020 from 2.9% to 2.4%, but said a "longer lasting and more intensive coronavirus outbreak" could reduce global growth to 1.5% in 2020.

Exogenous shocks such as this are impossible to predict. They are the 'unknown unknowns' or 'black swans'. They are events which are unpredictable and often unprecedented. We know neither when they will happen or how they will proceed.

There is no real precedent to this coronavirus outbreak. Neither the Spanish flu, SARS, MERs, Ebola, etc. are particularly useful in forecasting what will happen next. Health officials and governments appear to be operating on the basis that this virus will spread further, and all current efforts are focused on minimising the spread. Meanwhile, efforts are made to develop a vaccine – a process that could take up to a year.

The global economy is therefore facing both a supply-side shock due to efforts to contain the virus leading to factories being shut in China (which can have a knock-on effect on supply chains) and a potential demand-led shock from concerned consumers and lower corporate spending.

Put simply, global growth is a function of Consumption + Investment + Government spending + Trade.

Last year we saw the effect that a trade war between the US and China had on global growth forecasts by dampening the Trade part of the equation. Consumption, however, was strong, as consumers continued to increase the amount spent on basic goods (food, etc.) and discretionary goods (smartphones, cars, etc.), offsetting a reduction in Trade.

The way the Coronavirus outbreak is affecting this equation so far is as follows:

1. In an effort to contain the virus, many factories in China were temporarily closed, meaning they were unable to manufacture and send their goods to their customers. This has the effect of reducing Trade.

2. Many people in China have had restrictions placed on their movements and the fear of the virus spreading has meant people have not been out spending as much money, affecting Consumption.

3. This uncertainty has meant manufacturers don't know when they will receive the components they need or when they will be able to ship goods to their customers. This has led to a downturn in the outlook for Investment from these companies, as reflected by the recent Purchasing Managers Index data from China which was very weak.

Over the last few days major central banks around the world have demonstrated their willingness and readiness to take action by providing liquidity and cutting interest rates. Indeed, some are projecting a 50bps cut later this month by the US Federal Reserve and potentially another 50bps cut later in the spring. This would be a dramatic fall in interest rates and would help some companies that need to borrow, thereby providing companies with the ability to invest when they might otherwise have been constrained. This would also provide some support to equity markets and make dividend yields even more attractive relative to bonds. However, central bank easing is clearly not going to stop the spread of a virus.

The other element left to support global growth is Government spending, and we will wait to see what fiscal stimulus governments around the world may be willing to implement, but it looks necessary in China and will likely be necessary in other countries if the virus cannot be sufficiently contained.

So, while the last week of February was painful, we now find ourselves at the beginning of March with central banks ready to cut interest rates, governments likely to provide a fiscal stimulus and equities trading at lower valuations. Historically this has been a good environment for equities.

While the outlook for the spread of the virus is still uncertain, governments are ramping up their plans for containment and ensuring clear advice is disseminated to their citizens. No one knows how this will evolve and how long it will last – so how can we build a portfolio of equities that can weather an exogenous shock such as this?

This fund was born in the aftermath of the Global Financial Crisis. With it present in our minds we sat down in 2010 with a blank sheet of paper to consider how to build a global equity portfolio that could weather storms in the future while also providing upside in rising equity markets.

The principles that we developed almost ten years ago have served us well and it is worth revisiting those principles in light of current events.

The first element is to focus solely on high-quality companies. We want to own companies that have consistently generated high levels of profitability for a long time. They generate good margins and are often leaders in their industries, commanding pricing power from their customers. They often have lower costs than their peers, have recurring revenues, and generate a lot of cash that can be paid in the form of a dividend. When times get tough, they are well placed to survive but also to take advantage of the situation by taking market share when weak businesses struggle.

Quality also means companies with strong balance sheets without excessive debt. We want companies with enough balance sheet strength that when exogenous shocks occur management do not have to worry about capital raising but can focus on operations.

Portfolio construction is also an important risk control. We want to have diversification in the portfolio among industries, geographies and currencies. While all the companies we are own are high-quality, we want to have a balance of companies with steady growth, faster growth, cyclical growth and sometimes no near-term growth but a great valuation. We don't want to have the entire portfolio exposed just to one country or region, so we own companies all around the world. We also don't want to take excessive bets on any one sector, so we limit ourselves to a maximum of 30% in any sector.

Position sizing is also a way to control risk. We give equal weight to all companies in the portfolio, which means that each position in our portfolio is approximately 3%. Thus we will never take excessive bets on individual positions – bets which can be beneficial when successful but, when shocks occur, could leave the portfolio exposed to high levels of stock-specific risk.

In addition, we only invest in companies that pay a dividend. This ensures we get a cash return every year, even if the share price goes down in any individual year. We also prefer companies that can grow their dividends over time because the business itself is growing.

The final element is to have patience and a long time horizon. We will only buy companies if we can envisage holding them for five years. The chances of there being an exogenous shock during a five-year period is significant, and therefore we have to believe when we buy a company that it will be able to weather most scenarios.

Looking at the portfolio at the end of February we can see it continues to have these defensive elements. When we look at the quality of the companies in the portfolios we see that:

1. The average Return on Equity of the portfolio is 24%, which is approximately double that of the benchmark at 12%. Companies that we own such as Unilever, Diageo and Roche are exceptionally profitable.

2. The balance sheets of our companies are strong. The average net debt-to-equity of the companies in the portfolio is 49%, compared to the benchmark which is around 80%. Companies we own such as Microsoft, Novo Nordisk and Anta Sports actually have more cash than debt, making them particularly robust.

The portfolio continues to be diversified around the world. We have around 47% invested in US companies, around 45% invested in Europe, and only around 10% in Asia-Pacific. Within the Asia-Pacific region we have one company listed in Hong Kong (Anta Sports), one company listed in Taiwan (Taiwan Semiconductor) and one company listed in Australia (Sonic Healthcare). Our Asia-Pacific holdings have been robust. Year-to-date they have collectively outperformed the MSCI AC Asia Pacific ex-Japan Index by approximately 3%. Our position in Sonic Healthcare has actually produced a positive return this year, while Anta Sports is our only direct exposure to China and has underperformed by around 3%; while in the short term the Chinese consumer will be spending less, the long-term drivers of this business are not going to be affected by this virus outbreak.

In terms of the types of companies we own, we have a fairly even balance between defensive and cyclical/growth companies. We have approximately 50% in quality defensive companies (e.g. Consumer

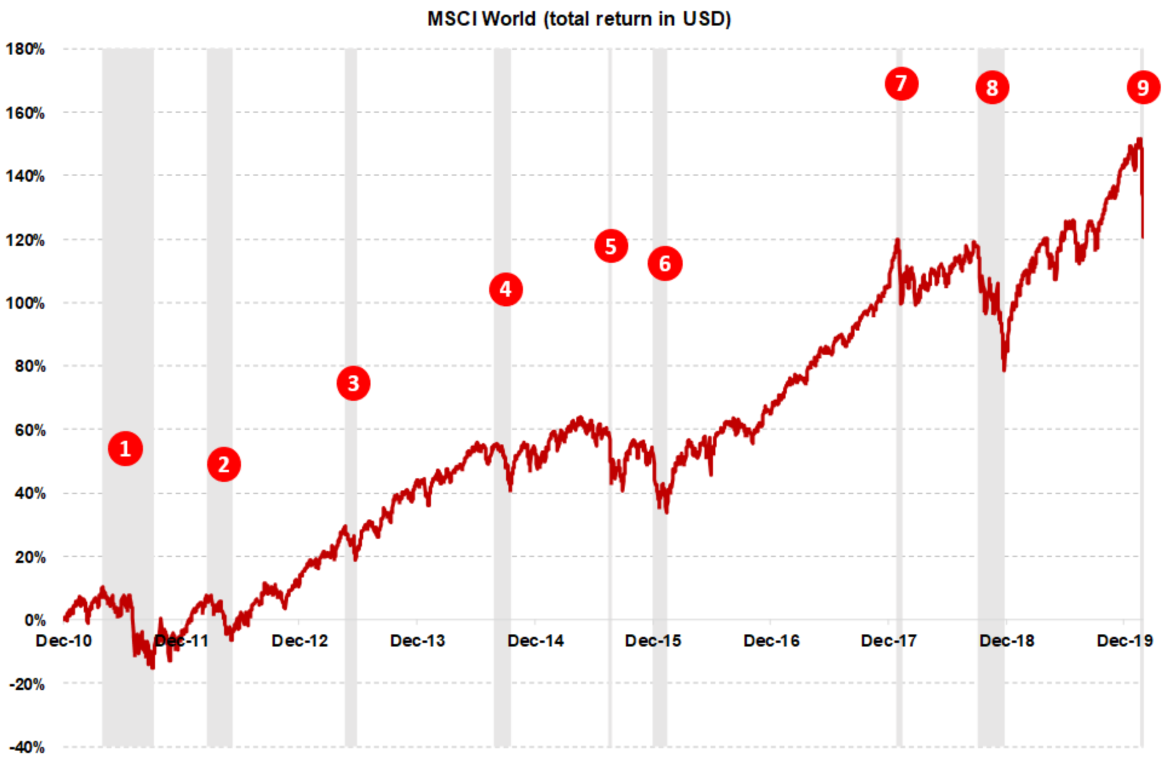
Staples and Health Care companies) and around 50% in quality cyclical or growth-oriented companies (e.g. Industrials, Financials, Consumer Discretionary, Information Technology, etc.) Within Financials, however, we do not own any banks, which helps to dampen the cyclicality of our Financials. In fact, two of the financial exchanges that we own (Deutsche Boerse and CME) often perform well on a relative basis in periods of market stress as they benefit from higher trading volumes in periods of volatility. This has been true on this occasion, with Deutsche Boerse up around 1% in USD year-to-date and CME down 1% (compared to the MSCI World Index down 9% in USD year-to-date).

We also do not have any exposure to some of the hardest-hit areas of the market such as airlines, cruise companies, luxury goods, and so on.

All our companies return cash to us every year through the form of a dividend and these dividends are well protected. On average they are expected to return to us just over half the earnings they generate in dividends. This gives them plenty of scope to reinvest for growth, or if times are hard, to hold on to some extra cash without needing to cut their dividend.

Many of the positions we own in the portfolio have been there for a long time. Around 60% of the names in the portfolio have been there since 2015, while 20% of the names have been held since we launched the fund in 2010.

Put together, this means we have a portfolio that has historically held up relatively well when markets have fallen and has repeated this pattern in the February correction. Including this correction, there have been nine significant drawdowns in global equity markets since we launched the fund in 2010, as you can see on the chart below. The Guinness Global Equity Income Fund has outperformed in each of these drawdowns. Historically, buying in these dips has been a good strategy.



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

Guinness Global Equity Income Fund

	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	28/02/2020	-11.9%	-11.2%	0.7%	Coronavirus

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

Black swans, as we mentioned, are by definition unpredictable and unprecedented. We don't know when they will occur and what the outcome will be. They come out of the blue and can affect markets rapidly and therefore we believe our portfolio always needs to be prepared for such an eventuality. However, for the patient investor with a long enough time horizon, this black swan offers the opportunity to buy good quality companies a lot more cheaply than was possible a few weeks ago.

Portfolio changes in February

We made two changes to the portfolio in February, selling our positions in Royal Dutch Shell and WPP and replacing them with Medtronic and Pepsico. While Royal Dutch Shell and WPP are quality companies, they are not as robust as they have been historically. They offer optically cheap valuations, which we felt were attractive at the start of the year when global growth expectations and earnings expectations were improving. However, we had to reassess these positions in light of the current environment and a weak set of results from WPP.

Royal Dutch Shell was 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 majors, reset its business model, focussing again 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 Shell 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 questions 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 counter-cyclical. 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, which would affect cash flows that are already under pressure, leading to the dividend once again becoming questionable from a position where costs have already been cut.

Medtronic is the largest pure-play medical device maker (with current market capitalization $130bn) and has a diversified product base covering chronic diseases and numerous acute illnesses in hospitals and 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 is back above 2% following the recent sell-off, the dividend growth has averaged 8% over the past three years, and the forward PE multiple has fallen back to close to the average over the past five years. We see this a good opportunity to buy a consistent and high-quality business at a reasonable price and which can provide good earnings growth in a market environment where growth has become more uncertain.

Since 2017 WPP has faced a number of headwinds. The global advertising agency has faced a fall in revenues from consumer goods companies, a traditionally large customer base, seeking to cut advertising budgets. This is an issue that 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. Long-time CEO Martin Sorrell left WPP somewhat under a cloud in April 2018 with new CEO Mark Read taking over shortly after and implementing 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, the latest 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 the coronavirus, which could be meaningful. 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.

The purchase of Pepsico for the portfolio marks the second time we have owned it; we held the stock at launch in 2010 and subsequently sold in late 2012. The global beverage and snack business often sits #2 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 local differences. The company has used 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 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 back towards the average PE multiple over the past there 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, we see this as a good entry point for a high-quality business at a reasonable price with a strong, growing dividend.

The overall effect of these changes has been to boost our exposure to Consumer Staples and Health Care and reduce our exposure to Energy and Consumer Discretionary. It has boosted our exposure to US companies while reducing our exposure to European companies.

We thank you for your continued support.

Portfolio Managers
Matthew Page, CFA
Dr Ian Mortimer, CFA

Analysts
Joseph Stephens
Sagar Thanki

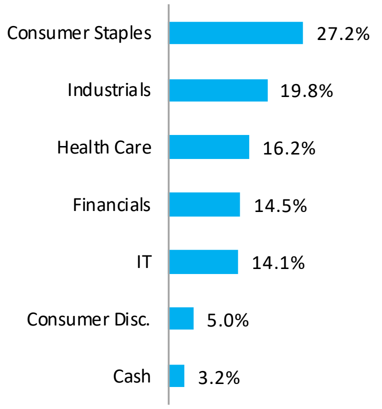
PORTFOLIO

29/02/2020

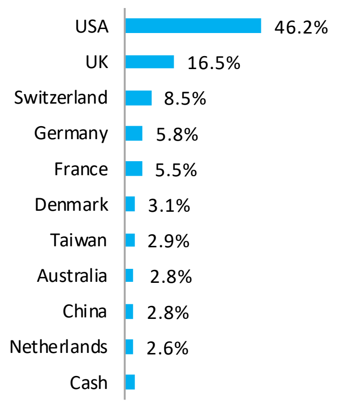
Fund top 10 holdings

Gallagher, Arthur J	3.1%
Microsoft	3.1%
Novo Nordisk	3.1%
BAE Systems	3.1%
Deutsche Boerse	3.1%
Roche Holding	3.0%
CME Group	3.0%
Abbvie	3.0%
Schneider Electric	2.9%
Eaton	2.9%
% of Fund in top 10	30.4%
Total number of stocks held	35

Sector analysis



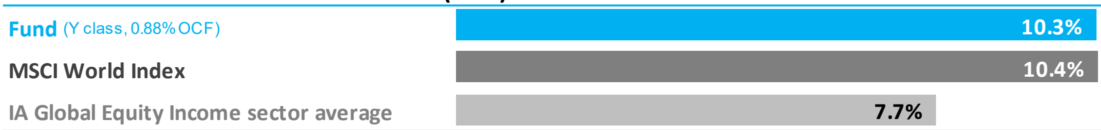
Geographic allocation



PERFORMANCE

29/02/2020

Annualised % total return from launch (GBP)



Discrete years % total return (GBP)	Feb '16	Feb '17	Feb '18	Feb '19	Feb '20
Fund (Y class, 0.88% OCF)	1.3	26.1	5.3	5.3	9.5
MSCI World Index	-1.3	35.8	6.0	4.0	9.0
IA Global Equity Income sector average	-2.3	26.6	4.5	1.8	4.3

Cumulative % total return (GBP)	1 month	Year-to-date	1 year	3 years	5 years	From launch
Fund (Y class, 0.88% OCF)	-6.1	-6.0	9.5	21.4	55.1	146.0
MSCI World Index	-5.5	-5.6	9.0	20.2	61.0	146.6
IA Global Equity Income sector average	-6.7	-7.1	4.3	11.0	37.2	97.9

RISK ANALYSIS

29/02/2020

Annualised, weekly, from launch on 31.12.10, in GBP	Index	Sector	Fund
Alpha	0	-0.10	1.25
Beta	1	0.76	0.87
Information ratio	0	-0.38	-0.01
Maximum drawdown	-18.26	-15.50	-16.34
R squared	1	0.81	0.90
Sharpe ratio	1	0.36	0.54
Tracking error	0	6.06	4.42
Volatility	13.83	11.64	12.52

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 (0.88% 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 OCF of 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.