GUINNESS
Global Equity Income Fund

Ten years of investing in global equity income

Ian Mortimer & Matthew Page

GUINNESS
ASSET MANAGEMENT

Dr. Ian Mortimer, CFA, joined Guinness Asset Management in 2006. He co-manages the Guinness Global Equity Income Fund and the Guinness Global Innovators Fund.

Prior to joining Guinness, Ian completed a D.Phil. in experimental physics at Christ Church, University of Oxford, and graduated in 2006. He graduated from University College London with a Master's degree in Physics in 2003. Ian is a CFA charterholder.

Matthew Page, CFA, joined Guinness Asset Management in 2005. He co-manages the Guinness Global Equity Income Fund and the Guinness Global Innovators Fund.

Prior to starting at Guinness, Matthew worked for Goldman Sachs as an analyst in Fixed Income Currencies and Commodities (FICC). He graduated from New College, University of Oxford, with a Master's degree in Physics in 2004. Matthew is a CFA charterholder.

Investment Analysts

Sagar Thanki joined Guinness Asset Management in 2017. Prior to joining Guinness, Sagar worked at Bloomberg as an equity specialist, within Financial Analytics and Sales. He graduated from Selwyn College, University of Cambridge, with a Master’s degree in Economics, and has since completed CFA Level 2.

Joseph Stephens joined Guinness Asset Management in 2018. Joseph graduated with a Master’s degree in Mathematics from University of Bath and a Master’s degree in Investment Management from Henley Business School. Joseph has also passed the CFA level 3 examination.

GUINNESS
Global Equity Income Fund

Contents

1 Introduction

We are delighted to bring you our ten-year history of the Guinness Global Equity Income Fund. We launched the Fund on New Year's Eve 2010, so this is an opportune moment to take stock of how it has performed, what we have got right and wrong, and how the portfolio has evolved.

The Fund and the investment approach were formulated in the shadow of the Global Financial Crisis. We wanted to build a portfolio that we believed could weather whatever the next crisis might be, by investing in companies that had resilient business models, strong balance sheets and consequently an ability to maintain or grow their dividends when times were tough. Little did we know that the next major crisis would be caused by a global pandemic.

The pandemic was a difficult period for many companies that paid dividends, particularly in Europe and the UK, where around half of the Eurostoxx and FTSE100 companies cut or cancelled their dividends in 2020. However, the Fund came through this period in the robust manner we would expect, with 28 out of our 35 holdings growing their dividend, 6 keeping their dividends flat, only 1 company cutting its dividend, and 0 companies cancelling their dividend.

The Fund has delivered strong performance over the last 10 years, ranking #1 over this period within the Investment Association's Global Equity Income Sector.

Our strategy today remains the same as it was 10 years ago and our confidence in this strategy has been reinforced through our experience not only of 2020 but by navigating through an entire business cycle over the last decade. At the start of 2021 we find ourselves emerging from a global recession and in a period of very low interest rates that central banks are telling us will persist for some time. Yet through global demographic shifts the demand for sources of reliable income continues to increase. We continue to believe demand will persist for robust equities that can pay reliable dividends that can grow over time and thereby provide a counterbalance against higher inflation.

We thank all our investors for their support over the Fund's first ten years. We look forward to updating as many of you as possible this year and beyond.

Ian

Ian Mortimer

Matt

Matthew Page

2 How we manage the Fund

The Fund aims to deliver long-term capital growth, an above-market dividend yield and a growing income stream. We invest in dividend-paying companies, but we do not select companies on the basis of a high yield. In fact we deliberately ignore yield in selecting our pool of companies that we can invest in (our 'universe') and focus instead on identifying quality, well run, profitable companies that we can buy at attractive valuations.

We categorise the four main pillars of our investment approach for equity income as: **quality**; **value**; **dividend growth**; and **conviction**.

Quality

Our investment process specifically targets quality companies first.

Specifically, we look for companies that have achieved top quartile return on capital in each of the previous ten years. These companies make up our investment universe.

Specifically, we look at the world's 16,000 listed companies, and identify only those that have achieved at least **10% return-on-capital** (in real terms) in each and **every year** over the last **ten years**

It is a rare feat for a company to meet these criteria. We think it shows real quality. On average, only 3% of global listed companies achieve our threshold.

Why 10% return on capital?
10% is well above the average real cost of capital (6%). These companies are truly creating value.

Why every year?
This excludes highly cyclical companies or those with high but declining or volatile earnings.

Why ten years?
Business cycles tend to last less than ten years. The companies in our universe have shown they can weather most economic environments.

Good companies stay good
A decade of high return on capital is a powerful indicator of future success. History shows there is a 95% chance these companies achieve a return on capital over 10% the following year, and an 80% chance they will still be doing it four years later.

Value

We buy good companies at attractive valuations, rather than those that are cheap.

We do not just want to find high-quality companies; we want to focus on those companies that offer an attractive valuation. Focussing on high-quality companies that are trading at valuations that are at a discount to their peers or to their own history means we can construct a portfolio that offers superior quality but also provides a margin of safety as well as potential for capital appreciation.

Despite their robust quality, the market valuation of the companies in our universe is often just an indication of current sentiment – stock prices do not always reflect business fundamentals. We look for quality companies where they or their industry are out of favour with investors, driving down their valuations. It can take some time for these companies to be rerated; our average holding period is 3-5 years.

Dividend growth

Our aim for the Fund is dividend growth rather than high yield.

As it happens, our screening identifies an abundance of companies with attractive dividend yields. On average since 2000, over 50% of companies in our investment universe have offered a yield of over 2%. This means we can build a portfolio with a yield higher than the market and good potential for dividend growth.

Conviction

Our equally-weighted portfolio provides a sensible balance of risk and return.

The Fund holds a concentrated portfolio of typically 35 equally weighted stocks selected from our investible universe. This provides a number of useful attributes:

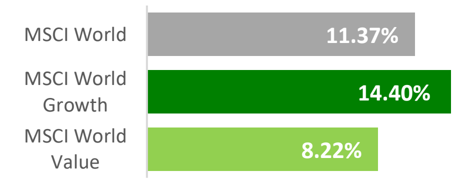
1. It reduces stock-specific risk as we will not be overweight in a small number of favourite companies.
2. We will not run a portfolio with a long tail of small holdings which can be a distraction and drag on performance.
3. It instils a strong sell discipline as we must typically sell a position in order to make way for a new one; this provides an additional benefit in that we must constantly assess the companies we own in the portfolio in comparison to the rest of the universe available to us.
4. We are index agnostic; we buy companies based purely on their business fundamentals rather than their index weight or adherence to sector constraints.

3 The Fund’s peer group

The Fund’s ten-year life has seen strong growth in equity markets, coinciding with the increasing popularity of global equity income investing.

The MSCI World Index has delivered an average annual return of +11.4%. In absolute terms, global equity income funds have done well too; the average fund in the IA Global Equity Income Sector has delivered +8.2% – still a healthy return, but over 3% per annum behind the broad market.

Perhaps not surprisingly in such strong equity markets, Value stocks have suffered (in relative terms) whereas Growth stocks have prospered.



Whether investing primarily for dividend yield or dividend growth, most equity income funds will buy companies the manager believes are undervalued.

The (relative) weakness of Value investing over the last ten years has dragged down the performance of most equity income funds. However, out of 17 funds, three have still managed to beat the Index – and we are pleased to report that our Fund is one of them.

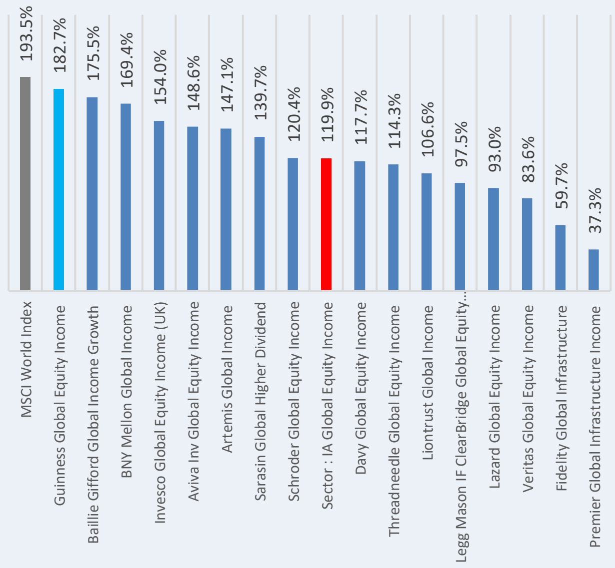
Each of these funds will have achieved its outperformance in different ways. For our Fund, we believe our performance is built on our dual requirement for both quality (as per our specific definition outlined on page 2) and on good value (relative to peers and to their own history) in the companies we buy.

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, total return in GBP, 0.82% OCF

IA Global Equity Income sector in detail

Total return, *10 years to 2010, in GBP*



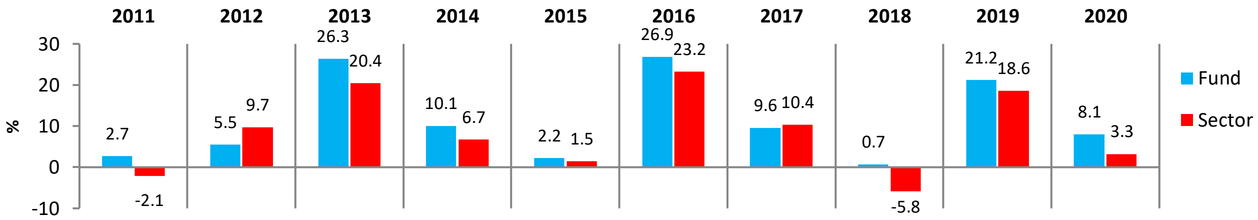
Risk and performance analysis

Annualised, weekly, in GBP	Return (% pa)	Volatility (%)	Sharpe ratio
MSCI World Index	11.37	14.57	0.53
Global Equity Income sector	8.20	12.59	0.36
Guinness Global Equity Income	10.95	13.29	0.55
Baillie Gifford Global Income Growth	10.56	12.66	0.56
BNY Mellon Global Income	10.22	12.70	0.53
Invesco Global Equity Income (UK)	9.61	14.17	0.43
Artemis Global Income	9.47	15.24	0.39
Aviva Inv Global Equity Income	9.36	14.80	0.40
Sarasin Global Higher Dividend	9.01	12.83	0.43
Davy Global Equity Income	8.41	14.27	0.34
Schroder Global Equity Income	8.19	15.31	0.31
Threadneedle Global Equity Income	7.76	13.32	0.32
Liontrust Global Income	7.39	14.54	0.27
LM IF ClearBridge Global Equity Income	6.93	14.28	0.24
Lazard Global Equity Income	6.68	14.68	0.22
Veritas Global Equity Income	6.16	13.81	0.19
Fidelity Global Infrastructure	4.87	14.45	0.09
Premier Global Infrastructure Income	3.17	13.20	0.00

4 Fund performance summary

Launched in the aftermath of the Great Financial Crisis, the Fund's ten-year life has seen the world of economics and finance maintain a regular slot on the front pages. Yet, the market (as represented by the MSCI World Index) has shrugged off these woes, and delivered a healthy return of 11.4% per annum.

Here is how the Fund has done versus its peers each year.

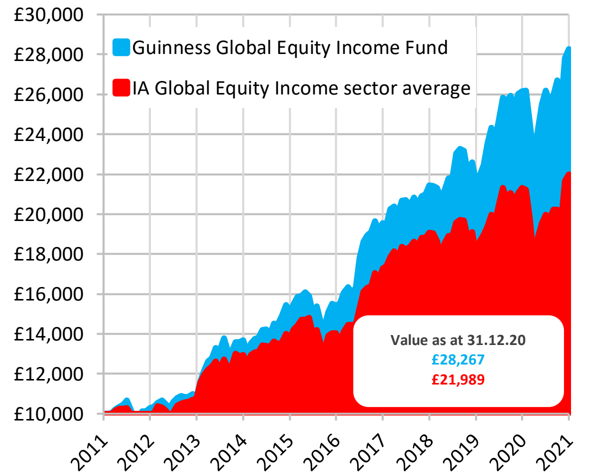


	1 year	3 years	5 years	Since Launch (31/12/2010)
Guinness Global Equity Income Fund	8.1%	32.5%	84.2%	182.7%
MSCI World Net TR Index	12.3%	33.7%	91.7%	193.5%
IA Global Equity Income Sector	3.3%	15.4%	56.9%	119.9%
Position in IA Sector	12/53 funds	6/49 funds	2/41 funds	1/16 funds
Quartile	1st	1st	1st	1st

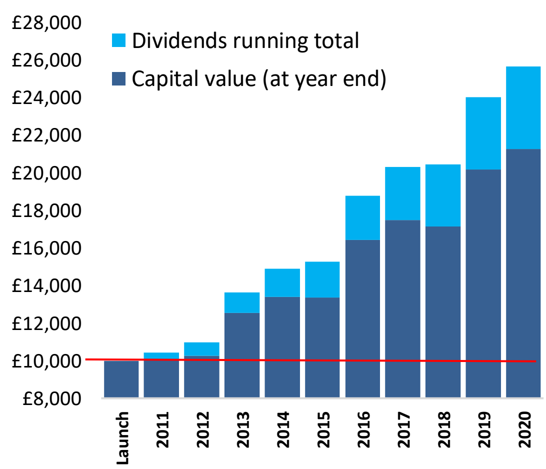
Cumulative Total Return in GBP, as of 31st December 2020. Source: Financial Express.

Here's how an investment of £10,000 invested at launch has fared.

Reinvesting fund dividends



Taking fund dividends



Source: Financial Express, in GBP, Y class (OCF: 0.82%)

See fund performance notes below

Performance and risk

Fund's historic yield: 2.6%

Historic yield reflects the distributions declared over the past 12 months expressed as a percentage of the mid-market price, as at 31.12.20. It does not include any preliminary charges. Investors may be subject to tax on the distribution.

Discrete years performance

% total return, in GBP	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Guinness Global Equity Income Fund	8.1	21.2	0.7	9.6	26.9	2.2	10.1	26.3	5.5	2.7
MSCI World Index	12.3	22.7	-3.0	11.8	28.2	4.9	11.5	24.3	10.7	-4.8
IA Global Equity Income Sector	3.3	18.6	-5.8	10.4	23.2	1.5	6.7	20.4	9.7	-2.1
Quartile in Sector	1st	2nd	1st	3rd	2nd	3rd	1st	1st	3rd	1st

Source: Financial Express, in GBP, Y class (OCF: 0.82%)

Risk

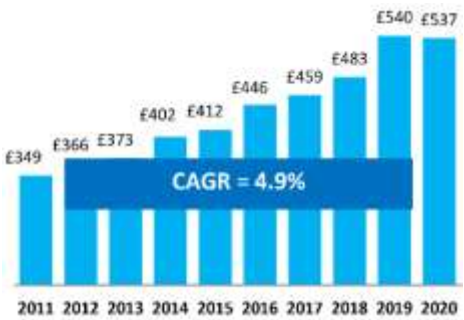
The Guinness Global Equity Income Fund is an equity fund. Investors should be willing and able to assume the risks of equity investing. The value of an investment and the income from it can fall as well as rise as a result of market and currency movement, and you may not get back the amount originally invested. Details on the risk factors are included in the Fund's documentation, available on our website (guinnessfunds.com). 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. 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.

5 Dividend history

A growing income stream is an important part of our stated aims for the Fund.

The average growth in the Fund's total annual dividend payments so far is 4.9%.

The Fund has grown its dividend distribution for nine consecutive years to 2020.



Dividends paid each year on £10,000 invested at launch

(Y Class, 1,000 shares purchased on 31.12.10)

CAGR = Compound Annual Growth Rate

Source: Guinness Asset Management

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.

6 Outlook

What does the future hold for our investment process, and are we doing what we say we do?

We are keen to affirm to our investors that we stick to our principles rather than just talk about them. We carefully monitor the portfolio at all times and can say that the Fund has always traded at a discount to the broad market, and with a better dividend yield – despite owning companies with superior return-on-capital profiles. As we pass our ten-year anniversary, the portfolio has the following characteristics:

		Fund	Index (MSCI World)	
Quality	*CFROI (10 year average)*	**17%**	8%	*We own superior businesses…*
Value	*Price/earnings ratio (2021e)*	**17.9x**	21.5x	*that are cheaper than the market…*
Dividend	*Yield*	**2.6% (net)**	1.8% (gross)	*with a better dividend yield…*
Conviction	*Active share*	**90%**	-	*at weightings that count.*

Data as at 31.12.20. The Fund's yield reflects the distributions declared over the past 12 months expressed as a percentage of the mid-market price, as at 31.12.20.

We believe building a portfolio with these characteristics has served the Fund well in the past. We will continue to stick to these principles in the future.

7 Ten years in review

Here we collate what happened to the Fund in each of the last ten years in the form of our respective annual reviews as published at the time.

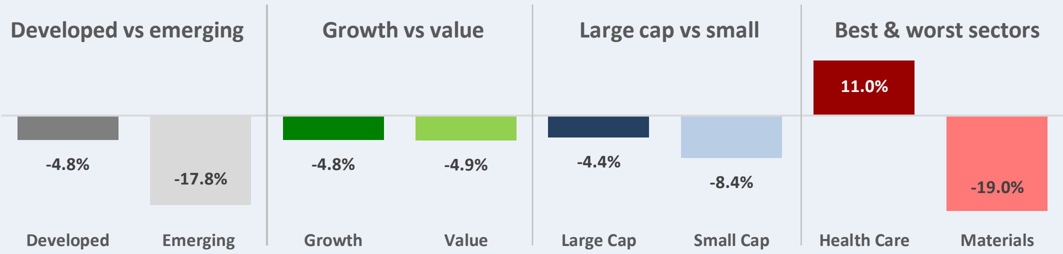
While we write to our investors every month, we have always believed that writing our more detailed annual review allows us to step back and review the decisions we made, consider where we have made good decisions, bad decisions, been lucky or unlucky, and most importantly consider what lessons we can learn to improve our investment process. We hope you will find these ten years of annual reviews as informative to read as we find them useful to write.

Fund size
Start of year £0.3m
End of year £0.4m

What happened in the world?

A year of macroeconomic worries, with the Eurozone crisis at the top of the agenda

- Threat of "Grexit" narrowly avoided in July when the Greek government accepted a drastic round of austerity measures and Eurozone ministers approved a €109bn bailout
- Total Eurozone debt reached a peak of over €350bn
- Sharp rises on government debt yields in Spain and Italy as well as Portugal and Ireland
- US Treasuries downgraded below AAA for the first time ever (August)



Total return in GBP; MSCI World & MSCI Emerging Markets Index; MSCI World Growth and World Value; MSCI World Large Cap. and World Small Cap.; individual MSCI World GICS sectors.

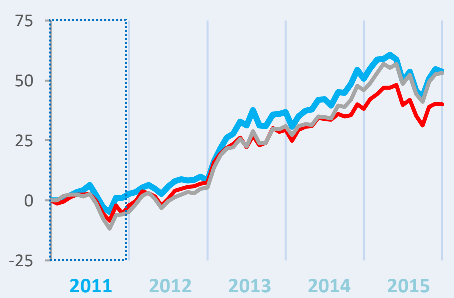
What happened in the Fund?

- Portfolio invested promptly at launch on 31st December 2010
- Outperformed in both up and down markets
- Stock switches increased our exposure to Consumer Staples at the expense of Industrials, IT & Financials
- **Purchases**: Compal, Alten, Coca-Cola, Kraft, Pfizer, Reckitt Benckiser, Unilever, Imperial Tobacco
- **Sales**: Compal, Waddell & Read, TVB, Mapfre, AGF, BlackRock, IRESS, Mitie, Alten

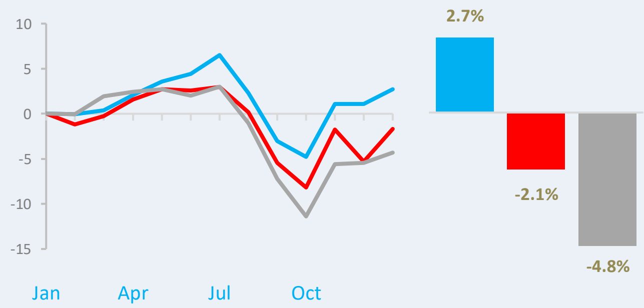
"The stocks that we sold had an average total return for the year of approximately 7.6%, and the stocks we replaced them with averaged 18.8%. We estimate that these switches contributed around 1.9% to our performance."
(In USD, source: Bloomberg)

Performance

Cumulative since launch



Calendar year 2011



Fund Guinness Global Equity Income
Sector IA Global Equity Income
Index MSCI World

Cumulative % total return, in GBP.
Source: Financial Express.

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.

2011

Performance

We have been pleased with how the Fund has performed in its first year. The Fund was up 2.71%, compared to a fall of 4.84% by the MSCI World Index.

The Fund has also performed well against its IMA Global Equity Income peer group. The Fund was 3rd out of 17 funds in the sector over the year.*

2011 was a volatile year for equity markets. They rose in the first four months of the year, with the MSCI World up 2.6% by the end of April; our Fund was ahead of the Index, up 3.3%. The market then had a volatile couple of months, trading sideways; again the Fund outperformed, ahead of the Index by 3.3% by the end of July. In August equity markets lurched downwards as the US Sovereign debt rating was downgraded and broader concerns emerged about the future of the Euro. Over the period of August and September our Fund fell 7.1% against a fall of 10.5% by the MSCI World Index. By the end of September the MSCI World was down 11.8% for the year while the Fund was down 5.3%. Equity markets attempted to rally over the final quarter, with the prospect of a solution to the Euro crisis. *(Source: Financial Express, bid to bid basis, total return, GBP.)*

Investment process

We have a unique and proprietary system for narrowing down the global universe of stocks to a shortlist of candidates which we can subject to rigorous company analysis. Our focus is to identify companies that are persistent high achievers, which we define as companies that achieve top quartile returns on capital every year throughout a business cycle. On average, top quartile equates to a return on capital over 10% (in real terms). Our research, having analysed 20 years of data, has shown that companies that meet these criteria are very likely to continue to achieve top quartile returns on capital in the future and thereby continue to create shareholder value. This process weeds out companies with business models that generate highly cyclical returns on investment and also excludes companies which lack competitive strength, pricing power, or have poor management.

This process narrows down the global list of equities to a shortlist of 300 companies that have maintained top quartile returns on capital every year over a business cycle, are likely to continue to achieve top quartile returns on capital in the near future, are well managed and able to adapt to changing circumstances, and often generate significant amounts of cash. These companies are highly effective at allocating this cash to high return on capital projects. Many of these companies generate more cash each year than they can effectively deploy into new projects, and therefore return some of this cash to shareholders in the form of dividends or share buybacks. These companies are able to grow their dividends year-on-year at a pace that is faster than their growth in cash flow. If we take an example of a company that generated $100 million of cash flow last year and the management have concluded that there are only $50 million worth of projects that they can deploy cash to that will continue to maintain top quartile returns on capital, that will leave them $50 million which can be paid out to shareholders in the form of a dividend. If the company then grows its cash flow by just 5% the next year to $105 million and management continue to conclude there are only $50 million of projects to invest in that leaves $55 million that can be paid out in dividends which is a 10% growth rate on the previous dividend. The compounding effect on the dividend over a number of years is very powerful and supports a higher valuation in the future if we assume the company will continue to trade on the same yield. These are what constitute “good” companies in our mind.

We next seek to narrow down this list further to identify those companies that we believe the market is undervaluing, that have improving earnings sentiment, that have improving returns on capital and where the stock price is not falling. This presents ideas for further due diligence and a thorough review of the company’s business model. We are particularly focused on value relative to the industry the company is in, relative to the company’s historic valuations and in absolute terms. We look to understand what assumptions the market is currently pricing into a stock price, and whether these assumptions appear optimistic, realistic or pessimistic.

**There were 17 funds in the sector at the time. More funds have now “backed in” to the sector, pushing up the number that have at least a five year track record.*

The portfolio is then drawn together from our favourite 35 ideas and each stock is given an equal weight in the portfolio. We do not consider volatility, beta, or market capitalisation to be an appropriate measure of risk for an equity. We believe it is unwise to consider “risk-based” portfolio weights of stocks in a portfolio based on metrics that are, first, backward looking, and second, simply derived from price movements which are subject to numerous factors well beyond the quality of the underlying business. Instead we see the price fluctuations as opportunities to buy good companies below their intrinsic value and to sell good companies that are trading above their intrinsic value. The price at which we buy a company is our key risk control whereby the underlying business model is taken into consideration and a commensurate margin of safety is factored into the valuation at which we are willing to purchase.

At the same time we overlay a top-down view of the portfolio to ensure we are comfortable with our sector and geographic allocation and to avoid excessive concentration.

Process performance

Our research has shown that those companies that meet our criteria of maintaining top quartile returns on investment each year over a business cycle have a better than 90% chance of maintaining top quartile returns on investment the following year. Of the 38 core stocks that we held in the portfolio during 2011, only one failed to meet the criteria in its 2011 results – Compal Electronics, which we sold in August. The remaining 37 continued to generate top quartile return on investment in 2011.

Our best performing stock for the year was VF Corp, which owns numerous well known retail clothing brands such as North Face, Wrangler, Timberland, etc. The company went from strength to strength over the course of the year as earnings estimates continued to be upgraded. The stock delivered a total return of 50.78% in 2011.

VF Corp was an example of a company which was trading at the lower end of the range of dividend yield that we invest in. When we bought the company on 31st December 2010 it had a gross yield of 2.8%. We felt comfortable buying the company on a relatively low yield as on all other metrics the company appeared cheap and there was a track record of dividend growth and scope for continued dividend growth in in the future. By October 2011, the company had announced an increase in their quarterly dividend from 63c per share to 72c per share, which is an impressive growth of 14%.

Our worst performing stock was ICAP, the world’s largest inter-dealer broker, which fell 32.79% over the year. ICAP was hit particularly hard by the sovereign debt crisis in Europe as concern grew about the outlook for trading volumes and the lurking threat of a financial transaction tax potentially threatening longer-term growth prospects further. ICAP was one of the smallest companies we owned in the portfolio in 2011 with a market capitalisation of $5.4 billion at the beginning of the year; this small cap. effect also probably contributed to its underperformance.

The underlying business model still looks very attractive to us; ICAP is still the market leader in their sector, with a growing dividend and a cheap valuation. The business is quite highly operationally levered but we still believe the long-term growth story is intact. The stock now trades on a yield of over 6% and a P/E ratio of 7.9x 2013 estimated earnings.

The portfolio

In August we became concerned about the increasing sovereign credit spreads of peripheral European countries, the longer-term implications of higher sovereign funding costs and the impact on the Euro currency and its members from a possible Greek default. We found it hard to conclude anything other than a very difficult economic environment with slow growth in Europe over the next few years, with higher debt costs for governments and further austerity measures for consumers.

Within this context we became concerned about how a number of our holdings would perform in this environment and we therefore decided to make a number of changes to the portfolio.

On average, the stocks that we sold had a total return of approximately 7.6% by the end of the year and the stocks we replaced them with had an average total return of 18.8%. We therefore estimate that these switches positively contributed approximately 1.9% towards performance. However, it was most pleasing to see that our investment process managed to provide a positive return in a particularly volatile year. Even if we had not made these switches, the Fund would still have outperformed the MSCI World Index by a considerable margin of 4.9% (compared to 6.8% actual outperformance). *(Source: Bloomberg, bid to bid basis, total return, GBP.)*

Outlook

Our investment process is unlikely to outperform in all market conditions, but it is our expectation, given the in-depth research we have undertaken on the set of companies that meet our criteria, that over a 3-5 year period these companies should outperform the market.

2011 proved to be a good year for this process. While volatile markets reacted wildly to global economic uncertainty, our focus on quality, cash-generative, dividend-growing businesses proved an effective hedge against the down swings and rallied well from the lows.

If 2012 turns out to be a strong market for equities in response to an improving outlook for a global economic recovery, then we may well struggle to outperform as our lack of exposure to commodity stocks would likely hold us back. This scenario is not the most likely in our view, given our expectation of low growth in Europe for a considerable period of time, but that does not mean that the market may not rally strongly on increased optimism.

If 2012 turns out to be similar to 2011, characterised by continued macro risks and uncertainty, then our approach is likely to continue to perform well, with stable, cash-generative businesses continuing to appeal to investors in search of income. In periods of relatively low returns for equities, dividends make up a significant proportion of total returns; the market will likely realise this and valuations of these types of companies should increase.

We do not spend too much time worrying about how the global economic environment will fare in the near future but instead we will continue to focus our time and thoughts on our process and on identifying high quality companies and including the best value opportunities in the portfolio.

Matthew Page, CFA
Dr. Ian Mortimer
Portfolio managers, Guinness Global Equity Income Fund

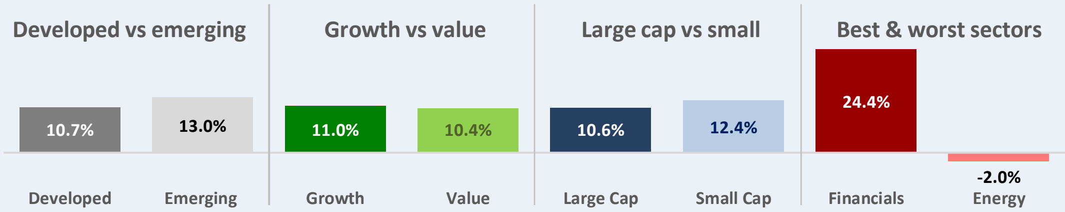
January 2012

Fund size
Start of year £0.4m
End of year £16.7m

What happened in the world?

Investors are introduced to the concept of "risk on / risk off" and markets shrug off continuing economic woes to post decent returns

- Obama re-elected, but Capitol Hill's political gridlock remains
- Sharp falls in the market in the second quarter as poor US jobless figures and weak European data spark renewed fears of a global slowdown
- Yet… markets climbed the "wall of worry", scaled the "fiscal cliff" and posted strong double-digit returns
- Facebook's record-breaking IPO is overhyped, and saddling millions of Main Street investors with losses
- The share price of Apple (the world's largest company) surges 30%, and then plunges straight back down



Total return in GBP; MSCI World & MSCI Emerging Markets Index; MSCI World Growth and World Value; MSCI World Large Cap. and World Small Cap.; individual MSCI World GICS sectors.

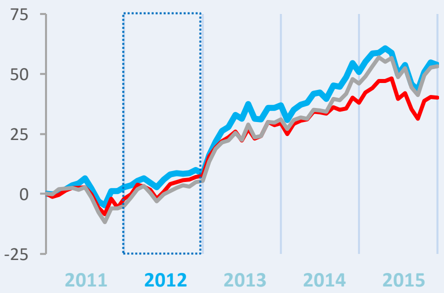
What happened in the Fund?

- As per expectations, the Fund underperformed in sharp rallies, but continued to outperform in sideways and declining markets
- Fund posted positive return, but ultimately under-performed over a volatile but strong year for equities
- **Purchases**: Merck, Arthur Gallagher, ENI & H&R Block
- **Sales**: Telefonica, Pepsico & Sanofi

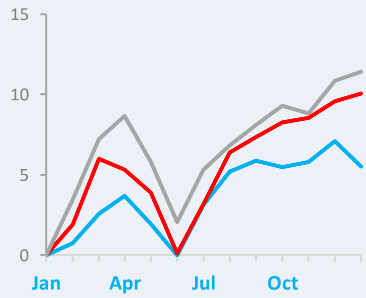
"Economic uncertainty forced asset class correlations to converge; macro views have been driving returns – the so called 'risk on, risk off' strategy. Our investment process is not designed to exploit this idea. We think that cranking up and down the 'risk' in a portfolio within short periods of time is more speculation than investment."

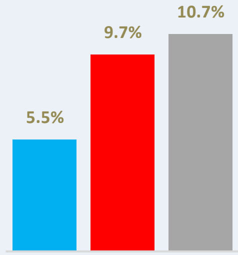
Performance

Cumulative since launch



Calendar year 2012





Fund Guinness Global Equity Income
Sector IA Global Equity Income
Index MSCI World

Cumulative % total return, in GBP.
Source: Financial Express.

Plus, on 1st January 2012 the IA introduced a new Global Equity Income sector.

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.

2012

How did the Fund perform in 2012?

In 2012 the Fund had a total return of 5.52% (in GBP, C class) compared to the MSCI World Index return of 10.70% (in GBP). The Fund therefore underperformed the Index by 5.2%. However, during the two years we have been running the Fund we have managed to deliver positive total returns in both 2011 and 2012, are ahead of the Index since launch and we have done this with relatively low volatility. We have also grown the dividend distribution year-on-year.

In 2012 the Fund performed largely in line with how we expected it to: underperforming in sharp rallies and outperforming in sideways and declining markets.

At the beginning of 2012 we wrote the following outlook.

"Our investment process is unlikely to outperform in all market conditions, but it is our expectation, given the in-depth research we have undertaken on the set of companies that meet our criteria, that over a 3-5 year period these companies should outperform the market.

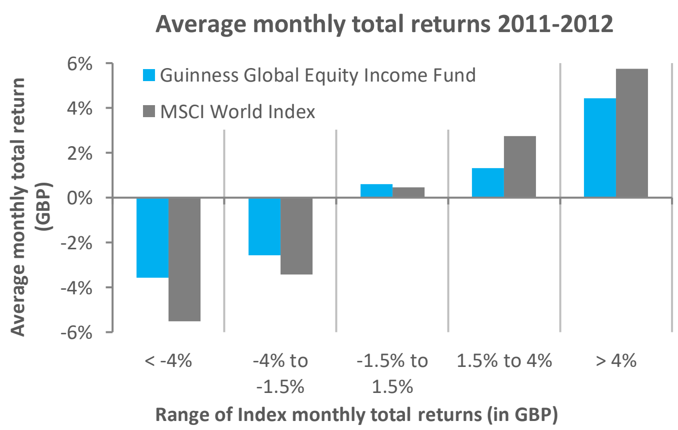
2011 proved to be a good year for this process. While volatile markets reacted wildly to global economic uncertainty, our focus on quality, cash-generative, dividend-growing businesses proved an effective hedge against the down swings and rallied well from the lows.

If 2012 turns out to be a strong market for equities in response to an improving outlook for a global economic recovery, then we may well struggle to outperform as our lack of exposure to commodity stocks would likely hold us back. This scenario is not the most likely in our view, given our expectation of low growth in Europe for a considerable period of time, but that does not mean that the market may not rally strongly on increased optimism.

If 2012 turns out to be similar to 2011, characterised by continued macro risks and uncertainty, then our approach is likely to continue to perform well, with stable, cash-generative businesses continuing to appeal to investors in search of income. In periods of relatively low returns for equities, dividends make up a significant proportion of total returns; the market will likely realise this and valuations of these types of companies should increase.

We do not spend too much time worrying about how the global economic environment will fare in the near future but instead we will continue to focus our time and thoughts on our process and on identifying high quality companies and including the best value opportunities in the portfolio."

The chart below demonstrates how the Fund has performed over the last two years by breaking down the 24 months of total returns into different bands of monthly total returns of the MSCI World Index.



In months where the Index had a total return of 4% or more the Fund has underperformed. At the opposite end of the scale, in months where the Index is down by more than 4%, the Fund has outperformed. Given these characteristics the Fund performed well relative to the Index in 2011 when the Index was down 4.84% and the Fund was up 2.71%, but underperformed relative to the Index in 2012 as equities rallied.

The global macro environment has clearly received a lot of attention since the beginning of the US housing crisis. We have seen large fluctuations in GDP growth, volatile sovereign debt yields, rising unemployment, austerity versus stimulus debates, Balkanisation of banking activity, the fiscal cliff and unprecedented central bank policies, to name a few. This has led to a widely heard commentary that this economic volatility and uncertainty has forced asset class correlations to converge, and therefore macro views have been driving returns – the so called "risk on, risk off" strategy.

Our investment process is not designed to exploit this idea. In fact we think the idea of cranking up and down the "risk" in a portfolio within short periods of time is closer to speculation than investing. The implications of using a "risk on, risk off" strategy goes against our core approach to investing. Here are three reasons why:

1. Risk on, risk off implies high portfolio turnover and a short time horizon.

Our portfolio turnover is low; in 2012 we only sold three positions and bought four. This is a consequence of our investment time horizon. When we are considering investing in a company we do so on the basis that the valuation discrepancy that we are seeking to take advantage of may well take more than two or three years to come good. Market fear and confidence can fluctuate many times over this period, as we have seen over the last five years. Moving in and out of stocks with every lurch in the market would simply create extra trading costs which erode your return over time.

2. Risk on, risk off implies you believe you are good at market timing.

Market timing is more luck than anything else. Given the short time horizons implied by the risk on, risk off approach, market timing is very important for it to succeed. You need to feel confident you know when the inflection points are coming. When we have decided we like a company's valuation we get on and buy it, without trying to pick the perfect moment. In addition our equally weighted portfolio construction means we don't have to be too precise in choosing our moment to invest. The act of rebalancing the portfolio means we sell down a small proportion of our winners to invest in the companies that have underperformed and therefore have become cheaper. This allows us to improve our average purchase price.

3. Risk on, risk off implies you are able to make good economic forecasts.

Statistical studies of expert predictions of future events show that they are not very accurate. Philip Tetlock looked at the predictions of 284 experts over a 20 year period. He analysed the resulting 28,000 predictions and found that these experts' predictions were about as good as a dart-throwing monkey. Despite all the hugely confident predictions we hear from economists in the media, in fact they aren't much better than chance. That isn't to belittle the work of economists; considering different scenarios, the effects of political decisions, shocks, etc. is clearly valuable, but relying on specific predictions can be dangerous. We take the approach of looking at companies from a bottom-up perspective and consider how they will perform in different economic environments. If we can find companies that can continue to grow in numerous economic climates then we can be less concerned with predicting the specifics of how the future will turn out.

Our investment approach is to look for companies that consistently generate high returns on capital and therefore consistently create shareholder value year-on-year. This shareholder value creation is independent of what price the market will attribute to its shares at any point in time, but we do receive a proportion of this value creation each year in the form of a dividend from all the companies we own.

What changes did we make to the portfolio during the year?

We kept the portfolio turnover low in 2012 and only sold three positions. We sold Telefonica, Pepsico and Sanofi, and bought Merck, Arthur Gallagher, ENI and H&R Block.

When we review our portfolio for sale candidates, there are six key issues that might provoke us to sell a position.

Reasons for sale:

1. A company fails or is expected to fail our criteria for inclusion in our Universe
    - CFROI falls below 10%
    - Debt/Equity ratio rises above 1
    - Market cap. falls below $1bn
2. Valuation becomes too rich
3. Balance sheet deteriorates
4. Dividend outlook is unfavourable
5. Original reason for purchase no longer holds
6. Yield contribution to portfolio is insufficient

We sold Telefonica for reasons 3 and 4 and sold Pepsico and Sanofi for reason 1.

We **sold Telefonica** in August as the company had announced dividend cuts and cancellations in response to a balance sheet which had significant amounts of debt coming due over the next couple of years. With yields on European sovereign debt still high and a balkanised European banking system, combined with increasing competition in the European telecoms market, the outlook for the company was not very encouraging. We had held the position as a hedge to our core view of slow economic growth in Europe as well as liking the company's exposure to Latin America and thought it was offering good value. The yield was clearly attractive and the dividend cut and cancellation was painful. However, our portfolio construction rule of equally weighting all our positions meant that the effect on the portfolio was limited. By the time we sold the stock in August it was down 20.2%, making it our worst performing position for the year.

It is mentally easy to sell a company which has performed well but less easy when it has performed poorly as often valuation metrics look attractive, and your positive initial conviction is hard to overcome. However, given that we equally weight all our positions, we have to rebalance our portfolio when they move out of line. One advantage of this approach means that when we rebalance the portfolio we have only two options when it comes to poorly performing stocks. We can either buy more to bring it back in balance or we can sell the whole position. But what we cannot do is just let it drift and forget about it. Consequently our portfolio can never have a long tail of low conviction "legacy" positions. When deciding what to do in these situations we have come to the conclusion that the best question to ask ourselves is "Why must we own this company?". Given our long-term time horizon we might conclude that the market is wrong and sentiment is unjustifiably negative, the balance sheet can be repaired and the price now offers exceptional value. But in the case of Telefonica we couldn't come up with strong reasons to keep it in the portfolio and therefore sold it. Despite the poor performance of Telefonica it was more than outweighed by our best performing position, Aberdeen Asset Management, which was up 89.1%.

We **sold Sanofi** in September. This was prompted by the fact that the company had fallen out of our investable universe due to the company's CFROI falling below 10% in 2011. This was mainly due to the fact that Sanofi had acquired Genzyme, which was generating lower returns on capital. The company was looking particularly cheap when we bought it two years ago, along with a number of other large cap. pharmaceutical companies, but by September the company was trading on multiples closer to that of the market. The share price had also recovered above its 2008 peak and we felt it was a good opportunity to realise a profit. We bought another pharmaceutical company, **Merck**. Merck had the attraction that it had recently started to grow its dividend and has the balance sheet strength and dividend cover to sustain this growth going forward. The yield was also attractive in absolute terms at around 4%.

Later in September we **bought Arthur Gallagher**, the insurance broker, and the Italian integrated energy company **ENI**. Arthur Gallagher has grown its business largely through acquisitions and has been disciplined and successful at integrating these businesses and finding cost efficiencies. Typically the company focuses its acquisitions on niche groups such as marine, energy and aviation. The company has been growing its returns on capital for the last 20 years and has a very strong balance sheet with net cash. ENI has lagged the broader energy market in recent years. We see the company as offering good value both in terms of earnings and based on the value of their assets in the ground. The company is undergoing a step-change as it divests its holdings in SNAM, the gas transport group, and moves towards selling down its stake in Galp, the Portuguese energy company. This will leave the group with a greater focus on exploration and production and better able to grow production in the future, a feat it has struggled to execute in recent years.

We **sold our position in Pepsico** in October when it failed our Universe criteria with its debt to equity ratio going above 1 after it took on more debt. The share price had performed well over the course of the year, yet earnings expectations were declining and consequently the valuation was starting to look stretched. The business still seems in fairly good shape but we concluded the risk-reward profile had shifted somewhat and decided to take a profit. We used the proceeds of this sale to **buy a position in H&R Block**, a tax service provider where we see significant value within a strong business model. The company is highly cash-generative and has recently refinanced a debt facility which has strengthened their balance sheet. The dividend is well covered and offers an attractive yield of over 4%, particularly in the context of a long corporate history of paying dividends. The company is not well covered by the analyst community and short-term investors will be put off by the seasonal nature of its business, which gives some explanation to the attractive valuation. The effect of this switch at the portfolio level was to reduce our exposure to large cap. stocks and increase our exposure to mid caps while also improving the P/E multiple of the portfolio as Pepsi was trading on a 2012 P/E of 17x whereas H&R Block was trading on 10x.

Over the course of the year our best performing positions more than outweighed our worst performing positions.

Best Performers

The companies that contributed most positively to performance of the Fund were Aberdeen Asset Management (+89.1% total return in USD), Halma (+49.8%) and Mattel (+36.8%).

Aberdeen Asset Management has benefitted from the success of their Global Emerging Markets strategy which continues to attract inflows at high margins. Aberdeen is an example of a company that provides us with an indirect way of playing Asia and emerging markets. We have found better value over the last couple of years by gaining exposure in this indirect manner. The company has grown its dividend at 28% per year in both 2011 and 2012 making a cumulative growth of 64%.

Halma generates a growing proportion of its revenues from Asia and emerging markets and is focused on developing industrial products that will benefit from globally shifting demographics such as urbanisation, demand for water, healthcare. The company focuses on the characteristics we like to see in a business, prioritising high returns on capital, low debt, and therefore the ability to pay an increasing dividend. The company increased the dividend by 7% year-on-year, the 33rd consecutive year the company has increased its dividend by more than 5%.

Mattel, the toy company, grew its dividend by 35%, supported by strong margin expansion over the last couple of years. The share price benefitted from analysts upgrading their earnings estimates on a positive outlook. The company generates 15% of its revenues from Latin America and 45% of its operating profits outside of the US.

Worst performers

The companies that had the largest negative impact on performance of the Fund were Telefonica (-20.2% total return in USD), Willis Group (-10.9%) and Metcash (-6.3%).

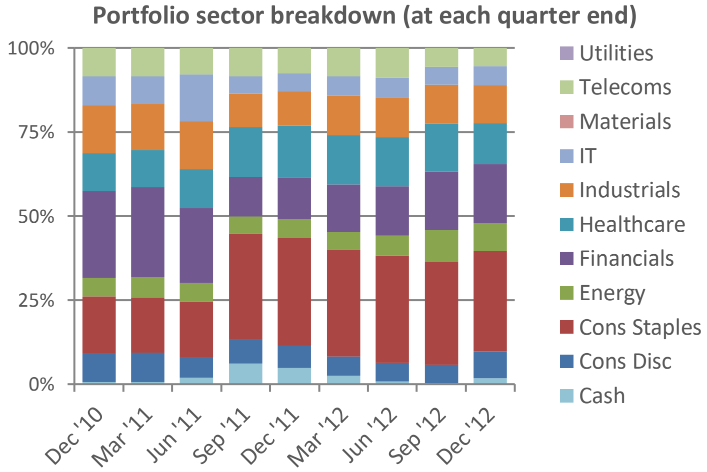
Telefonica we discussed above; we sold it in August after the deterioration of its balance sheet.

Willis Group suffered from low global economic growth leading to reduced commissions on insurance premiums.

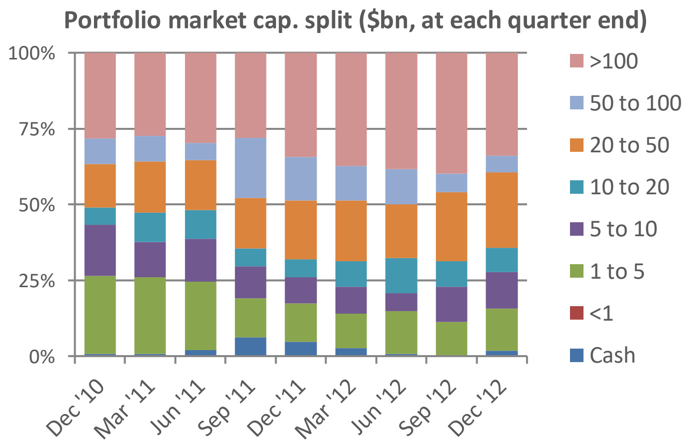
Metcash, an Australian grocery wholesaler, struggled with the integration of a number of stores it had secured through an acquisition. Combined with some deflation in the price of the goods it sells, this led to a decline for the company's earnings outlook.

The Portfolio

The chart below shows how the sector breakdown of the portfolio has evolved over the last two years. The sector breakdown this year has remained fairly stable as the turnover in the portfolio has been low. Our largest sector weight remains the Consumer Staples sector, followed by the Financials sector. Our weighting to the Consumer Staples sector has fallen slightly over the course of the year while our weighting to Financials has increased. We have not owned any materials or utility stocks as our universe criteria tend to exclude these types of companies.



The chart below shows how the market capitalisation breakdown of the portfolio has evolved over the last two years. Our weighting to companies with a market cap. over $50 billion fell from approximately 50% at the end of 2011 to 40% by the end of 2012. Our weighting to companies with a market cap. of less than $10 billion remained fairly stable throughout the year.



Outlook for 2013

The mood in the market at the beginning of 2013 certainly appears more upbeat than it was at the beginning of 2012 and perhaps closer to that of early 2011. In a poll of fund managers at a recent conference we attended, the least popular equity class was defensive companies, with most favouring cyclicals (although the Energy sector remains out of favour). Perhaps we should expect a continued “risk on” rally in shares of companies with less sustainable business models at the expense of those with recurring and steady profitability. Or perhaps macro concerns will again come to front of mind and it will be the opposite. This is all just short-term noise, really; as we wrote in our November brief we believe the demand for equities that offer a relatively safe and rising dividend is likely to remain strong for some time, driven by the medium-term exceptionally low yields on bonds and cash and the long-term demand for income from shifting global demographics.

As we have discussed our portfolio starts 2013 in a very similar shape to where we started 2012 in terms of its geographic and sector exposures. The Fund also remains good value, trading on a price/earnings multiple of 11.6x 2013 forecast earnings, which is very similar to 12 months ago and is a reasonable discount to the MSCI World Index of 13.2x.

The blue chip stocks that looked exceptionally good value in the summer of 2011 are no longer the bargains that they were but we still think quite a few continue to offer good value, as we discussed in our update in September 2012. We did reduce our exposure to blue chips by selling Pepsico which was looking expensive, but we can still identify plenty of value within our high quality investable universe outside of the blue chips, H&R Block being a good example of this.

Our investment process remains unchanged, and we will continue to apply it with discipline, no matter what 2013 may bring.

Matthew Page, CFA
Dr Ian Mortimer, CFA
Portfolio managers, Guinness Global Equity Income Fund

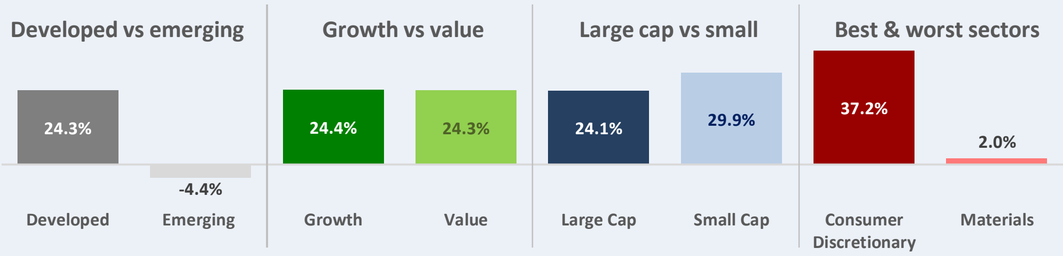
January 2013

Fund size
Start of year £16.7m
End of year £48.6m

What happened in the world?

Stock markets around the (developed) world surged despite investor nerves over "tapering" and lacklustre economic growth

- Strongest year in the S&P500 Index (US equities) since 1997; much weaker year in emerging markets
- Japanese equities surged 25% amid the onset of "Abenomics"
- Hard-fought deal to raise the US government's debt ceiling after two weeks of "government shut-down" (October)
- New Iranian President Hassan Rouhani elected in June



Total return in GBP; MSCI World & MSCI Emerging Markets Index; MSCI World Growth and World Value; MSCI World Large Cap. and World Small Cap.; individual MSCI World GICS sectors.

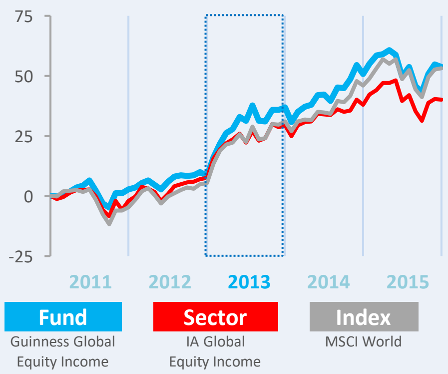
What happened in the Fund?

- Good start to the year as US equities rallied early on
- Held up well in the early summer "taper tantrum", driven by low exposure to high yield equities and emerging markets
- Weaker relative performance in 2nd half amid negative sentiment to the US over government shut down
- Stock selection main driver of performance; Financials and Industrials the main contributors
- A number of corporate events in the Fund led to slightly higher portfolio changes (Abbott/Abbvie, Kraft/Mondelez)
- **Purchases**: Northrup Grumman, Teva, Vodacom, Sonic Healthcare, CNOOC, Abbvie, BAE Systems
- **Sales**: Abbot, Kraft, Mondelez, AstraZeneca, Pfizer, Halma, Walmart, Metcash, VF Corp

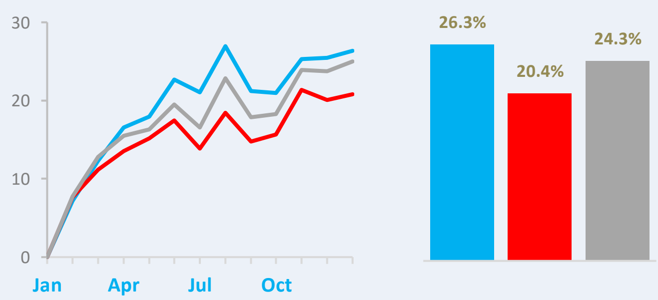
"We don't seek to meet a high dividend yield target – we focus on good businesses that can grow their dividend. Demand for high-yielding equities was very strong up until May 2013. In May the Fed signalled potential tapering of quantitative easing, and some high-yielding equities were hit as the market's focus shifted from their attractive yields to the viability of the underlying business in a higher interest rate environment."

Performance

Cumulative since launch



Calendar year 2013



Cumulative % total return, in GBP.
Source: Financial Express.

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.

GUINNESS
ASSET MANAGEMENT

2013

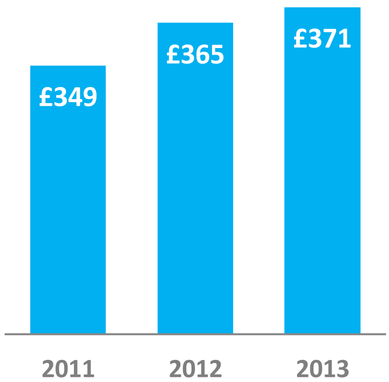
In 2013 the Fund produced a total return of 26.34% (in GBP – E Class) compared to the MSCI World Index's 24.32%. The Fund therefore outperformed the Index by 2.02%.

December 31st 2013 also marks the three year anniversary of the Fund's launch, and over this period the Fund has produced a total return of 36.33% compared to the MSCI World Index return of 31.01%, thus outperforming by 5.23%. This performance ranks the Fund in the top quintile of peer funds in the IMA Global Equity Income sector over both one and three years. The Fund has also grown in assets under management from £16 million at the start of 2013 to £48 million by the end of the year.

It is also worth noting that the performance of the Fund has been achieved with a level of volatility that is lower than both the Index and the sector. The volatility of the Fund over the last three years has been 11.8% while the average fund in the sector has had a volatility of 12.8%, with the Index at 14.4%.

With our focus on companies that have the ability to grow their dividends we have also managed to distribute a dividend from the Fund that has grown each year, as can be seen in the chart.

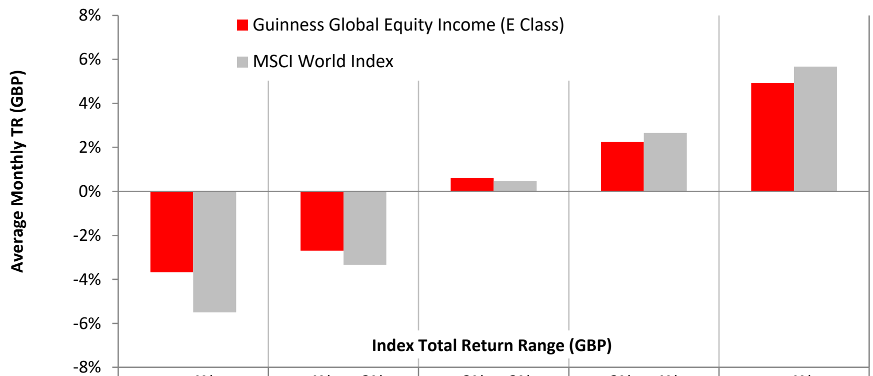
Dividend growth



Dividends paid on £10,000 invested at launch (X class, 1,000 shares purchased on 31.12.10)

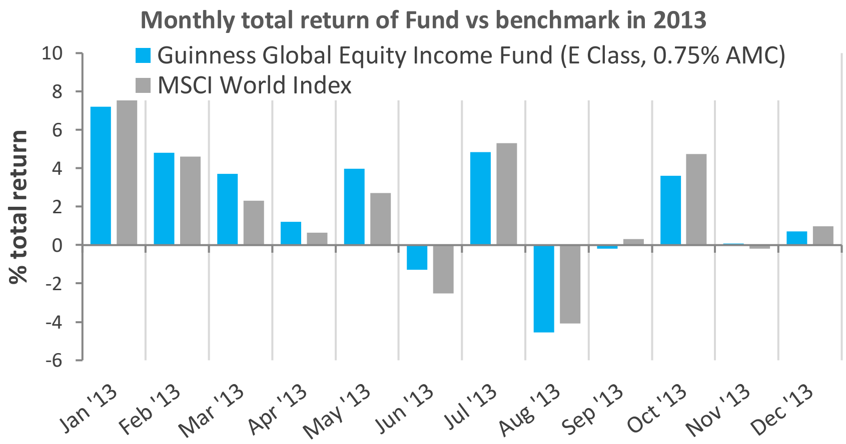
With 36 months of performance, we now have a data set that is statistically significant. When we look at the performance of the Fund over the last three years you can see that the Fund has produced a fairly clear picture. The Fund has tended to get most of its outperformance in sharply falling markets (i.e. months where the MSCI World Index has fallen by more than 4%) and tends to underperform in sharply rising markets (i.e. months where the MSCI World Index has gained more than 4%). Importantly, this distribution is somewhat skewed in that the Fund has tended to outperform more in periods of sharp falls, than it has underperformed in periods of sharp gains.

Frequency distribution of monthly total returns of Fund vs benchmark



	< -4%	-4% to -2%	-2% to 2%	2% to 4%	> 4%
Guinness Global Equity Income (E Class)	-3.7%	-2.7%	0.6%	2.2%	4.9%
MSCI World Index	-5.5%	-3.3%	0.5%	2.7%	5.7%
Difference	1.8%	0.6%	0.1%	-0.4%	-0.7%
Frequency	2	5	17	6	6

The chart below shows the performance of the Fund compared to the MSCI World Index month by month over the course of 2013. We saw a strong rally in global equities over the first five months of the year, and pleasingly the Fund outperformed the Index during this rally to 21st of May. This marked the moment where tapering of US quantitative easing become front of mind. During the subsequent fall in markets through June the Fund held up well – and again outperformed. This was largely due to the fact that we had relatively little exposure to high yielding equities, which were hit particularly hard, as well as low exposure to emerging markets, as emerging market currencies moved sharply on the news. The second half of the year was dominated by the US shutdown, which negatively affected sentiment towards US companies in a similar way to what we saw at the end of 2012. This was a modest drag on our performance over the second half of the year.



Our allocation to Financials (where we were a little underweight relative to the index) and Industrials (where we had been increasing our allocation over the course of the year) were the most significant contributors to performance. The majority of the contribution from these sectors came from stock selection. Our holdings in ICAP and Aberdeen Asset Management were standout performers in the Financials sector, whilst Northrop Grumman, Meggitt, L-3 Communications, Illinois Tool Works and General Dynamics all performed particularly well in the Industrial sector. The fact we had no exposure to the Materials sector was also an important contributor.

Our allocations to Consumer Staples and Health Care, which we reduced over the course of the year, were the main detractors from performance relative to the Index. This was largely due to our bias towards some of the large companies in the sectors.

Looking at the performance of equity markets as a whole during 2013 by region and sector, the US and Europe showed the strongest gains while emerging market equities actually fell (in USD terms, see chart below). The strongest performing sectors were European Telecomms, US Consumer Discretionary and US Healthcare. The Materials and Energy sectors were relatively weak across all geographies.

Total return (USD) in 2013 by region and sector

Total Return (USD) 2013	MSCI World	MSCI US	MSCI Europe	MSCI Asia	MSCI EM
Index	27.5%	32.6%	26.1%	13.6%	-2.4%
Sector					
Energy	19.0%	25.4%	14.0%	-11.0%	-10.5%
Materials	4.0%	24.6%	5.0%	4.1%	-16.8%
Industrials	32.8%	40.8%	31.3%	12.9%	-1.0%
Cons Disc	40.0%	42.9%	37.1%	26.2%	5.8%
Cons Staples	22.2%	26.5%	18.3%	11.7%	-3.7%
Healthcare	37.1%	42.0%	32.3%	17.6%	9.2%
Finance	28.2%	34.0%	31.6%	10.6%	-3.9%
IT	29.3%	29.8%	33.9%	16.4%	14.0%
Telecomms	32.5%	14.2%	43.9%	25.7%	-1.3%
Utilities	13.9%	13.6%	19.4%	9.4%	-2.7%

An investment process whose ultimate goal is to search for good businesses that are attractively valued requires patience and discipline. Valuation gaps take time to revert to the mean, so you won't find us trading in and out of positions. As we have written previously, we do not consider ourselves traders, we consider ourselves investors. Ultimately we want to own businesses that generate cash and dividends, and as long as the valuations don't present considerable risk to preservation of capital we see no need to trade.

We find it constructive to consider candidates for investment as if they were not listed companies with share prices that oscillate from day to day, minute to minute, but consider what we would want to see in a company that lacked a highly liquid market for its shares such that, to invest, we might have to commit for three years, five years or even longer. This leads us to focus on companies that can continue to generate high returns on capital, that don't have overly stretched balance sheets, and that will give us a "guaranteed" return each year in the form of a dividend. Thinking this way also forces you to consider the variety of economic, industry and stock-specific factors that drive the true value of a business over the long term and ignore short-term sentiment (fear and greed). We can then focus our efforts on identifying which businesses we would like to own and whether they are undervalued, fair value or overvalued.

Consequently, our turnover in the portfolio has been low over the last three years, as shown below. In 2013 we sold a total of eight companies and we bought seven. This compares with 2012 where we bought only four companies and sold just three, and 2011 where we bought eight companies and sold nine.

Portfolio changes	2011	2012	2013
Purchases	8	4	7
Sales	9	3	8
Total Holdings	35	36	35

The number of changes we made to the portfolio this year was higher than last year but similar to 2011. If we were to characterise the majority of the sales we made last year, they would be best described as being driven by valuation, compared to 2011 where most decisions were due to a changing macro environment, and 2012 where we had concerns surrounding forecast profitability.

First, in January we sold Metcash, an Australian supermarket and convenience store brand. The company had acquired a number of a competitor's stores and was struggling to integrate these additional stores into the business, causing a drag on cash flow. The company was also struggling due to weakening pricing power relative to some of their larger competitors. We became concerned about these structural changes in the outlook for the business and concluded there were better opportunities elsewhere.

In March we sold Wal-Mart and VF Corp. We had owned both companies in the Fund since launch and each made a significant contribution to performance. They are very different businesses and have grown in very different ways, but what they share is a remarkable ability to generate cash and a consistent approach to distributing that cash back to shareholders. However, by March neither company looked like the bargain it once was (VF Corp traded on 15.3X PE ratio for 2013, and Wal-Mart on 15.4X) and their share price growth had outpaced that of their dividends, meaning their dividend yields were now modest. We continue to like both companies and will follow their progress in the future, but for now we are happy to have taken profits.

Often the most attractively valued opportunities arise in the ugliest circumstances, and in our update in March we noted the market's obsession with 'cliffs' of all types, be it patent or fiscal. People's perceptions of the severity and implications of such cliffs move the market to extreme valuation levels, which can be overly pessimistic. One area in particular we identified was the defence stocks, which looked cheap on our screens because of the negative sentiment towards these companies following the sequestration debates in the US. To take advantage of these cheap valuations, and to replace our sales of Wal-Mart and VF Corp, we purchased two new companies for the portfolio: Northrup Grumman and BAE Systems. Northrop Grumman is a US-focused defence contractor that was trading on a PE ratio of 9.9X for 2013, and BAE Systems is a more internationally-diversified supplier of defence equipment and systems that was trading on a PE ratio of 9.4X for 2013. Both companies had underperformed the broad market around the turn of 2013 and were trading on EV/EBITDA multiples at historic lows. But with free cash flow yields of 10%+ and proven track records of generating high returns on capital even in previous periods of budgetary constraints, we felt these companies offered a compelling investment opportunity.

Both companies have performed well since we bought them, with Northrop Grumman in particular being one of our top performing companies of the year.

In October we made more changes to the portfolio to take profits on companies that had done well, and initiate new positions in companies with cheaper valuations, offering better margins of safety, and more attractive dividend yields.

We sold five companies in October and replaced them with five new purchases.

First we took profits on Halma and Pfizer. Halma, the UK-listed industrial safety equipment company, has been one of the best performing stocks we have held in the portfolio, with a total return of almost 70% from purchase to sale. It also provided the Fund with a steadily rising dividend stream, with dividend growth of around 7% per annum. The company has barely put a foot wrong, with good top and bottom-line growth and consistently high returns on capital. The market had recognised this, and by October it was trading on a PE multiple of 22 times, which is very close to the maximum multiple it has achieved over the last ten years. Having reached such a rich valuation we found it difficult to justify continuing to hold it in the portfolio compared to other cheaper opportunities.

We bought Pfizer, the US-listed global pharmaceuticals company, in the summer of 2011 when we made changes to the Fund to reflect our worries regarding the outlook for Europe. Pfizer, and the global pharmaceutical companies in general, were very unloved at that time – the market had sold them down because of the expected impact of patent cliffs. When we purchased the stock it was trading on a PE multiple of 7.9 times and had a share price of $18. When we sold it the stock was trading on a multiple of 13.5 times with a share price of $29. Earnings growth for the company was limited during the period we held it, meaning the majority of the share price performance was due to multiple expansion (i.e. re-rating). When we think about the return we might achieve from a company we note it can be split into three main components: a) dividends, b) earnings growth and c) multiple expansion. In the case of Pfizer we think we captured the majority of the multiple expansion; combined with its relatively low dividend yield and our cautious outlook for earnings growth, we chose to sell.

We also sold our holdings in Kraft Foods Group and Mondelez International, the two companies that emerged from the re-organisation of the original Kraft Foods in October 2012. The performance of both companies has been enviable, with good revenue and earnings growth combined with a good tailwind from US stock market performance generally and the US Consumer Staple sector specifically. With PE multiples of 19 times for Kraft Foods Group and 21 times for Mondelez, and dividend yields of 3.7% and 1.6% respectively, we felt it an opportune time to take profits and instead buy companies offering better upside potential (which also reduced our exposure to the US and the Consumer Staples sector).

The final sell we made in October was that of AstraZeneca, which we put in the bucket of sells induced by a change in investment thesis: we no longer expect the re-rating or earnings growth we had originally envisaged. We had owned AstraZeneca since we launched the Fund, one of a basket of pharmaceutical companies that we purchased at the time which we believed had been unfairly sold down. Indeed, when we first bought AstraZeneca it was trading on a PE of just 6 times. Since purchase the total return for the Fund had been just under 40%, as the PE multiple had expanded to 10 times, despite a headwind of decreasing earnings over the period as a whole. We thought the outlook had turned even more negative, and on many indicators we follow our investment thesis no longer stood up. Analysts' earnings expectations were sharply lower, and the free cash flow dividend cover stood at only 1.5 times. Despite the company offering a high dividend yield which will be attractive to many, we concluded there was only modest potential for upside and little scope for dividend growth.

Of the five companies we bought in October, four can be classified as quality companies that we identified as offering good value, and one is probably better classified as 'deep value' because the market sentiment is almost universally negative.

The four companies in the 'quality at a good price' group were:

- Schneider Electric, the French-listed electrical component manufacturer
- Sonic Healthcare, an Australian-listed medical diagnostics company
- Vodacom, the South African-listed telecoms company
- CNOOC, the Hong Kong-listed Chinese state oil company

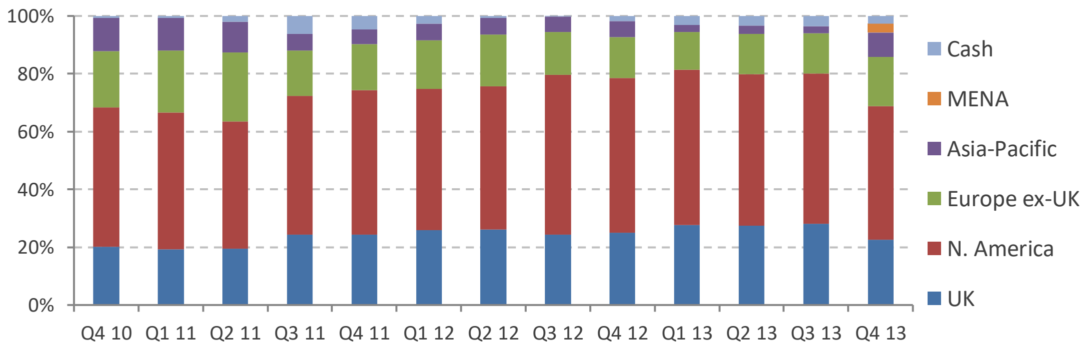
What immediately jumped out about this group was that none were listed in the UK or US (regions that had performed well) and they were in the more cyclical sectors of the market. This was not necessarily reflective of a 'top-down' view we had but reflects our 'bottom-up' analysis, which focuses purely on valuations of individual stocks regardless of which sectors or regions they are in. They all traded on valuation multiples well below their historic highs and, importantly, offer good prospects for earnings growth. The latter is something we were increasingly focusing on in the portfolio, as we have seen the market multiple expand so much since the lows after the financial crisis.

The final company we purchased was Teva Pharmaceutical, the US-listed generic drug manufacturer that is based in Israel. The company has been a consolidator of generic drug manufacturers and also generates a large proportion of its revenues from a multiple sclerosis drug for which it owns the patent. Ironically it is the threat of generic competition to this drug next year, when it comes off patent, that has been a drag on the company. Priced at just over seven times 2014 expected earnings, however, it ranked in the bottom decile of its industry peers and almost two standard deviations away from its median multiple over the past 10 years. Earnings expectations have fallen over the past year but we felt this may have bottomed, and the market has oversold the stock based on an overly pessimistic view. Again, we cannot pinpoint when sentiment and/or the share price may start to recover, but at such lowly valuations and with sentiment already at extreme levels we feel there is good upside potential over the longer term and a lot of bad news already priced in.

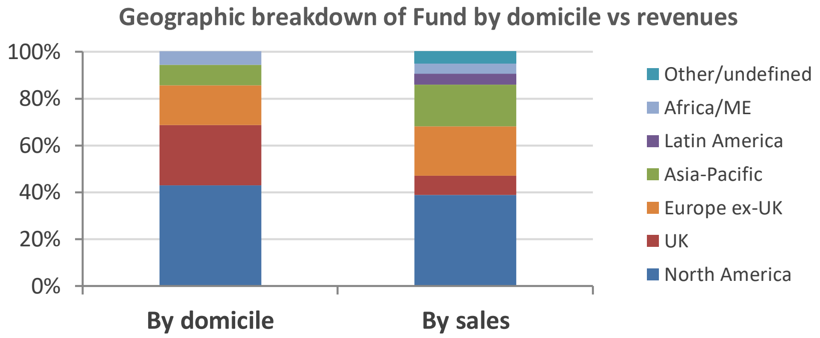
The overall effect of the changes we made to the portfolio can be seen in the charts below.

In terms of geographic exposure the main change was to reduce our exposure to North America and the UK and increase our exposure to Europe and Asia.

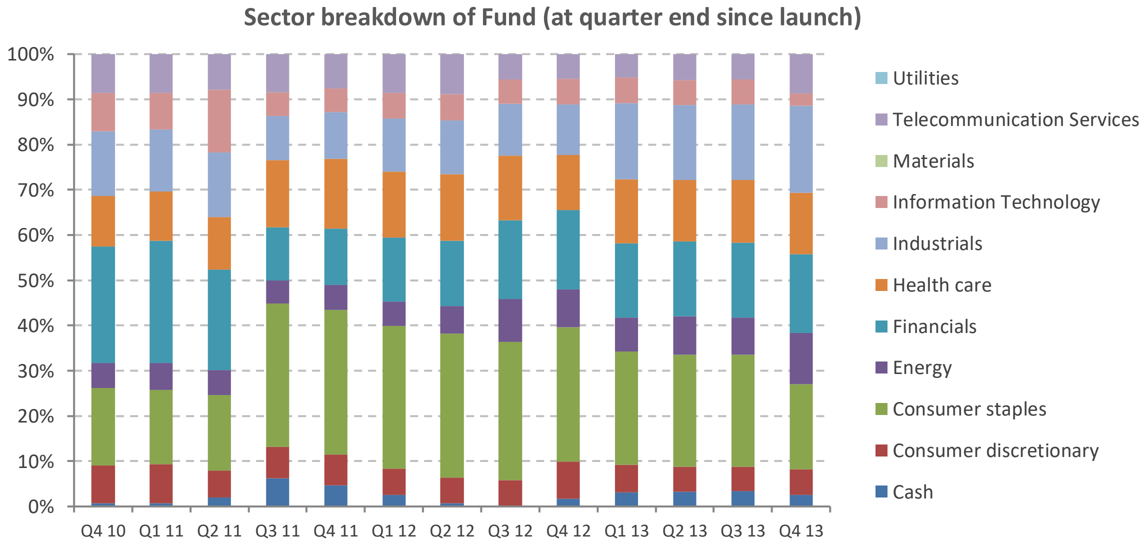
Geographic breakdown of Fund over time (at quarter end since launch)



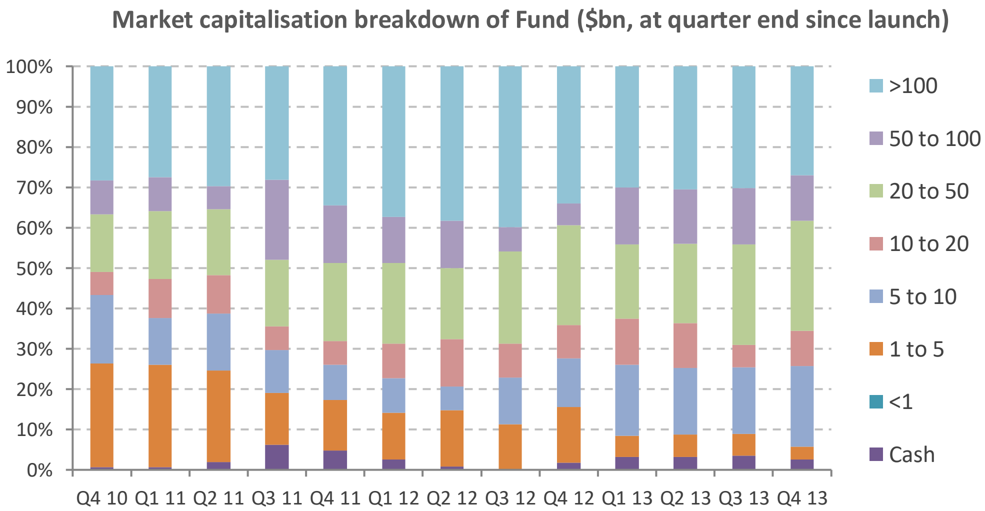
We note that many of the companies we own have global revenue streams, so we also like to look at the portfolio's exposure by where the aggregate revenues are coming from. The chart below illustrates that our exposure at the end of the year by sales looks quite different to our exposure by domicile. The UK stands out particularly: our exposure to UK companies by domicile is 25% whereas by sales it is only around 8%.



In terms of sectors, the effect of the changes we made to the portfolio has been to reduce our exposure to the Consumer Staples sector quite markedly while increasing our exposure to Industrials, Financials, and Energy.



The changes to the portfolio have had very little effect on the Fund's market cap breakdown.



The Fund at the end of the quarter was trading on a PE of 13.4X 2014 earnings, and 12.5X 2015 earnings, a discount of 9.9% and 6.7% respectively to the broad market. We therefore see the portfolio as continuing to provide good value compared to the broad market.

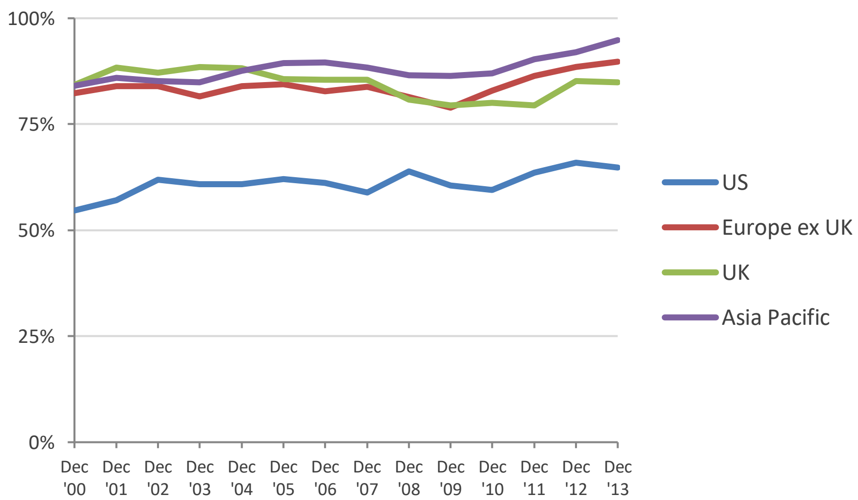
Given the strong demand that exists for income right now and the fact that yields on cash and bonds are so low, a lot more attention has been given to dividend-paying equities as a source of income over the last few years. Whilst we do not seek to meet any high dividend yield target for the Fund, preferring to focus on investing in good businesses that can grow their dividend, we note that demand for high-yielding equities had been very strong up until May 2013. In

May Bernanke signalled the potential for tapering the Fed's quantitative easing programme, and consequently some high-yielding equities (particularly those with emerging market exposure) were hit as the market's focus shifted from their attractive yields to the viability of the underlying business in a higher interest rate environment. Given the strong rally we have seen this past year, it is interesting to consider how the pool of available dividend-paying companies has evolved over the last few years, and put it in a longer-term context as well.

In the charts below we look at some of the trends and variations amongst dividend paying companies by the region in which they are domiciled over the last 14 years. The first chart shows the proportion of companies that pay a dividend (this includes companies that have only a very modest dividend yield which therefore would be too low to include in most dividend-focused portfolios, but nonetheless it's an interesting picture). The chart shows the trend that an increasing proportion of companies have been choosing to pay dividends over the last three years. This is partly due to management's reluctance to expand capital expenditure to drive growth (due to uncertainty of demand) and partly due to higher profit margins (due to lower debt financing costs). Management have therefore preferred to return cash to shareholders, and shareholders have been happy to receive it.

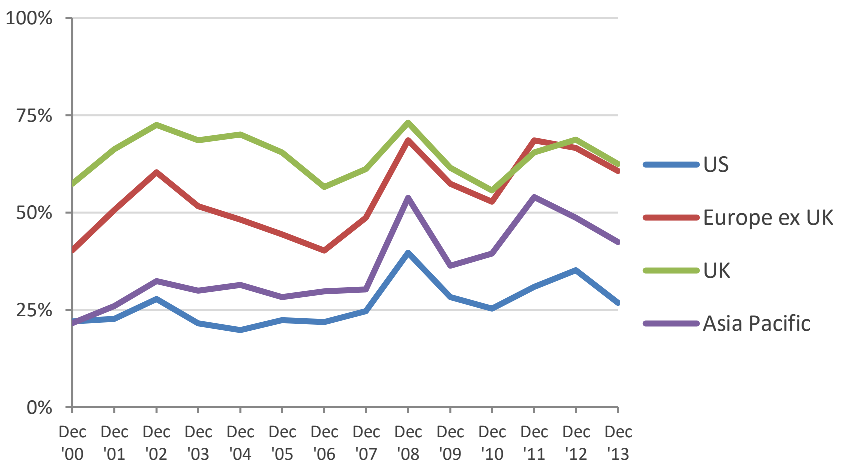
It is also clear that in the US, where there is a long tradition of share buy-backs, only around 65% of companies with a market capitalisation of over $1b pay a dividend, but this has grown from 55% back in 2000. It is also striking that a higher proportion of companies in Asia-Pacific with a market cap over $1 billion pay a dividend than any other region.

Proportion of companies with a market cap over $1bn that pay a dividend, by region



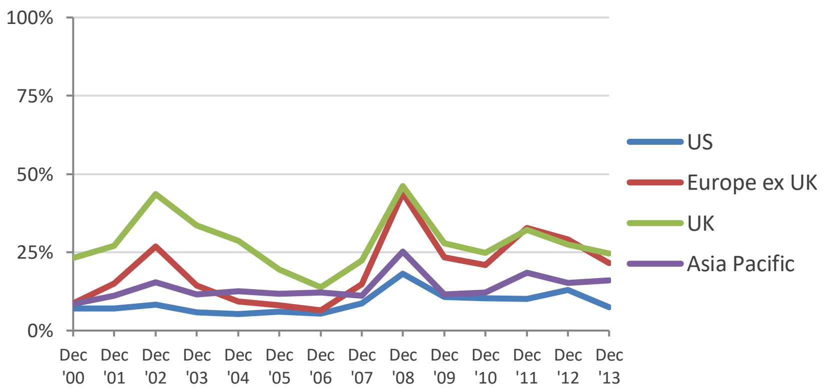
When we look at the proportion of companies that have a dividend yield above 2% (trailing 12-month dividend yield) the picture looks quite different. The US is still the lowest at only 27%, but then we see Asia-Pacific at 42%, with the UK and continental Europe at over 60%. Looking over the longer term back to 2000, what is striking is the substantial growth in the proportion of companies from both Europe ex-UK and Asia-Pacific that pay a reasonable dividend, thereby providing a more diversified pool of companies for inclusion in funds like ours.

Proportion of companies with a market cap over $1bn that yield over 2%



If we then increase this yield cut-off to 4%, we see a similar picture, with a steady growth in the proportion of European and Asian companies that have a high yield.

Proportion of companies with a market cap over $1bn that yield over 4%



The group of companies that pay dividends has shown some positive new trends over the last few years. And despite last year's strong rally in equities there remains today a good pool of companies to invest in that is well diversified across geographies.

In terms of valuation, Emerging Markets and Asia offer the most attractive valuation as a whole, but this is skewed by the large weighting towards the Financials sector. Indeed Consumer Staples and Healthcare stocks in these regions look expensive relative to western companies. While markets have seen multiple expansion over the last 12 months, the overall picture on a relative basis has not changed drastically over the last two years. We also note that US companies have tended historically to command a premium to European companies.

2014 PE at 31.12.13 by region and sector

PE '14 at 31/12/13	MSCI World	MSCI US	MSCI Europe	MSCI Asia	MSCI EM
Index	15.1	15.6	13.6	13.0	10.6
Energy	12.7	13.3	10.2	9.4	7.0
Materials	14.7	16.1	14.0	14.2	2.3
Industrials	16.2	16.9	15.6	14.1	14.1
Cons Disc	17.0	19.7	14.1	12.8	12.0
Cons Staples	17.3	17.3	16.8	20.2	21.4
Healthcare	16.4	16.9	15.2	21.1	21.7
Finance	12.9	13.5	11.5	10.9	8.8
IT	15.3	14.5	19.8	12.6	11.0
Telecomms	15.5	15.9	14.7	15.4	12.8
Utilities	15.2	15.0	13.1	18.8	6.4

Looking at dividend yield, Europe followed by Emerging markets are offering the highest dividend yields. Again the relative picture has not changed drastically over the last few years.

Trailing 12 month dividend yield at 31.12.13 by region and sector

Div Yield at 31/12/13	MSCI World	MSCI US	MSCI Europe	MSCI Asia	MSCI EM
Index	2.4	1.9	3.4	2.1	2.6
Energy	2.9	2.0	4.5	3.4	3.7
Materials	2.6	2.2	3.1	1.7	2.7
Industrials	2.1	1.9	2.8	1.8	2.0
Cons Disc	1.7	1.2	2.9	1.6	1.5
Cons Staples	2.7	2.6	2.9	1.8	2.0
Healthcare	2.1	1.6	3.0	2.2	1.0
Finance	2.7	1.8	3.5	2.5	3.2
IT	1.5	1.5	1.5	1.5	1.6
Telecomms	4.3	4.8	4.6	2.9	3.7
Utilities	4.5	4.0	6.1	2.0	3.1

Clearly valuations in aggregate are higher today than they have been for some time, but we are cautious about drawing too many conclusions for our investment process from looking at aggregate data like this. An average can obscure huge amounts of useful and interesting data in the underlying spread and the bias that market capitalisation can have on these weighted averages. Indeed, our investment process is designed to focus on identifying companies whose valuations are at the far left of the distribution, not the average (i.e. are cheap relative to their peers). We select a concentrated portfolio of 35 companies on a case-by-case basis and will go to whichever companies look attractive irrespective of what sector or geographies they may be in. It is more important to us to find a set of companies with a proven history of high return on capital, attractive valuation, good capital budgeting discipline and scope for dividend growth etc., than to identify companies in a sector or industry that in aggregate looks cheap relative to others. We continue to try to identify good businesses that are unloved and attractively valued, but which require an investment horizon beyond the short-term.

We would like to wish everyone a very happy and prosperous New Year and thank you for your support over the last three years.

Matthew Page, CFA
Dr Ian Mortimer, CFA
Portfolio managers, Guinness Global Equity Income Fund

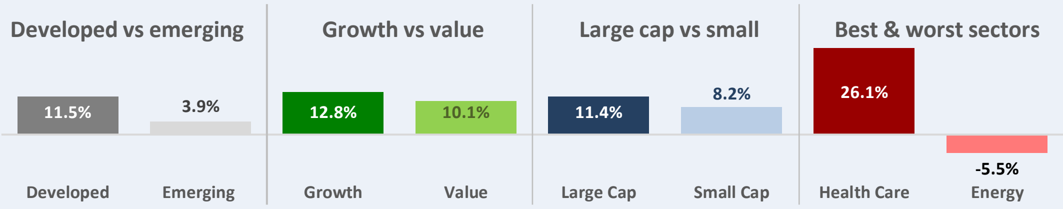
January 2014

Fund size
Start of year £48.6m
End of year £62.9m

What happened in the world?

Another decent year for equity markets in spite of the geopolitical risks (albeit a little bumpy along the way)

- Russia annexed the Ukrainian peninsula of Crimea
- Oil prices collapsed as OPEC decided to pursue a market share strategy, maintaining high oil production to drive out higher cost producers
- 540 million people voted in India's largest ever general election, won by Narendra Modi's BJP
- Scotland rejected full devolution and decided to stay in the United Kingdom
- Janet Yellen sworn in as the first woman to chair the US Federal Reserve
- Alibaba had the biggest IPO ever at $25 billion



Total return in GBP; MSCI World & MSCI Emerging Markets Index; MSCI World Growth and World Value; MSCI World Large Cap. and World Small Cap.; individual MSCI World GICS sectors.

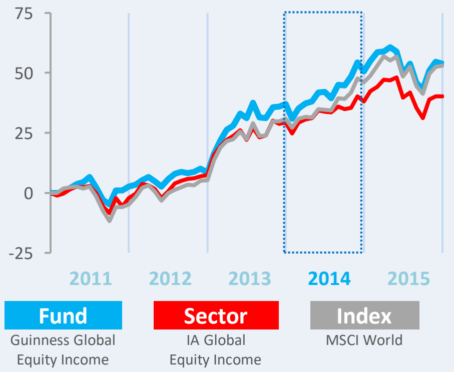
What happened in the Fund?

- Weaker performance early in the year, driven primarily by Financials holdings
- Better performance through the rest of the year enabled the Fund *largely* to match the benchmark, and clearly outperform its peers
- Strongest performance from healthcare stocks
- Weaker performance from oil-related companies and emerging market stocks (amid a strengthening US dollar)
- **Purchases**: Li & Fung, Cisco
- **Sales**: Northrup Grumman, Reynolds American, Vodafone

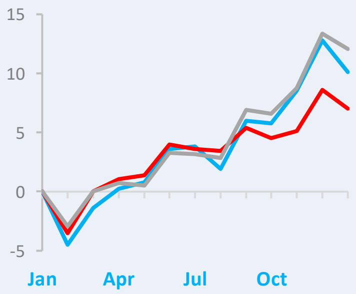
"Our focus on quality has meant that the median ten year cash flow return on investment of our positions is more than twice as high as the MSCI World Index. Our focus on valuation means that the Fund remains at a P/E valuation discount of 7% relative to the Index. Our focus on dividend growth has produced a dividend distributed by the Fund that was 7.5% greater than the previous year, and provided a dividend yield of 3.25%."

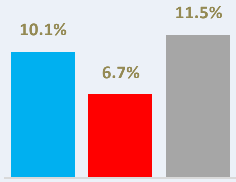
Performance

Cumulative since launch



Calendar year 2014





Cumulative % total return, in GBP.
Source: Financial Express.

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.

GUINNESS
ASSET MANAGEMENT

2014

2014 was another good year for the Guinness Global Equity Income Fund. It was the fourth consecutive year of positive returns, and the Fund ranks in the top quartile over one year, three years and since launch in the IA Global Equity Income Sector.

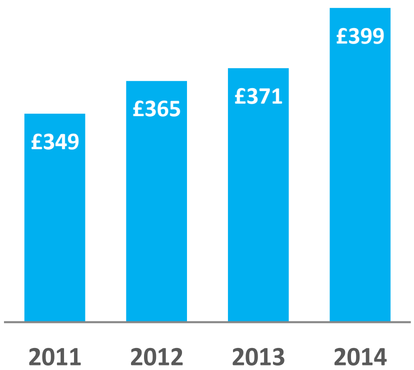
In 2014 the Fund produced a total return of 10.1% (in GBP – E Class) compared to the MSCI World Index return of 11.5% and IA Global Equity Income Sector return of 6.7%. The Fund therefore underperformed the Index by 1.4% but outperformed the Sector by 3.4%. This puts the Fund in the top quartile relative to peer funds for the year. Indeed, the Fund has ranked in the top quartile for three of the last four calendar years.

% TR in GBP (E class)	2011	2012	2013	2014
Fund	2.7	5.5	26.3	10.1
IA Global Equity Income Sector	-2.1	9.7	20.4	6.7
Fund sector quartile rank	1st	4th	1st	1st

December 31st 2014 marks the four year anniversary of the Fund's launch. Over this period the Fund has produced a total return of 50.8% compared to the MSCI World Index return of 46.0% and the IMA Global Equity Income Sector 38.1%; so it has outperformed the Index by 4.8%, and the Sector by 12.7%.

Our focus on high return on capital companies that have the potential to grow their dividends has enabled us to grow the dividend distributed by the Fund every year. In 2014 the Fund's dividend grew by 7.5%, which was greater than in previous years.

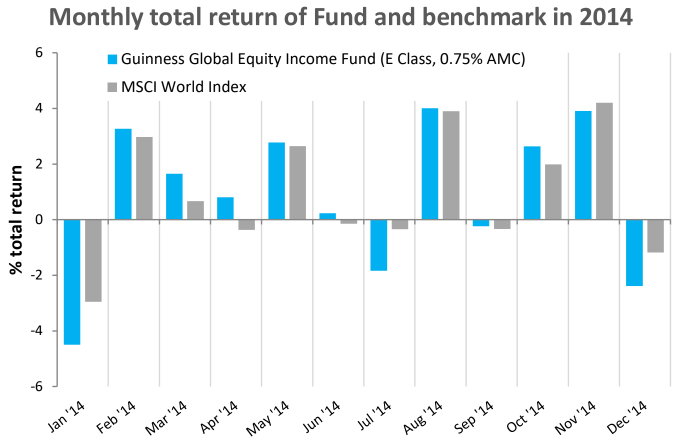
Dividend growth



Dividends paid on £10,000 invested at launch (X class, 1,000 shares purchased on 31.12.10)

Given the broader macro concerns that existed at the beginning of the year, 2014 was unlikely to be a repeat of 2013's very strong returns for global equities. Whilst it turned out to be a positive year for global equities, it was not a smooth ride, particularly over the last six months.

There were six positive months and six negative months for the Index, while the Fund had eight positive months and four negative months. Over the course of the year there were three months where the Fund underperformed the Index by more than 1% (January, July and December).



Source: Financial Express

The main detractors in January were our holdings in the Financials sector, particularly Aberdeen Asset Management, and we were not helped by our holding in toy company Mattel, which had suffered a poor holiday season.

July was also a poor month for our Financials, and more broadly our holdings in the US, whilst in December our positions with exposure to emerging markets and the oil price underperformed.

Looking at the year as a whole we saw particularly strong performance in Teva Pharmaceutical (+47.3% in USD), which we had bought towards the end of 2013. The Healthcare sector was the best performing global sector in 2014, with a number of high profile acquisition attempts leading to higher multiples. The sector was up 18.7% over the year. All our Healthcare holdings provided a positive total return, with Abbvie, Johnson & Johnson and Merck all contributing meaningfully to performance.

Teva Pharmaceutical was extremely unloved when we bought it. In last year's annual review we wrote:

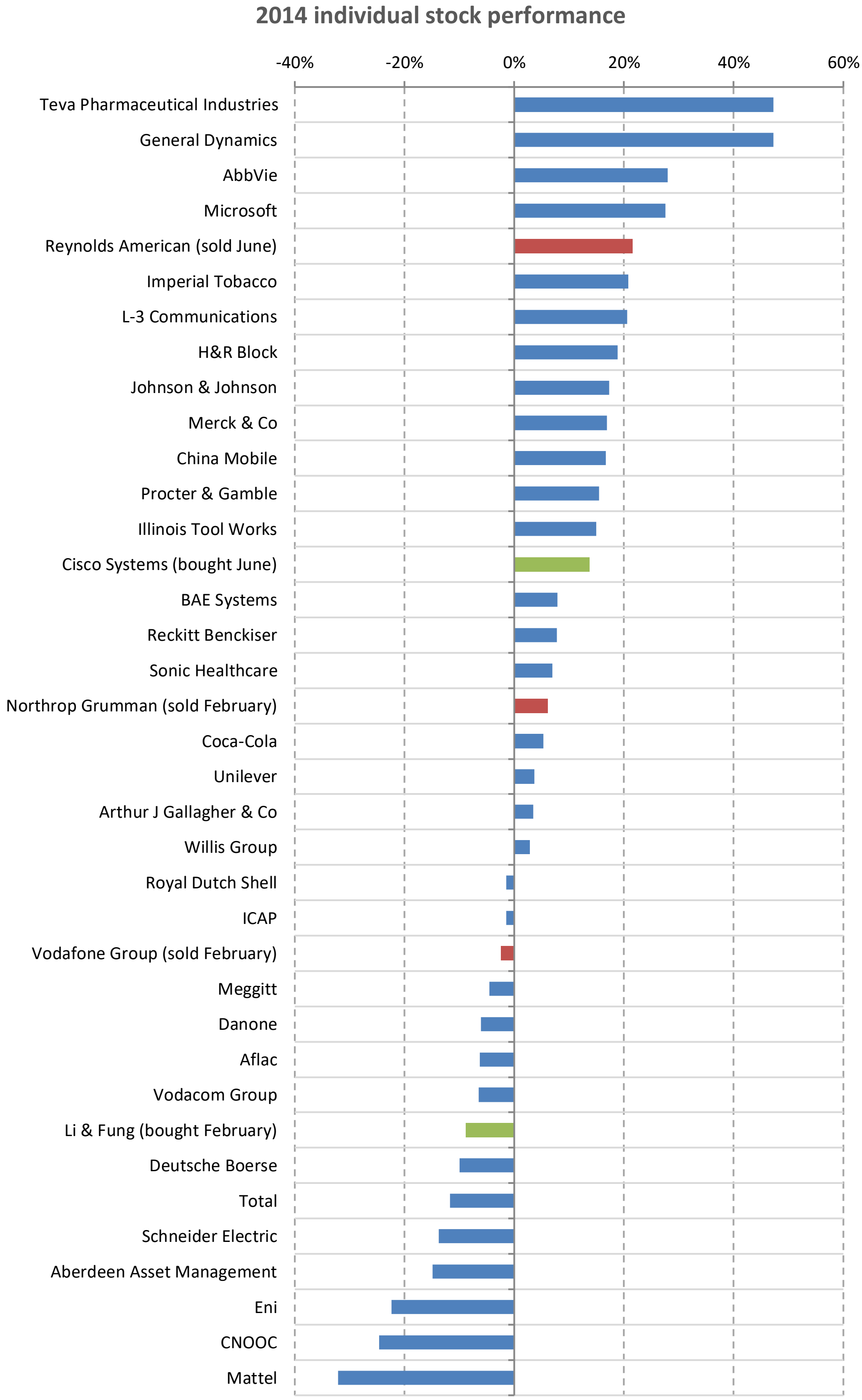
"The company has been a consolidator of generic drug manufacturers and also generates a large proportion of its revenues from a multiple sclerosis drug for which it owns the patent. Ironically it is the threat of generic competition to this drug next year, when it comes off patent, that has been a drag on the company. At just over 7 times 2014 expected earnings, however, it ranked in the bottom decile of its industry peers and almost two standard deviations away from its median multiple over the past ten years. Earnings expectations have fallen over the past year, but we felt this may have bottomed and the market has oversold the stock based on an overly pessimistic view. Again, we cannot pinpoint when sentiment and/or the share price may start to recover, but at such lowly valuations and with sentiment at extreme levels already we feel there is good upside potential over the longer term and a lot of bad news already priced in."

This was a classic example of buying a company that was attractively valued but where no obvious "catalyst" existed. We never know how long negative sentiment will persist, and whether it will become more negative before it improves. In this instance, the turnaround was fairly quick.

We discussed our holding in General Dynamics in detail in our November 2014 update. After strong performance in 2013 it went on to have another good year in 2014, producing a total return only just shy of Teva Pharmaceutical (+47.2%). The company has been growing its dividend at 10% per year for the last five years, and we believe this strong dividend growth is likely to continue.

The poor performing positions in 2014 were generally affected either by the falling oil price, or their exposure to emerging markets. The halving in the oil price over the last six months hurt the valuations of our energy companies. We were modestly overweight in the energy sector, but the positions we held were the more defensive 'integrated' names, which have generally held up well relative to the broader energy sector.

Positions exposed to emerging markets generally underperformed due to the strengthening US dollar and implications for slower GDP growth in these countries.



Source: Bloomberg, total return in USD

To put these moves in some context, outlined below is a regional and sector performance analysis over 2014. In terms of sectors Healthcare and Utilities performed well across regions. Headline regional returns were very diverse, with the US outperforming Europe by just under 20%.

Total return by region and sector (USD) in 2014

Total Return (USD)	MSCI World	MSCI US	MSCI Europe	MSCI Asia	MSCI EM
Index	5.6%	13.4%	-5.5%	0.7%	-2.1%
Energy	-10.9%	-7.5%	-18.1%	-12.7%	-26.5%
Materials	-4.6%	7.8%	-11.8%	-4.2%	-19.6%
Industrials	1.0%	7.8%	-11.7%	-1.5%	-3.1%
Cons Disc	4.5%	9.8%	-4.0%	-4.8%	-1.8%
Cons Staples	8.1%	16.0%	-1.8%	2.1%	-5.0%
Healthcare	18.7%	25.7%	5.4%	8.2%	19.5%
Finance	4.0%	14.6%	-7.0%	2.2%	5.6%
IT	16.7%	19.8%	-4.3%	7.7%	9.6%
Telecomms	-1.0%	2.2%	-2.1%	-1.3%	-1.5%
Utilities	16.5%	28.0%	5.7%	5.5%	3.0%

Source: Bloomberg

Portfolio turnover was particularly low in 2014, even by our own historical standards – we only made two purchases and three sales – leaving the portfolio with 34 holdings by the end of the year.

	2011	2012	2013	2014
Buys	8	4	7	2
Sales	9	3	8	3
Total holdings (year end)	35	36	35	34

In February we sold our position in Northrop Grumman and replaced it with Li & Fung.

We had bought US defence contractor Northrop Grumman in March 2013. When we looked at the valuation multiples back then we found the company was trading at the lower end of its ten-year range, with a 2014 P/E of 9x. We appreciated the concerns surrounding defence spending cuts, but ultimately, we thought that the valuation multiples had gone too far.

When we initiated the position, the source of return we felt most confident about was the dividend stream; the company had grown its dividend for the last ten years, the payout ratio was modest at 30%, and we expected the impact from declining earnings to be slower than the market was forecasting. Share price over-reaction on the downside and our willingness to be patient also gave us some confidence that we could derive a return from a re-rating (multiple expansion). Finally, earnings growth was clearly quite uncertain.

We decided to sell it in February this year as sentiment had turned quite rapidly. The total return over the holding period was 80.3% (in USD). Given the relatively short holding period, the proportion of total return from dividends was only 2.5%, while 75.9% came from price appreciation. Of this price appreciation, more than half came from multiple expansion, and the remainder from earnings forecast growth.

We replaced it with a position in Hong Kong-listed Li & Fung, which is a global outsourcing company. It's an interesting example of a company that is listed in Asia but derives the bulk of its revenues from outside Asia (88% – mostly from the US and Europe). Just like Northrop Grumman it was trading at the low end of its ten-year valuation range when we bought it. Partly this was due to general fears surrounding China and emerging market-listed companies, and partly because the holiday season in the US the previous year was a little disappointing. They also took a restructuring charge on the US arm of their business. So there were reasons why the company was lowly valued, but we have to remember this is another company that has a ten-year history of generating top quartile return on capital, and it weathered the financial crisis extremely well.

Our levels of confidence in the sources of total return were the same as Northrop Grumman: dividends, then multiple expansion, and finally earnings growth. But we may well have to wait considerably longer than we did with Northrop Grumman.

In February we also sold our position in Vodafone after Verizon's acquisition of Vodafone's stake in Verizon Wireless. Vodafone was a company whose return on capital was already in a state of decline, and we concluded that once the Verizon wireless stake was gone the return on capital was likely to fall below our threshold level.

In June we decided to sell our position in tobacco company Reynolds American and bought Cisco.

Reynolds American was a company we have owned since the launch of the Fund, and it has provided a good return, more than doubling in value over this period (119.4% in USD).

The consensus bear case on tobacco companies over this period has always focused on falling volumes because of campaigns against smoking, the threat of plain packaging, and the tax burden on consumers. We don't disagree with any of these specific threats, but we did also observe that tobacco companies in general were able to offset falling volumes with an increase in price.

When you look at Reynolds American specifically, the expectation for revenues in 2014 was only around 2% lower than the company's reported revenues in 2010. Over this period the company has also managed to grow gross, operating and net margins quite substantially – leading to a healthy growth in cash flow. Net income grew by 23% (in USD) over our holding period. When combined with an 8% reduction in shares outstanding through share buybacks, this translates into 33% earnings per share growth.

When we initially bought the company back in 2010, it was trading on a modest one-year forward P/E ratio of 13.0x, whereas by June of this year it was trading on 17.7x. So we have certainly seen sentiment towards the business improve – its return due to multiple expansion equates to 36%.

We also received a healthy growing dividend stream over our holding period, with the company expected to pay out $2.68 in 2014 vs $2.15 in 2011, representing a growth of 25%. Dividends represented 20.6% of the total return.

In the end we decided to sell the position largely on the rerating of its valuation, which has coincided with merger and acquisition activity in the sector. The risks to the business remain the same as when we bought it, but in our opinion the potential for upside from here was much reduced, despite the prospect for a steady dividend (but with likely lower growth going forward).

In place of Reynolds American we bought a position in Cisco. Cisco only started paying a dividend in 2011, and is an interesting example of what has historically been considered a growth company morphing into more of a steady state. Like many large-cap IT companies, Cisco is awash with cash and short-term investments (over $50 billion), which compares to the company's market capitalisation of $126 billion (when we bought it). We also like its geographic diversification, with 59% of revenues coming from North America, 25% from Europe and 16% from Asia-Pacific. Its balance sheet also looks healthy, with a (gross) debt to equity ratio of just 27%, total debt to EBIT of just 2.1x, and interest cover of over 19x.

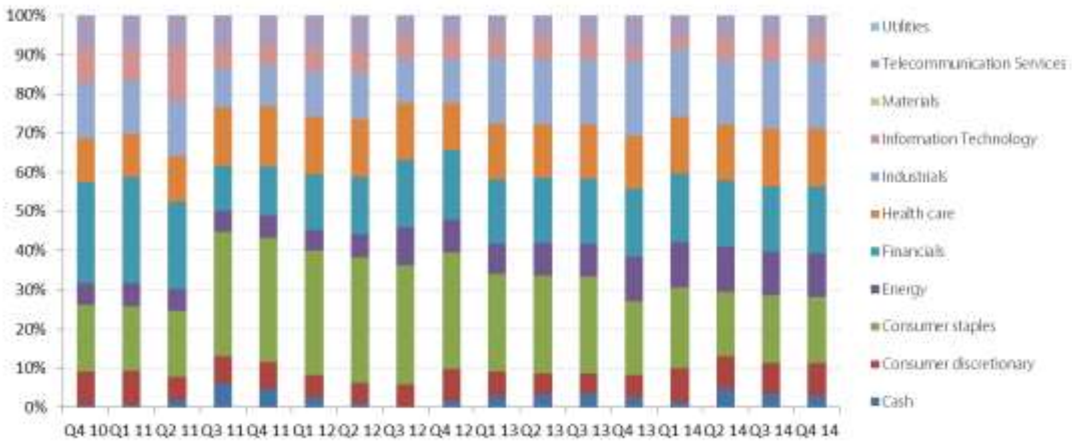
Revenue has been growing modestly over the last few years, and margins are stable. Acquisitions have been a significant part of how Cisco has managed to maintain its edge over the last ten years, and it has largely financed these through free cash flow generation. Given the amount of cash on the balance sheet and the steady (but not spectacular) growth prospects, we believe there is scope for a very reliable dividend, with potential growth. The payout ratio is around 35% and the company offered a prospective yield for 2015 of 3.2% when we initiated the position.

Most importantly, the valuation was attractive, with the company trading on a one-year forward P/E ratio of 12.1x, which was certainly cheap relative to its historical range, its peers, and the broad market.

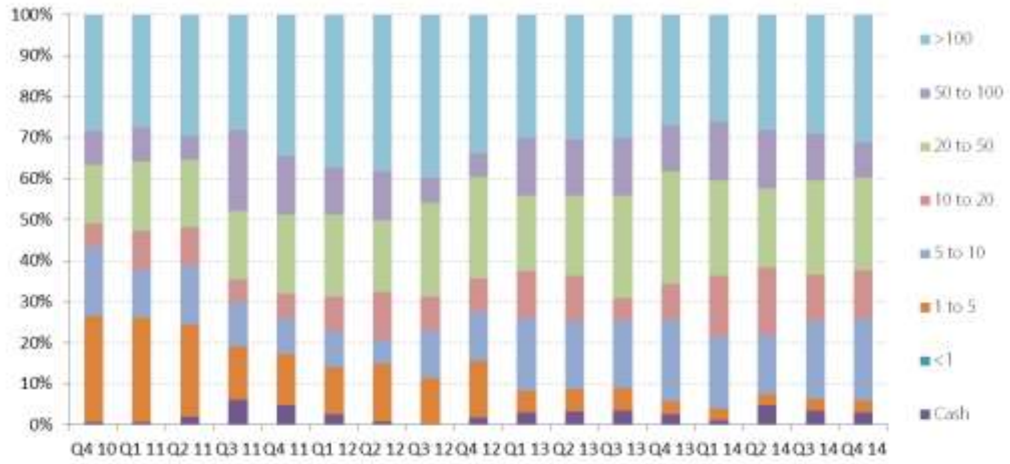
Time will tell where the total return from this position will come from. But we feel very confident that if we look back in three years' time we will have received a very healthy proportion of the total return from the dividend. The multiple looks attractive even when you take the cash into consideration, and there is still opportunity for earnings growth, but how the proportion of any future total return will split between these two is uncertain.

The effect of these changes on the sector and geographic breakdown of the portfolio was commensurately modest. Over the 12 months our exposure to Telecoms, Industrials and Consumer Staples reduced while we increased our exposure to Consumer Discretionary and IT.

The major long-term trend that can be seen is the marked reduction in our exposure to the Consumer Staple sector, which peaked in the summer of 2011. This has largely been due to the considerable rerating of this sector, with steady (but minimal) earnings growth. We have not owned any companies in the Materials or Utilities sector over the last four years.

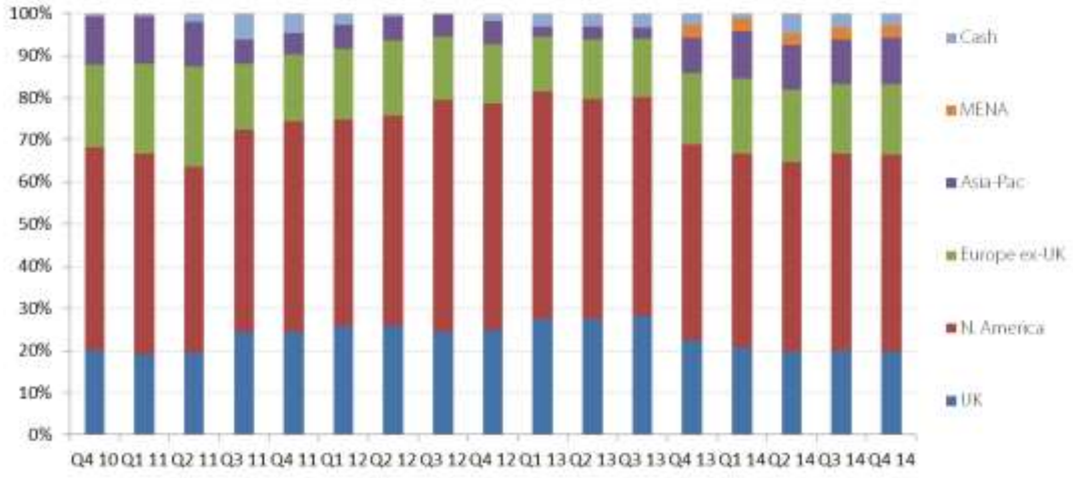


The market cap breakdown has also remained steady, with a small increase in companies with a market cap below $20 billion.



The net effect on the Fund's geographic breakdown was marginally to reduce our exposure to the UK and increase our exposure to Asia.

Over the longer term, we have cut back our exposure in the UK from nearly 30% at the beginning of 2013 to around 20% today, whilst also reducing our exposure to the US from 55% to 45% over the same period. A larger exposure to continental Europe and Asia has offset this reduction.



At this point we might provide some kind of macro outlook but I'm sure you are receiving plenty of those, from people far more qualified to produce them than us. As interested as we are in the macro environment, we don't spend any time trying to make big macro forecasts and therefore don't have any particularly interesting views to share with you. We prefer to prioritise our time on the three core pillars of our investment process – quality, value and growing dividends – as we believe these will ultimately drive our returns.

Over the last year our focus on quality has meant that the median ten year cash flow return on investment of our positions is more than twice as high as that of the MSCI World Index. Our focus on valuation means that the Fund remains at a P/E valuation discount of 7% relative to the Index. Our focus on dividend growth has produced a dividend distributed by the Fund that was 7.5% greater than the previous year, and provided a dividend yield of 3.25% (based on the unit price at the beginning of the year).

This will continue to be our priority in 2015 and beyond.

We would like to wish everyone a happy and prosperous New Year, and to thank all our investors for their support. We look forward to meeting as many of you as we can over the course of 2015.

Matthew Page, CFA
Dr Ian Mortimer, CFA
Portfolio managers, Guinness Global Equity Income Fund

January 2015

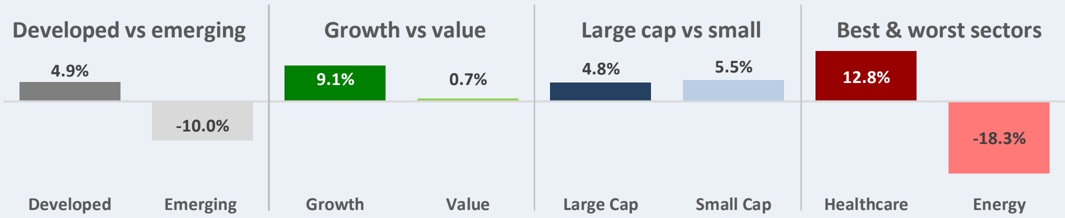
Fund size

Start of year	£62.9m
End of year	£100m

What happened in the world?

After a strong first half, equity markets plunged in the summer on the back of weak Chinese data, renminbi devaluation and plunging commodity prices; the Fed's rate rise from record lows in December was so widely heralded that it left markets almost entirely unchanged.

- Eurozone ministers agreed a third Greek bailout in five years in return for tax rises and tough spending cuts
- Chinese stock market meltdown in August – driven by jittery local (and highly speculative) private investors
- Refugee exodus across Europe, testing the social, economic and political ideals of the European dream
- Islamic state continued its spread – at least in terms of terror, with attacks in north Africa and in Paris
- First US rate rise in nine years in December as the Fed expresses confidence in the strengthening economy
- Continuing slump in oil/commodity prices; oil markets over-supplied pushing Brent crude below $40



Total return in GBP; MSCI World & MSCI Emerging Markets Index; MSCI World Growth and World Value; MSCI World Large Cap. and World Small Cap.; individual MSCI World GICS sectors.

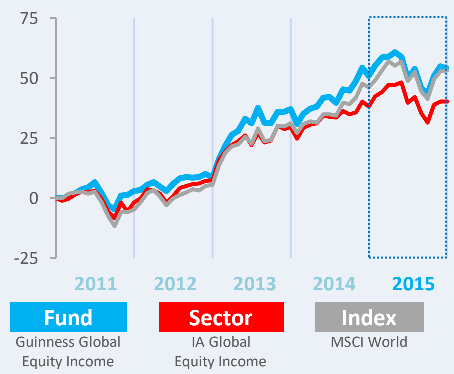
What happened in the Fund?

- A stronger year for *growth* stocks, with *value* stocks (and thus the Fund) underperforming the Index.
- Continued good performance versus peers over the year as a whole.
- Good performance from holdings in defensive sectors
- **Purchases**: WPP, Eaton, CME Group, Japan Tobacco, Largan Precision, United Technologies, CA Technologies
- **Sales**: Reckitt Benckiser, L3 Communications, CNOOC, ENI, Meggitt, China Mobile

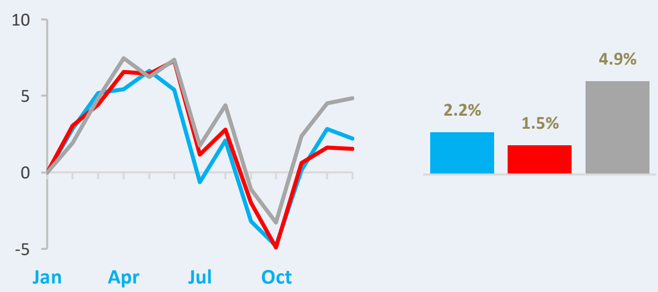
> ***"Valuations across differing regions and sectors show a wide divergence in investor expectations. We hope we can exploit these divergences by focusing on companies with the characteristics we seek and by looking to the long term, rather than reacting to short-term price movements or just following market momentum."***

Performance

Cumulative since launch



Calendar year 2015



Cumulative % total return, in GBP.
Source: Financial Express.

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.

2015

Performance

2015 was another good year for the Guinness Global Equity Income Fund, outperforming the IA Global Equity Income Sector for the third year in a row. The end of 2015 marks the 5th anniversary of the Fund's inception, and we are pleased to have provided five consecutive years of positive returns.

Figure 1: Calendar year performance

vs IA Global Equity Income Sector & MSCI World Index

Fund E-class TR in GBP	2011	2012	2013	2014	2015
Quartile rank	**1st**	**4th**	**1st**	**1st**	**2nd**
Fund	**2.7%**	**5.5%**	**26.3%**	**10.1%**	**2.2%**
Sector	-2.1%	9.7%	20.4%	6.7%	1.5%
Index	-4.8%	10.7%	24.3%	11.5%	4.9%

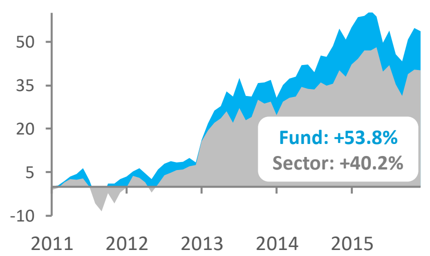
In 2015 the Fund produced a total return of 2.2%, compared to the IA Global Equity Income Sector's 1.5% and the MSCI World Index return of 4.9%. The Fund therefore outperformed the Sector by 0.7% and underperformed the Index by 2.7%.

Over three and five years the Fund ranks in the top quartile of funds in the IA Global Equity Income Sector.

Figure 2: Cumulative performance

Fund E-class, TR in GBP to 31.12.15	1 year	3 years	5 years
Quartile rank	**2nd**	**1st**	**1st**
Fund	**2.0%**	**41.9%**	**53.8%**
Sector	1.5%	30.4%	40.2%
Index	4.9%	45.3%	53.2%

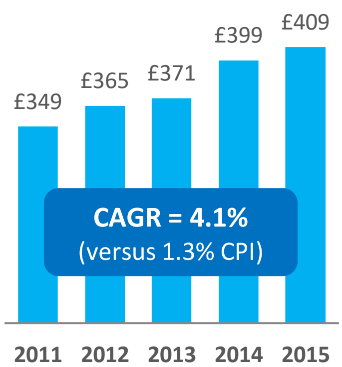
5 years



Dividend

Importantly, our focus on companies that offer potential for dividend growth rather than a high dividend yield today means we have managed to grow the dividend distributed by the Fund every year. This year the Fund grew the dividend by 2.5% (E-class), whilst the annualised growth rate over the last five years has been 4.1%.

Figure 3: Dividend growth



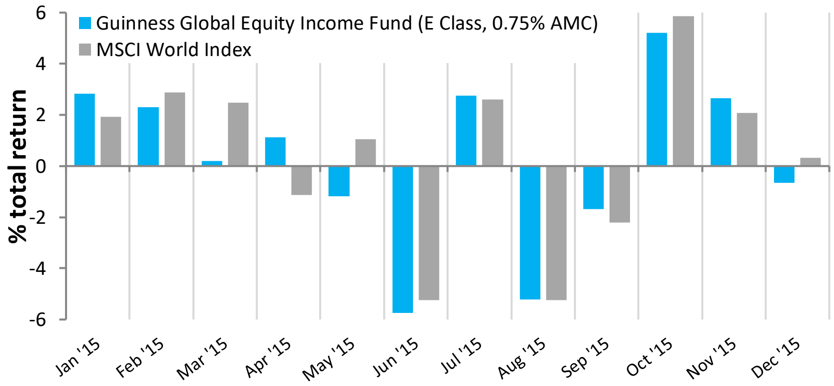
X class, dividends paid on £10,000 invested 31.12.10

Based on the price at year end, the Fund has a historic 12 month dividend yield of 3.3%.

Review of 2015

2015 was a volatile year, with global equities swinging fairly widely from positive to negative returns from one month to the next. Over the course of the year there were two months where the Fund underperformed by more than 1%: March and May.

Figure 4: Monthly total return of Fund vs benchmark in 2015

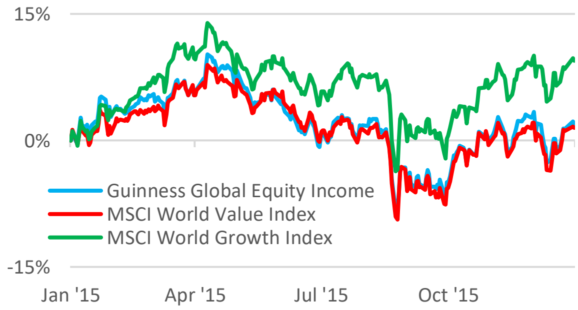


The Fund underperformed in March in a rally that was characterised by small cap. stocks outperforming large cap. and emerging markets outperforming developed markets. Healthcare was the strongest sector in the month, particularly the biotech sector, where we did not have any exposure. However, our top two performing stocks in the month were in the healthcare sector: Teva Pharmaceuticals and Sonic Healthcare.

The underperformance in May was largely a result of our exposure to Asia and emerging markets stocks. The four stocks we owned at the time in Asia and emerging markets (CNOOC, China Mobile, Li & Fung and Vodacom) were our worst performing stocks in the month. We also saw very strong performance in the semiconductor sector, to which we did not have any exposure.

Looking at 2015 as a whole it was striking to note the divergence in performance of value and growth stocks. This was a trend that had begun in late 2014 and continued almost uninterrupted through the year.

Figure 5: Value vs growth index performance in 2015 (all TR in GBP)

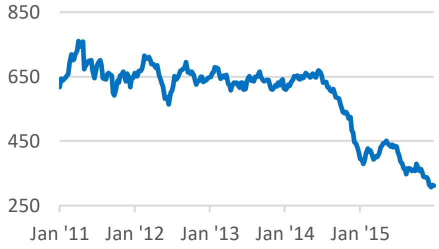


It has been well documented that a handful of large, expensive, growth companies like Amazon and Facebook drove the majority of Index performance in the US in 2015. This broad trend of the market rewarding companies that could show growth in revenues or earnings was also seen throughout the rest of the world, as the divergence between the two MSCI World indices shows above. Our approach in the Fund has always been to focus on the value end of the market, and one of the reasons the Fund underperformed the benchmark was our lack of exposure to these more expensively-valued growth stocks. The chart above shows how the Fund performance much more closely followed the value index in 2015. Since the end of September 2014 (when this divergence started), the growth index has outperformed value by over 11%, a significant figure. We cannot, of course, say that this trend will start to reverse in 2016, but the size of the divergence suggests to us that value stocks could well have a better chance of outperforming over the next 3-5 years as this gap is closed.

When we look back at how individual holdings performed in 2015, the picture largely reflects the macro environment – namely falling commodity prices, looming interest rate rises in the US, a slower rate of economic growth in China, continued uncertainty in Europe, and the interlinked effects of all of these factors.

Commodity prices started their precipitous decline back in the summer of 2014, staged a small rebound in the first half of 2015 and then continued their decline in the second half of the year.

Figure 6: S&P GSCI Commodity Index



We did not have any exposure to the mining sector so we certainly benefitted from that. We did, however, have a small overweight exposure to the energy sector in the form of Royal Dutch Shell, Total, ENI and CNOOC. The MSCI World Energy sector fell by 22.1% (in USD, see Figure 7) in 2015, but only one of the energy companies that we owned was down by more than that: Royal Dutch Shell. As a group the energy companies that we owned held up well relative to the energy sector.

Expectations of rising interest rates in the US was not a new story for 2015 – they were very much part of the narrative in 2013 and 2014 as well. The companies that we own tend to have a large spread between their cost of capital and their return on capital. So the effect of rising interest rates is less of an issue on their valuation than for poor companies with a narrow spread. At the same time the companies we invest in tend to have strong balance sheets, with reasonable amounts of debt and strong credit profiles. Many of these companies have been refinancing their debt over the last five years at extremely attractive rates for long durations. Rising interest rates will have only a modest and gradual effect on their cost of debt financing.

We have a preference for companies that have the ability to grow their dividend over time. Companies can achieve this if they earn a return-on-capital greater than their cost of capital, and can reinvest their profits at a similarly high return-on-capital for the future. This will lead to growth in cash flows, and thus sustainable dividend growth. We therefore tend to avoid companies that offer a high dividend yield but few prospects for growth (such as REITs, MLPs and regulated industries like utilities). These companies are more sensitive to interest rate rises due to their high leverage and bond-like characteristics.

The risk of chasing high dividend yield came into stark relief in 2015 in the shape of MLPs. The S&P MLP Index fell -35.1% in 2015. MLPs tend to have a combination of high leverage, low return-on-capital and low growth prospects, which is the antithesis of what we look for. MLPs had been bid up in the hunt for yield on the thesis that these companies were largely immune to changes in the oil price as they were simply transporting the oil and taking a fee. They took on more debt to engage in more growth opportunities, and thereby provide a higher dividend. However, the significant fall in oil prices has led to lower onshore oil production in the US and therefore many of these growth projects have been canned.

The way that changes in interest rate expectations did affect the portfolio in 2015 was really limited to the effect of a stronger dollar on emerging market currencies. The direct effect was minimal, with our 3% position in Vodacom in South Africa being the only EM currency exposure we had. While Vodacom fell around 8% over the year, it was by no means a disaster. The more significant factors were secondary. Aberdeen Asset Management, which has historically had a strong franchise in emerging market funds, suffered from a mix of poor emerging markets equity performance and significant redemptions. A proportion of these redemptions are likely a result of sovereign wealth funds in the Middle East redeeming on the back of a significantly lower oil revenues. The other main secondary effect was the drag on earnings growth of globally diversified businesses. However, the market did not tend to punish these companies particularly harshly.

The interest rate rise that we had all been waiting for came in December, without much drama in markets.

Equity markets experienced a sharp and rapid decline in August, followed by a fairly rapid recovery. The market became spooked when the Chinese unexpectedly devalued their currency on August 11th. Whilst it was a small devaluation relative to historic levels, it led to considerable uncertainty. Was this the first of a number of devaluations? What would the effect be on China's trading partners in Asia and beyond? Why were they devaluing their currency? The Chinese eventually communicated the fact that this was part of a process of currency liberalisation rather than to make their exports more competitive. However, some remain sceptical and expect further devaluation.

The Shanghai domestic A-share market had a very turbulent year, but we do not have any exposure to this market. However, we did own three Hong Kong-listed companies: China Mobile, CNOOC and Li & Fung. China Mobile held up well but CNOOC and Li & Fung were a drag.

Europe managed to muddy through another threat of Grexit, but has still not addressed its structural issues. The Eurozone remains dependent on continued central bank support. The civil war in Syria has led to a very large number of refugees coming to Europe, which has in turn brought in to question many of the fundamental principles on which the European dream was founded, such as the free passage within the Schengen area. Combined with the continued sovereign debt issues of Greece and other peripheral European countries, European leaders are likely to continue to struggle to find effective compromises.

Given all the global uncertainty in 2015, it was not surprising that the market favoured defensive industries, with healthcare and consumer staples performing well across regions (see Figure 5).

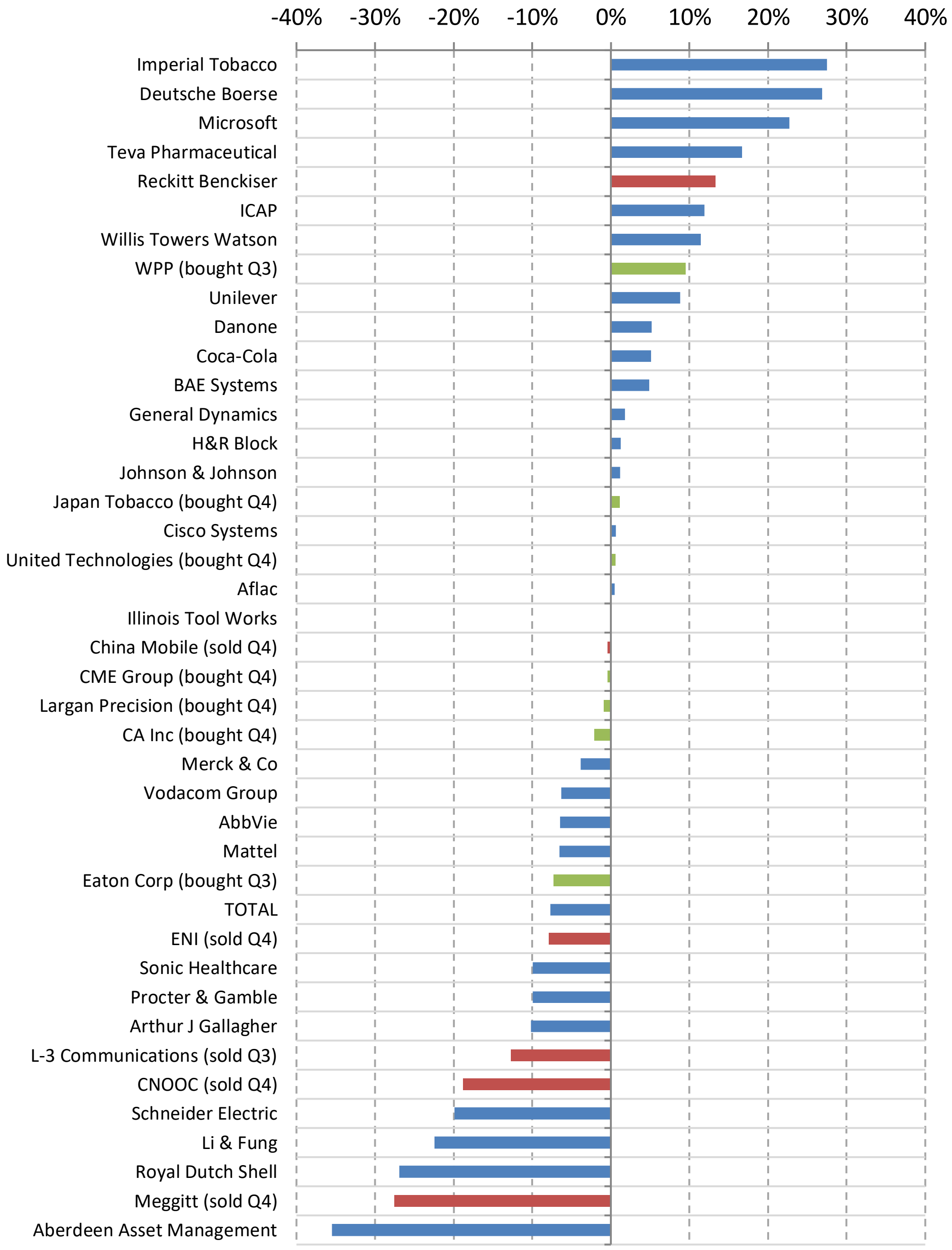
Figure 7: Total return by region and sector (USD) in 2015

Total Return (USD)	MSCI World	MSCI US	MSCI Europe	MSCI Asia	MSCI EM
Index	-0.3%	1.3%	-2.2%	-0.5%	-14.8%
Cons Staples	7.2%	6.0%	8.2%	13.4%	-9.1%
Healthcare	7.1%	7.1%	4.0%	27.2%	-5.2%
Cons Disc	6.0%	9.0%	1.3%	-0.2%	-11.4%
IT	5.2%	5.3%	4.1%	-2.8%	-6.9%
Telecomms	3.7%	3.6%	1.5%	1.3%	-19.2%
Industrials	-1.5%	-2.0%	-1.9%	-0.6%	-16.8%
Finance	-2.7%	-0.7%	-4.1%	-3.9%	-18.6%
Utilities	-5.7%	-5.8%	-9.1%	-2.4%	-20.7%
Materials	-14.8%	-7.6%	-18.2%	-5.3%	-21.6%
Energy	-22.1%	-21.7%	-16.8%	-16.5%	-16.8%

There are numerous healthcare and consumer staples companies that meet our criteria of consistently high return-on-capital, but valuations for many of these companies have been at historical highs. Naturally some of the holdings we have had in these sectors have been hitting historical high valuations as well, and we have been reducing our exposure to these sectors for the last few years. However, we remain overweight the consumer staples sector and are in line with the healthcare sector. Imperial Tobacco, which we believe still offers a compelling valuation within the consumer staples sector, was our top performing stock in the portfolio for 2015.

In summary, while 2015 was a year where the economic storm has been fairly fierce, pleasingly the portfolio has demonstrated the ability to weather it well.

Figure 8: Individual stock performance over 2015 *(total return USD)*



Changes to the portfolio

The number of changes we made to the portfolio in 2015 was more than we made in 2014 but well within the bounds of the previous four years. Our turnover remains low compared to most managers. In 2015 we bought seven new positions and exited six, which meant we ended the year with 35 holdings.

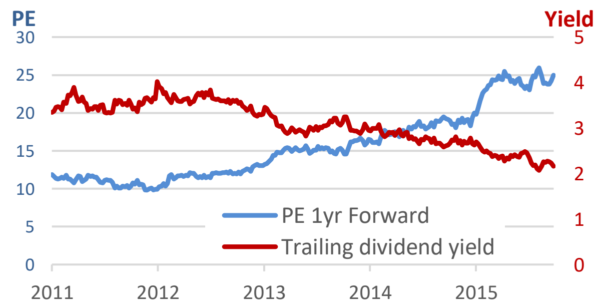
Figure 9: Number of changes to the portfolio

	2011	2012	2013	2014	2015
Buys	8	4	7	2	7
Sales	9	3	8	3	6
Total holdings	35	36	35	34	35

In the **first** and **second quarter** of the year we made no changes to the portfolio. In the **third quarter** we made two changes to the portfolio. We sold our positions in Reckitt Benckiser and L-3 Communications.

We decided to exit **Reckitt Benckiser** on valuation and dividend yield grounds. The company, in our view, remains very well run, but we began to question whether the current valuation could justify us continuing to hold the stock. We owned Reckitt since August 2011, and it was a strong performer for the Fund; it rose 103% over our holding period versus the Fund's return of 47%. However, as the chart below shows, the majority of this total return has come from a re-rating of the multiple the stock trades on – it rose from around 11x forward earnings to 25x when we sold. As the dividend paid by the company has only grown by about 8% over our entire holding period (which is somewhat disappointing) the dividend yield compressed from about 4% to 2%. The market rewarded the company for focussing on household and personal care, cost cutting, and selling off the pharma division. We just wonder whether the market has now baked-in too high estimates for what the company is likely to achieve. If we were to see the stock underperform the market in the future and move towards a more reasonable valuation, then it is certainly something we would consider owning again.

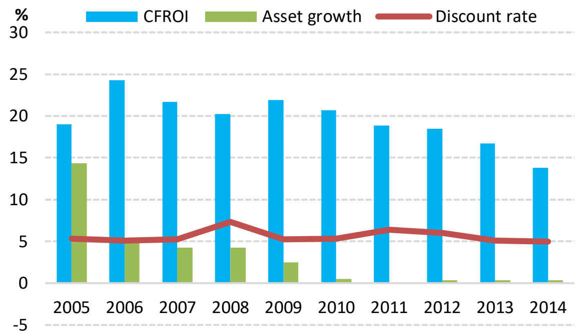
Figure 10: Reckitt Benckiser PE ratio and dividend yield



We'd held **L-3 Communications** from the launch of the Fund on 31st December 2010. Over that time it rose 72% versus the Fund's return of 38%, so we were taking profits. L-3 also experienced a significant re-rating, rising from approximately 9x forward earnings when we bought it to just under 16x when we sold. This is broadly in line with other defence companies, all of which were deeply out of favour post the financial crisis as investors worried about government spending cuts. L-3 never had a very large dividend yield, averaging around 2.5-3% over the last five years. The dividend has grown significantly over time, however, averaging around 9% growth per annum over the almost five years we held the company. This strong dividend growth has helped to support and 'drag up' the share price over time.

From a valuation point of view, the company appeared to be trading at stretched multiples – certainly in respect to where the company had traded historically – and this was a concern. What really drove us to sell the company, however, was the deterioration in the underlying quality of the business.

Figure 11: L-3 Communications CFROI, asset growth and discount rate



As the chart above shows the cash flow return on investment has declined quite significantly over 2014, and expectations were for this decline to continue into the future. Sales growth had been negative for a number of years and we had just started to see a decline in operating margins coming through. With little or no asset growth expected, it appears unlikely the company can reverse the decline in economic profits it is generating – and that the market is anticipating.

To replace these two sales we bought new positions in **WPP** and **Eaton**.

WPP EATON

For the new buys we identified the three things we look for in any new investment: persistence of return on capital, reasonable valuation, and a sustainable and growing dividend. In the case of **WPP** we perceive a greater proportion of our expected total return to come from earnings and dividend growth, and only a moderate return from a multiple re-rating (as the company is trading only slightly below its medium-term multiple). **Eaton**, an industrial power management company based in the US, on the other hand has a higher dividend yield (just over 4%) but slower dividend growth, and we expect a greater re-rating in terms of its multiple as the stock was more out of favour and has been de-rated versus the broader market since the end of 2013.

In the **fourth quarter** we made a number of changes to the portfolio, selling four positions and replacing them with an additional five positions – bringing the total number of companies held in the Fund to 35 at the year end.

The four companies we sold were CNOOC, ENI, Meggitt, and China Mobile.

CNOOC eni MEGGiTT 中国移动通信 CHINA MOBILE

CNOOC and ENI were two energy companies held in the Fund (from a total of four), but with quite different exposures to the oil price. **CNOOC** is essentially a large cap. exploration and production company and is thus highly levered to the oil price. **ENI,** on the other hand, is the Italian national oil company which is an integrated oil major with interests throughout the oil and gas supply chain, and thus less exposed, but by no means immune, to the changing oil price.

The reasons for sale were different, but the over-supplied nature of the oil markets in general and the uncertainty surrounding the timing and mechanism of how this over-supply would be used up – whether from increasing demand trends or a reduction in supply from within or outside OPEC – gave us cause for concern. We do not profess to be able to 'call' the oil price, but we increasingly felt there were better opportunities available in other sectors that could offer better risk/reward characteristics. By maintaining a c.6% exposure to the sector through two of the higher quality, more diversified companies, we feel the Fund can still benefit from any re-rating in the sector that may occur over the coming months.

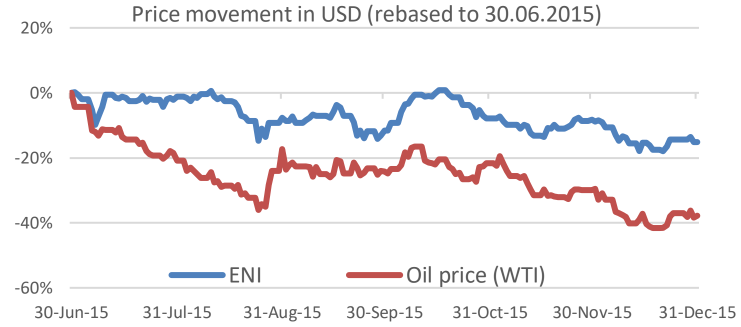
When we purchased **CNOOC** for the Fund in late 2013, we perceived that the company was well placed to grow production and also to improve margins on that new revenue – as the company increased efficiencies and lowered operating costs. At the time the oil price was trading around $100 per barrel, and had been in a trading range of around $95 (+/-$10) for the previous three years. We did not buy the company based on a particularly bullish oil price thesis, but were happy that any downside was somewhat mitigated by the cheap multiples the company was trading on (9x forward PE) and that any oil price upside would likely be an additional benefit. In hindsight, our thesis that we had some 'protection' from a lower oil price was misplaced – as the scale of the oil price decline was much greater than anything we had envisaged. The company did post good operating results through 2014 and 2015, growing production in the double-digits and also maintaining its dividend. However, the dividend payout ratio increased from around 35% to over 60% for the interim dividend payment in September 2015. Based on the current low oil prices that payout ratio would jump to over 100%. We therefore felt there was a real risk to a significant dividend cut in the short term, and any 'lower for longer' oil price scenario could adversely affect the potential for a recovery in the stock price over the medium term.

ENI has actually held up very well considering the macro environment for energy companies, as its integrated model helped cushion earnings from the steep oil price decline combined with a simplification of its holdings that had been long anticipated by the market. In Euro terms the company actually posted a positive return for the calendar year 2015, albeit only +0.5%. Over our holding period (August 2012 to December 2015) the total return was -15% (in GBP), which is rather disappointing compared to the Fund (which was up 40% in the same period). Much of this underperformance occurred in the early stages of the drop in the oil price (from July 2014 to December 2014).

Through the second half of 2015 there has been a growing disconnect between the share price of ENI and the prevailing oil price. Figure 12 shows how this has evolved over the last six months.

This probably shows that the stock is discounting a higher oil price in the future – which is indeed reflected in oil futures curves.

Figure 12: ENI vs WTI oil price



If these future oil prices are not as high as the market expects, then there is a risk that the stock price closes this 'gap' that has opened up, which could be a significant drag on future returns.

The final reason we sold ENI was that the company cut its interim dividend from €0.56 in 2014 to €0.40 in 2015, a reduction of almost 30%. This was taken well by the market as it helped the company to protect its balance sheet by conserving cash. Although this may well be a sensible decision by management in such uncertain times, we prefer to concentrate on companies that can grow their dividends. Even with this 30% dividend cut and a stock price that has held up relatively well, the company trades on a projected dividend yield for 2016 of a lofty 6%, which could be seen as an indication by the market that even this level is unlikely to continue in the near term.

By selling these two companies in the Fund, we reduced our energy sector allocation from around 11% to approximately 6% (we continue to hold Royal Dutch Shell and Total).

We had held **Meggitt** since the Fund's launch in 2010, and in that time it had provided a positive 15% total return. That compares to the Fund return of just over 50% over the same period. The dividend grew from 9.55p in 2011 to 14.10p in 2015 – averaging a healthy dividend growth of 10% per annum over the almost five years we held it. The company surprised the market at the end of October 2015 by releasing a profit warning – despite having issued reasonably positive guidance for the full year in their August earnings call a couple of months previously. The stock fell over 20% on the day of the profit warning, a dramatic response.

In the August update the company had reiterated the guidance they had given at the start of the year of mid-single digit organic revenue growth for the full year. Alongside this the company announced an increase in their interim dividend of 8%. However, in its late October trading update the company reported that trading during the third quarter was below expectations due to a marked deterioration in September, and reported that these factors were expected to persist through the fourth quarter. We concluded that this trend was likely to persist beyond the fourth quarter too. We decided there was therefore a threat to both the dividend growth and the share price over the medium term, and we thus decided to sell the company. We will continue to monitor the company closely in the future and keep an eye on how their revenue stream evolves.

China Mobile had been a long-term and successful holding in the portfolio. We initiated a position at the launch of the Fund, and over the almost five years we held the company it has returned just under 40% in USD terms. The performance has been quite volatile, a reflection of both the overall Chinese market and some stock-specific issues. The company remains on what appear to be reasonable multiples, especially in relation to developed markets, of around 12x 2016 expected earnings. The underlying business has been in decline over the last few years, however, with the cash flow return on investment (CFROI, our preferred measure) declining from over 10% to just 6% in 2014, which is only marginally above its real cost of capital. This type of return on capital profile, alongside the company's good stock price performance and decreasing dividend payments, prompted us to sell the position.

The five companies we bought for the Fund in the fourth quarter were CME Group, Japan Tobacco, Largan Precision, United Technologies and CA Technologies.

The below table highlights some simple metrics that aim to show the characteristics we considered when making these purchases, namely quality (average 10 year CFROI), valuation (P/E this year and next), and dividend (both current yield and historic growth over three and five years). For comparison, we have added the same data points for the wider MSCI World Index to place these companies in context.

Figure 13: Key metrics of new purchases

Company name	Sector	Av. CFROI	P/E		Dividend yield	Annualised div. growth	
		10 years	2016	2017	Trailing 12m (ex special dividends)	3 years	5 years
CME Group	IT	35%	20.6	19.3	2.3%	9.9%	39.7%
Japan Tobacco	Consumer Staples	17%	17.1	15.6	2.7%	25.3%	32.4%
Largan Precision	IT	25%	11.0	9.4	2.3%	44.2%	38.5%
United Technologies	Industrials	16%	14.5	13.3	2.7%	8.0%	8.5%
CA Technologies	IT	25%	11.7	11.2	3.6%	0.0%	44.3%
MSCI World	-	10%	16.0	14.2	2.6%	4.1%	6.9%

CME group owns and operates a derivatives marketplace across multiple asset classes and offers both trade execution and clearing and settlement services. The company is not stand-out cheap, but is trading below its longer-term multiple. Considering the extremely high return-on-capital the company has achieved (and that we think it can continue to achieve), we are comfortable with the valuation. The current dividend yield of 2.3% at first glance appears modest, but the company has paid a large special dividend in each of the last five years. The regular cash dividends paid in 2015 totalled \$2.00 per share, but this was supplemented by a special cash dividend of \$2.60. Combining these regular and special dividends, the company had a dividend yield (12 month trailing) of 5.1% at the year end.

Japan Tobacco represents the first Japanese-listed company we have owned in the Fund, and therefore reduces our underweight in that region versus the benchmark. Tobacco companies have a bad name generally, and specifically as regards investment potential due to long-term regulatory issues. Our experience has been that these businesses have shown the ability to maintain (and actually grow) margins in the face of such issues as they successfully pass on price increases to customers. Return-on-capital has been high and stable at Japan Tobacco, which has translated into growing economic profit through increased sales, offsetting any declines seen in asset growth. Dividend growth has been positive over the past five years and appears to be picking up – the company increased its final dividend by 28% to 64JPY in 2015 (from 50JPY in 2014).

Largan Precision is a Taiwan-based company that manufactures and sells optical lens modules and opto-electronics for various devices, most notably smart phones. The $9bn market cap. company has seen considerable growth and has doubled its revenues over the last two years whilst improving operating margins from the mid-30s to mid-40s. Unsurprisingly this translated into a steep rise in its share price: it rallied from TWD 1230 at the end of 2013 to a high of TWD 3710 in mid-2015. Since then, however, the stock has de-rated, and its share price is around the TWD 2100 mark with a PE multiple of 11x 2016 expected earnings. The company sold off with the wider emerging markets in the summer of 2015, but has also significantly underperformed the broader Taiwanese market as investors weigh the risk of a slowdown in smart phone growth. We felt this weak sentiment provided a useful entry point for a good business providing exceptional dividend growth. We recognise that returns may be more volatile in the short term, but feel the combination of other factors, most important of which is the compelling valuation, should provide good returns over the long term.

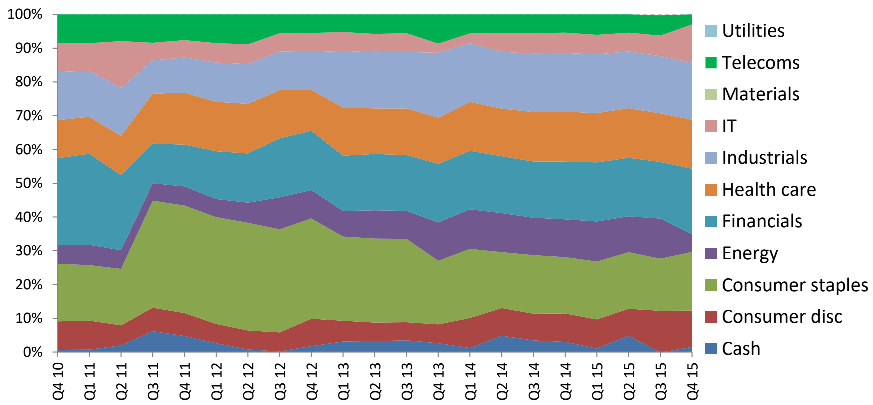
United Technologies and **CA Technologies** are two companies currently out of favour. United Technologies is a diversified industrial business and CA is a technology software company which focusses mainly on mainframe computing. United is also much larger, with a market cap. of $85bn versus CA at $12bn. However, they both have globally diversified revenues whilst still maintaining a decent exposure to the US (each at approximately 60% of sales) and have both been shown to be run successfully through good returns-on-capital over time. Neither is richly valued, but both provide a good dividend stream, if modest dividend growth. I would be surprised if either company became a '5-bagger' for the Fund, but finding companies such as these with these characteristics is increasingly difficult and we are confident that both will provide good returns over the next three to five years, or however long we hold them. We have had good success focussing on the more unloved end of the market, and we see these two companies as exemplifying this.

To summarise, the overall theme (as ever) has been to sell over-valued companies, or those where we feel there is a real risk to the dividend, and to replace them with higher quality businesses and specifically those where we feel there is a good opportunity for divided growth in the future. In today's market environment we think this is a particularly relevant and important metric for investors to consider.

Portfolio today and outlook

The charts below show the sector, market cap. and geographic breakdown of the portfolio over the last five years. The effect of our 2015 changes are subtle but significant. On a sector basis we have increased our exposure to the IT sector by 5.3%, while we have reduced our exposure to the energy sector by 6.0%. Having been reducing our exposure to the consumer staples sector over the previous three years we have added one position back in this sector. We have still never owned a company in the utility or materials sectors.

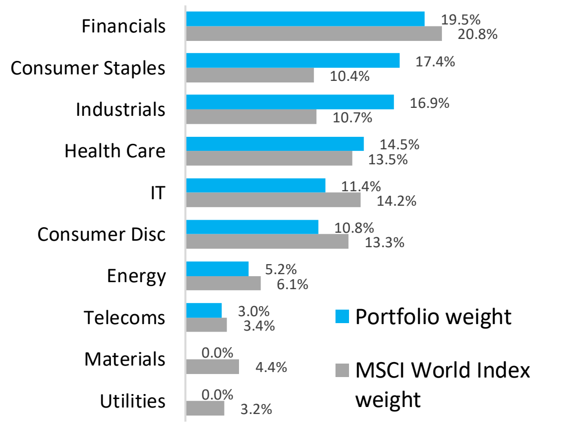
Figure 14: Portfolio sector breakdown (31.12.15)



We do not run the Fund with reference to its benchmark, but it is illuminating to see how the sector weightings of the Fund compare to the MSCI World. The financial sector makes up the largest weighting in the portfolio today at just under 20%. We do not own any banks within this allocation – it is made up of insurance brokers, asset managers, exchanges, and brokers. The next highest weighting in the portfolio is consumer staples, which we have increased slightly with the addition of Japan Tobacco to the portfolio in Q4. Consumer staples is now the largest overweight versus the benchmark at 7.0%, just ahead of our overweight in industrials of 6.3%.

The portfolio remains underweight versus both IT and consumer discretionary stocks. However, as we have written about in the past, it is interesting to see the increased number of more mature information technology companies that have begun to pay healthy dividends. This has meant more opportunities for us to buy such companies for the Fund, and as many of them have good balance sheets, and often significant cash on those balance sheets, we feel they have a good ability to maintain these newly initiated dividend policies and indeed to continue to grow their dividend payments quite significantly in the future.

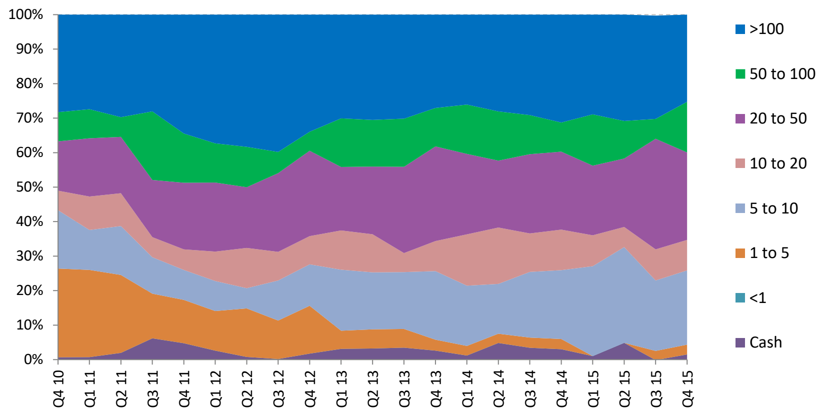
Figure 15: Portfolio weights vs benchmark (31.12.15)



The Fund continues to hold no materials or utilities companies.

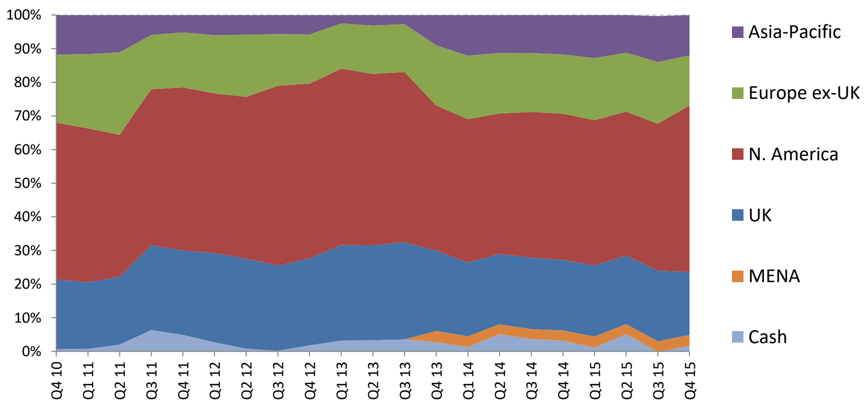
The changes made over the year did not alter the market cap. distribution of the portfolio in any significant way.

Figure 16: Portfolio market cap. breakdown (31.12.15)



In 2015 we increased our exposure to the US from 40.9% to 48.0%, while reducing our exposure to the UK by 2.6% and Europe ex-UK by 3.0%. Our exposure to Asia-Pacific remains the same at 10.9%, but this now includes the first Japanese stock purchased for the portfolio.

Figure 17: Portfolio geographic breakdown (31.12.15)



As we look forward in 2016, many of the uncertainties that existed in 2015 are still with us: the trajectory of US interest rates, the divergence of central bank policies, emerging market currency risks, weaker growth in China, and Europe grappling with various social and economic problems, to mention the most widely discussed topics.

Over the last five years of running the Fund, markets have had many periods of weakness – and plenty of positive surprises too. But, as we wrote in our first annual review at the end of 2011:

"We do not spend too much time worrying about how the global economic environment will fare in the near future but instead will continue to focus our time and thoughts on our process and on identifying high quality companies and including the best value opportunities in the portfolio."

A quick glance at valuations across the globe and within different sectors of the market highlight that there remains a wide divergence in investor expectations. We hope we can exploit these divergences by continuing to focus on those companies with the characteristics we seek and by looking to the long term, rather than reacting to short-term price movements or just following market momentum.

Figure 18: PE ratios – 2015 & 2014

PE '15 at 31/12/2015	MSCI World	MSCI US	MSCI Europe	MSCI Asia	MSCI EM
Index	16.8	17.8	15.7	13.6	13.4
Energy	22.6	26.8	14.6	14.3	8.0
Cons Staples	21.4	21.1	21.5	25.7	23.6
Healthcare	18.3	17.9	18.9	28.9	28.2
Cons Disc	17.7	20.7	15.5	13.2	15.5
IT	17.6	17.3	21.4	14.9	14.0
Materials	17.2	16.7	17.4	15.7	19.2
Industrials	16.9	17.4	16.6	15.0	14.3
Telecomms	15.8	13.5	20.4	15.1	14.5
Utilities	14.9	16.0	14.4	11.0	10.3
Finance	13.1	14.7	11.4	10.1	12.1

PE '14 at 31/12/2014	MSCI World	MSCI US	MSCI Europe	MSCI Asia	MSCI EM
Index	16.5	17.5	15.2	14.0	12.3
Energy	13.0	13.9	10.2	10.9	6.5
Cons Staples	19.9	20.1	19.5	24.3	24.1
Healthcare	19.0	19.3	18.1	25.9	26.6
Cons Disc	18.5	21.6	15.6	13.4	14.4
IT	17.4	17.0	22.3	15.1	14.0
Materials	16.1	17.6	15.2	15.2	15.0
Industrials	17.1	17.8	16.6	16.2	20.1
Telecomms	16.3	15.0	19.3	15.4	14.9
Utilities	17.1	18.1	15.0	16.1	12.3
Finance	13.9	15.3	12.7	11.0	10.0

May we both wish you a happy New Year, and we look forward to updating you on the progress of the Fund over the course of 2016.

Matthew Page, CFA
Dr Ian Mortimer, CFA
Portfolio managers, Guinness Global Equity Income Fund

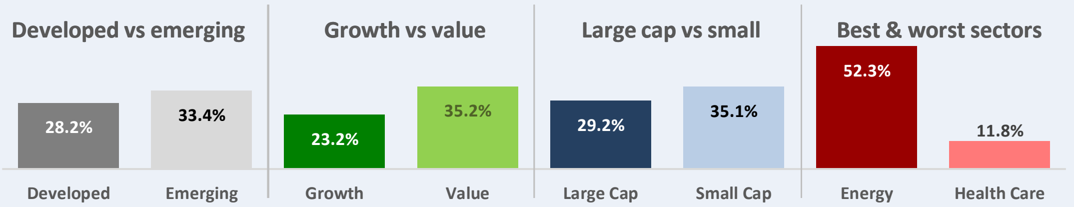
January 2016

Fund size
Start of year £100m
End of year £248m

What happened in the world?

2016 turned out to be a year of surprises. At the beginning of the year many were expecting the Fed to vote to raise interest rates four times over the course of 2016. There was also a consensus view that the UK would vote to remain in the European Union, while Hilary Clinton looked set to become the first female President of the United Stated. Clearly this all turned out to be wrong.

- The UK voted to leave the EU
- Donald Trump became President-elect of the USA
- The first half of the year was characterised by strong performance from defensive sectors while the second half of the year saw a sector rotation that favoured more cyclical sectors.
- The Fed raised interest rates just once over the course of 2016 largely due to global economic uncertainty.



Total return in GBP; MSCI World & MSCI Emerging Markets Index; MSCI World Growth and World Value; MSCI World Large Cap. and World Small Cap.; individual MSCI World GICS sectors.

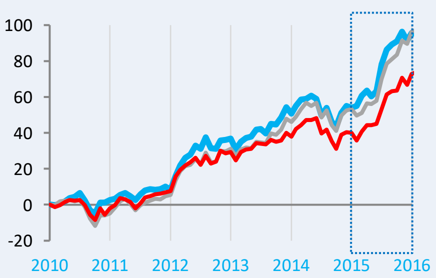
What happened in the Fund?

- A strong year for the Fund which outperformed the market and peers during the first quarter – which was the worst start on record for US equities – and the second quarter, which included the UK's EU referendum vote.
- The top 5 performing sectors were Energy, Materials, Industrials, Financials and IT. Similarly, the Fund's top 5 performing positions included one IT company, two Industrials and two Financials.
- **Purchases**: Roche, VF Corp, Randstad, Walmart
- **Sales**: Aberdeen Asset Management, Li & Fung Ltd, Largan, Willis Towers Watson

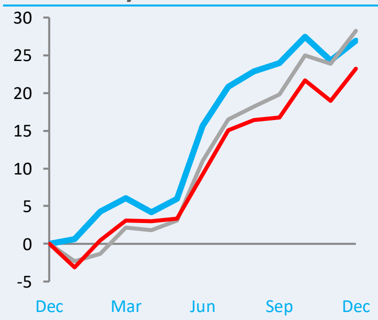
"Our approach has always been to try to build a portfolio of consistently high return on capital companies that can weather whatever the macro environment might throw at it."

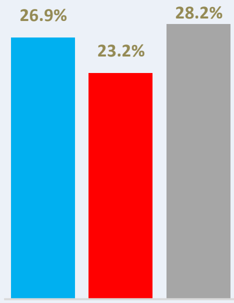
Performance

Cumulative since launch



Calendar year 2016





Fund Guinness Global Equity Income
Sector IA Global Equity Income
Index MSCI World

Cumulative % total return, in GBP.
Source: Financial Express.

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.

2016

Performance

While 2016 was a dramatic year for politics and financial markets it was another good year for the Guinness Global Equity Income Fund, outperforming the IA Global Equity Income Sector for the fourth year in a row. The Fund has now outperformed the IA Sector in five of the six years the Fund has been in existence, and we are pleased to have provided positive returns in each of the last six years.

Figure 1: Calendar year performance

vs IA Global Equity Income sector and MSCI World Index

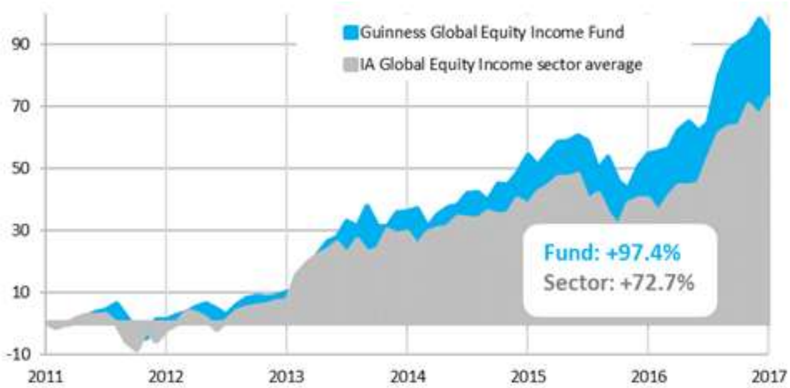
Fund E-class TR in GBP	2011	2012	2013	2014	2015	2016
Quartile rank	**1st**	**4th**	**1st**	**1st**	**2nd**	**2nd**
Fund	**2.7%**	**5.5%**	**26.3%**	**10.1%**	**2.0%**	**26.9%**
Sector	-2.1%	9.7%	20.4%	6.7%	1.5%	23.2%
Index	-4.8%	10.7%	24.3%	11.5%	4.9%	28.2%

In 2016 the Fund produced a total return of 26.9%, compared to the IA Global Equity Income Sector of 23.2% and the MSCI World Index return of 28.2%. The Fund therefore outperformed the Sector by 3.7% and underperformed the Index by 1.3%.

Over the long-term the Fund ranks in the top quartile of the IA Global Equity Income Sector over five years and since launch in 2010.

Figure 2: Cumulative performance

Fund E-class, TR in GBP to 31.12.16	1 year	3 years	5 years	From launch (31.12.10)
Quartile rank	**2nd**	**2nd**	**1st**	**1st**
Fund	**26.9%**	**43.4%**	**91.8%**	**97.4%**
Sector	23.2%	33.5%	76.4%	72.7%
Index	28.2%	49.9%	106.4%	96.4%

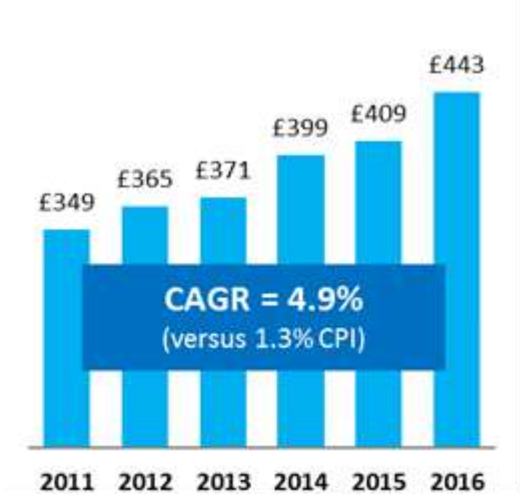


GUINNESS ASSET MANAGEMENT

Dividend

Importantly, our focus on companies that offer the potential for dividend growth rather than simply a high dividend yield means we have managed to grow the dividend distributed by the Fund every year. This year the Fund grew the dividend by 8.1% (X-class), whilst the annualised growth rate over the last six years has been 4.9%. This annualised growth rate of the dividend looks particularly compelling when compared to the consumer price index inflation rate which has averaged 1.3% over this period.

Figure 3: Dividend growth



Based on the price at year end, the Fund has a historic 12 month dividend yield of 2.9%.

Review of 2016

At the beginning of 2016 we wrote in our Annual review of 2015:

"As we look forward in 2016, many of the uncertainties that existed in 2015 are still with us: the trajectory of US interest rates, the divergence of central bank policies, emerging market currency risks, weaker growth in China, and Europe grappling with various social and economic problems, to mention the most widely discussed topics."

2016 turned out to be a year of surprises. At the beginning of the year many were expecting the Fed to vote to raise interest rates four times over the course of 2016. There was also a consensus view that the UK would vote to remain in the European Union, while Hilary Clinton looked set to become the first female president of the United Stated. Clearly this all turned out to be wrong.

We have never seen much value to our investment process of attempting to predict macroeconomic events. In last year's Annual review, we reminded investors what we said in our review of 2011, and it is worth reiterating it again here.

"We do not spend too much time worrying about how the global economic environment will fare in the near future but instead will continue to focus our time and thoughts on our process and on identifying high quality companies and including the best value opportunities in the portfolio."

Our approach has always been to try to build a portfolio of consistently high return on capital companies that can weather whatever the macro environment might throw at it. Not only had the macro events surprised investors, it also turned out to be an environment where chasing trends would have been a dangerous strategy.

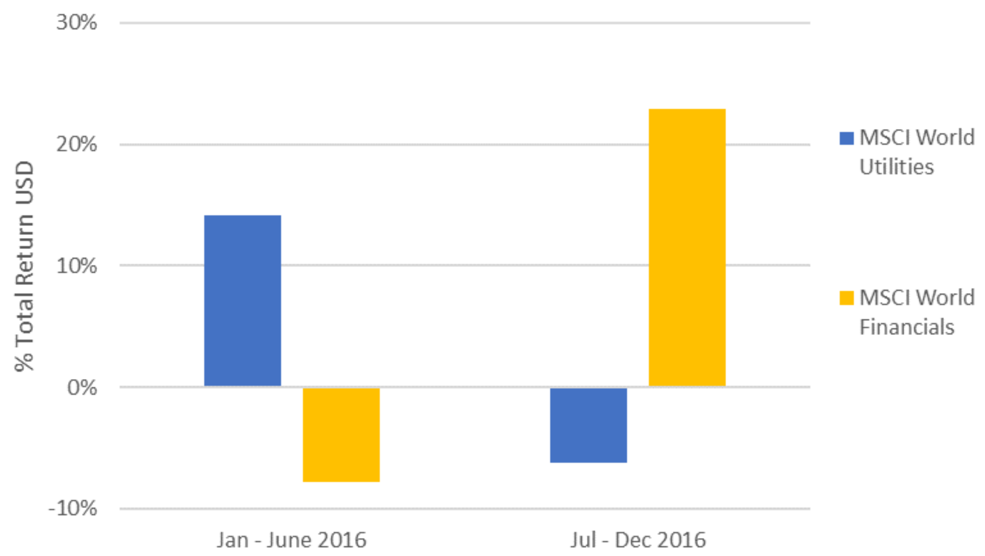
In the end we had one interest rate rise in the US which came in December, the UK did vote to leave the EU and Donald Trump became President-elect of the United States.

The fact we only had one interest rate rise in the US in 2016 was largely a consequence of global economic uncertainty that began in the first quarter with concerns surrounding a slowdown of growth in China, and a surprise devaluation in the Renminbi. Global equity markets fell 10% (USD) in the first six weeks of the year only to rebound and regain much of this ground by the end of the quarter.

Investors then turned their focus to the UK referendum of 23rd June. The initial reaction to the referendum result saw some large moves in equity prices with the MSCI World index falling around 7% (USD) in the two days after the election. However, the index had recovered all of these losses by the 12th July. It was the Pound that suffered in response to the UK referendum falling 17% between the date of the UK referendum and the end of the year.

Whilst the politics of 2016 was unexpected the most interesting change that occurred in 2016 was a sector rotation that really began at the end of June. The first half of the year was characterised by strong performance from defensive sectors while the second half of the year saw a sector rotation that favoured more cyclical sectors. If we take the Utilities sector as the measure of a defensive sector and the Financials sector as a measure of a cyclical sector then the chart below shows this in stark relief.

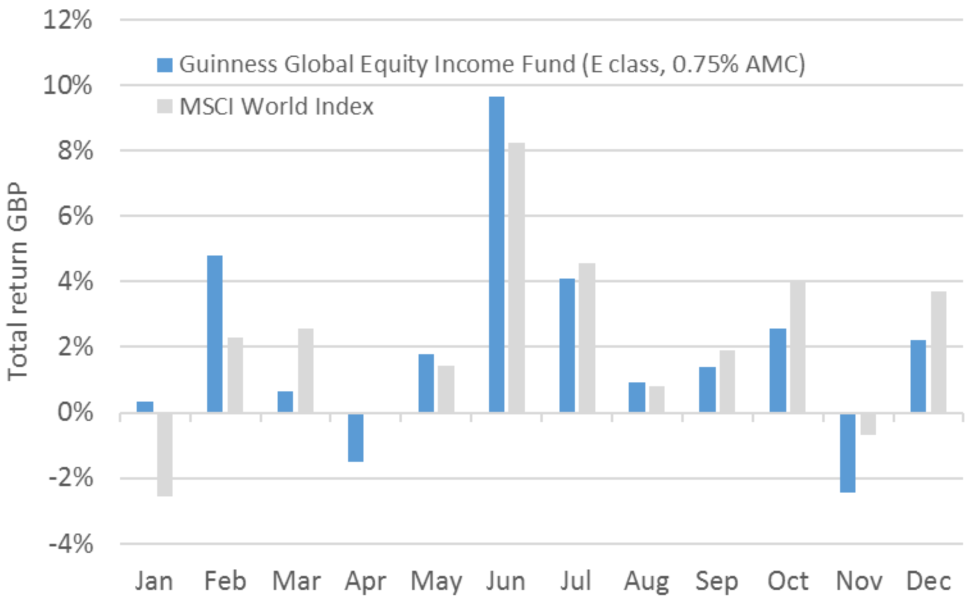
Figure 4: MSCI World Utilities vs MSCI World Financials



The Trump election victory in November only added further stimulus to this sector rotation.

Looking at the performance of the Fund over 2016 it was particularly pleasing to the see the Fund performing well in the first quarter which began with US equities recording their worst start to a year on record. Similarly, it was pleasing to see the Fund hold up well through the second quarter, a period which included the aftermath of the UK referendum vote. The third quarter was largely uneventful. The Fund underperformed in the fourth quarter which was mainly a result of the strong performance from US banks on expectations that Trump's policies would lead to higher interest rates, an industry the Fund has historically had a low exposure to.

Figure 5: Monthly total return of Fund v benchmark in 2016



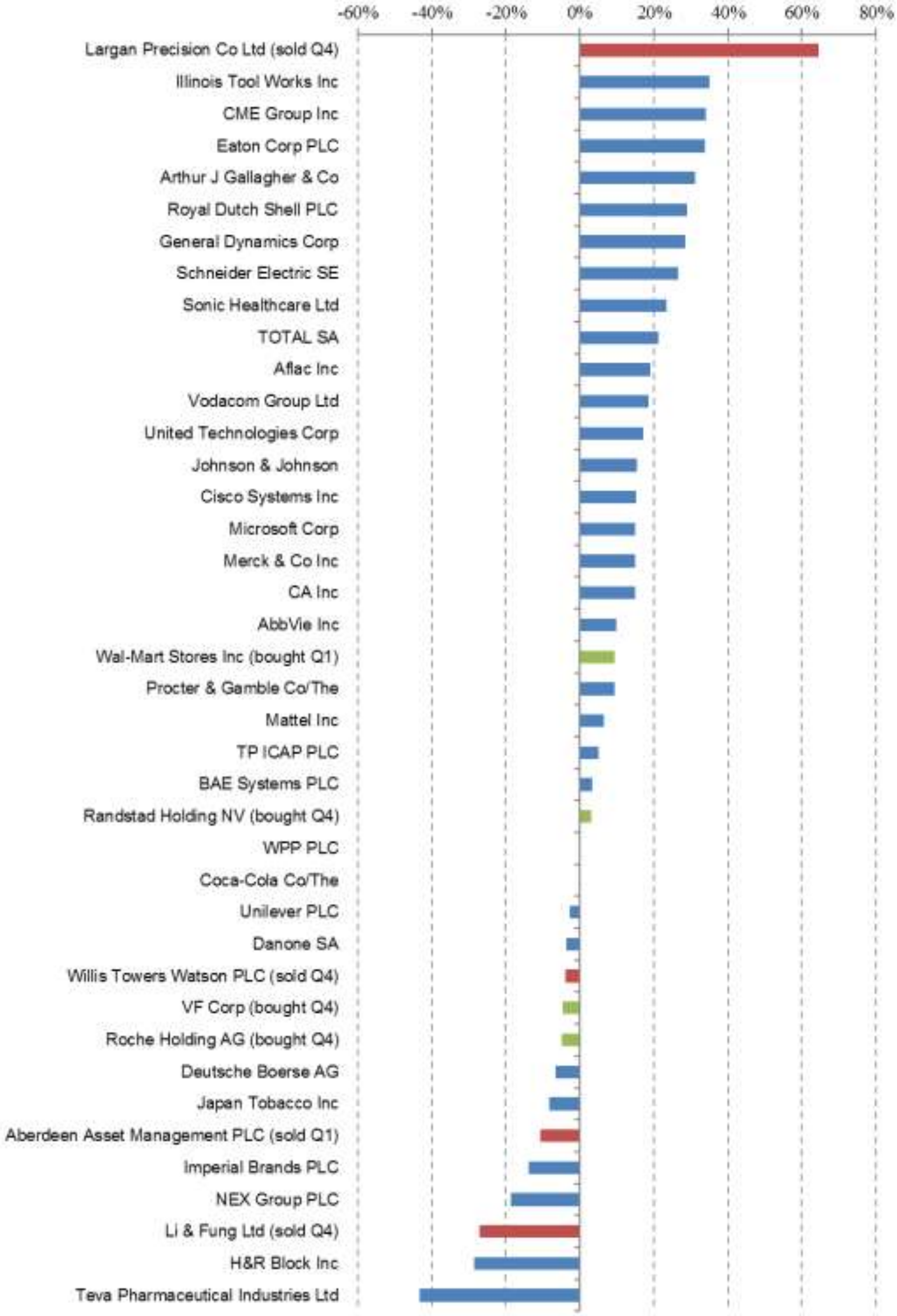
When we look at the performance of global equities by region and by sector as per the table below we see that it was the US that lead global equities higher, followed by Emerging Markets. The recovery in global commodity prices that eventually occurred in 2016 lead to strong performance for the relatively small Energy and Materials sectors. Healthcare on the other hand was the only sector to post negative performance, much of this having been driven by negative sentiment on the back of Hilary Clinton's desire to clamp down on drug pricing. Notably the top five performing sectors: Energy, Materials, Industrials, Financials and IT were all cyclical sectors indicating that the market has bet on an improving outlook for these company's earnings.

Figure 6: Total return by region and sector (USD) in 2016

Total Return (USD)	MSCI World	MSCI US	MSCI Europe	MSCI Asia	MSCI EM
Index	8.2%	11.6%	0.2%	4.1%	11.3%
Energy	27.6%	25.8%	30.1%	18.6%	36.8%
Materials	23.0%	16.2%	25.3%	14.1%	31.5%
Industrials	13.5%	18.9%	8.1%	3.3%	-2.0%
Financials	13.3%	22.7%	-2.6%	3.5%	13.2%
IT	12.0%	13.3%	1.7%	13.8%	16.8%
Utilities	7.1%	16.3%	-6.9%	-4.6%	2.7%
Telecomms	6.8%	23.9%	-15.0%	5.3%	2.3%
Cons Disc	3.6%	6.2%	-2.8%	-0.1%	0.8%
Cons Staples	2.3%	5.7%	-2.8%	-3.0%	0.4%
Healthcare	-6.3%	-2.9%	-11.4%	-7.0%	-7.4%

When we look at how individual companies within the portfolio performed in 2016 we see a similar picture. Our top five performing positions included one IT company, two Industrials and two Financials. Our holdings in Industrials and IT were the largest contributors to performance relative to the benchmark. Pleasingly our positions in the Healthcare sector were net positive contributors to performance despite the sector as a whole being the weakest performing sector, and having poor performance from our position in Teva Pharmaceuticals. Our positions in the Consumer Discretionary sector were the main detractors from performance.

Figure 7: Individual holdings price performance over holding period during 2016 *(total return USD)*



Changes to the portfolio

In 2016 we sold four positions and bought four new positions, leaving the portfolio with 35 positions at the end of the year. This was fewer changes than we made in 2015 but more than we made in 2014.

Figure 7: Number of changes to the portfolio

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

In the **first quarter** we sold our position in **Aberdeen Asset Management** and bought a position in **Walmart**.

We had owned **Aberdeen Asset Management** since we launched the Fund in 2010 but we decided to sell due to a combination of three factors – a poor outlook for emerging markets, large outflows from sovereign wealth funds of oil producing countries and declining performance of their funds. We will continue to monitor the company and look for a change in fortunes but we decided it made more sense to sell, replacing it with a company that we had owned previously and had continued to monitor in the form of **Walmart**.

We held Walmart from December 2010 to March 2013, and decided to take a profit after we saw a significant valuation rerating and compression in the dividend yield we were receiving. Since then Walmart has been facing significant challenges, including the increasing threat of Amazon, wage inflation and FX headwinds. We have seen margins decline over the last few years as the company has been investing to catch up in e-commerce and expanding its online grocery pickup offering, which should start to have an impact this year. Last year we saw a significant decline in the valuation the market has been willing to pay. At the beginning of 2015 the company was trading towards the peak of its 10 year historical multiple and by the beginning of 2016 it was trading around one standard deviation below its 10 year average multiple.

By January this year the dividend yield was the highest it has been for the last 10 years. We also note that Walmart has grown its dividend every year that we have been alive! Dividend growth over the last five years has been particularly impressive at an average rate of 10% per year. Whether this level of dividend growth is achievable in the next five years is hard to predict but the dividend certainly looks very safe; the company is generating a high return on capital well above its cost of capital, its dividend represents a modest payout ratio of 40%, it has a Debt to EBITDA ratio of 1.5x and a AA credit rating.

We did not make any changes to the portfolio in the **second** and **third quarter**.

We made a small number of changes to the portfolio in the **fourth quarter**. We sold our positions in **Largan Precision**, **Li & Fung** and **Willis Towers Watson.** and replaced them with new positions in **Roche**, **Randstad** and **VF**.

We bought **Largan Precision**, a Taiwanese manufacturer of optical lenses for smartphones, around this time last year and it went on to perform very well for the Fund. The company had demonstrated impressive growth along with margin expansion which is a combination we always like to see. The stock price fell quite significantly over the second half of 2015 in an environment of general emerging market weakness, allowing us to find an attractive entry point towards the end of the year. Indeed, we managed to purchase the company on a P/E multiple of 11x 2016 expected earnings. Given the strong share price performance we have seen this year, the P/E multiple has since expanded to 21x 2016 expected earnings which we felt was too rich. We continue to like the company and it will remain on our watchlist as a potential candidate to re-enter the portfolio if we see a similarly attractive entry point in the future.

We bought Willis Group, as it was called back in 2010, when we launched this fund. We always like insurance brokers' scalable and capital-light business models. However, the company merged with Towers Watson at the beginning of this year which led to a change in the capital structure of the business and, importantly for us, a lower dividend yield. The company has performed well in the portfolio but its dividend yield now of around 1.5%, down from 3.5% when we bought the stock, made us feel there are better opportunities elsewhere.

Li & Fung was a position where we got it wrong and decided to cut our losses and move on. We bought the company back in 2014 and we liked the company's asset-light business model as we could see how growth would translate into significant operational leverage. Growth had been weak for some time but we thought there was a reasonable chance that it would turn around. Unfortunately that did not occur and with the election of Donald Trump we felt the company's model of a global outsourcing business became more vulnerable. We also came to the conclusion that there is now a real risk of a dividend cut.

In the run-up to the US election there had been a meaningful sell-off in the healthcare sector and we felt this provided an opportune time to purchase **Roche** for the portfolio. The one year forward P/E multiple for Roche peaked at about 20x in the middle of 2015. We managed to pick it up on a multiple of 15x, a very reasonable discount not only to its historic level but also relative to the market given the company's high quality characteristics.

We also purchased **VF**, which we had owned when we launched the Fund in 2010 but later sold after some particularly strong performance. The company owns clothing brands such as North Face, Timberland and Wrangler Jeans. We had sold the company in 2013 as the company's dividend growth, while impressive at over 10% per year, had failed to keep up with share price performance, meaning the yield had fallen below 2%. Since then, the dividend growth has remained as impressive but the share price has been weak over the last 18 months, meaning we were able to buy the company on a dividend yield of around 3%.

Finally, we added a position in the Dutch recruitment firm **Randstad**. We are always looking for companies that meet our quality criteria but trade on valuations towards the lows of their historic ranges. Randstad certainly met these criteria after the company's share price reacted negatively to the Brexit referendum. The market valued this high quality company on a forward P/E of 20x in the middle of 2015, yet we were able to pick it up on a forward P/E of 13x in November.

Portfolio today and outlook

The charts below show the sector and geographic breakdown of the portfolio over the last six years. The overall effects of the changes we made to the portfolio in 2016 were to increase our exposure to Consumer Staples, Health Care and Industrials, while reducing our exposure to Financials and IT. These were relatively modest changes in allocation given we only made four sales and four buys during the year.

Figure 8: Portfolio sector breakdown (31.12.16)

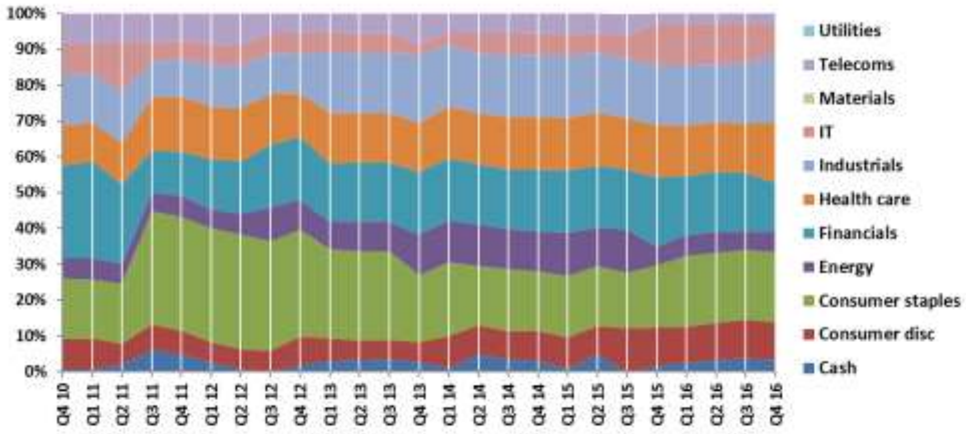
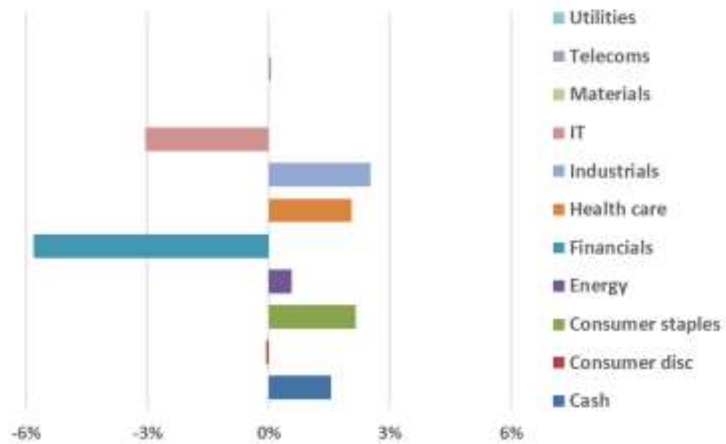


Figure 9: Year on year change in sector breakdown (31.12.16 vs 31.12.15)



In terms of geographic allocation we reduced our exposure to the UK and Asia-Pacific while increasing our exposure to Europe ex-UK and the US.

Figure 10: Portfolio geographic breakdown (31.12.16)

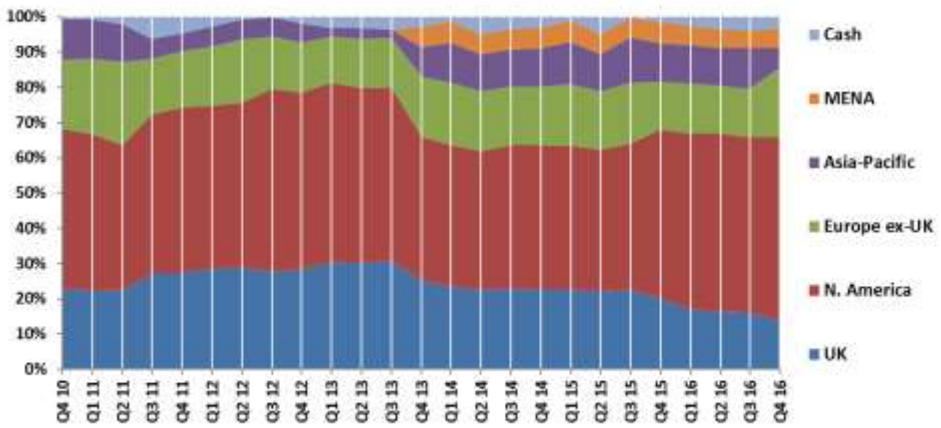
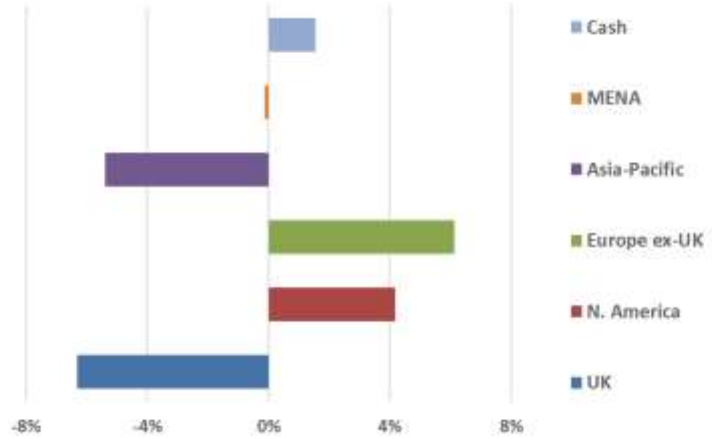


Figure 11: Year on year change in geographic breakdown (31.12.16 vs 31.12.15)



As we reflect on 2016 and look forward to 2017, there is considerable uncertainty in markets.

In contrast, at the start of 2016 there was a strong consensus view that Britain would vote to remain in the EU and that Hilary Clinton would be elected President of the United States of America. There was also a widely held view that the US would increase interest rates four times over the course of the year. Latching on to these forecasts and building your portfolio in anticipation of these outcomes would have made for a painful 2016.

Today there is uncertainty surrounding the direction of Donald Trump's policies, the threat of trade wars, tariffs and broader protectionist measures. In Europe we have a French Presidential election, a German Presidential election and the triggering of Article 50 to look forward to. All events that could move markets and this uncertainty leaves us feeling a little apprehensive. However, we have never sought to build our investment process to rely on making big decisions on macro events, let alone on binary events such as elections. We have always preferred high return on capital and strong balance sheets to a macro crystal ball, and if this uncertainty persists through 2017 then the chances are these types of companies should be a more pleasant place to be invested.

So we will refrain from making any big predictions for 2017, as your inbox will almost certainly be overloaded with them already, and instead leave you a few word from Voltaire:

"Doubt is not a pleasant condition but certainty is an absurd one"

As ever we would like to thank you for your continued support and we wish you all a prosperous 2017.

Matthew Page, CFA
Dr Ian Mortimer, CFA
Portfolio managers, Guinness Global Equity Income Fund

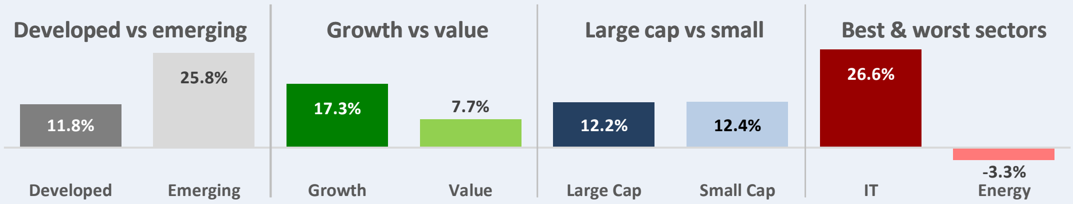
January 2017

Fund size
Start of year £248m
End of year £353m

What happened in the world?

"Political noise, market poise" suitably characterised the year of 2017. Equity markets persistently defied the sceptics, who pointed to political dysfunction, monetary policy uncertainty, and potential geopolitical crises as reasons for woe. Instead the year saw well-diversified global growth, with many equity indices hitting new highs.

- The MSCI World and S&P 500 indices delivered positive returns in every single calendar month of 2017 – the first time this has happened in history.
- Tax reform, deregulation and infrastructure spending initiatives were part of President Trump's initial plans and helped push stock market returns upwards.
- Following Dec 2016's interest rate hike, the Fed raised rates again in March, June and December 2017.
- US unemployment fell to its lowest level since 2000
- US corporation tax reduced from 35% to 21%
- Political risk in France (Presential Election), Italy (rise in populism), Spain (Catalonian independence) and UK (Brexit) weighed on European equities.



Total return in GBP; MSCI World & MSCI Emerging Markets Index; MSCI World Growth and World Value; MSCI World Large Cap. and World Small Cap.; individual MSCI World GICS sectors.

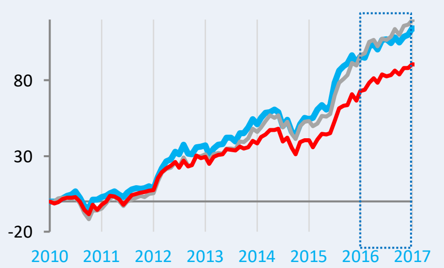
What happened in the Fund?

- Overweight Healthcare and Consumer Staples, and underweight IT, dragged on the Fund's relative performance in a year that saw a continuation of *growth* significantly outperform *value*.
- Good stock selection with two Healthcare, two Financials, and one Consumer Staples stock in the top 5.
- **Purchases**: Novo Nordisk, Anta Sports, British American Tobacco, Hengan, Reckitt Benckiser
- **Sales**: H&R Block, Total, Teva Pharmaceutical, Mattel, Coca Cola

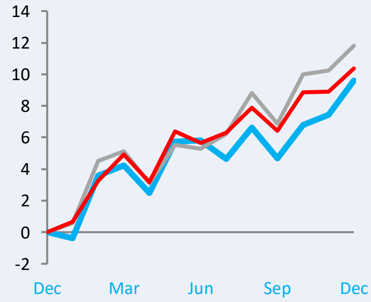
"Our perpetual approach of focusing on the quality of the underlying companies we own should stand us in good stead in our search for rising income streams and long-term capital growth."

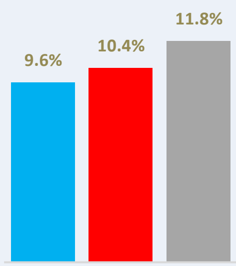
Performance

Cumulative since launch



Calendar year 2017





Fund Guinness Global Equity Income
Sector IA Global Equity Income
Index MSCI World

Cumulative % total return, in GBP.
Source: Financial Express.

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.

2017

Performance

"Political noise, market poise" suitably characterises the year of 2017. Equity markets persistently defied the sceptics, who pointed to political dysfunction, monetary policy uncertainty, and potential geopolitical crises as reasons for woe. Instead the year saw well-diversified global growth, with many equity indices hitting new highs.

In 2017 the Guinness Global Equity Income Fund produced a total return of 9.6% (TR in GBP), compared to the MSCI World Index return of 11.8%. The Fund therefore underperformed the Index by 2.2%.

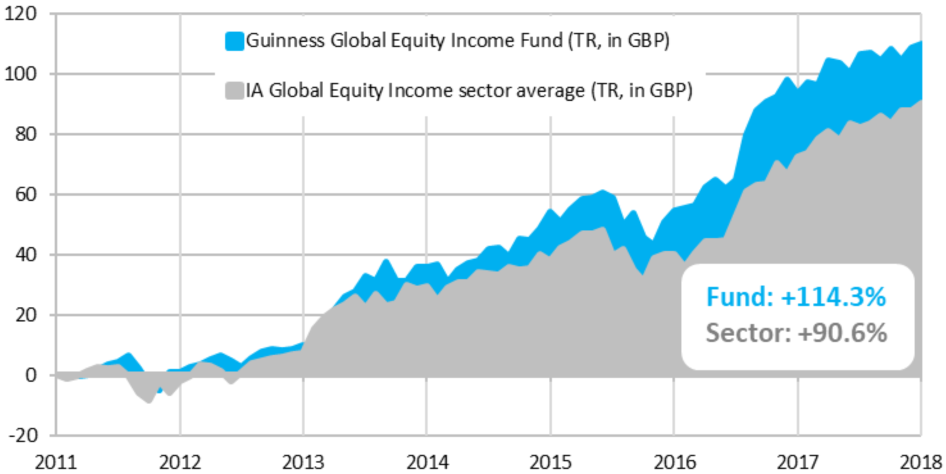
This is reflective of what we saw in equity markets over the last 12 months, with the market preferring growth stocks to value; quality companies and defensive sectors benefitted less from the very strong equity rally.

Figure 1: Calendar year performance
vs IA Global Equity Income sector and MSCI World Index

Fund E-class TR in GBP	2011	2012	2013	2014	2015	2016	2017
Fund	**2.7%**	**5.5%**	**26.3%**	**10.1%**	**2.0%**	**26.9%**	**9.6%**
Sector	-2.1%	9.7%	20.4%	6.7%	1.5%	23.2%	10.4%
Index	-4.8%	10.7%	24.3%	11.5%	4.9%	28.2%	11.8%

Over the long-term the Fund ranks in the top quartile of the IA Global Equity Income sector over five years and since launch in 2010. The Fund has now outperformed the IA sector in five of the seven years the Fund has been in existence, and we are pleased to have provided positive returns in each of the last seven years.

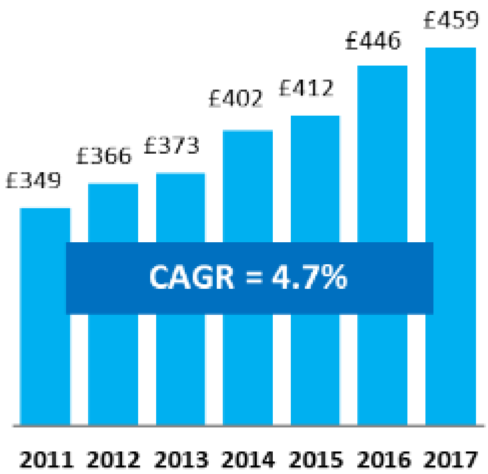
Figure 2: Cumulative performance since launch



Dividend

Importantly, our focus on companies that offer the potential for dividend growth rather than simply a high dividend yield means we have managed to grow the dividend distributed by the Fund every year. This year the Fund grew the dividend by 2.8% (Y-class, in GBP), whilst the annualised growth rate over the last seven years has been 4.7%.

Figure 3: Dividend growth



Based on the price at year end, the Fund has a historic 12 month dividend yield of 2.7%.

Review of 2017

Every single one of the world's 45 major economies (defined by the OECD) grew in 2017, and is forecasted to grow in 2018. It has been more than a decade since the lift to the world economy was this broad. While risks from politics, central bank policies and military threats have not gone away, investors seem to have recognized that the global economy is not as vulnerable to these influences as perhaps thought of at the start of 2017.

The MSCI World and S&P 500 indices delivered positive returns in every single calendar month of 2017 – the first time this has happened in history. Perhaps more remarkable is that these consistent returns have come with record low volatility. The maximum drawdown for the S&P 500 index was less than 3.3% over the year, and this compares to the index's median average of 18.0%, going back to 1980. The year started with a growing optimism that the new U.S. administration would be beneficial for corporate profitability. Tax reform, deregulation and infrastructure spending initiatives were part of President Trump's initial plans and helped push stock market returns upwards. Positive macroeconomic data releases led the Federal Reserve (FED) to hike interest rates in March, June and December of 2017. This followed a rate hike in December 2016, and although a cumulative rise of 1% in 12 months may not sound significant, previous to these 12 months, there were no rate rises in the last decade. Attempts to disengage from the strictures of unconventional monetary policy, namely zero interest rates and quantitative easing which were introduced in many economies in the aftermath of the financial crisis, are set to continue with forecasts suggesting three to four further rate hikes in 2018. President Trump also announced that Jerome Powell will lead the FED when Janet Yellen steps down as Chair in February 2018. Powell is unlikely to materially alter the likely course of rate rises, but the new FED members to be appointed in the year could potentially shift the path and will warrant close attention. In the final quarter of the year, unemployment fell to the lowest level since 2000, business investment accelerated, and there was also a much-anticipated reduction in the U.S. corporate tax rate to 21%, from 35%. The year finished on a high also in terms of corporate profitability, with third-quarter earnings releases showing a 6% year on year rise.

Despite a good year for the European economy in terms of equity returns and corporate earnings (up 10% year on year in the third quarter), European stocks underperformed several other markets in local currency terms, highlighting the extremely strong returns delivered elsewhere. European equities had a great start to the year, as business surveys picked up and political risk faded with Emmanuel Macron's election win. The strong rally in the Euro in the first three quarters of the year explains much of the subsequent drag (since May) on European equities in local currency terms.

Foreign revenues have had to be translated at a less favourable rate. In the fourth quarter, European equities delivered the lowest returns, despite a broadly flat Euro, suggesting they have not experienced the same boost from U.S. tax cuts. Furthermore, politics has given European investors reason to pause for breath. The Catalonian independence disputes have weighed on the relative performance of Spanish equities since August, and the start of October has seen Italian equities also give up a little of their outperformance for the year as investors start to look ahead to the Italian elections in 2018. Turning to look at central bank action, the European Central Bank was encouraged by the overall health of the European economy, perhaps coupled with legal constraints on the amount of German bunds it can buy, to announce in October that it will reduce its monthly quantitative easing purchases down to EUR 30 billion. This lower pace of purchases will start in January and last until at least September 2018.

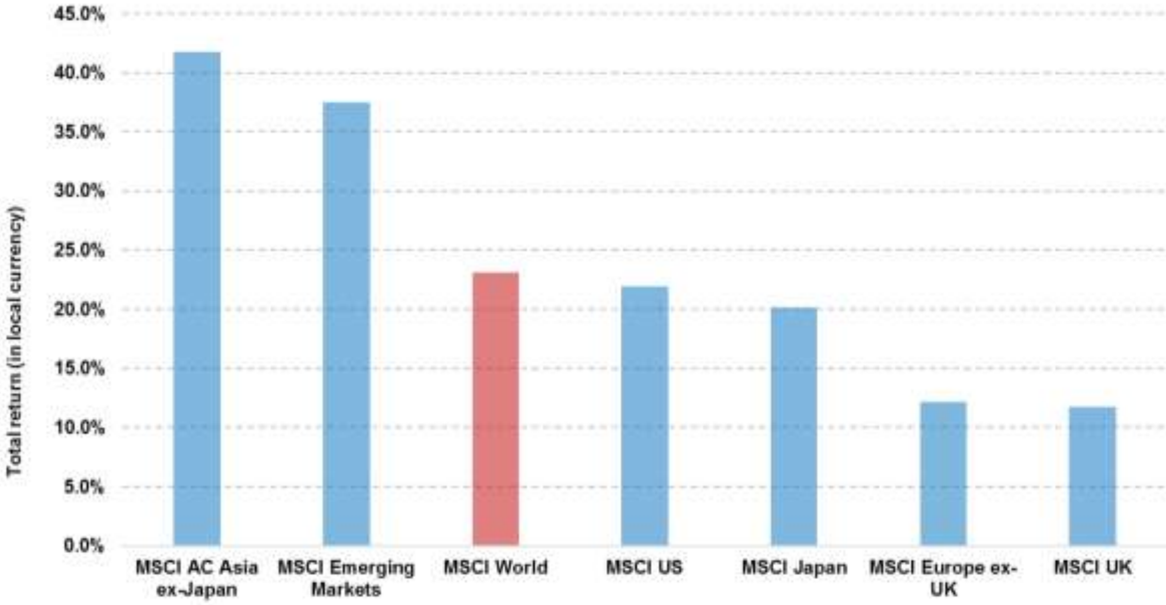
UK equities have had to contend with the strength in Sterling over 2017, weighing on the value of foreign revenues, which make up close to 70% of FTSE 100 sales. The more domestically focused mid-and small-cap stocks have therefore outperformed in 2017, with UK equities overall underperforming most other regions this year. Part of the reason for the rally in the Pound this year has been an increasing probability of a transitional deal on Brexit. The completion of phase one of the Brexit negotiations in December supports the market's assumption that a transitional deal now looks more likely than it did at the start of the year, even though many challenges remain. The deterioration in UK consumer confidence stands in contrast to the buoyant consumer confidence seen in most other regions. The Bank of England increased interest rates in November for the first time since 2007, but noted that any further rate rises are likely to be very gradual and remain highly dependent on the outcome of the Brexit negotiations.

The best-performing equity markets this year have been in Asia and the emerging markets. Several factors have contributed to their strong performance. A weak Dollar has historically been supportive of the relative performance of emerging market equities and this proved to be the case in 2017. EM equities have also benefited from a rebound in earnings off a low base and the rally in technology stocks this year. The MSCI EM Index started the year with Technology making up 25% of the composition. It's also been another year when the China bears have been left disappointed. In the fourth quarter, the 19th National People's conference laid out a plan for reducing financial risks while focusing on delivering slightly lower, but still very substantial, GDP growth.

Following suit, Japanese equities have likewise had a very strong 2017. The major driver of performance this year has been stellar company earnings, which rose by 16% year on year in the third quarter. Earnings were bolstered by strong global growth and a pick-up in global trade. Prime Minister Shinzo Abe comfortably won the election in October, providing political stability and boosting confidence that there should be few changes to his economic policies. Next year, it will be important to watch Bank of Japan (BoJ) policy and whether Kuroda continues as governor after his current term ends in April 2018.

Overall, most equity investors have enjoyed a remarkably smooth and rewarding 2017 as all regions worldwide posted significant gains (as seen in figure 4 below).

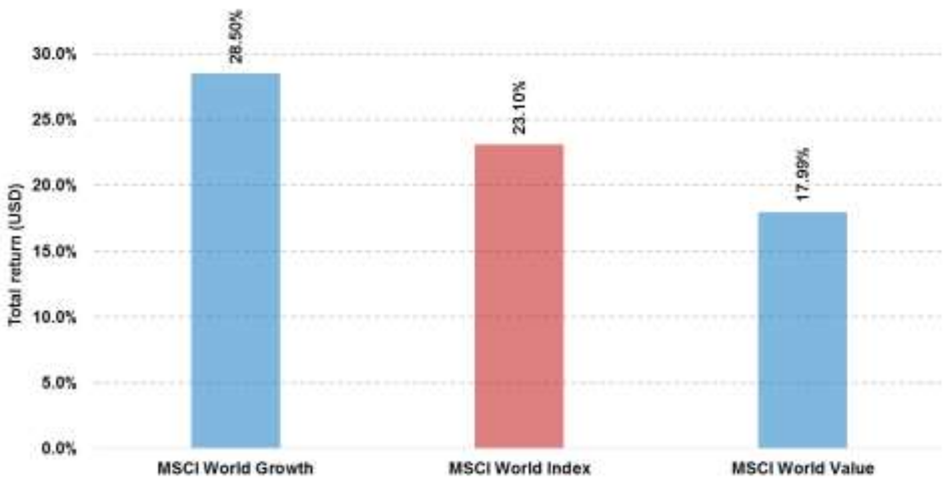
Figure 4: Regional Performance (in local currency)



The big question going into 2018 is whether this can continue as new headwinds approach. As ever, rather than trying to pick which way the macro or political winds will blow in the near term, we maintain our focus on companies that can deliver a sustainable, rising income stream alongside capital growth over the long term. Holding good quality companies, that have persistently generated high levels of cashflow return on investment gives us confidence that the Fund is well placed to weather different market conditions.

The Guinness Global Equity Income Fund tends to outperform in down markets, and is skewed towards quality companies, at attractive valuations. This explains the Fund's slight underperformance this year as we see in the below figure that Growth companies significantly outperformed Value.

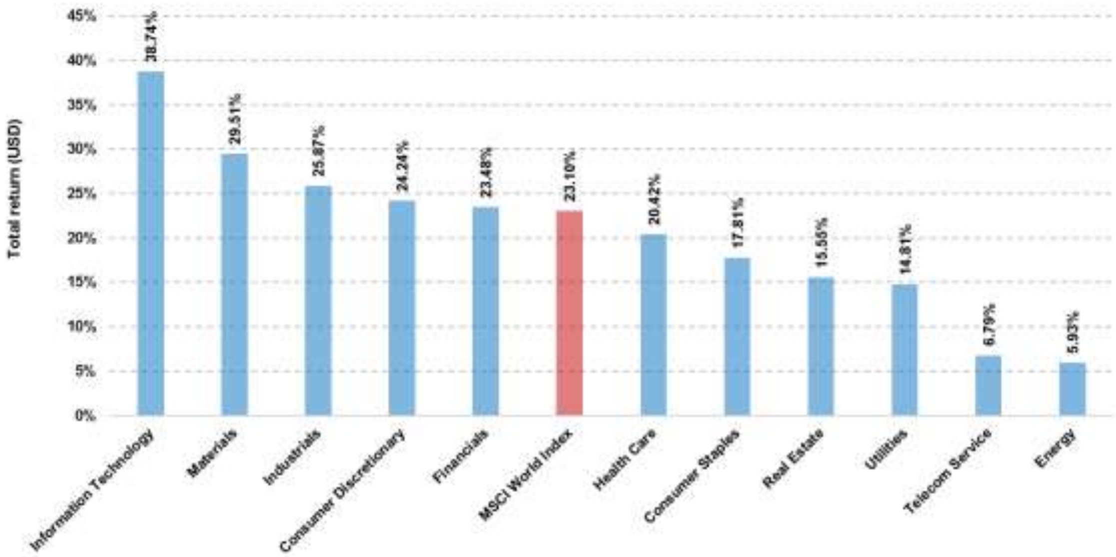
Figure 5: MSCI World style performance in 2017 (in USD)



In terms of sectors, technology stocks led the way returning almost 40% (in USD), but the market rally was relatively broad based, with materials, industrials, consumer discretionary, financials and healthcare all returning over 20% (in USD). Defensive "bond-proxy" sectors such as utilities, telecommunications, real estate and consumer staples lagged.

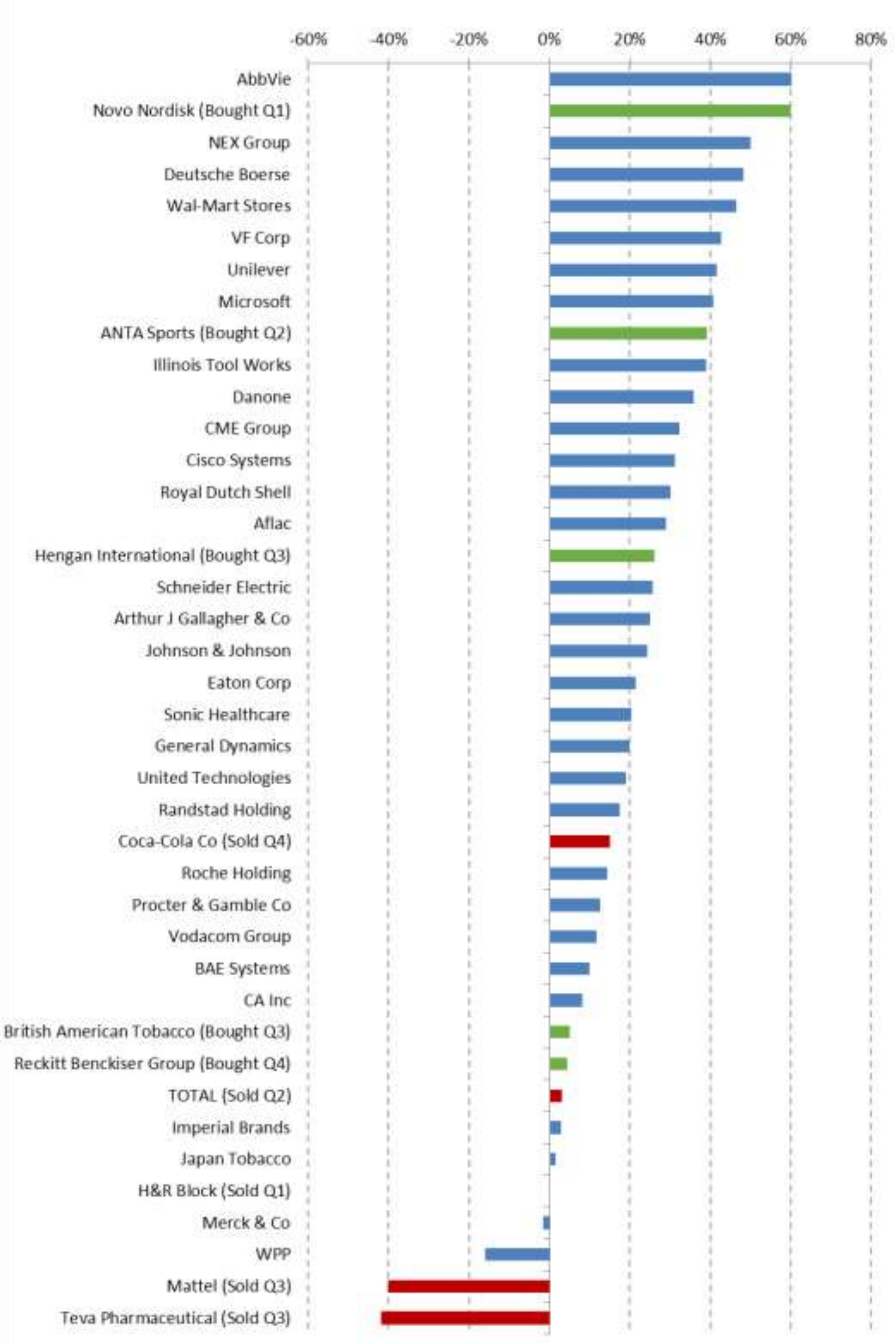
For the Fund, overweight healthcare was a small drag on performance from an allocation perspective, but good stock selection (e.g. Novo Nordisk and AbbVie) meant overall allocation to the sector added to performance. This is similar to the case with IT stocks, where underweight to the sector dragged on performance though we saw good returns from individual positions such as Microsoft and Cisco. We also note that although consumer staples underperformed as a sector, good stock selection meant positive contributions. It is particularly pleasing to see many of our newer additions performing well in this sector.

Figure 6: MSCI World sector performance in 2017 (in USD)



When we look at how individual companies within the portfolio performed in 2017 we see that out of the top five, we have two healthcare, two financial, and one consumer staples stock (figure 7). This is testament to the bottom-up philosophy of the Guinness Global Equity Income Fund focusing on quality companies at attractive valuations. It is also worth noting at this stage that the Fund is benchmark and sector agnostic – positions are based on high conviction, bottom-up fundamental analysis.

Figure 7: Individual holdings performance over holding period during 2017 *(total return USD)*



Of the two worst performing stocks, Mattel and Teva Pharmaceutical, we saw significant share price falls in the third quarter. In its earnings release, Teva surprised the market with significant write-downs associated with the Allergan acquisition and a large cut to the dividend, so we decided to sell our position. Mattel had been a long term holding in the Fund and performed very well from 2012 to 2015. The company saw falling sales and earnings in more recent years, and it announced a dividend cut in the third quarter, convincing us to sell our position.

Changes to the portfolio

In 2017 we sold five positions and bought five new positions, leaving the portfolio with 35 positions at the end of the year. This was more changes than in 2016, though fewer than in 2015.

Figure 7: Number of changes to the portfolio

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

In the first quarter, we made one change to the portfolio, whereby we bought Novo Nordisk and sold HR Block.

H&R Block, the US-based tax preparation company, saw some significant changes during our long term holding of the company. Of particular note was the spinning off of its banking arm in 2014, which released the company from the associated regulatory burden and capital requirements associated with that business. This was well received by the market and the company added significantly to the performance of the Fund from our first purchase in 2012 to the end of 2015. However, through 2016 the company posted a series of weak quarterly results as it appeared competition in the market place and particularly the 'do-it-yourself' online tax returns model had begun to erode their dominant position. This was reflected by sharp declines in the share price over this period. The quarterly results released in early March surprised to the upside, however, mainly as the market had become too pessimistic rather than results being obviously positive. The subsequent spike upwards in the share price provided us an opportune moment to exit our position. At the time of sale, the valuation of the company was undemanding (around 13.5x 2017 expected earnings) but we felt the quality had deteriorated as debt to equity levels began to rise significantly. We felt our conviction was not high enough to justify holding the stock.

We bought **Novo Nordisk** to replace H&R Block, sticking to our one-in, one-out policy. The Danish pharmaceutical company is a leader in the global insulin market and has maintained a concentrated, yet market leading, portfolio of drugs targeting diabetes – a growing disease especially in less developed countries. We liked the fact that CFROI has been consistently growing over the last 10 years and currently stands at 25%. Dividends per share have also been growing very quickly with a five year dividend growth rate of over 20% per annum. The company has a very strong balance sheet with very little debt compared to its peers and has considerably more cash than debt. The company's shares sold off since mid-2016 after an increase in competitive threats, pricing pressures and uncertainty in the US healthcare reform. However, we believed that the market had been overly pessimistic given Novo Nordisk's growing drugs pipeline, strong balance sheet and significant cash generation, and this gave us an attractive entry point. During the time we have held the stock, the share price has already rallied 60% (in USD).

In the second quarter, we also made one change to the portfolio. We bought ANTA Sports and sold TOTAL.

TOTAL, the global oil and gas company, was one of our two energy sector holdings. We grew increasingly worried at the company's falling cashflow return on investment and this was accompanied by stagnant dividend growth and capital growth. In our opinion, the company's inability to sustain healthy margins put us out of favour with the stock, especially at a time where industry-wide factors were hampering the performance of energy stocks. We believe that the stock was overvalued versus its history, based on its P/E multiple, and with an increasing amount of long-term debt maturing in the next few years, it was deemed a good time for us to sell our entire position in TOTAL.

We bought **ANTA Sports** to replace TOTAL. ANTA Sports is based in China and has a cashflow return on investment over 10%, for its entire 10 years of existence as a public company. The company generates revenue through the manufacture and trading of sporting goods, including footwear, apparel and accessories. Its brand portfolio includes ANTA, ANTA KIDS, FILA, FILA KIDS and NBA, and has joint ventures with new brands too, such as South Korea's Kolon. Looking at the financials, ANTA Sports has very solid margin growth alongside a surge in sales in recent years. The company is well positioned to benefit from the growing wealth in China, recovering economy, and has maintained low debt. It is the official sponsor of the Chinese Olympics team and we have conviction that the stock has potential to maintain its significant earnings growth. Since buying the stock, the company strengthened its multi-brand strategy by acquiring popular kidswear brand, KingKow. During the time we have held the stock, the share price has rallied 39% (in USD).

In the third quarter, we made two changes to the portfolio, whereby we bought British American Tobacco and Hengan International. We sold positions in Teva Pharmaceuticals and Mattel.

British American Tobacco – the global tobacco leader – was on our radar due to its stellar cashflow returns on invested capital, and strong dividend profile. It's increasing market share, sales and earnings, and its successful integration of the mega $65.4bn acquisition of Reynolds American, position the company well for future price and dividend growth. Despite a rising debt, the company has large piles of cash and good interest cover. At the time, we believed that the U.S. Food & Drug Administration's proposal to reduce nicotine in cigarettes had been overly discounted, and coupled with a sell-off following bribery allegations, this provided us an attractive valuation to buy a new position. Integrating the Reynolds American deal and developing the "global drive brands" strategy is the company's focus for the next few years, as synergies from the acquisition are expected to be $400 million. "Global drive brands" continue to boost BAT's market share at higher price points and increased investment in new-generation products will allow longer-term growth.

Hengan International is one of the largest producers of sanitary napkins, diapers and tissue paper in China. Historically the company has captured significant market share in established distribution channels (maternity stores, hypermarkets) and more recently it is seeing growth from online exposure. Management has built up an e-commerce team to take advantage of the channel shift in China, whereby consumers are increasingly purchasing everyday items online. Alongside this there are new brand launches and a revitalised sales strategy to maintain its offline market share. Growing revenues, high and stable margins, year-on-year earnings growth and a well-covered, high dividend are some of the highlights making this a compelling addition to the Fund.

We bought **TEVA Pharmaceuticals** in 2013 when the stock was trading at historic low multiples and the market was overly focused on "patent cliffs" – an issue which was associated with healthcare companies in general. Over the following two years the stock price recovered significantly as the expected pessimistic scenarios did not come about. Into 2016, however, the share price weakened as worries mounted regarding drug pricing in the U.S. and the company announced a significant M&A transaction, buying the generic drug business of Allergan for around $40bn. This was an exceptionally large figure for the company and raised questions as to whether TEVA had both over paid and overstretched. In the second half of 2016, the share price continued to fall, although we felt this was more sentiment-driven. However, the second quarter earnings release came as a shock to the market due to the severity of the announcement, which entailed significant write-downs associated with the Allergan business acquisition and a large cut to the dividend, in part to preserve cash to pay down debt and prevent certain covenants being breached. As a consequence of these poor results, and especially in light of the dividend cut, we were quick to sell our full position in TEVA.

Mattel is another company that has been a long term holding in the portfolio, though over the last two years it has had mixed results. Ultimately sales have declined due to strong competition and lack of innovation from the company and the cost of goods sold have not declined in parallel – meaning earnings have been hit. With such an operationally leveraged company it has been of particular disappointment that the management had not been able to tackle costs and arrest the decline in margins. Throughout this period the company did maintain its commitment to the dividend, even as payout ratios increased from what were relatively low levels. After only two years we saw another CEO change announced in February this year, whose background was Google and Groupon, and who had a focus on modernising their product offering. Through 2017 the company continued to disappoint but the dividend cut announced by the new CEO on the second quarter earnings call further added to market worries, and as a consequence we sold our position in the company.

In the fourth quarter of the year, we made one change. We bought Reckitt Benckiser and sold Coca Cola.

We bought **Coca-Cola** in August 2011 and the drinks manufacturer has delivered close to 70% (in USD) in total return over the holding period. A sizable proportion of this has come from a large and growing dividend payment over the years, and more recently the stock has seen significant multiple expansion. The company trades at a 10-year peak forward P/E multiple of 23x, and we have seen this as a good opportunity to take profit and sell our position. Although margins have improved, the beverage company has been seeing lower sales growth with earnings increasingly supported by share buybacks. Increased debt to fund these buybacks has left the company more leveraged and reduced our conviction on future growth. Although the dividend yield is still attractive at 3.3%, we believe that there is a higher risk of multiple de-rating if emerging market sales recovery disappoints or is already "priced in". Regulation on sugary drinks and growing consumer consciousness add to the concerns for Coca-Cola, and this is translating to falling sales growth consecutively for the last 5 years.

We replaced our position in Coca-Cola with **Reckitt Benckiser**, a stock we previously held between 2011 and 2015. The company is a British producer of health, hygiene and home products, with 'Powerbrands' – as it likes to call them – such as Nurofen painkillers, Durex condoms and Dettol disinfectant. We see this as a high-quality business that has underperformed the MSCI World Consumer Staples Index since mid-2016 due to falling sales growth, particularly in India, Brazil and the Middle East. More recently, in October, the consumer goods firm cut its full-year sales forecast, struggling with a fallout from a cyber-attack, a failed product launch and a safety scandal in South Korea. In turn, we believe the market has been overly pessimistic and recent acquisitions (e.g. $16bn purchase of baby milk maker Mead Johnson) and business re-organisation efforts have not fully been recognised. The stock is currently trading at a forward P/E multiple of 18x, compared to 24x in mid-2016. We see this as an attractive entry point, especially given that dividend growth was 10% in 2017 and earnings are forecasted to grow 6% in 2018.

Portfolio today and outlook

The charts below show the sector and geographic breakdown of the portfolio over the last seven years. The major effect of the changes we made to the portfolio in 2017 was to increase our exposure to consumer staples. In terms of sector weightings, the Fund continues to have a zero weighting to Utilities, Materials, and Real Estate. The largest overweight positions are to Consumer Staples, Industrials and Healthcare.

Figure 8: Portfolio sector breakdown (31.12.17)

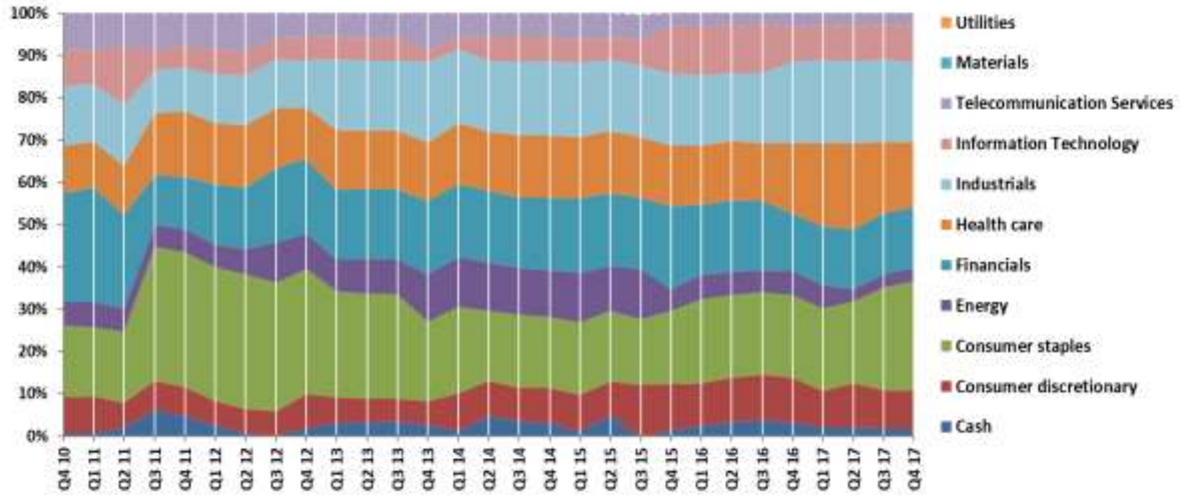
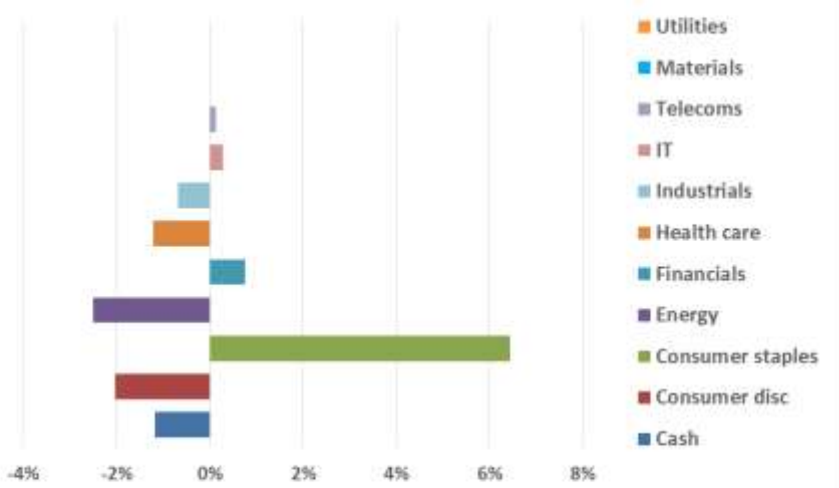


Figure 9: Year on year change in sector breakdown (31.12.17 vs 31.12.16)



In terms of geographic allocation, we reduced our exposure to North America, while increasing our exposure to Asia-Pacific and the UK.

Figure 10: Portfolio geographic breakdown (31.12.17)

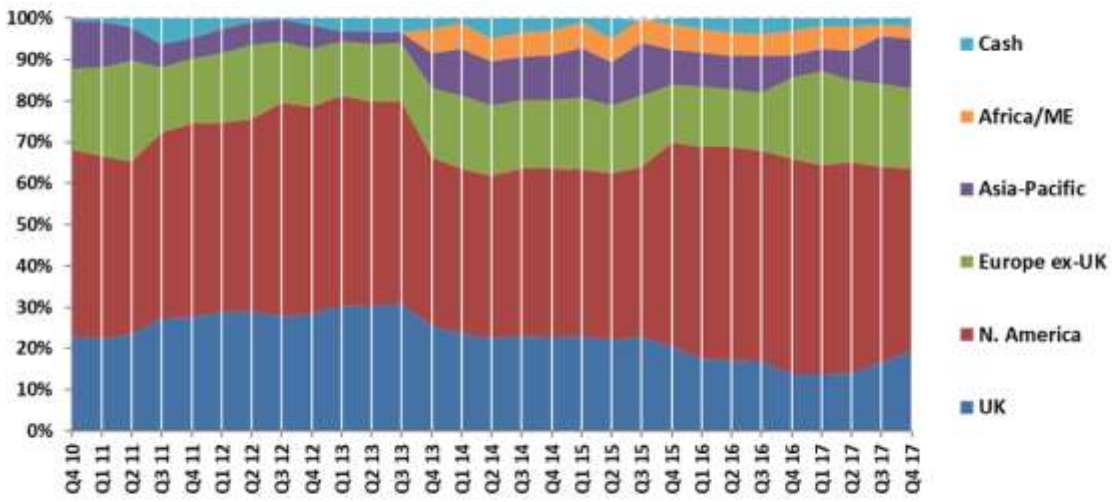
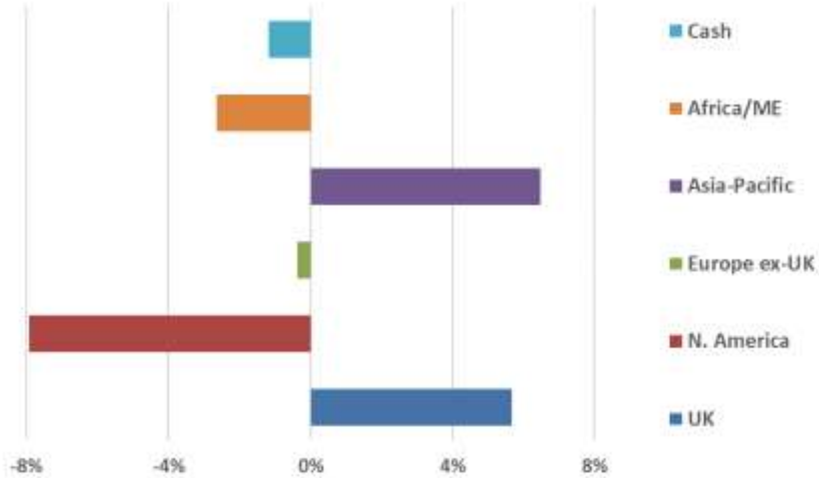


Figure 11: Year on year change in geographic breakdown (31.12.17 vs 31.12.16)



The four key tenets to our approach are: quality, value, dividend, and conviction. We follow these at the portfolio level to make sure we are providing what we say we will.

At the year end, we are pleased to report that the Fund continues to deliver on all four of these measures relative to the benchmark MSCI World Index, offering a high-conviction portfolio of higher quality companies at similar valuations.

		Fund	MSCI World Index
Quality	Average 10 year CFROI	21%	10%
	Weighted average net debt / equity	54%	67%
Value	PE (2018e)	17.1	17.2
	FCF Yield (LTM)	6.4%	4.5%
Dividend	Dividend Yield (LTM)	2.7%	2.3%
	Weighted average payout ratio	62%	52%
Conviction	Number of stocks	35	1650
	Active share	92%	-

Figure 12: Portfolio metrics versus index. Guinness Asset Management, Credit Suisse HOLT, Bloomberg (data as at 31.12.2017)

The Fund at the end of the quarter was trading on 17.2x 2018 expected price to earnings; a discount of 0.5% to the broad market. However, on a free cashflow basis, the Fund trades at a significant discount to the market. With interest rates set to rise and continuous geopolitical uncertainty around the globe, our perpetual approach of focusing on the quality of the underlying companies we own should stand us in good stead in our search for rising income streams and long-term capital growth.

As ever we would like to thank you for your continued support and we wish you all a prosperous 2018.

Matthew Page, CFA
Dr Ian Mortimer, CFA
Portfolio managers, Guinness Global Equity Income Fund

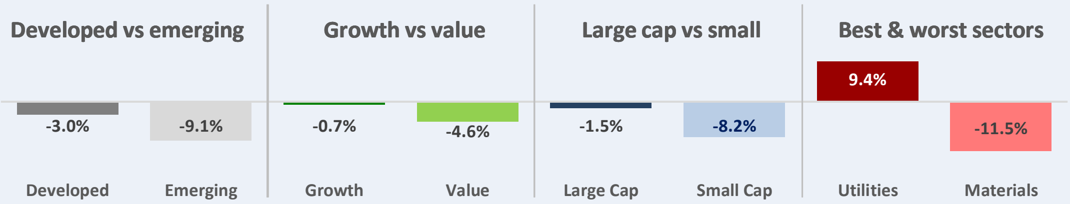
January 2018

Fund size
Start of year £353m
End of year £526m

What happened in the world?

Geopolitics matters, and 2018 provided a firm reminder. In stark contrast to the conditions of 2017, this year was characterised by weaker markets and a return of volatility. Markets ceased to be immune to uncertainty and thus were prone to turbulence as investors digested the various economic, corporate and political news releases.

- 2018 marked the worst year for the MSCI World Index since 2008. The fall of 20.2% from its peak technically meant the market entered bear territory and this marked the end of the longest bull run in history.
- February's sell-off was triggered by an acceleration in US wage growth, which strengthened the prospect of more aggressive interest rate hikes. This raised US treasury yields and led to a sell-off in high-yield, bond-proxy stocks.
- In October, Fed Chair Jay Powell contributed to a sharp equity sell-off by saying interest rates were "a long way from neutral". This hinted that the Fed would continue monetary tightening despite slowing economic growth. October became the pivotal month when outperformance of growth stocks shifted to outperformance of value.
- The Fed raised interest rates by 25 basis points in March, June, Sep and Dec – ending the year at 2.25-2.5%.
- Tariff War with China and the strong Dollar left Asia and EM as the worst-performing regions in the year.



Total return in GBP; MSCI World & MSCI Emerging Markets Index; MSCI World Growth and World Value; MSCI World Large Cap. and World Small Cap.; individual MSCI World GICS sectors.

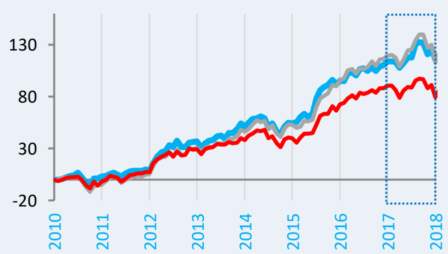
What happened in the Fund?

- Fund outperformed the Index overall and particularly in periods of market weakness, e.g. when the market fell at the beginning of February and in October.
- Fund's focus on dividend growth meant that exposure to 'higher duration' equities was low (relative to peers) leading to outperformance when these stocks fell due to higher interest rate concerns.
- Fund grew its dividend distribution by 5.4%
- **Purchases**: TSMC, Broadcom, Nestle, Paychex
- **Sales**: General Dynamics, CA Technologies, NEX Group, Walmart

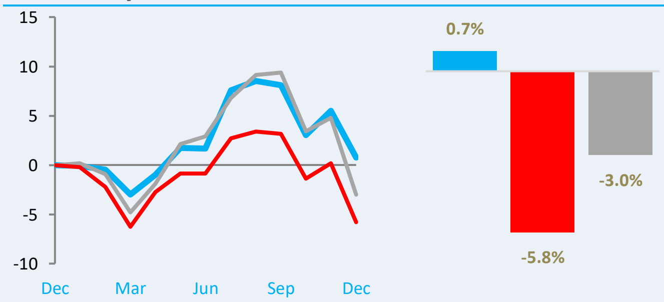
"The Fund performed as we would expect; the fund is positioned with the aim to preserve capital during falling markets and keep up with rising markets."

Performance

Cumulative since launch



Calendar year 2018



Fund Guinness Global Equity Income
Sector IA Global Equity Income
Index MSCI World

Cumulative % total return, in GBP.
Source: Financial Express.

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.

GUINNESS ASSET MANAGEMENT

2018

Fund Summary

In 2018 the Guinness Global Equity Income Fund produced a total return of 0.74% (TR in GBP), compared to the MSCI World Net TR Index return of -3.04%. The Fund therefore outperformed the Index by 3.78%.

Since the launch of the Fund at the end of 2010, it has produced a cumulative total return of 115.9% (TR in GBP), compared to the MSCI World Net TR Index return of 112.9%. The Fund has therefore outperformed the Index by 3.0%. This places the Fund 2nd in the IA Global Equity Income since launch.

- The philosophy and process behind the Guinness Global Equity Income Fund was designed by Ian Mortimer and Matthew Page and they have co-managed the Fund since launch in December 2010.

- The Fund seeks to invest in good quality businesses which have persistently high returns on capital and strong balance sheets, are highly cash generative, and are trading at attractive valuations.

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

- We target a moderate yield (currently 3.0%) but look for good potential for dividend growth (we have grown the distribution every year since launch at 4.8% CAGR).

- Performance has been strong; against peers in the IA Global Equity Income Sector the Fund is in the top decile over one year, three years and since launch.

- 2018 has seen volatile equity markets, and the Fund has outperformed in periods of market weakness such as the market falls at the beginning of February and in October. The February sell-off was driven in part by concerns of faster interest rate rises in the US which caused higher dividend yield stocks – so-called ‘bond proxies’ – to underperform. The Fund’s focus on dividend growth meant that exposure to these ‘higher duration’ equities was low (and especially relative to peers), leading to outperformance versus the benchmark and peers. Indeed, the Fund has captured only 66% of market downside on average in the four corrections (those with over 10% drawdown) since launch and has outperformed in each of the largest drawdowns in the last eight years.

- We are seeing plenty of interest in the Fund, which has grown from £360m in assets under management at the start of the year to over £535m on 31st December.

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

Performance

Geopolitics matters, and 2018 provided a firm reminder. In stark contrast to the conditions of 2017, the past year was characterised by weaker markets and a return of volatility. Markets ceased to be immune to uncertainty and thus were prone to turbulence as investors digested the various economic, corporate, and political news releases. During the year, the Guinness Global Equity Income Fund performed as we would expect; the Fund is positioned with the aim of preserving capital in falling markets and keeping up with growing markets.

The performance of the strategy remains very strong versus the MSCI World Index and IA Global Equity Income Sector peers over both the short term and the long term.

The Fund ranks in the top decile of the IA Global Equity Income sector over one year, over three years, and since launch in 2010. It has outperformed its sector average in six of the eight calendar years since launch and we are pleased to see positive returns in all eight.

	1 year	3 years	5 years	Since Launch (31/12/2010)
Guinness Global Equity Income Fund	**0.7%**	**40.1%**	**57.6%**	**115.9%**
MSCI World Net TR Index	-3.0%	39.0%	62.5%	112.9%
IA Global Equity Income Sector	-5.8%	28.1%	38.7%	79.5%
Position in IA Sector	5/56 funds	3/47 funds	9/40 funds	2/20 funds
Quartile	1st	1st	1st	1st
Decile	1st	1st	3rd	1st

Figure 1 – Cumulative Total Return in GBP, as of 31st December 2018. Source: Financial Express.

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

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

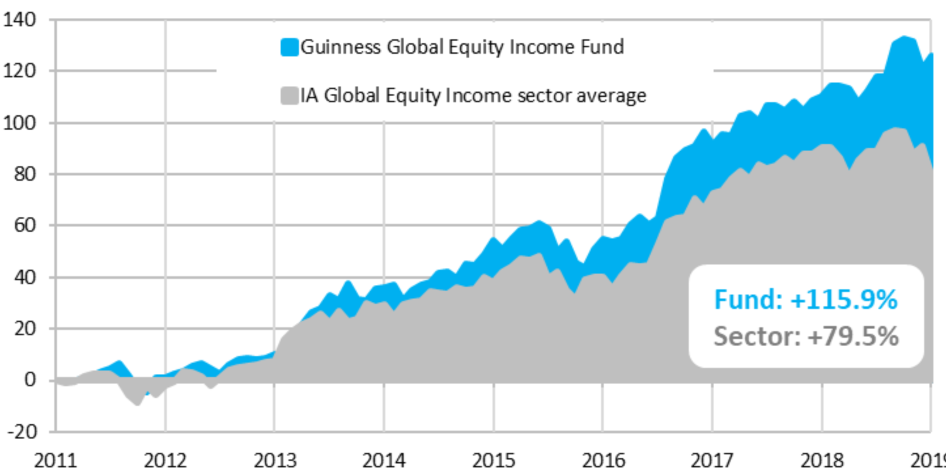


Figure 3 –Cumulative Total Return in GBP, as of 31st December 2018. Source: Financial Express.

Dividend

Importantly, our focus on companies that offer the potential for dividend growth rather than simply a high dividend yield means we have managed to grow the dividend distributed by the Fund every year. This year the Fund grew the dividend by 5.4% (Class Y shares, in GBP), while the annualised growth rate over the last eight years has been 4.8%.

Over 2018, Sterling weakness helped to boost the dividend of non-UK holdings as Brexit uncertainty weighed on the currency. This was especially the case with US companies, for whom Dollar strength exacerbated the effect. We would expect to see positive year-on-year growth in the Fund's Sterling dividend distribution in 2019, although we appreciate that a reversal in the currency trends seen in the past year would be a headwind.

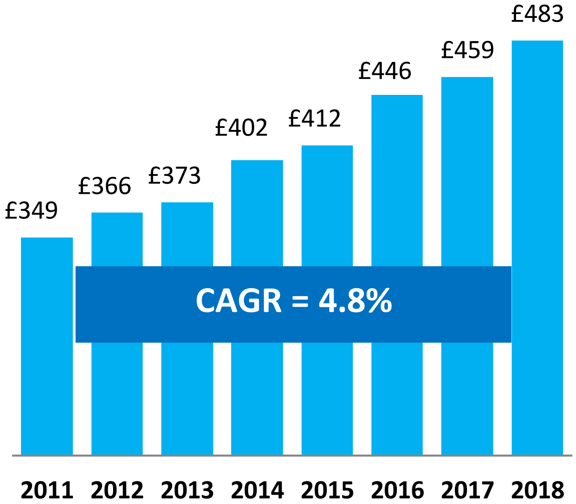


Figure 4 – Dividend Growth. Source: Guinness Asset Management.

Based on the price at year end, the Fund has a historic 12-month dividend yield of 2.9%.

Review of 2018

The MSCI World Index closed at its record high of 2248.93 on 26 January 2018. Since then the index fell to a closing low of 1795.28 on 25 December 2018, a fall of 20.2% from its peak. Though the market subsequently recovered slightly, the fall of more than 20% from its peak technically means that the market entered bear territory. Accordingly, 2018 was the worst year since 2008 and the eighth worst year for the MSCI World Index since 1970; its negative return of -8.2% (gross TR in USD) gave it one of only 13 years in the last 48 to end the year with a loss.

Prior to the fall, stock markets were in their longest bull run in history, which began when the market troughed in March 2009. The MSCI World Index rose 227% from its low of 688.63 on 9 March 2009 as equities benefited from loose monetary policy. As the global economy recovered, stock markets profited especially, and bond yields were suppressed. Companies could borrow cheaply to strengthen their balance sheets and they benefitted from a pick-up in consumer confidence and demand.

The Guinness Global Equity Income Fund's focus on quality companies at attractive valuations means it tends to outperform in down markets and keep up with rising markets. Over the course of the year this was generally the outcome we saw, and the Fund outperformed the MSCI World Index overall.

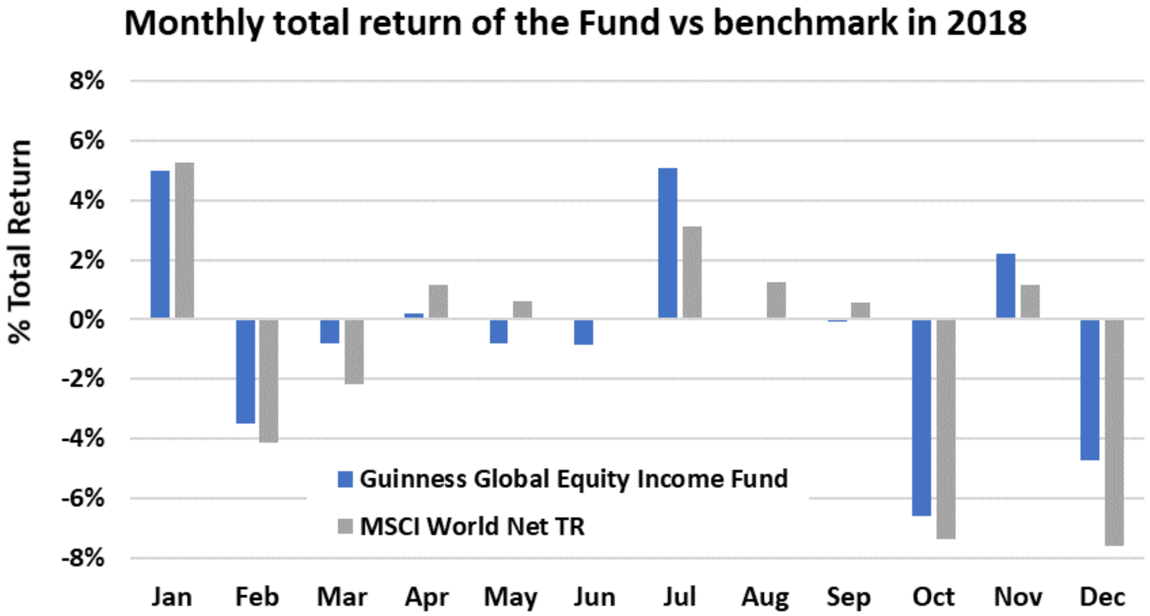


Figure 5 – Monthly total return of Fund vs benchmark in 2018, in USD. Source: Bloomberg

As the chart above shows, there were only two months which saw the MSCI World Index return greater than 3% (in USD): January and July. The Fund performed broadly in line with the market in January and outperformed in July due to particularly strong stock selection: 74% of stocks in the portfolio had positive absolute returns and 17% of the portfolio actually had double digit total returns.

There were three months in which the Index fell more than 4% (in USD): February, October and December. In each of these, the Fund outperformed the market. In fact, if we look at the two figures below, we see that the Fund has outperformed in each of the largest drawdowns seen in the eight years since launch in 2010.

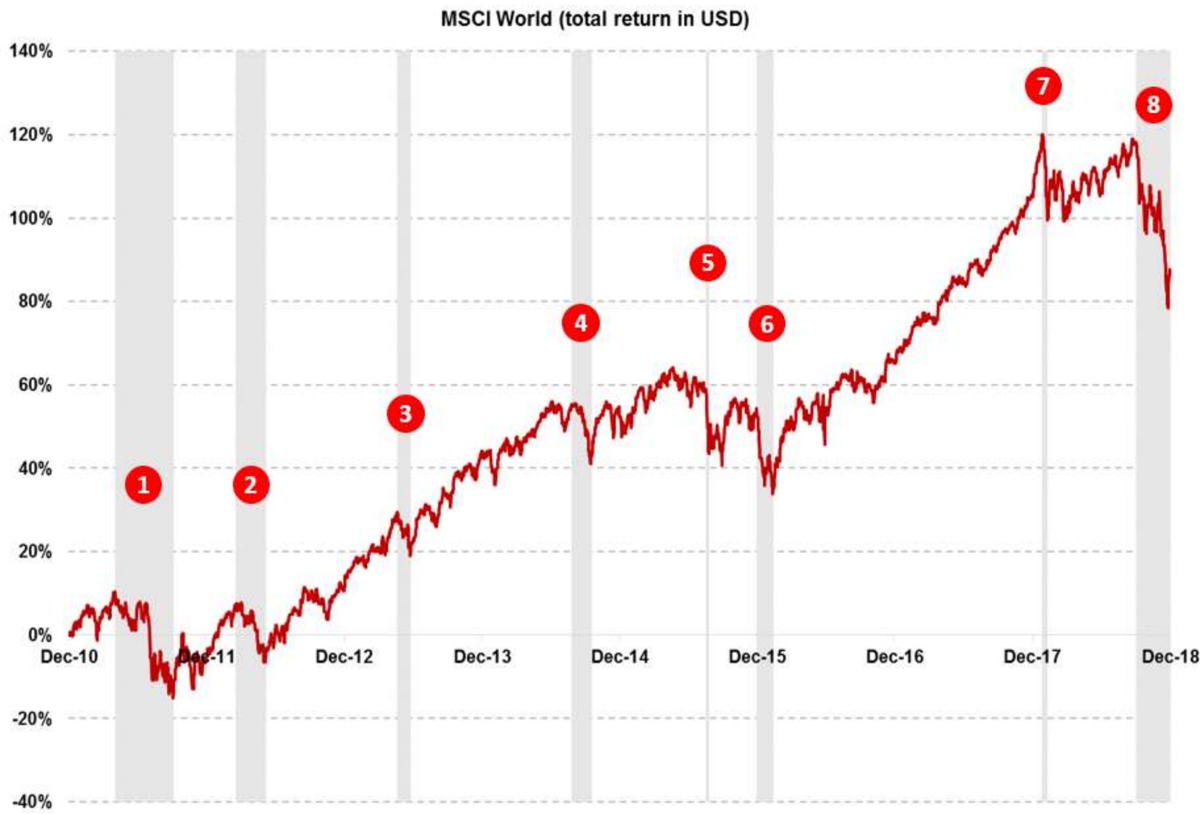


Figure 6 – Largest drawdowns in global equity markets since Fund launch (31st December 2010). Source: Bloomberg

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

Figure 7 – Performance of Fund vs benchmark in the largest drawdowns since Fund launch. Source: Bloomberg

We can see from Figure 6 how at the start of 2018 global equity markets surged ever higher on optimism over the strength of the world economy, big US tax cuts and upbeat corporate earnings releases. The MSCI World Index enjoyed its best January since 1994 and global growth forecasts for 2018 and 2019 were raised by 0.2%, to 3.9% in both years. This was, however, followed by the largest ever one-day spike in the CBOE Volatility (VIX) Index, the first 10% market correction since early 2016, and a subsequent 8% rebound (all in USD).

February's sell-off was triggered not by weaker economic data but by an acceleration in wage growth in the US. Average hourly earnings increased 2.5% year-on-year in December 2017 after a similarly strong November number; data released in early February 2018 confirmed an unexpected further pick-up in wage growth during January (2.9%). The updates strengthened the prospect of more aggressive rate hikes and prompted investors to consider the implications for bond markets. 10-year US treasury yields rose to a high of 2.95% in February, raising speculation that the long-term downward trend in yields had been broken.

This was all before March, a month in which the year's early optimism was faced with rising inflationary pressures, Federal Reserve (Fed) rate hikes, and protectionist threats. These headwinds would go on to dominate commentary for much of the year that followed. As many anticipated, the Fed raised rates by 25 basis points in March, June, September and December – ending the year at a range of 2.25-2.5%. This had severe knock-on effects on equity markets, particularly in the third quarter, after Fed chair Jay Powell contributed to a sharp sell-off by saying interest rates were "a long way from neutral". This hinted that the central bank might continue monetary tightening despite inadvertently slowing economic growth. That triggered a stock market tremor that grew in intensity and culminated in a sell-off dubbed 'Red October'.

October, in fact, became the pivotal month when the outperformance of Growth companies was supplanted by outperformance of Value stocks.

Figure 8: MSCI World style performance in 2018 (TR in USD). As of 31st December 2018. Source: Bloomberg

This bias towards Value is a factor behind the Fund's outperformance in each of the last three months of the year. We also saw a shift in the market as investors switched from Cyclical sectors to Defensive ones. Strong performance seen in the first three quarters of the year from sectors such as IT and Consumer Discretionary was reversed in the final quarter.

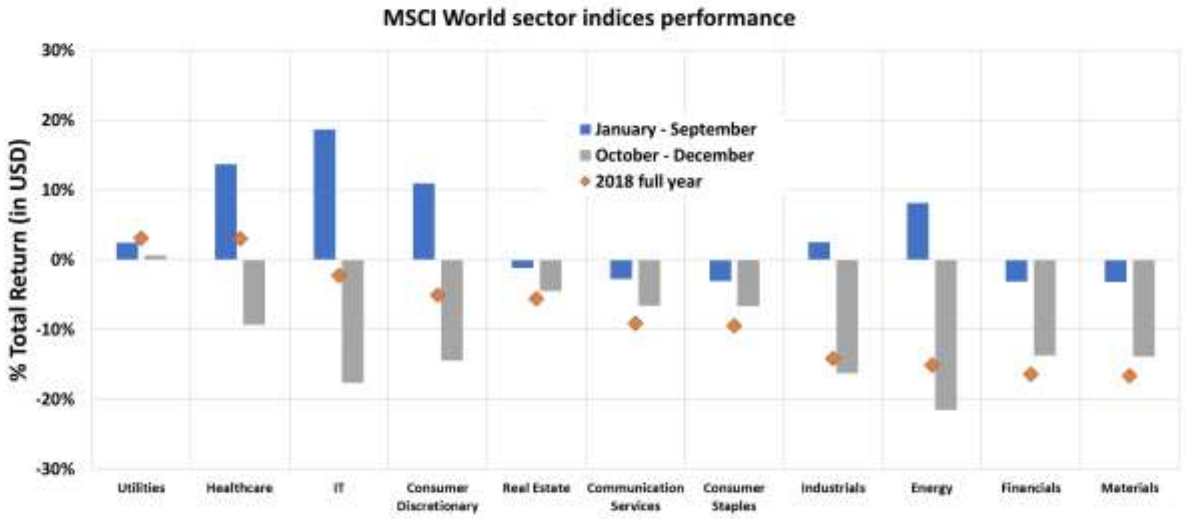


Figure 9: MSCI World sector performance in 2018 (TR in USD). As of 31st December 2018. Source: Bloomberg

By the end of the year, Utilities and Healthcare were the only two sectors in positive territory. Healthcare stocks had a persistently strong run in 2018 after many stocks surpassed analysts' earnings and revenue growth expectations. Being overweight here benefitted the Fund's performance.

Unusually, Utilities was the best-performing sector over the year. Power companies surged in the sell-offs in the year, particularly in October, when they had their best month relative to the market since 2001, rallying more than 3% and beating the S&P 500 by 12%. Such an outperformance had occurred only four times previously, all surrounding market crashes (chart 10). Although the Fund has zero exposure to the sector, the drag on active performance was minimal since Utilities make up only 3% of the MSCI World Index.

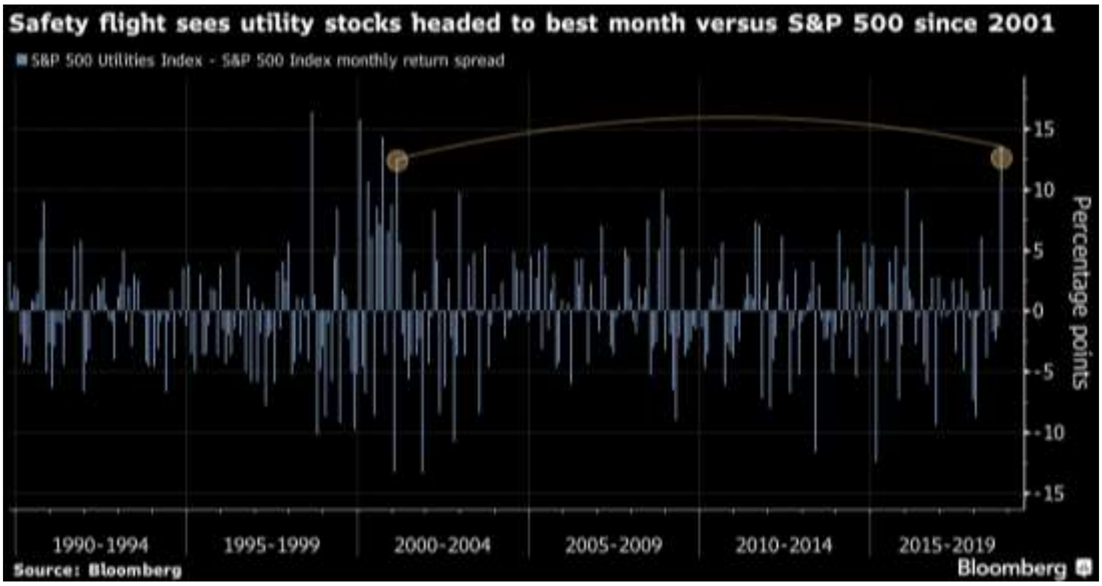


Figure 10. Source: Bloomberg. As of 31st October 2018

Among the worst-performing sectors were Materials and Financials. These are traditionally referred to as 'cyclical' sectors as demand for the goods and services they supply is typically dependent on the health of the economy; the better the outlook, the better they should perform. The Fund holds no positions in Materials, which benefited performance, and holds no banks.

Banks and asset managers notably underperformed due to cyclical concerns and contagion from rising bond yields. Our Financials exposure comes from security exchanges (NEX Group, CME Group, Deutsche Boerse) and insurance (Arthur Gallagher, Aflac), which all performed well overall. In fact, NEX Group (UK domicile, Financials sector) was the best performer in the Fund over the year after it was bid for by CME Group at the end of Q1 2018. NEX's share price had an initial increase of c.50%, and with the probability of another bid decreasing, we saw an opportunity to take profits from our position. The valuation at time of sale stood at around 30 times 1-year forward earnings, compared to a 10-year average of 12 times.

Energy also underperformed this year, and the Fund was somewhat immune given it only holds one position in the sector. The price of oil peaked in October at around US$85 a barrel and then started its rather rapid decline in November, tumbling to 15-month lows mid-December. The weakness was driven by concerns over demand not meeting expectations as global growth concerns increased. Furthermore, investors fretted over increases in supply as shale oil production in the US continued to grow rapidly and OPEC seemed unwilling to cut production, all of which had a negative impact on the sector's performance.

The Fund's largest overweight is to Consumer Staples (c.16% vs the MSCI World Index) and this did not meaningfully add or subtract from Fund performance relative to the benchmark over the year. There was outperformance in shorter periods, such as the sell-off in October which was led by technology stocks and higher-growth companies, though there was some underperformance when the market rallied from mid-February onwards.

IT – the star performer of 2017 – started the year the strongest before tailing off. Though the Fund is underweight, stock selection in the sector contributed positively. Some technology stocks were priced for significant growth at the start of the year and were vulnerable to bad news. The first of this came in March as investors were confronted by a threat to the handful of tech behemoths known as the FAANGs, which in recent years have powered US stocks higher. Claims in March that analysis group Cambridge Analytica had mined the personal data of 50 million Facebook users for use in the US presidential election crystallised fears that big tech risked tougher regulation. The Fund did not have exposure to the 'high-flying' FAANG-type stocks and therefore did not suffer in the sell-offs. Long-term holdings Microsoft and Cisco continued to perform well. CA was subject to a bid (from Broadcom) and was subsequently sold. Following the bid, Broadcom fell c.20% (as the market saw a bid for a software company as tangential to Broadcom's core semi-conductor business) and the Fund took advantage by initiating a new position in the stock. Broadcom subsequently rallied and has added to Fund performance over the short term.

Looking at the year geographically, performance was influenced heavily by political drama, and global equities were particularly rocked by fears of a global trade war. The US administration initially announced tariffs on steel and aluminium imports, followed by a 25% tariff on $50bn worth of Chinese imports, followed by a further 10% on $200bn.

The Chinese, in response, announced initial tariffs on $3bn, raised that to $50bn, and then again by an additional $60bn. As it stands, there is a ‘truce’ until March 2019 in order for both sides to negotiate. The outcome of the discussions – if any – remains one of the biggest uncertainties going into the new year. Amid the tensions, Chinese growth has disappointed throughout the year and left the region as one of the worst-performing in 2018 (MSCI China Index returned -18.7% in USD). In contrast, the US was the best performer (MSCI US Index returned -4.5% in USD in 2018).

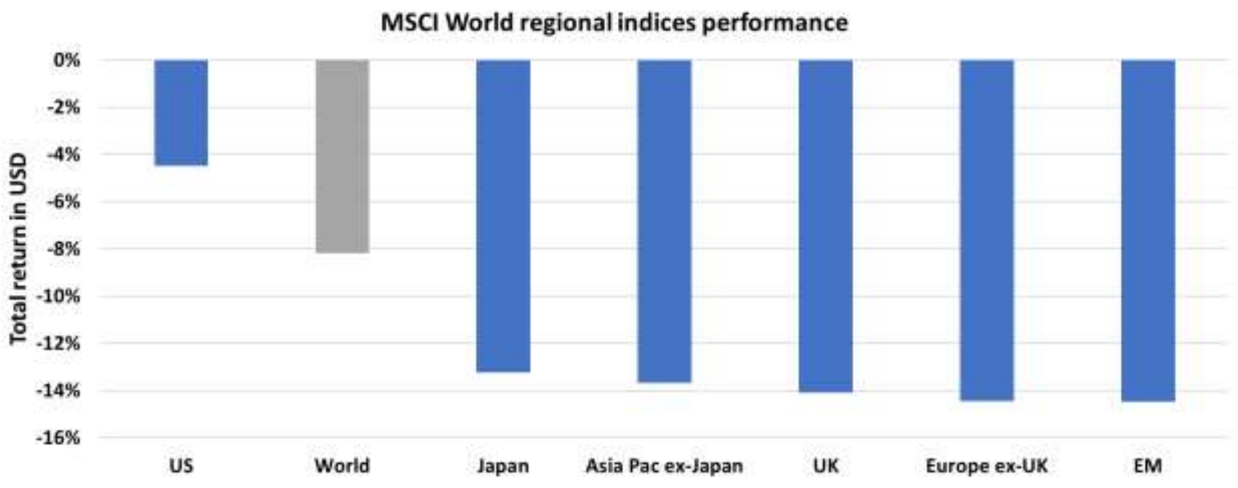


Figure 11 – Regional Performance (TR in USD). As of 31st December 2018. Source: Bloomberg

The US was supported by robust corporate profitability leading on from the initial tax cuts, as well as strong economic growth numbers. There were significant advances with respect to trade with Mexico and Canada. The United States–Mexico–Canada Agreement (USMCA), or NAFTA 2.0 as it is also referred to, gives the US more access to Canada's dairy market, incentivises more domestic production of cars and trucks, increases environmental and labour regulations, and introduces updated intellectual property protections. This was a significant victory for President Trump just before the November mid-term elections. The election results came in broadly as markets expected, with the Democrats taking control of the House of Representatives and the Republicans increasing their majority in the Senate. With the Democrats unlikely to back further tax cuts, one of the key implications of the election was reduced fiscal support for the US economy. However, the market also saw a Republican Senate and President as pro-growth.

Though the Fund is currently around 20% underweight the US, there was not any meaningful effect on performance. Any drag on the allocation effect was somewhat offset by good stock selection. In fact, out of the top 10 performing stocks in the Fund, eight were US-domiciled.

Asia and Emerging Markets performed particularly poorly due to the uncertainty surrounding trade tariffs and the persistently strong US Dollar that characterised much of the year. The Dollar index, a broad measure of the currency, jumped more than 8% between mid-April and mid-August. This made commodities and foreign debt more expensive and hurt EM currencies. The Turkish Lira was one of the hardest hit; it plunged due to a combination of higher inflation, doubts over the central bank’s resolve to raise rates, and political dramas. Argentina also suffered and was forced to ask the IMF to speed up the disbursement of much-needed cash; the central bank in late August lifted interest rates from 45% to 60% and the Peso dropped 12% on the day.

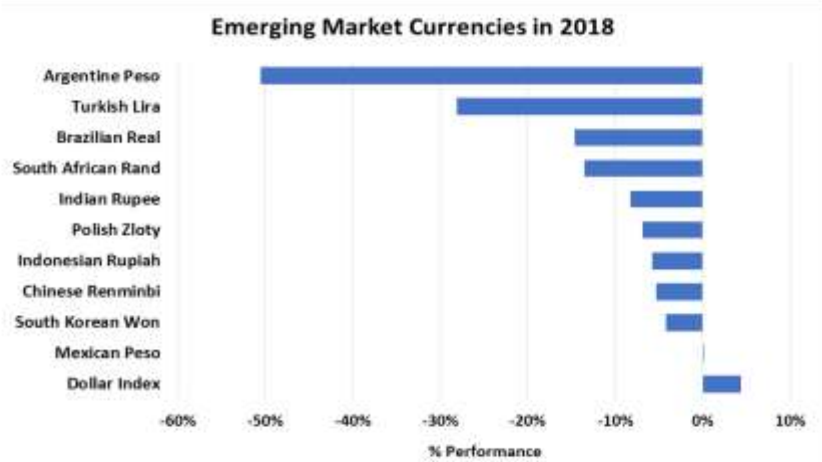


Figure 12 – % performance of emerging market currencies (based against the US Dollar) in 2018. As of 31st December 2018. Source: Bloomberg

Europe also faced its fair share of issues. The European Central Bank began to unwind its Quantitative Easing programme and markets have been treading sluggishly due to the various political events. The most notable surrounded Italy, where elections in March saw populist parties Five Star and the League come out on top and subsequently form a coalition government. Italian bond yields spiralled higher as investors scrutinised the new government's spending plans, estimated to include an increase of over €100bn. When the budget was announced in October, the EU was prompted to begin disciplinary measures against Italy for breaking the bloc's fiscal rules. Eventually an agreement was reached at the end of December, allowing Italy to dodge painful sanctions and leading to more normalised bond yields after a rocky year. In Germany, pressure on Angela Merkel mounted following election results in Hesse when the CDU and Socialists each lost around 11% of the vote, prompting her to announce that she would stand down as chairman of the CDU in December and not seek re-election in 2021. France had problems with social unrest stemming from rising fuel prices, higher costs of living and claims that a disproportionate burden of government's tax reforms were falling on the working and middle classes.

In the UK, the year has been characterised by Brexit developments. A withdrawal pact was agreed between the UK and the EU, but amid considerable criticism from both the Labour Party and within the Conservative Party, Prime Minister Theresa May was forced to defer a Parliamentary 'meaningful vote' on the agreement. Many protests and senior resignations eventually sparked a no-confidence vote in the PM's leadership of the Conservative Party, which she won. The uncertainty surrounding Brexit continues to impact the UK market negatively, and it remains to be seen what will actually be achieved before the looming March 29th deadline.

As we enter 2019, analysts are cutting their forecasts for corporate earnings, economic data is showing slower growth, trade tensions are still looming, interest rate uncertainty remains, Brexit worries continue, and the slope of the US yield curve, commonly measured by looking at the difference between two- and 10-year Treasury yields, stands at its lowest level since 2007. Historically, an inversion of the yield curve — when short-term yields rise above those on longer-dated ones — has proved an accurate precursor to a recession. While no economists are predicting that for 2019, uncertainties remain, and the new year brings with it a nervousness not seen for many years.

The big question as we enter 2019 is whether many of the approaching headwinds will prove to be as strong as expectations have factored in. As ever, rather than try to determine which way the macro or political winds will blow in the near term, we maintain our focus on companies that can deliver a sustainable, rising income streams alongside capital growth over the long term. Holding good quality companies that have persistently generated high levels of return on capital gives us confidence that the Fund is well placed to weather different market conditions. It has been pleasing to see over the last year that stock selection has been a major contributor to the Fund's outperformance versus the benchmark.

Individual Stock Performance

When we look at how individual companies within the portfolio performed in 2018, we see that in the top five, we have two IT stocks, two Financial stocks, and one Healthcare stock (figure 13). This is testament to the bottom-up philosophy of the Guinness Global Equity Income Fund, focusing on quality companies at attractive valuations. It is also worth noting that the Fund is benchmark and sector agnostic – positions are based on high-conviction, bottom-up fundamental analysis.

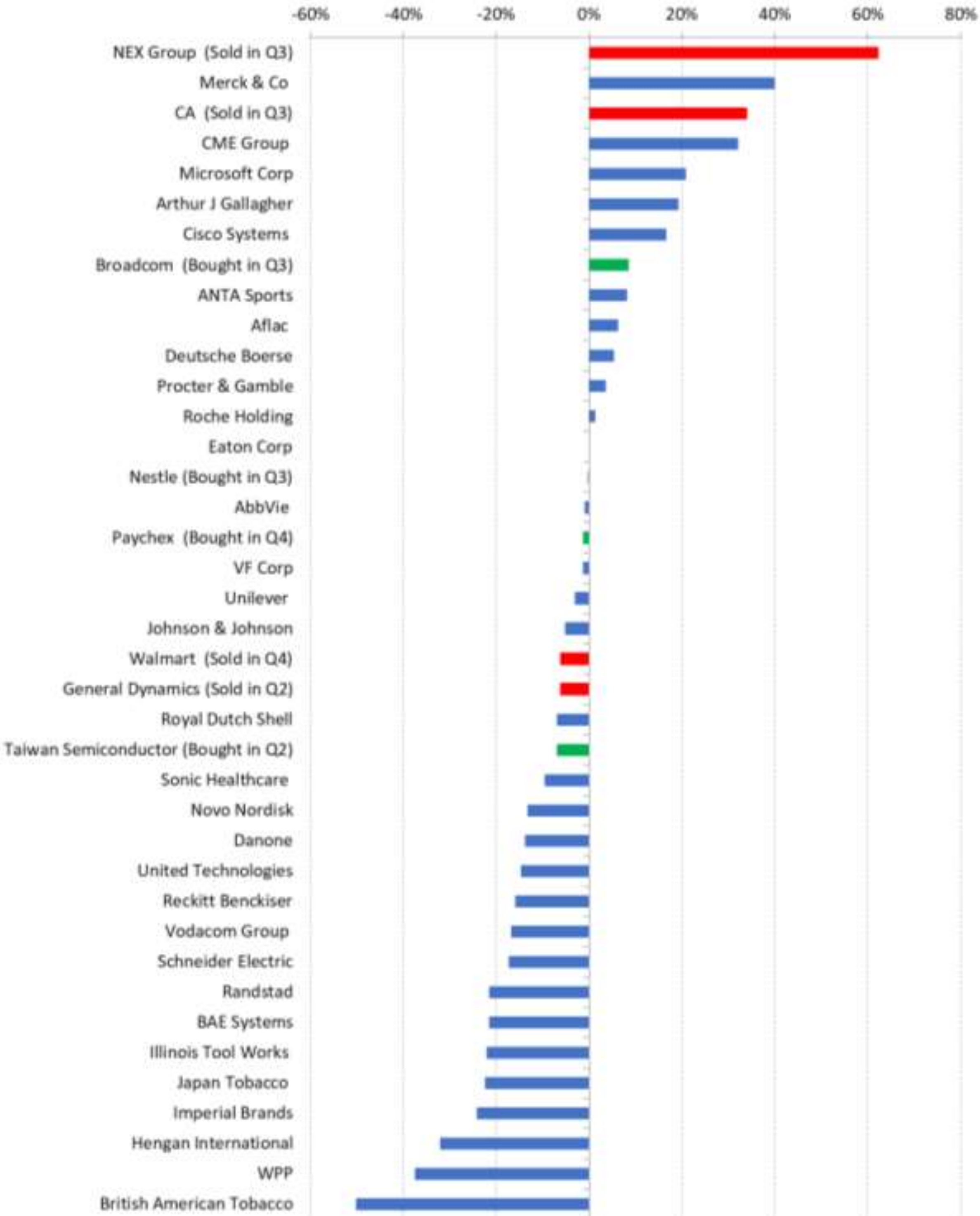


Figure 13: Individual stock performance over holding period during 2018 (TR in USD). As of 31st December 2018. Source: Bloomberg

NEX Group, CA Inc, CME Group and Broadcom (all among the top performers) were all involved with M&A activity, and we detail our thoughts on these below when referring to the changes made to the portfolio.

The other two stocks that had stand-out performance were Merck (+40% in USD) and Microsoft (+21% in USD).

Merck, the global Healthcare company, was the second-best performer in the year. Best-selling drugs in the pharmaceutical segment include type 2 diabetes drug Januvia, which brings in about $4 billion in revenues annually. Other products earning more than $2 billion include diabetes drug Janumet, HPV vaccine Gardasil, and cholesterol medication Zetia. Meanwhile, $1 billion top sellers include cholesterol medication Vytorin, skin antibiotic treatment Cubicin, HIV therapy Isentress, inflammatory treatment Remicade, cancer drug Keytruda, and chickenpox vaccine ProQuad. Strong performance in the year came after Merck's lung cancer drug, Keytruda, won a string of clinical trials, placing it in the top spot for treating lung cancer. Estimates suggest that Keytruda could bring in $12.5 billion by 2022; the clinical trials proved a huge positive for Merck, as it continues to expand its drug portfolio with its R&D efforts.

Microsoft also performed very well in the year. The software maker's cloud transformation has seen buoyant demand. Azure cloud services, used to store and run customers' applications in Microsoft's data centres, is number two in the cloud sector behind Amazon Web Services, though the market is growing fast enough to lift both companies' revenues. Windows and Office subscribers are likely to give Microsoft an edge as corporate users shift newer workloads to the cloud for greater agility. Margins should also continue to improve – as they have been doing – as cloud-based applications and infrastructure products gain scale. Azure continues to expand phenomenally, helping commercial cloud revenue surpass $29 billion in the past 12 months. With greater hybrid-cloud adoption, its server segment should also show strength. We have held Microsoft in the Fund since launch in 2010.

Azure is the company's main revenue growth driver:

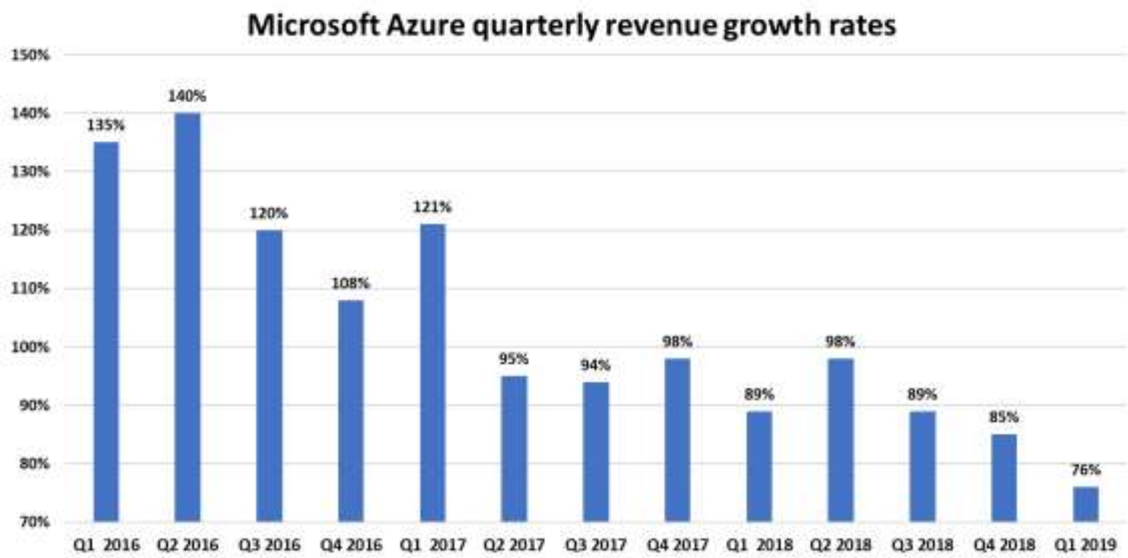


Figure 14: Quarters follow Company's Fiscal Year. Source: Bloomberg Intelligence

The worst-performing stocks in the year included the three tobacco names we own: British American Tobacco (-50% in USD), Imperial Brands (-24% in USD) and Japan Tobacco (-22% in USD). The market's confidence in the tobacco industry was dented by news that the US Food and Drug Administration plans to pursue a ban on menthol cigarettes. The US is the industry's largest and most profitable market, and increased regulation would be expected to impact sales in the country.

Our selection process is bottom-up, focusing on the fundamentals of a company. We seek company characteristics and trends that we believe support the philosophy of the Fund: particularly quality, value, dividend. The tobacco industry's enviable cash generation, high barriers to entry and committed approach to returning income to shareholders has therefore attracted our attention.

- In quality terms, each of our three companies has a high cashflow return on investment consistently around 20% and above for the last 10 years. This is significantly higher than the real cost of capital and has contributed to significant outperformance of the industry over the long term.
- Value: 2-year forward PE multiplies currently stand at 8x, 8.6x and 11.6x respectively for British American Tobacco, Imperial Brands and Japan Tobacco. For each, this is below the historical 10-year average.
- We believe that these companies are attractively valued given that each is expected to grow earnings in the high single digits for the next two years and has been increasing its dividends every year for at least the last 20 years and at an annualised rate of close to 10%.
- The current trailing dividend yields are market leading; they stand at 7.8%, 7.7%, 5.7% for British American Tobacco, Imperial Brands and Japan Tobacco respectively.
- We also find the valuation compelling given that these companies have been able to sustain very high gross margins and grow year-on-year revenues for the last three years. This is despite the numerous concerns outlined in depth below, which we believe have been overplayed in the market.

Regulatory Pressure

In an increasingly hostile regulatory environment over the past few decades, tobacco companies have survived negative headlines, advertising restrictions and even smoking bans - proving their model for profit and cash generation to be resilient under great pressure. More recent threats from the US FDA are aimed at reducing nicotine levels in traditional cigarettes and the banning of menthols. We believe this could take many years to implement and the impact could well be limited by the considerable investment in new technology already taking place.

Government Pressure/Activism

2017 and 2018 witnessed an above-average increase in excise duties across several developed markets, prompting concerns regarding sales and consumption of tobacco. History demonstrates, however, that tobacco majors can recoup lost revenues through above-inflation price hikes, while industry consolidation adds to pricing powers.

Government tax revenues also stand to counter significant policy change: in the UK, in 2017, revenue from levies on tobacco sales was £9.5 billion (source: HM Revenue and Customs). Any meaningful measures taken to price consumers out of cigarettes would squeeze government revenue.

Rising Interest Rates

As Fed rates rise steadily, there is concern over the impact on high-yielding Consumer Staples such as tobacco stocks, which are often seen as being more sensitive to the bond market. However, we believe the notion of 'bond proxies' lacks substance; a crucial differentiator lies in the fact that bond coupons are fixed whereas tobacco dividend payments can grow and have been growing substantially in the last few years. Further, sentiment has priced in much of the negativity of interest rate changes, and the companies we hold have a long history of performing well against a variety of bond market scenarios.

Competition from substitute tobacco products

Consolidation in the industry (BATS's $64.5bn acquisition of Reynolds American in 2017 being the most recent high-profile example) alongside the high barriers to entry means competition is limited and that these large players are the best placed to drive R&D in new products. Recent underperformance has stemmed from slower-than-expected adoption of alternative tobacco products in Japan which caused concerns over adoption of the product worldwide. The slower adoption has not however affected the long-term growth forecasts.

We note that the market is worried about the long-term structural issues affecting the in companies in the tobacco industry. We believe, however, that this has led to over-discounted valuations for these stocks, hence we continue to find them compelling holdings in the Fund.

Another holding that has faced a difficult 2018 is WPP (-37% in USD). We have held a position since Q3 2015. After 18 months of good performance (+47% in USD to Q1 2017), over the last year the company has faced both internal and external challenges. The advertising group, which until October 2018 was the world's largest (by market cap), has seen its stock market value fall after losses of large global clients, with the most recent including Ford, American Express and United Airlines. This forced management to announce lower sales guidance from -0.5% decline to -1.0% decline. WPP's CEO Mark Read, who was confirmed in charge in September, faces an uphill task in trying to steady the ship after the abrupt departure of founder and former CEO Sir Martin Sorrell earlier this year. Not only did the departure sour sentiment for WPP, it also shed light on the significant uncertainty regarding the outlook of the advertising industry at a time when competitive forces are rife.

New strategies underway at WPP seem to focus on merging advertising networks and selling lower-growth parts of the business to become more streamlined overall. Further, the return on capital profile is high and stable, operating margins are around 20%, the company has historically had positive sales growth every year since 2002 (including 2009), the dividend is well covered and growing, and the balance sheet is strong. We are therefore minded to maintain our holding in the company at this stage, particularly given that market pessimism seems overdone: the company's shares trade on a 1-year forward price-to-earnings multiple of 7.9x – almost two standard deviations below its 10-year average – and the current dividend yield is close to 7%. Looking at peers, the general advertising environment seems more positive than at the start of 2018, and the December analyst day provided further comfort that management is implementing extensive restructuring plans to achieve better profitability and growth.

Changes to the Portfolio

In 2018 we sold four positions and bought four new positions, leaving the portfolio with 35 positions at the end of the year. This was fewer changes than in 2017 and slightly below the historical average.

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

Figure 15: Number of changes to the portfolio

In the first quarter, we made no changes to the portfolio.

In the second quarter, we made one change to replace General Dynamics Corporation with Taiwan Semiconductor Manufacturing Company (TSMC).

General Dynamics (GD), the diversified military defence company, has been held in the Fund since launch and has been a stand-out performer with a holding period return of 217% (in USD). GD is a prime military contractor to the Pentagon (the US government accounts for about 60% of sales). The company's military operations include information systems, marine systems, combat equipment and an aerospace unit. Recently, GD acquired CRSA, a provider of information technology services to the federal government, for about $9.7 billion in cash and the assumption of debt. We decided to take profits on GD after strong performance led to a 1-year forward PE Ratio of 16.7 (much higher than its historical 10-year average) and dividend yield fell to 1.9%.

TSMC is a pure-play foundry business which manufactures integrated circuits used in computers, communication equipment, consumer electronics, and automotive and industrial equipment. At the time of purchase we were drawn to the company's very low debt-to-equity ratio of 12%, its dividend yield of 3% and double-digit earnings and profit growth estimates. Bought with a 2-year forward PE Ratio of 14.5, we saw the company as attractively valued given its above-market-average growth forecasts. Revenues and gross margins have increased every year for the last eight and returns on capital have been consistently high for the last 10 years. The company's recent rally points to optimism regarding future sales and profit growth which are expected to rise as the use of artificial intelligence applications and the emerging adoption of 5G communication standards boost demand for high-end semiconductors. The company's leadership in manufacturing technology, along with GlobalFoundries' decision to suspend its seven-nanometre product development, will allow TSMC to solidify its market share in high-performance computing chips and to maintain its industry-leading profit margin.

In the third quarter, we made two changes to the portfolio. We bought new positions in Broadcom and Nestlé and sold our holdings in CA Technologies and NEX Group.

Broadcom announced that it would buy CA Technologies for US$18.9bn, the chipmaker's first major takeover since it was blocked by President Trump from pursuing a bid for rival Qualcomm earlier this year. Broadcom manufactures digital and analogue semiconductors and serves four primary markets: wired infrastructure, wireless communications, enterprise storage, and industrial & others. With a history of successfully integrating acquisitions, Broadcom has been able to grow revenues and gross profits every year consistently. At time of purchase, the stock was trading on a 1-year forward PE ratio of 10.6x, which is significantly cheaper compared to history and versus the market. We found this particularly attractive given the strong growth profile of Broadcom and the semiconductor industry in general.

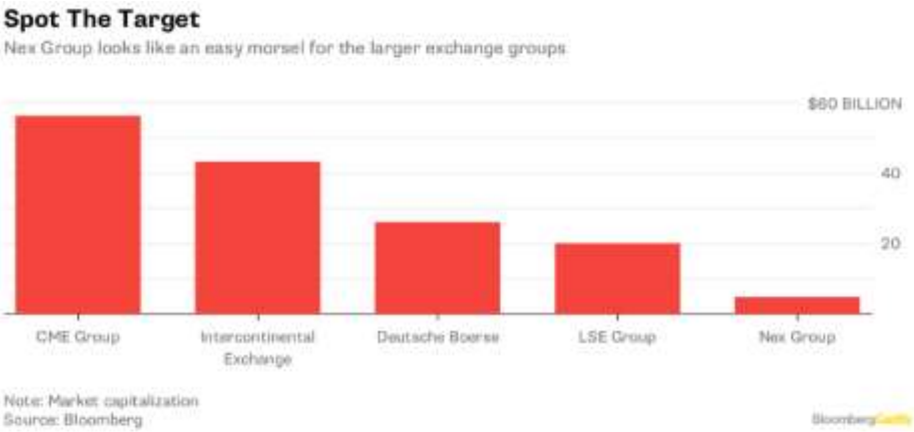
Upon the announcement of its acquisition of CA, Broadcom sold off due to market pessimism; CA's legacy software assets were seen as highly tangential to Broadcom's core business. This provided an attractive entry point. For Broadcom's acquisition to be deemed successful in the future, it will need to divest quickly the pieces it deems non-core while integrating elements that are synergistic. Substantial SG&A cuts are likely: CA's SG&A intensity stood at 36% of sales, while Broadcom operates at below 6%. While this gap cannot be bridged entirely due to differences in the industries each company operates in, it can be narrowed. Broadcom has a history of dramatically improving operating and gross margins through scale and cost-cuts in its target companies.

CA Technologies was one of the best performers in the year (+34% in USD in our holding period in 2018) after the takeover bid from Broadcom led to a strong share price rally in July. This presented a good profit-taking opportunity. We initiated a position in CA at the end of 2015 and it returned 63% (in USD). The software company provides tools for managing networks, databases, applications, storage, security, and other systems. Primarily serving large enterprises, its applications work across both mainframes and cloud computing environments. Revenues and gross profit have been falling in recent years mainly due to a lack of organic growth and a decrease in software subscriptions. Cash flow return on investment has also been gradually falling year-on-year, and although acquisitions have added to inorganic sales growth, they have also added to net debt. The bid from Broadcom led to a 18% rise in CA's share price and this provided an attractive sell opportunity.

We also bought a position in **Nestlé.** Measured by revenue, the Swiss multinational is the largest food company in the world, and it is active in almost every country. 29 of Nestlé's brands have annual sales of over a billion Dollars, including Nespresso & Nescafé coffee, Kit-Kat chocolates, Nesquik drinking chocolate, Stouffer's frozen food, Vittel and Perrier water, Haagen-Dazs ice cream, Purina pet food, DiGiorno pizza and Maggi noodles.

In recent years Nestlé has struggled to lift its revenues due to sluggish consumer spending in Europe and the US as well as changes in consumer tastes. In fiscal 2017 sales growth was close to zero, but in 2018 the company made significant strides by investing in high-growth businesses like bottled water, coffee, infant nutrition, and pet care. It recently paid more than $7 billion for rights to sell Starbucks packaged coffees and teas worldwide and acquired Atrium, a Canadian manufacturer of OTC health supplements, for $2.3 billion. Further, its 2018 strategy has consisted of many divestitures including the $2.8 billion sale of its famous confectionery business (9% of net revenue and including brands such as Butterfinger, Crunch, Wonka, and Smarties) to Ferrero, the maker of Nutella and Ferrero Rocher. The move comes amid declining sales in the unit and a general repositioning towards healthier and faster-growing categories. We therefore believed that market pessimism allowed us an attractive entry point into a business that is highly cash-generative, has a very strong balance sheet, and provides an attractive 3% dividend yield.

As part of our 'one in, one out' policy, we sold a position in **NEX Group** (our best-performing stock of the year, up 62% in USD in our holding period in 2018). The financial technology firm, which provides electronic trading platforms, will be CME Group's largest overseas acquisition and its largest since it bought Nymex for $11bn in 2008. CME Group, which we also own in the Fund, owns and operates both the Chicago Board of Trade and the Chicago Mercantile Exchange. It will pay 500 pence and 0.0444 in new CME shares for each NEX Group share. The market has seen the latest wave of consolidation in global exchange markets as positive for both companies, with annual expense synergies expected to reach $200m per year by 2021.



"At a time when market participants are seeking ways to lower trading costs and manage risk more effectively, this acquisition will create significant value and efficiencies for clients globally," said CME Group's CEO, Terry Duffy. "As one organization, we will be able to employ the complementary strengths of each company to serve a wider client base while diversifying our combined businesses across futures, cash and OTC products, and post-trade services."

After the CME bid was announced at the end of Q1 2018, NEX's share price had an initial increase of around 50%. The new price level was sustained, and with the probability of another bid decreasing, we saw an opportunity to take profits from our position in NEX. The valuation at time of sale stood at c.30 times on a 1-year forward price-to-earnings basis, compared to a 10-year average of 12 times.

CME Group (+32% in USD) was also rewarded by the market for its NEX bid and for an increase in average daily trading volumes in the year. The acquisition should allow the exchange to offer clients significant margin savings and provide access to a large base of bank clients to whom it could market its core futures, options and data products. The deal should also support CME's international expansion plans, since 50% of NEX's revenue is generated outside of the US. Data and analytics are a key focus area for the company in 2019, with an outlook to expand recurring revenue. CME is also particularly well placed to benefit from increased interest rate hedging around Fed rate hikes and rising U. oil exports thanks to its dominant Fed Funds and WTI futures contracts. The company has largely opted to pursue an organic growth strategy, and this has meant low debt-to-equity at 10% with returns on capital increasing every year for the last five.

In the fourth quarter of the year, we made one additional change. We sold Walmart and bought Paychex.

Walmart, the world's largest retailer, had been held in the Fund since the beginning of 2016 – the second time we have held a position over the life of the Fund. At purchase in 2016 the company was trading at its highest ever dividend yield (over 3.2%) and the market was very pessimistic about the company's growth prospects. However, the company returned over 50% (in USD) over the holding period and has been seen to make the right moves to further its online competitiveness against Amazon by expanding its web marketplace, acquiring several internet-based retailers, and expanding its online grocery business. Although it has been rewarded for recognizing the threat of e-commerce to its traditional retail operations, the company has seen falling cash flow returns on investment and the desirable 'quality' characteristics we seek in all our holdings have diminished. Competitive pressures have led to slower sales growth and narrower margins and led us to replace the holding for a more compelling idea in the form of Paychex.

Paychex is a leading US provider of payroll processing and related HR services to small and medium-sized businesses. Over 50% of revenues come from payroll outsourcing – a task for which smaller firms are very willing to use a specialist. Once integrated into a client's business, renewal rates are extremely high, and the cashflows that back the 3.1% dividend yield are very stable as a result. Paychex is an asset-light business that requires minimal capital expenditure. It has no long-term debt and has grown its revenues and earnings for the past three years in a row at an average rate of 7% and 10% respectively. Along with high returns on capital and wide profit margins, we find Paychex to be a very high-quality business. The recent market sell-offs, particularly in the IT sector, gave us an attractive entry point when the stock traded on par with peers and at its 10-year average despite, in our view, deserving a premium based on superior return on equity and free cash flow. The company also continues to acquire in order to expand services and gain market share, while returning capital to shareholders in the form of buybacks and growing dividends.

Portfolio Positioning

The charts below show the sector and geographic breakdown of the portfolio at the year-end and over the last eight years. The main effect of the changes we made to the portfolio in 2018 was to increase our exposure to IT after market sell-offs provided us attractive entry opportunities. In terms of sector weightings, the Fund continues to have a zero weighting to Utilities, Materials and Real Estate. The largest overweight positions are to Consumer Staples, Industrials and Healthcare.

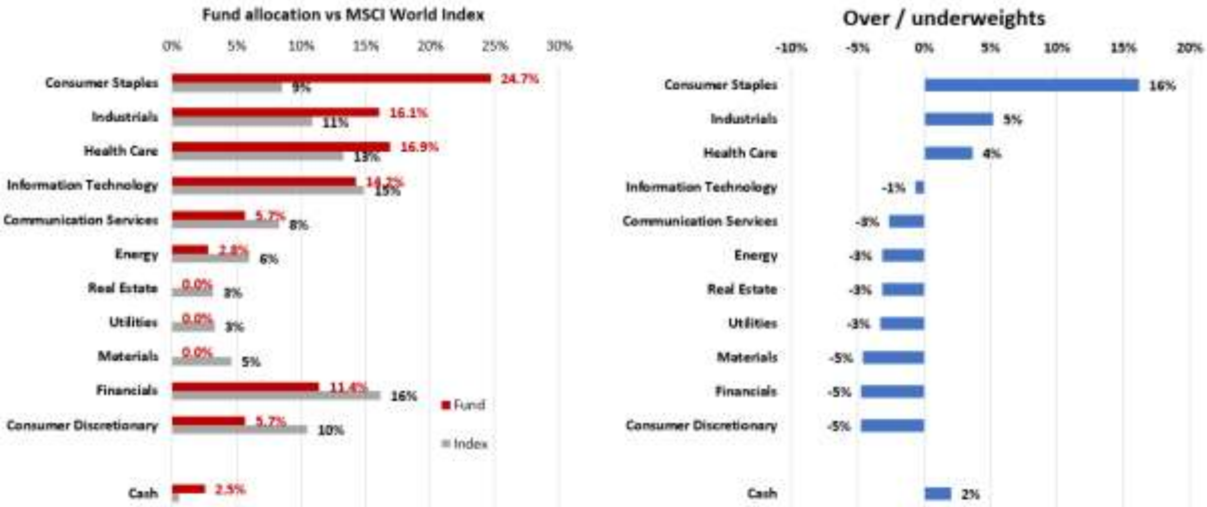


Figure 16 – Portfolio sector breakdown versus the MSCI World Index.
Source: Guinness Asset Management, Bloomberg (data as at 31st December 2018)

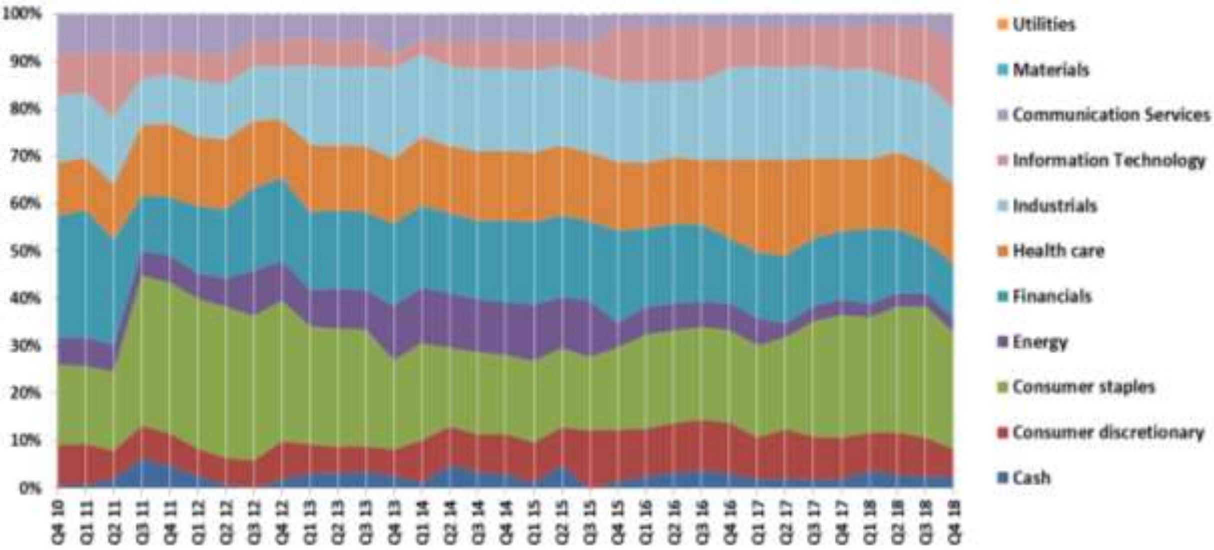


Figure 17 – Portfolio sector breakdown (as of 31st December 2018).
Source: Guinness Asset Management

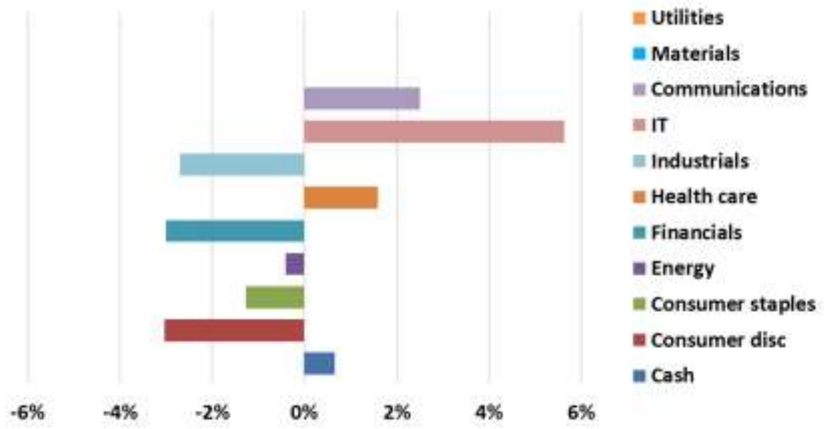
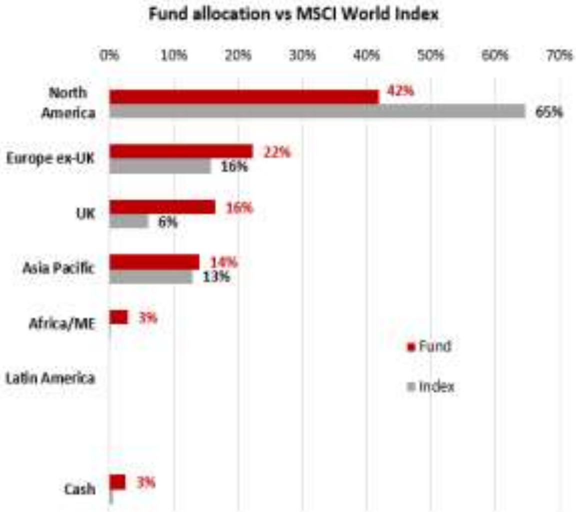


Figure 18 – Year on year change in sector breakdown (31st December 2018 vs 31st December 2017). Source: Guinness Asset Management

Under the new GICS Sector reclassification, effective 1st October 2018, the Telecommunication Services sector was renamed Communication Services. As part of the changes, WPP was reclassified from Consumer Discretionary to Communication Services. We therefore have two positions in the new Communications Sector: WPP and Vodacom.

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



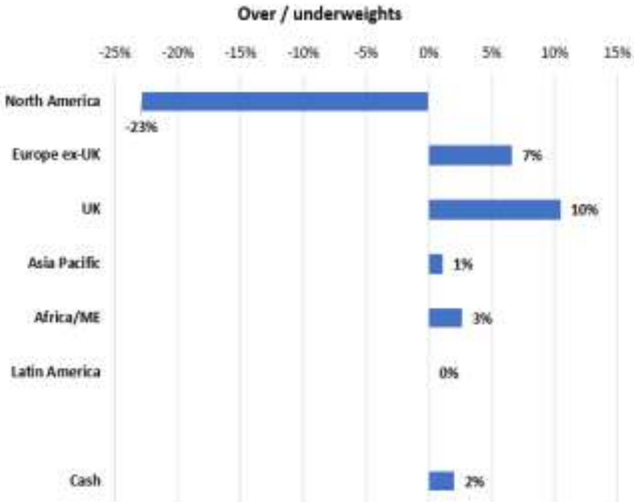


Figure 19 – Portfolio geographic breakdown versus the MSCI World Index. Source: Guinness Asset Management, Bloomberg (data as at 31st December 2018)

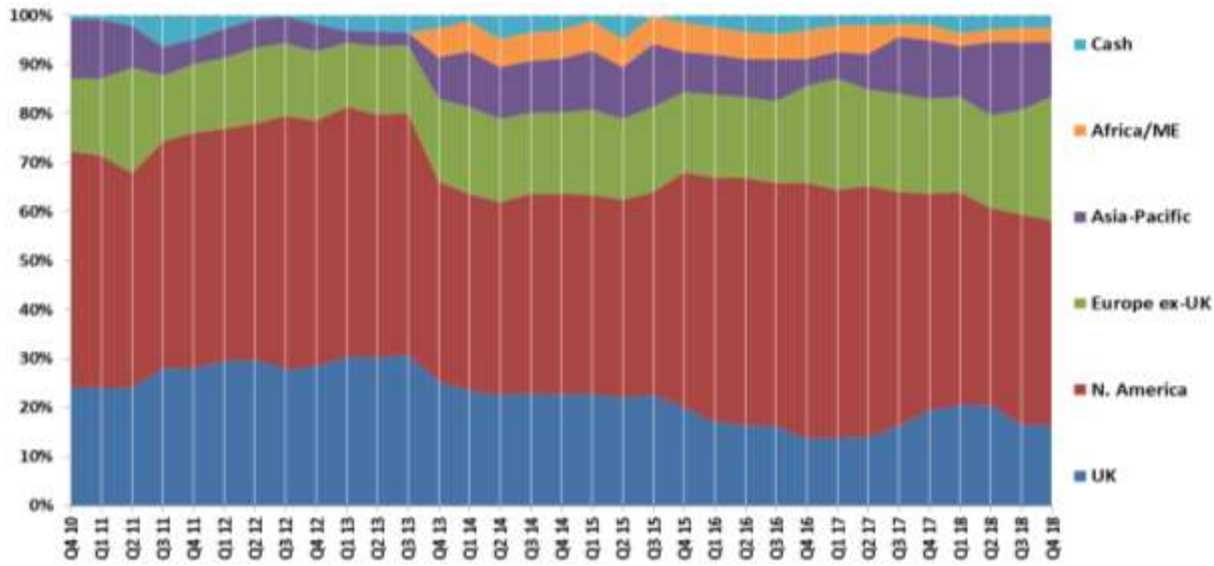


Figure 20 – Portfolio geographic breakdown (as of 31st December 2018). Source: Guinness Asset Management

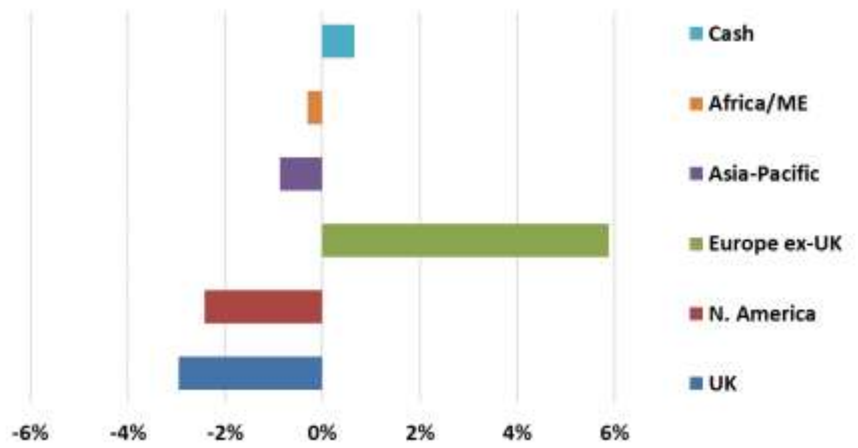


Figure 21 – Year on year change in geographic breakdown (31st December 2018 vs 31st December 2017). Source: Guinness Asset Management

Outlook

The four key tenets to our approach are: quality, value, dividend, and conviction. We monitor the Fund to ensure that what we say we will deliver through stock selection is reflected at portfolio level.

At the year end, we are happy to report that the portfolio continues to deliver on all four of these measures relative to the benchmark MSCI World Index.

		Fund	MSCI World Index
Quality	Average 10 year Cashflow Return on Investment	17%	8%
	Weighted average net debt / equity	40%	67%
Value	PE (2019e)	13.7	14.3
	FCF Yield (LTM)	6.6%	5.5%
Dividend	Dividend Yield (LTM)	2.9%	2.7%
	Weighted average payout ratio	53%	47%
Conviction	Number of stocks	35	1650
	Active share	94%	-

Figure 22 – Portfolio metrics versus index. As of 31st December 2018
Source: Guinness Asset Management, Credit Suisse HOLT, Bloomberg

At the end of the year the Fund was trading on 13.7 times 2019 expected earnings; a discount of 4.4% to the broad market. Additionally, on a free cash flow basis, the Fund trades at a 20% discount to the market. This is especially pleasing given that the expected growth rate of the Fund is higher than the benchmark based on earnings expectations at the turn of the year.

2019 brings more sensitive markets and many uncertainties: over interest rates, trade tariffs, government shutdowns, Brexit, elections, recessions, and many more unknown-unknowns. These risks should be considered in the context that global equities now trade below their 10-year average price-to-earnings multiple, while our Fund is at a discount to the market despite holding higher-quality companies. Our constant approach of focusing on the quality of the underlying companies we own should stand us in good stead in our search for rising income streams and long-term capital growth.

As ever we would like to thank you for your continued support and we wish you all a prosperous 2019.

Matthew Page, CFA
Dr Ian Mortimer, CFA
Portfolio managers, Guinness Global Equity Income Fund

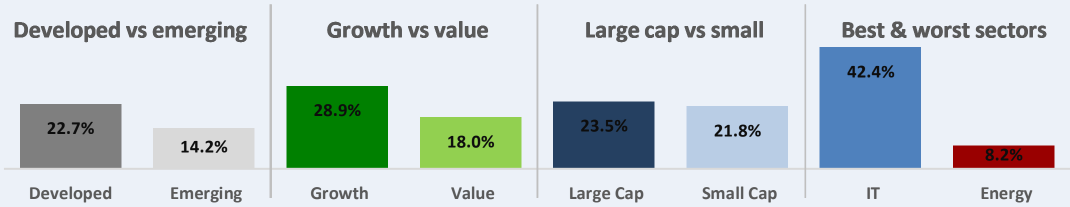
January 2019

Fund size
Start of year £526m
End of year £1.0bn

What happened in the world?

Despite geopolitics providing ample uncertainty throughout 2019, global markets continued to climb a wall of worry and, in fact, closed the year with very strong performance figures. Trade war rhetoric, interest rate speculation and recession indicators dominated financial headlines for most of the year.

- There were only two months with negative returns: May and August. Sell-offs were driven by recession fears, worries about whether the Fed would remain accommodative, and concerns regarding whether the trade war between the US and China would escalate.
- Tit-for-tat trade rhetoric continued throughout the year and led to a flight for safety, favouring defensive stocks and bonds. Rallying bond prices and depressed bond yields led to the first yield curve inversion since 2006 – a precursor for recessions.
- Three Fed rate cuts in the year, reversing previous course. This favoured Growth stocks for most of the year.
- Towards year-end sentiment improved around the potential for a US-China ‘Phase One’ trade deal and there was more certainty in Europe (regarding the UK’s Brexit stance) after the convincing Conservative election victory.



Total return in GBP; MSCI World & MSCI Emerging Markets Index; MSCI World Growth and World Value; MSCI World Large Cap. and World Small Cap.; individual MSCI World GICS sectors.

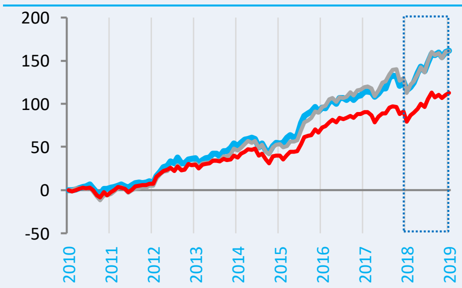
What happened in the Fund?

- Fund slightly underperformed the overall strong equity market, though outperformed in bouts of market weakness, e.g. in May and August.
- A strong year for Growth stocks, particularly IT and FAANG stocks, which were boosted by lower interest rates.
- Fund grew the dividend distribution by 11.7%
- **Purchases**: BlackRock, Henkel, Diageo, ABB
- **Sales**: Merck, Vodacom, Hengan, Japan Tobacco

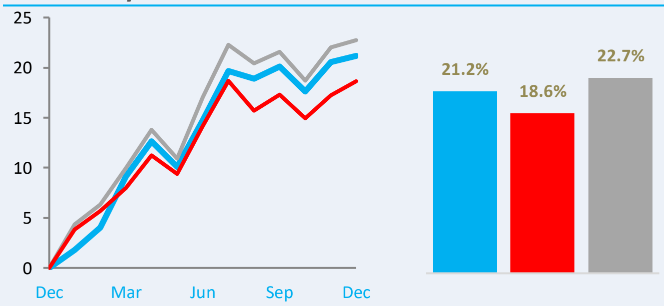
> ***“We believe the balanced approach of the Fund – seeking a return from a combination of cash flow growth, multiple expansion, and dividends – alongside a focus on quality characteristics mean the Fund is well placed whatever the future market direction.”***

Performance

Cumulative since launch



Calendar year 2019



Fund Guinness Global Equity Income
Sector IA Global Equity Income
Index MSCI World

Cumulative % total return, in GBP.
Source: Financial Express.

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.

2019

Fund Summary

In 2019 the Guinness Global Equity Income Fund produced a total return of 21.2% (in GBP), compared to the MSCI World Net TR Index return of 22.7%. The Fund therefore underperformed the Index by 1.5%. The Fund has now outperformed its sector peers in seven of the nine years the Fund has been in existence, and we are pleased to have provided positive returns in each of the last nine years.

- 2019 mostly saw consistently strong equity markets, but the Fund outperformed in the bouts of market weakness in May and August. The sell-offs were driven by recession fears, worries about whether the Federal Reserve would remain accommodative, and concerns regarding an escalating trade war between the US and China. The Fund's stringent focus on the quality and valuations of the underlying companies owned give it the defensive characteristics that seek to protect performance in down-markets.

  - The Fund outperformed in May and August, the only two months of negative returns (in USD) in 2019. Indeed, the Fund has captured only 66% of market downside on average in the 4 corrections (>10% drawdown) since launch and has outperformed in all the largest annual drawdowns in the last nine years.
  - The Fund managed to keep up with a very strong market overall in 2019, from the recovery early in the year – after the large sell-off in Q4 2018 – and into the end of the year, when markets continued to rally due to improved sentiment around the potential for a US-China 'Phase One' trade deal and more certainty in Europe following the clear Conservative election victory in the UK.

- Since the launch of the Fund at the end of 2010, it has produced a cumulative total return of 161.6% (in GBP), compared to the MSCI World Net TR Index return of 161.3%. The Fund has therefore outperformed the Index by 0.3%. This ranks the Fund 2nd out 18 funds in the IA Global Equity Income Sector since launch.

- Performance has been strong against peers in the IA Global Equity Income Sector and the Fund is in the top quartile over three years, over five years and since launch in 2010.

- We target a moderate yield (currently 2.7% net) but look for good potential for dividend growth. In January 2020 the Fund declared its final dividend pay-out, of the income we received in the second half of 2019. The total dividend distributed for 2019 grew 11.7% compared to 2018, and we have grown the distribution every year since launch. The annualised growth of the dividend since launch is now 5.6%.

- We are seeing plenty of interest in the Guinness Global Equity Income strategy, which has grown from £535m in assets under management at the start of the year to £1.2bn today.

- The philosophy and process behind the Guinness Global Equity Income Fund was designed by Ian Mortimer and Matthew Page, and they have co-managed the Fund since launch in December 2010. The philosophy remains the same today.
  - The Fund seeks to invest in good-quality businesses with persistently high returns on capital, strong balance sheets, and which are highly cash generative and trading at attractive valuations. We believe these types of businesses are best placed to pay a sustainable and growing dividend.
  - The Fund takes a long-term view, holding companies for 3-5 years on average in a concentrated portfolio (35 stocks) of equally weighted positions, with an active share of >90% versus the MSCI World benchmark.

- We believe the balanced approach of the Fund – seeking a return from a combination of cash flow growth, multiple expansion, and dividends – alongside a focus on quality characteristics mean it is well placed whatever the future market direction in 2020 and beyond.

Performance

Despite geopolitics providing ample uncertainty throughout 2019, global markets continued to climb a wall of worry and, in fact, closed the year with very strong performance figures. Trade war rhetoric, interest rate speculation and recession indicators dominated financial headlines for most of the year; these contribute the most to the diverging sentiment among investors regarding the outlook for global markets.

During the year, the Guinness Global Equity Income Fund performed as we would expect; the Fund is positioned with the aim to preserve capital during falling markets and keep up with growing markets.

	1 year	3 years	5 years	Since Launch (31/12/2010)
Guinness Global Equity Income Fund	**21.2%**	**33.8%**	**73.5%**	**161.6%**
MSCI World Net TR Index	22.7%	33.1%	79.0%	161.3%
IA Global Equity Income Sector	18.6%	23.3%	54.3%	113.0%
Position in IA Sector	18/54 funds	7/48 funds	8/41 funds	2/18 funds
Quartile	2nd	1st	1st	1st

Figure 1 – Cumulative Total Return in GBP, as of 31st December 2019. Source: Financial Express.

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

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

It is pleasing to see that both the short and long-term performance of the Fund's strategy remain strong versus the MSCI World Net TR Index and IA Global Equity Income Sector peers.

The Fund ranks in the top quartile of the IA Global Equity Income Sector over three years, over five years, and since launch in 2010.

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

Figure 3 –Cumulative Total Return in GBP, as of 31st December 2019. Source: Financial Express.

Dividend

Importantly, our focus on companies that offer the potential for dividend growth rather than simply a high dividend yield means we have managed to grow the dividend distributed by the Fund every year. This year the Fund grew the dividend by 11.7% (Class Y, in GBP), whilst the annualised growth rate over the last nine years has been 5.6%.

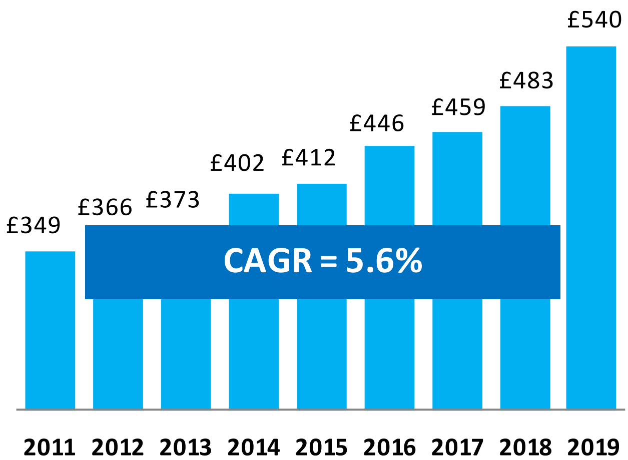


Figure 4 – Dividend Growth. Source: Guinness Asset Management.

Based on the price on 31st December, the Fund has a trailing 12-month dividend yield of 2.7% (net).

Review of 2019

In January 2010, Barack Obama was one year into his US presidency, Instagram had not been invented, the word Brexit had never been uttered, and the Guinness Global Equity Income Fund was a year from being launched (on 31st December).

When the US narrowly averted an economic meltdown at the end of the decade, few anticipated that the following one would feature a historic rally for global equities, and in particular US stocks. The S&P 500 Index has returned 13.5% (CAGR in USD) per year from 2010 to 2019, easily outpacing the other regions and its own long-term annual return of roughly 9% (calculated since 1880, source: Robert Shiller).

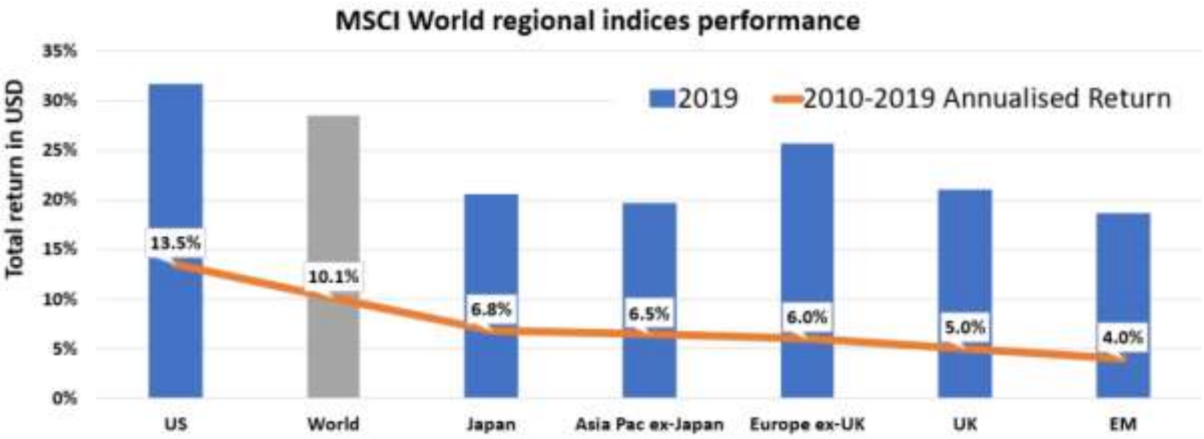


Figure 5 – Regional Performance (TR in USD). As of 31st December 2019. Source: Bloomberg

The US 'bull market' is now the longest ever (130 months), and the newly ended decade produced the fifth-highest returns since 1880. Only the 1920s, 1950s, 1980s and 1990s produced higher returns. Figure 5 also indicates that regional performance in 2019 broadly followed the decade's trend. The only exception perhaps is Europe, which in 2019 fared better than in previous years (due to central bank support and a lessening of populist rhetoric; the annualised return over 10 years is also dragged lower by the 2011 European Sovereign Crisis).

Interestingly, of the S&P 500's 13.5% annual return since 2010, 2.2% came from dividends, 8.8% from earnings growth and 2.5% from the change in the market's valuation, as measured by the 12-month trailing price-to-earnings ratio. In other words, the vast majority of the gains can be attributed to strong earnings growth.

US Stock Market – Breakdown of the Decades

	Dividend Return (%)	Earnings Growth (%)	Change in P/E (%)	Annualised Return (%)
1880s	5.1	-2.3	3.2	6.0
1890s	4.3	4.8	-3.4	5.7
1900s	4.8	4.7	0.8	10.3
1910s	5.9	2.0	-3.4	4.5
1920s	6.3	5.6	3.3	15.2
1930s	5.3	-5.7	0.3	0.0
1940s	5.3	9.9	-6.4	8.9
1950s	6.0	3.9	9.3	19.3
1960s	3.3	5.5	-1.0	7.8
1970s	3.4	9.9	-7.5	5.8
1980s	5.2	4.4	7.7	17.3
1990s	3.4	7.7	6.9	18.0
2000s	1.7	0.6	-3.0	-0.7
2010s	2.2	8.8	2.5	13.5

Figure 6 – Source: Robert Shiller, Bloomberg. As of 31st December 2019

The dramatic global rally from the rubble of the 2008 Financial Crisis has raised fierce debate about what fuelled the resurgence and, perhaps more importantly, whether it can continue. One popular theory is that the Federal Reserve

(Fed) has boosted the market by unleashing a mountain of cheap money through low interest rates and quantitative easing. Another theory is that corporate earnings were boosted by a handful of fast-growing companies, such as the FAANGs (Facebook, Apple, Amazon, Netflix, Google), and by a wave of share buybacks, all of which lifted the market. The implication is that as long as the Fed keeps supporting the economy with loose monetary policy, the party can continue. This was the consensus amongst commentators in 2019 also, although, contrary to much of the decade, the slowing earnings growth in the US especially highlighted that most of the contribution to the S&P 500's stellar 2019 return came from a higher valuation. Stocks had de-rated sharply coming into the year as the tech sell-off drove markets significantly lower in Q4 2018, but the previous high was recaptured by mid-year with further acceleration into the year end.

US Stock Market – 2019 Breakdown

	Dividend Return (%)	Earnings Growth (%)	Change in P/E (%)	Annualised Return (%)
2019	2.1	1.9	27.5	31.5

Figure 7 – Source: Bloomberg. As of 31st December 2019

The US market led the other regions in 2019 (figure 5) and was carried by three Fed rate cuts in the year. Though all regions closed the year with high returns, Asia and EM were the worst-performing regions, weighed down by trade tensions between the US and China, and the UK market also underperformed due to persistent Brexit uncertainty throughout the year.

Nonetheless, come December, there was some reprieve and clarity for investors heading into the new year:

- Boris Johnson won a decisive victory over Jeremy Corbyn's Labour Party in the general election on December 12th, clearing the way for the Tory leader to take Britain out of the EU at the end of January 2020. Brexit's precise shape is still to be defined, with December 2020 set as a preliminary deadline for negotiations. At this point, it looks possible that the UK may exit the EU's single market (which allows for the free movement of goods and services among the different countries in the EU), but remain in or align with the customs union (which establishes a common system of tariffs and import quotas for trading with non-members).

  For now, currency traders are cheering the end to the Brexit deadlock. The pound jumped by the most against the dollar since 2017 as speculators bet that Johnson's parliamentary majority would bring an end to the gridlock that held back investment and contributed to an economic slowdown. If the pound continues to strengthen, it could weigh on shares of the large, dollar-earning multinational companies that dominate the FTSE 100 Index.

- The day after the UK election, it was announced that the US and China had agreed on "Phase One" of a trade deal.

  - China has promised to ease pressure on US companies in terms of technology transfer, which should be positive for the US technology sector, if it comes to fruition.
  - The withdrawal of tariffs that were threatened to be imposed on December 15th 2019 also benefits US tech companies (laptops and cell phones would have been subject to those tariffs) as well as some US retailers (who would have had price increases on imported goods from China that they sell, from personal care products to clothing and household goods).
  - The agriculture and manufacturing industries should also benefit if China does in fact purchase additional goods, as is currently part of the Phase One deal.
  - The partial rollback of the September tariffs (from 15% to 7.5%) is also part of the current deal. That should benefit US retailers, given those tariffs were focused on consumer goods.

Though both developments could well be derailed, the somewhat increased certainty is a positive for business investment going into 2020. Nevertheless, each year brings its 'unknown unknowns' and so we seek to position the Guinness Global Equity Income Fund to weather whichever direction the market takes.

The Fund's focus on quality companies at attractive valuations makes it tend to outperform in falling markets. Over the course of the year this was generally the outcome:

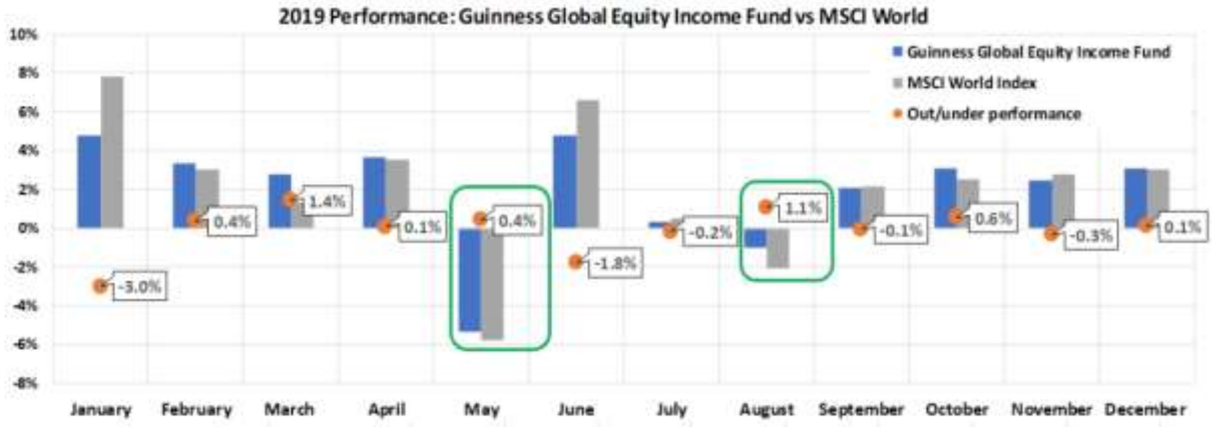


Figure 8 – Monthly total return of Fund vs benchmark in 2019, in USD. Source: Bloomberg

As figure 8 shows, there were only two months with negative returns (in USD) for the MSCI World Index: May and August. The Fund outperformed in each, and broadly stayed in line with the rising markets in other months.

Markets fell in May after an eventful month included a breakdown of US-China trade talks, the UK Prime Minister Teresa May resigning, North Korea firing missiles, and the US extending the tariff war to Mexico. In August, market pessimism came via a surprising tweet by President Trump which announced that a new set of tariffs would be imposed on Chinese imports in September. That was swiftly followed by China allowing its currency to depreciate below seven renminbi to the dollar – a key historical threshold – and the US declaring that China was a currency manipulator. The tit-for-tat continued and led to a flight for safety which favoured defensive stocks and bonds. The rally in bond prices and depressed bond yields led to the first yield curve inversion – between the two-year and 10-year US Treasury bonds – since 2006. The move was significant because such inversions of the yield curve, in which short-maturity yields exceed those for longer-maturity bonds, have preceded nearly all recessions dating back to the 1950s; the occurrence spooked markets and exacerbated the equity sell-off.

The Fund outperformed in both of the sell-offs, and looking longer-term (figures 9 and 10 below), we see that the Fund has actually outperformed in each of the largest drawdowns seen in the last nine years, i.e. since the launch of the Fund in 2010.

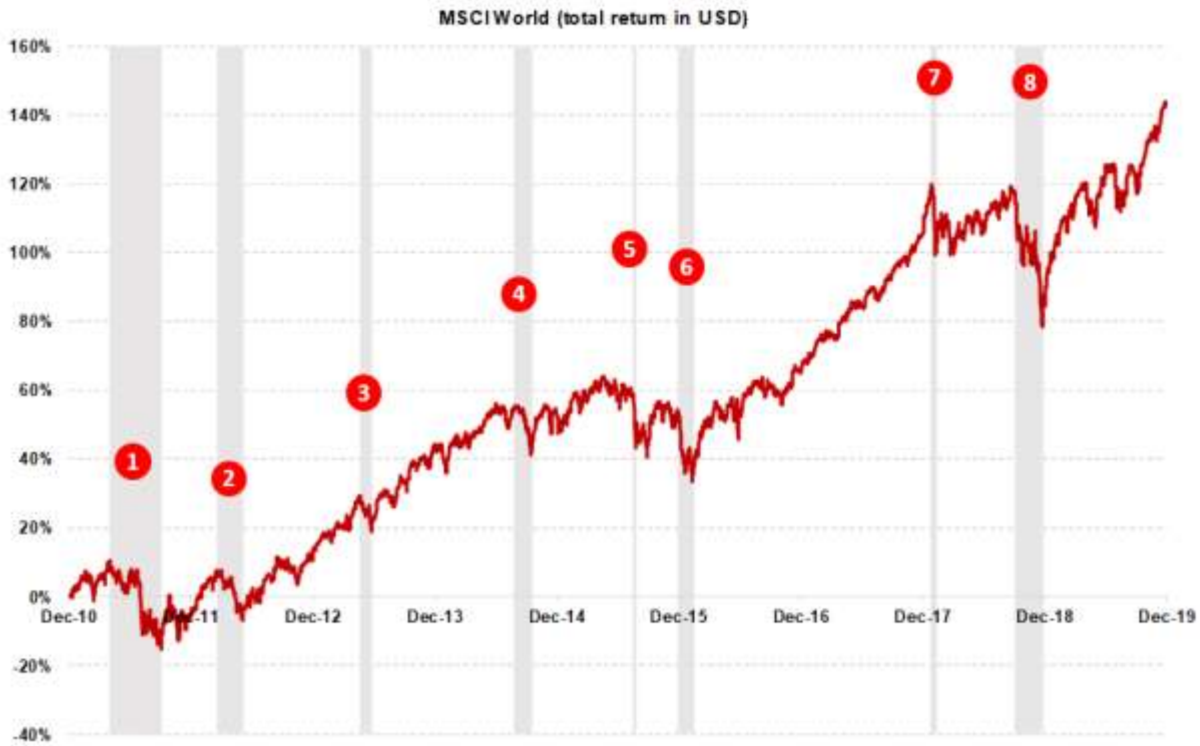


Figure 9 – Largest drawdowns in global equity markets since Fund launch (31st December 2010).

Source: Bloomberg

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

Figure 10 – Performance of Fund vs benchmark in the largest drawdowns since Fund launch, in USD.
Source: Bloomberg

The surge in global equity markets at the start of 2019, shown by figure 9, led to the Fund's largest underperformance in the year. Markets favoured the Information Technology stocks that had sold off heavily in Q4 2018. The bounce back came after the Fed pivoted at the start of the year, changing course on interest rate rises. This set the tone for Growth stocks to continue their ascent and the trend persisted for most of the year:

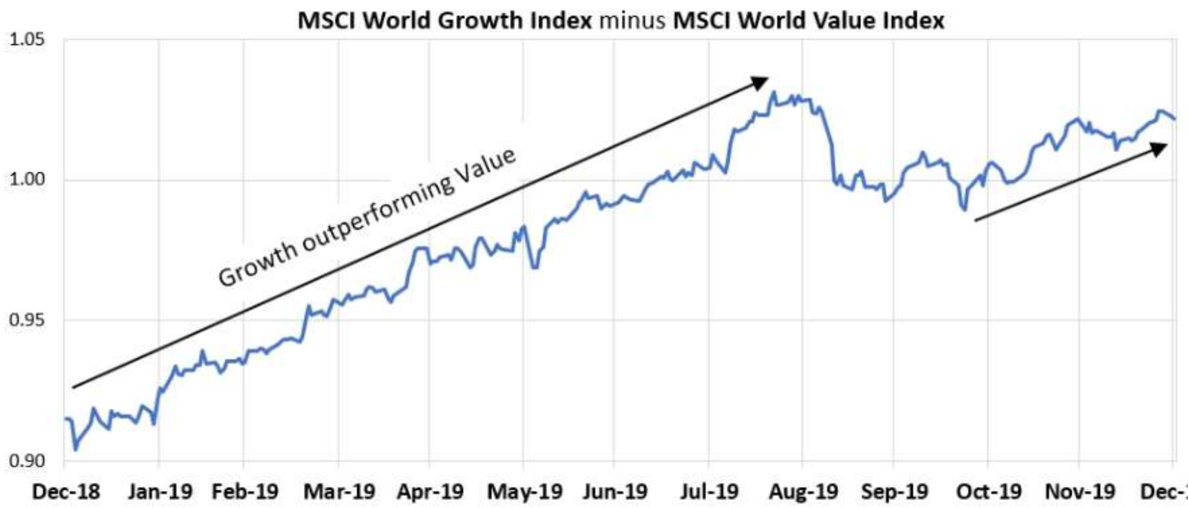


Figure 11: MSCI World style performance in 2019 (TR in USD). As of 31st December 2019.
Source: Bloomberg

By some margin, IT was the best-performing sector of the year, up 47.6% in USD. Energy was the worst performer, up 11.0% in USD, whilst all the other sectors closed the year within a narrow range (23-28% in USD).

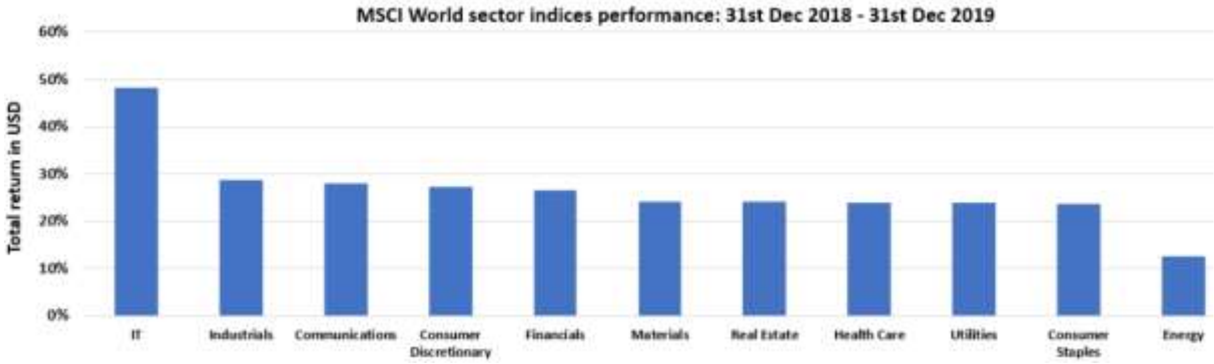


Figure 12: MSCI World sector performance in 2019 (TR in USD). As of 31st December 2019. Source: Bloomberg

Being underweight IT was a drag on Fund performance in the year, but the detail is worth examining:

- Semiconductors led within the sector with a 55% return (in USD) over the year. The Fund is c.3% overweight Semiconductors vs the MSCI World Index, and participated in the rally via positions in TSMC (+57%) and Broadcom (+27%).
- Software & Services rose 42% in the year, and though we are c.3% underweight, we benefited from good stock selection in the industry via our holdings in Microsoft (+58%) and Paychex (+35%).
- Technology Hardware rose 56% in the year and the Fund is c.3% underweight. This proved to be a drag on active performance since our only holding in the space, Cisco (+14%), struggled to keep up with the industry lifted higher by a surging Apple (+89%). Apple was the largest contributor to the MSCI World Index return in the year. Its low dividend yield screens it out of our selection.

Energy was the worst performer of the year, and the Fund was somewhat immune given it only holds one position in the sector. The price of oil has stayed low due to oversupply and low demand conditions. Furthermore, investors fretted over increases in supply as shale oil production in the US continued to grow and OPEC seemed unwilling to cut production, all of which had a negative impact on the sector's performance. The drone attack on oil processing systems in Saudi Arabia in September wiped out 5% of global supply, though market reaction was fairly muted, and supply was reinstated.

The Fund's largest overweight positions are in Consumer Staples (c.18% vs the MSCI World Index) and Industrials (c.9%). Overall, the allocation effect from both sectors did not meaningfully add to or subtract from Fund performance relative to the benchmark over the year, though stock selection within each sector contributed significantly. Good stock selection within the Capital Goods industry (in Industrials) benefitted the Fund's active performance, whereas poor returns in Tobacco (Consumer Staples) dragged on performance. Overall, investors favoured growthier and more cyclical stocks, aiding Industrials and IT, and hindering Consumer Staples and Healthcare stocks.

The big question going into 2020 is whether the bull run will continue and what exactly may lead to its downfall. As ever, rather than trying to pick which way the macro or political winds will blow in the near term, we maintain our focus on companies that can deliver a sustainable, rising income stream alongside capital growth over the long term. Holding good quality companies, that have persistently generated high levels of return on capital, gives us confidence that the Fund is well placed to weather the majority of market conditions.

Individual Stock Performance

When we look at how individual companies within the portfolio performed in 2019, we see that out of the top five, we have two IT, two Consumer Discretionary, and one Industrial stock (figure 13). This highlights the benefit of our moderate dividend yield and sector-agnostic approach, which can identify opportunities outside of the traditional high-yield or 'defensive' areas typically associated with income funds.

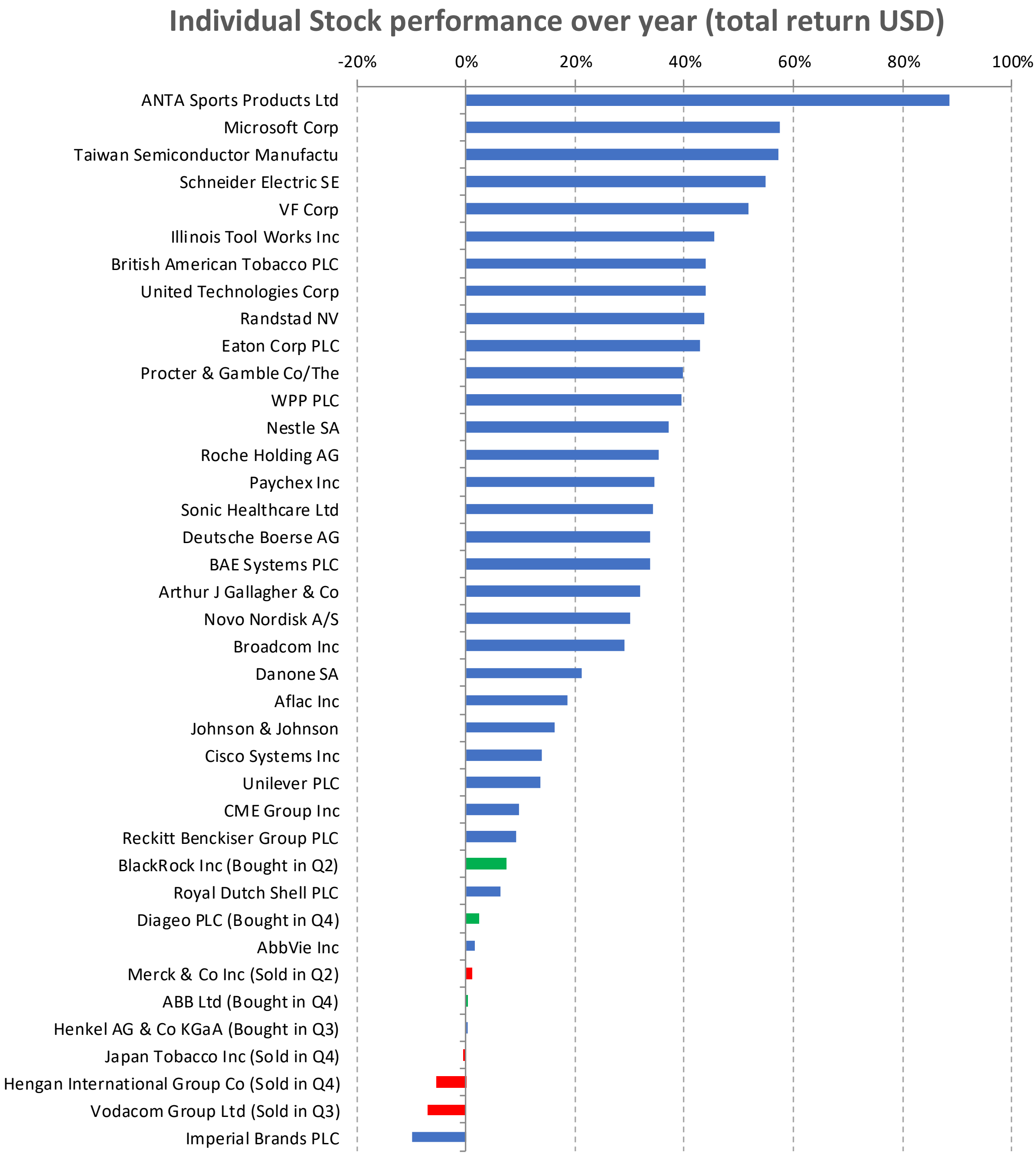


Figure 13: Individual stock performance over holding period during 2019 (TR in USD). As of 31st December 2019. Source: Bloomberg

The best performer over the year was **Anta Sports** (+88% in USD). The company generates revenue through the manufacture and trade of sporting goods including footwear, apparel and accessories. ANTA is poised for greater market share in China as it seeks to woo affluent shoppers with pricier athletic gear including popular brands such as Fila and Descente, as well as Salomon and Arc'teryx – both owned by Amer Sports, which ANTA has acquired. ANTA's sales growth is likely to accelerate due to the Amer acquisition; the move to acquire a European company gives ANTA Sports scale to expand geographically, as well as launch new products in China. The company's growing product offering could well fuel earnings and revenue growth and the shrewd move into winter sport clothing and equipment is well timed ahead of the Winter Olympics in 2022 in Beijing.

Microsoft also performed very well in the year (+58% in USD). The software maker's cloud transformation has seen buoyant demand. Azure cloud services, used to store and run customers' applications in Microsoft's data centres, is number two in the cloud sector behind Amazon Web Services, though the market is growing fast enough to lift both companies' revenue. Windows and Office subscribers are likely to give Microsoft an edge, as corporate users shift newer workloads to the cloud for greater agility. Margins should also continue to improve as cloud-based applications and infrastructure products gain scale. We have held Microsoft in the Fund since launch in 2010.

Azure is the company's main revenue growth driver:

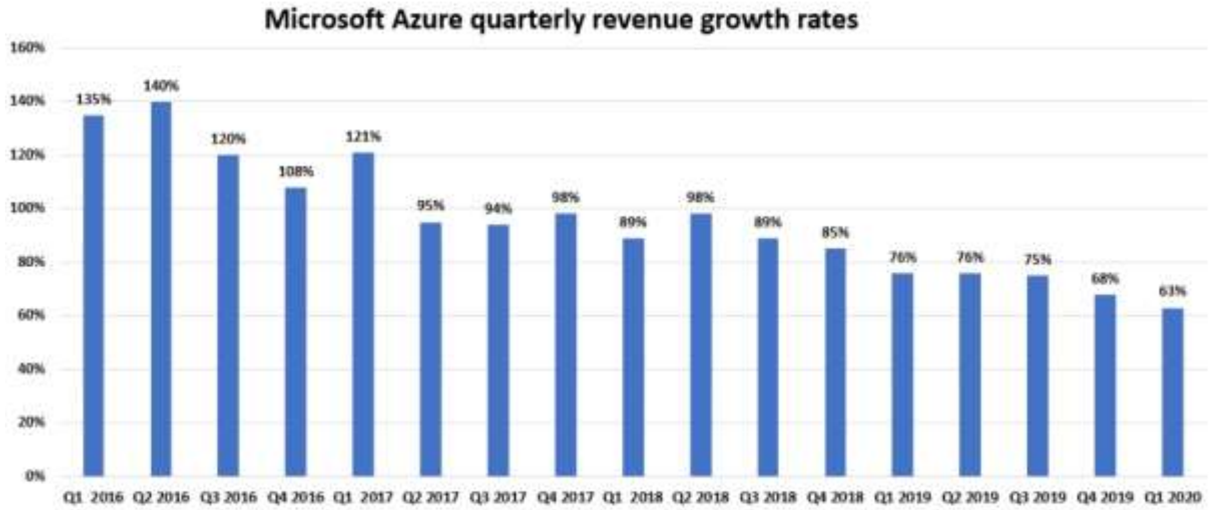


Figure 14: Quarters follow Company's Fiscal Year. Source: Bloomberg Intelligence

TSMC was another top performer (+58% in USD). TSMC is a pure-play foundry business and manufactures integrated circuits which are used in computers, communication equipment, consumer electronics, automotives and industrial equipment. At the time of purchase (June 2018) we were fond of the company's very low debt to equity ratio of 12%, its attractive dividend yield of 3%, and double-digit earnings and profit growth estimates. Bought with a 2-year forward P/E Ratio of 14.5, we saw the company as attractively valued given its above-market-average growth forecasts. Revenues and gross margins have increased every year for the last eight and returns on capital have been consistently high for the last 10 years. The company's recent rally points to optimism regarding future sales and profit growth which are expected to rise as the use of artificial intelligence applications and the emerging adoption of 5G communication standards boost demand for high-end semiconductors. The company's leadership in manufacturing technology, along with Globalfoundries' decision to suspend its 7-nanometer product development, will allow TSMC to solidify its market share in high-performance computing chips and to maintain its industry-leading profit margin.

The worst-performing stock over the year was **Imperial Brands** (-15% in USD). The traditional tobacco company, which has been developing its alternative e-cigarette business, reported results during the year that missed revenue and earnings expectations due to slower than forecasted e-cigarette sales particularly in the US, where the FDA has been increasing its scrutiny of the fast-developing industry.

Imperial Brands has been divesting non-core assets, including its premium cigar business, whilst investing in the fast-growing alternative tobacco industry as the company looks to offset falling demand for its traditional tobacco products. The company intends to raise £2 billion from asset sales, which would sensibly help reduce debt and raise R&D. The stock continues to trade at a significant discount to its peers whilst offering one of the largest dividends among UK companies (11% dividend yield), which has been growing at an average of 10% per year for the last five years. The company has recently also changed to a progressive dividend policy – rather than a pay-out ratio policy – in order to allow it greater flexibility to make investments into new next-generation products.

Though investors' confidence in the tobacco industry has been dented by proposals of regulation and by declining smoking trends, we believe the market has been overly pessimistic, given the fundamentals that Imperial Brands possesses. Enviable cash generation, high barriers to entry, a committed approach to returning income to shareholders, and over-discounted valuations have convinced us to keep Imperial Brands in the portfolio.

Among the weaker contributors to the Fund in 2019 are the four companies that we sold in the year. We detail our thoughts on these below when referring to the changes made to the portfolio.

Changes to the Portfolio

In 2019 we sold four positions and bought four new positions, leaving the portfolio with 35 positions at the end of the year.

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

Figure 15: Number of changes to the portfolio

In the first quarter, we made no changes to the portfolio.

In the second quarter, we made one change, whereby we replaced Merck with BlackRock.

Merck, the global healthcare company, saw poor performance in early 2019, and this came after a very strong 2018, which saw Merck's lung cancer drug, Keytruda, win a string of clinical trials, placing it in the top spot for treating lung cancer. Other best-selling drugs in the Pharmaceutical segment include type 2 diabetes drug Januvia, which brings in about $4 billion in revenues annually. Other products earning more than $2 billion include diabetes drug Janumet, HPV vaccine Gardasil, and cholesterol medication Zetia.

Our decision to take profits and sell our holding came after considering Merck's peak valuation and weakening balance sheet profile. At sale, on a price-to-earnings basis, the stock traded at 1.5 standard deviations above its 10-year average and the company had also been accumulating higher levels of debt. Total debt to equity stood at 93% and cashflow returns on invested capital dipped below 10%, thus removing Merck from our quality-driven investment universe.
As part of our 'one in, one out' process, we bought a position in **BlackRock.** The world's largest asset manager operates globally and has $6.5 trillion in assets under management. The company stands out in its industry due to its strong brand loyalty and focus on institutional investors. The firm's moat, due to its breadth as the largest manager globally by AUM, proprietary Aladdin software, and dominant iShares division, is very strong.

Global wealth growth, along with ever rising interest in ETFs, act as the backbone for BlackRock's success. Through its iShares offering, BlackRock is the ultimate ETF leader with assets totalling nearly $1T in AUM. Vanguard is second, with $610bn, with a fall to $470bn for the third position (State Street). BlackRock earns nearly 50% of its base fees on equity products, though it has historically had a strong fixed income offering.

BlackRock has been especially profitable due to its focus on institutional investors, who are willing to pay higher fees in order to get the liquidity they require. Actively managed and iShares funds tend to have larger asset bases and trade frequently in the open market, making it easier for big financial institutions to make large orders without worry of disrupting Funds' trading operations.

Though profit margins have come under pressure in the short-term as passive investments have grown faster and are priced lower compared to actively managed funds, BlackRock has invested in alternative technologies to expand its capabilities. One of these investments include its Aladdin platform. Short for 'Asset Liability and Debt and Derivative

Investment Network', the operating system for investment managers combines sophisticated risk analytics with comprehensive portfolio management, including trading and operations tools on a single platform.

BlackRock's push to diversify its revenue sources is a positive and lowers the stock price's beta to the wider market. Asset managers have performed poorly in recent times due to fee pressures, strains on profit margins, and looming worries about the late-cycle stage of the economy. This has meant they have collectively sold off. At the time of purchase, we believed this BlackRock had become cheaper than its true valuation and so provided us an attractive entry point into a stock with a solid stream of dividends and good potential for growth. The company had also boosted its dividend, with year-on-year growth (2019 vs 2018) greater than 20%.

In the third quarter, we also made one change to the portfolio. We replaced our position in Vodacom with a position in Henkel.

Vodacom, by the third quarter, had had a poor year of share price performance and was one of the worst performers in the Fund. Sub-Saharan Africa's largest telecom carrier had been battling headwinds facing the entire industry, specifically in the form of price reductions driven by competition and regulation. With around 60% market share in South Africa, the company is highly exposed to any regulatory changes; revenues started to suffer from government initiatives to make mobile data more accessible via lower and more transparent pricing. Our decision to sell also coincided with the greater risks the company faces from confirmed plans to introduce a Wholesale Open Access Network (WOAN), which reduces Vodacom's access to spectrum and increases its costs. The WOAN would reduce the spectrum of radio frequencies available for to the private sector and thus bid up prices at auction. Though gross margins have remarkably been increasing year-on-year for a decade, we saw the recent events as threats to the company's margins and believed we found an opportune time to sell our holding.

Henkel manufactures chemical products of various types: laundry and homecare (Persil, All, Pril); cosmetics and toiletries (Schwarzkopf, Dial, Syoss); and adhesives (Loctite, Pritt, UniBond). Henkel's business is centred in Europe, with a growing presence in developing economies. The company has a diversified revenue stream with Adhesive Technologies accounting for around 45% of sales, Laundry and Homecare making up around 35%, and Beauty Care accounting for about 20%. Dividends have grown at an annualised rate of 9% over the last five years; yield at purchase was 2.3% and the 1-year forward price-to-earnings sat below the 10-year average. With such a valuation we believe there is limited downside relative to upside potential from a multiple re-rating, increasing dividend and improved growth as restructuring plans come to fruition. Given that the company has low debt, persistently high cashflow returns on investment, and is seeking both organic and acquisitive growth, we believe Henkel to be an attractive addition to the portfolio.

In the fourth quarter, we made two changes, replacing Hengan International and Japan Tobacco with Diageo and ABB.

Hengan International had a poor year in terms of share price performance and was one of the worst performers in the Fund. The company is one of the largest producers of sanitary napkins, diapers and tissue paper in China. Historically the company has captured significant market share in established distribution channels (maternity stores, hypermarkets) and more recently it sought growth from online exposure. Management has built up an e-commerce team to take advantage of the channel shift in China whereby consumers are increasingly purchasing everyday items online. Alongside this there are new brand launches and a revitalised 'Amoeba' sales strategy to maintain its offline market share. Growing revenues, high and stable margins, year-on-year earnings growth and a well-covered, high dividend were some of the reasons we found this a compelling stock. Its recent weak performance comes due to increasing pulp prices – to which the company is significantly exposed – and a concern over competition from the likes of Procter and Gamble and Kimberly Clark, as well as Japan's Unicharm and Kao. Competition has started to erode Hengan's previous dominant position and ultimately the recovery in growth we hoped for, from the sales transformation strategy, has not occurred. The fall in asset turnover suggests it is harder for the company to generate sales from its current asset base, and with debt-to-equity reaching 130% – and the cashflow return on investment falling below 10% – the stock has fallen out of our universe, leading us to sell our full holding.

Japan Tobacco also did not fare well in the year and has been a disappointing holding in the Fund. The global tobacco manufacturer owns brands such as Mevius, Winston, Camel and Seven Stars, and controls 60% of Japan's cigarette market – one of the largest in the world. Japan Tobacco's revenues and profits have been trending downwards over the last few years as cigarette smoking declines and regulation plays a greater role. Our optimism for upside also wanes with regards to the company's ability to compete in the alternative tobacco space. Japan Tobacco has two vape brands, Logic and Ploom TECH, and sales of these have suffered at the expense of competitors such as Phillip Morris's IQOS and Altria's JUUL. Recent international tobacco acquisitions have yet to boost organic growth and management are looking to invest 100 billion Yen over the next three years to boost innovation in 'reduced-risk products'. This geographic and product uncertainty does not appear to sit well with the challenges of regulation and global declines in cigarette revenues. With these risks in mind, we decided to lower our tobacco exposure in the Fund in favour of more compelling ideas.

Diageo, the alcoholic beverage manufacturer, gave us an attractive entry point after its price-to-earnings multiple de-rated by over 20%. The UK-based company is a global leader in spirits and liqueurs, boasting a portfolio of world-renowned brands such as Smirnoff vodka, Captain Morgan rum, Johnnie Walker whisky, Baileys Irish cream, and Tanqueray gin. It also makes beer, including Guinness, and wine. With more than 200 global, local, and luxury brands, it owns some two dozen of the world's top-100 premium spirits labels. Spirits comprise most of the company's revenue, generating some 70%. Beer accounts for about 15% of sales and ready-to-drink products (such as premixed gin and tonic) generate about 5%.

With sales in virtually every country in the world, and 150-plus production sites globally, Diageo is pursuing a policy of premiumisation in its mature and emerging markets. As part of this, recent acquisitions have included Belsazar, a premium German aperitif, and Pierde Almas, an ultra-premium mezcal.

Diageo has grown revenues, margins and returns on capital for four consecutive years and the recent de-rating came because the market expected a larger buyback than management announced ($5.6bn until 2022). The buyback in 2019 was $3.6bn alone and reflected management's focus on balance sheet efficiency and non-core asset disposals. There is speculation that management may be saving cash for acquisitions or being prudent in light of a higher share price, and thus may be keeping flexibility for a special dividend. The current 12-month forward dividend yield stands at 2.3%; dividend growth (CAGR) over the last five years stands at 6%, and the company has had consistent earnings growth for the last four years. These characteristics combined made Diageo a compelling buy for our Fund.

ABB is a leading European industrial electrical equipment company, making products used in electrical grids and transmission, industrial automation, and production line robotics. Its product lines are diverse and serve customers in a wide range of sectors, including automotive, buildings and infrastructure, data centres, and food and beverages. It is in the process of selling a majority stake in its Power Grids business, which makes transformers and long-distance power transmission systems, to Hitachi. This is set to complete in H1 2020 and may well allow the company to return further cash to shareholders via a large special dividend. The current dividend yield stands at 3.6%, and earnings are expected to grow by double digits in the next year; we seek to benefit from both these avenues of capital return.

Portfolio Positioning

The charts below show the sector and geographic breakdown of the portfolio both currently and over the last nine years. The major effect of the changes we made to the portfolio in 2019 was to increase our Industrials and Financials exposure, whilst reducing our Communications and Healthcare exposure. In terms of sector weightings, the Fund continues to have a zero weighting to Utilities, Materials, and Real Estate. The largest overweight positions are to Consumer Staples and Industrials.

Figure 16 – Portfolio sector breakdown versus the MSCI World Index.
Source: Guinness Asset Management, Bloomberg (data as at 31st December 2019)

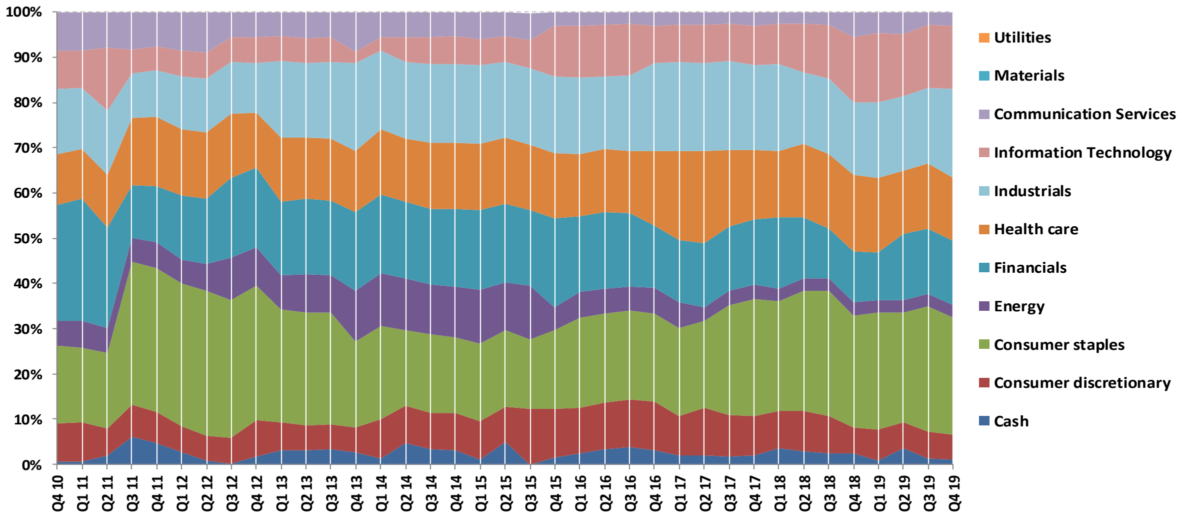


Figure 17 – Portfolio sector breakdown (as of 31st December 2019).
Source: Guinness Asset Management

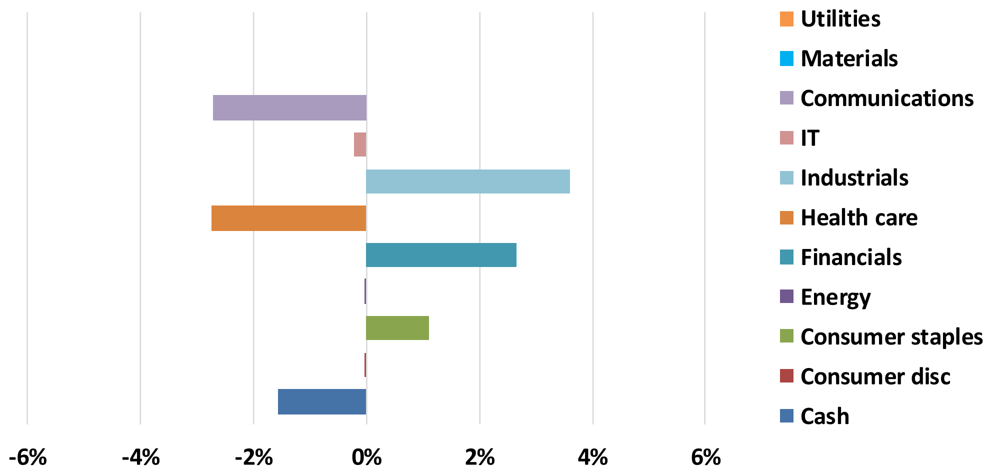


Figure 18 – Year on year change in sector breakdown (31st December 2019 vs 31st December 2018).
Source: Guinness Asset Management

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

The Fund is currently c.24% underweight the US, and though this was the best-performing region in 2019, there was no meaningful effect on attribution. Any drag on the allocation effect was somewhat offset by good stock selection. In fact, out of the top 10 performing stocks in the Fund, five were US-domiciled.

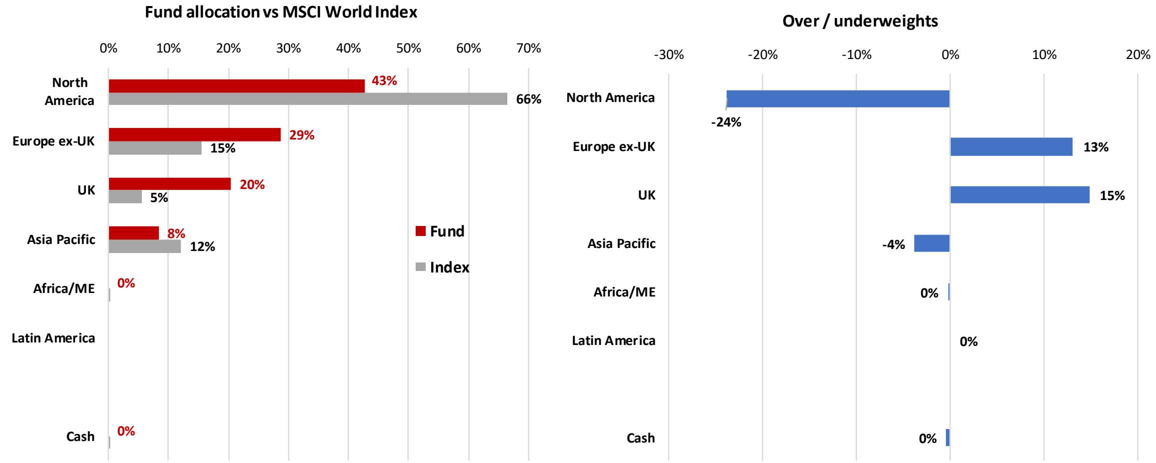


Figure 19 – Portfolio geographic breakdown versus the MSCI World Index. Source: Guinness Asset Management, Bloomberg (data as at 31st December 2018)

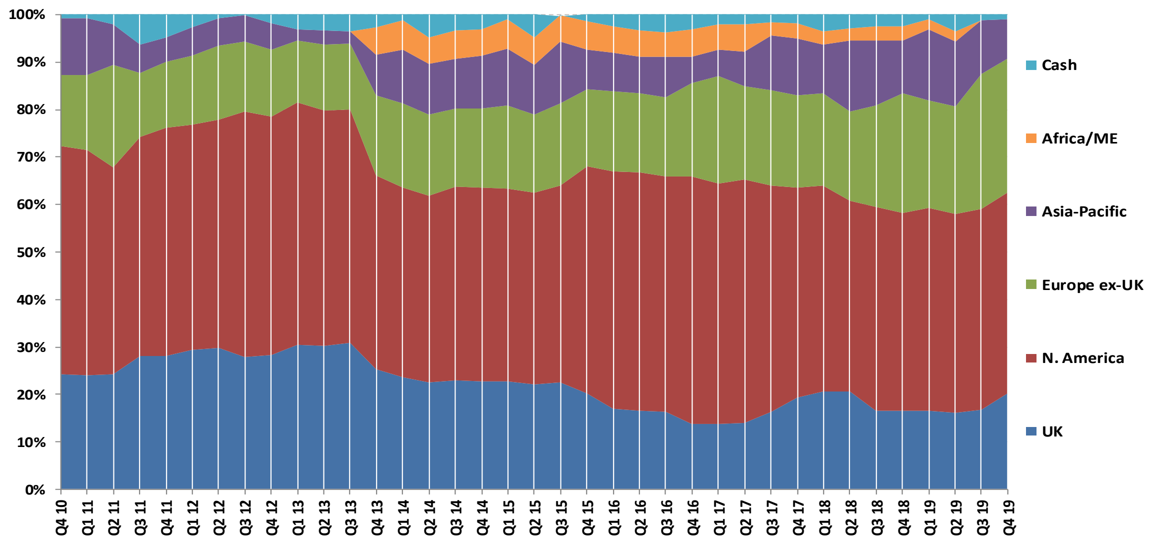


Figure 20 – Portfolio geographic breakdown (as of 31st December 2019). Source: Guinness Asset Management

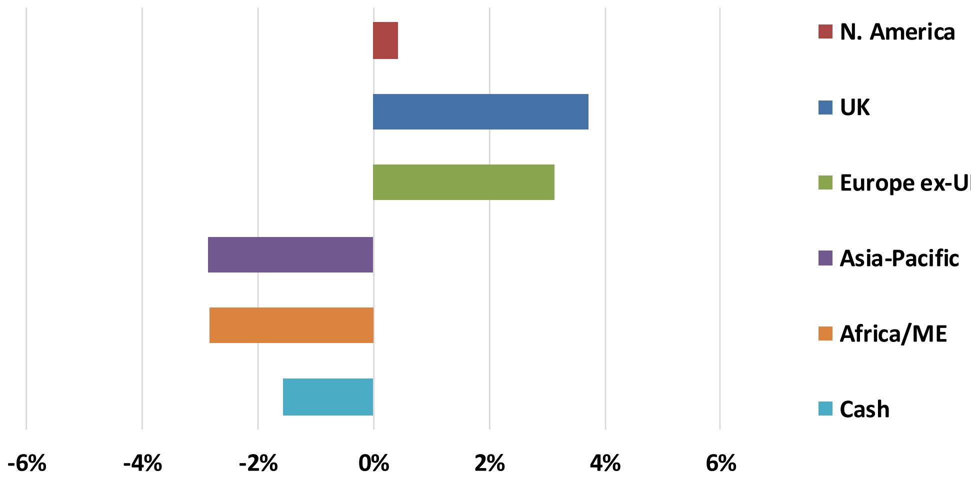


Figure 21 – Year on year change in geographic breakdown. (31st Dec 2019 vs 31st Dec 2018). Source: Guinness Asset Management

Outlook

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

		Fund	MSCI World Index
Quality	Average 10 year Cashflow Return on Investment	17%	8%
	Weighted average net debt / equity	53%	80%
Value	PE (2020e)	16.3	17.2
	FCF Yield (LTM)	6.5%	4.2%
Dividend	Dividend Yield (LTM)	2.7% (net)	2.4% (gross)
	Weighted average payout ratio	58%	53%
Conviction	Number of stocks	35	1650
	Active share	91%	-

Figure 22 – Portfolio metrics versus index. As of 31st December 2019
Source: Guinness Asset Management, Credit Suisse HOLT, Bloomberg

Our high-conviction Fund holds companies which are on average better quality at better value than the index. At the end of the year it was trading on 16.3x 2020 expected price to earnings; a discount of 5% to the broad market. Additionally, on a free cashflow basis, the Fund trades at a 35% discount to the market.

As we look ahead to 2020, it is clear that central banks are still shouldering the burden for stimulating the economy via monetary policy, as has been the case since the Global Financial Crisis. After a nascent attempt at normalising, some major central banks have become more accommodative as 2019 progressed. That should bode well for 2020, as the rate cuts enacted by the US Federal Reserve in 2019 have already resulted in an acceleration in money and credit growth. Monetary easing proved to be more fruitful for equity markets than the overall economy in 2019, and there does not seem any reason at the outset as to why that may change going into 2020.

Countering the positive effects of monetary stimulus is geopolitical disruption — and the economic policy uncertainty that comes with it. Though markets have tended to shrug these off over the longer term, current sources of policy uncertainty include the following:

- US-China trade war and Brexit, which have been the most prominent sources of uncertainty in 2019
- The 2020 US Presidential Election, which will kick into a higher gear in the second half of 2020
- The conflict between China and Hong Kong
- Tensions in the Middle East

Economic and political uncertainty is perhaps likely to continue to depress capital spending and we must watch vigilantly to notice any spill over into greater unemployment or inflation. Nonetheless, our perpetual approach of focusing on quality compounders and dividend growers (which in fact act as inflation hedges) should stand us in good stead in our search for rising income streams and long-term capital growth.

As ever we would like to thank you for your continued support, and we wish you all a prosperous 2020.

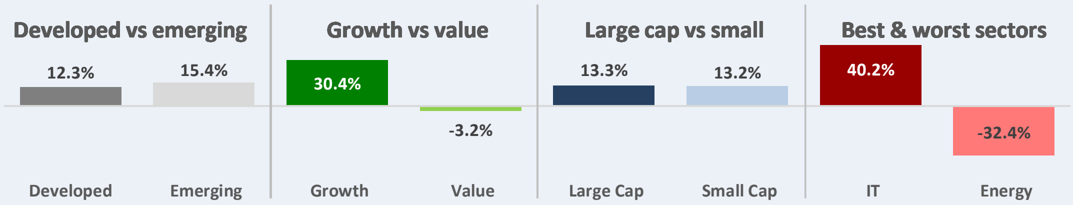
Matthew Page, CFA
Dr Ian Mortimer, CFA
Portfolio managers, Guinness Global Equity Income Fund

Fund size
Start of year £1.0bn
End of year £1.3bn

What happened in the world?

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

- Equity markets began 2020 buoyantly but saw a sharp sell-off at the end of Q1 as increasing Covid-19 cases induced global lockdowns and deeper recession fears.
- Unprecedented monetary and fiscal stimulus, later combined with vaccine optimism, drove equity markets higher between Q2 and year-end. This was led by Growth stocks in general, and in particular 'US Big Tech' which increasingly benefitted from 'stay-at-home' orders.



Total return in GBP; MSCI World & MSCI Emerging Markets Index; MSCI World Growth and World Value; MSCI World Large Cap. and World Small Cap.; individual MSCI World GICS sectors.

What happened in the Fund?

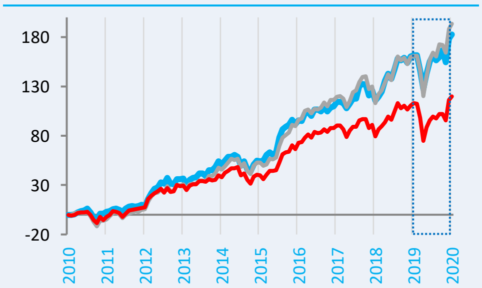
- The Fund outperformed the MSCI World Index and its peer group after preserving capital in the Covid-19 induced drawdown in Q1, and then captured most of the market's rise later in the year.
- The Fund had a roughly equal balance between cyclical and defensive exposures.
- In the Fund, 28 out of our 35 holdings grew their dividend in 2020, 6 kept their dividend flat, only 1 company cut its dividend, and 0 companies completely cancelled their dividend.
- **Purchases**: PepsiCo, Medtronic, Otis
- **Sales**: WPP, Royal Dutch Shell, Randstad

"COVID-19 led to a demand shock across many sectors of the equity market forcing many companies to suspend or reduce their dividend payments in order to preserve cash.

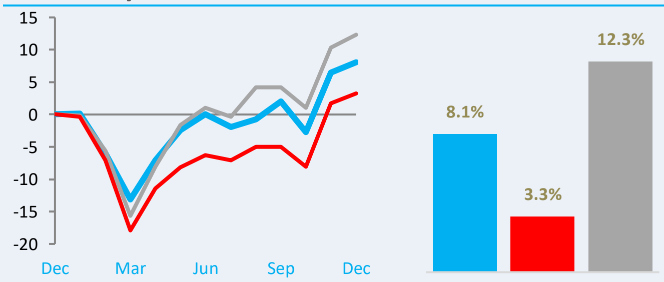
Not in our Fund. Strong balance sheets and cash-generation enabled 28 out of our 35 Fund holdings to grow their dividend. None of our companies cancelled their dividend."

Performance

Cumulative since launch



Calendar year 2020



Fund Guinness Global Equity Income
Sector IA Global Equity Income
Index MSCI World

Cumulative % total return, in GBP.
Source: Financial Express.

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.

GUINNESS
ASSET MANAGEMENT

2020

Fund Summary

In 2020 the Guinness Global Equity Income Fund produced a total return of 8.1% (in GBP), compared to the IA Global Equity Income Sector return of 3.3%. The Fund therefore outperformed its peer average by 4.8%. The MSCI World Net TR Index returned 12.3% (in GBP); the Fund underperformed the Index by 4.2%.

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

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

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

- Dividend payments have been front of mind in the current market environment where we have seen significant demand shocks in many sectors of the equity market, leading to a significant portion of companies suspending or reducing their dividend payments. In the UK, for example, the dividend of the FTSE 100 fell by more than 35% year-on-year.
    - In the Fund, however, our focus on quality companies with strong balance sheets and long histories of high return on capital meant that we have seen 28 out of our 35 holdings grow their dividend in 2020, 6 keep their dividend flat, and only 1 company cut its dividend. No company completely cancelled its dividend.

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

- The philosophy and process behind the Fund was designed by Matthew Page and Ian Mortimer, and they have co-managed the Fund since launch in December 2010. The philosophy remains the same today:
    - The Fund seeks to invest in good quality businesses with persistently high returns on capital, strong balance sheets, that are highly cash generative, and that are trading at attractive valuations. We believe such businesses are best placed to pay a sustainable and growing dividend.
    - The Fund takes a long-term view, holding companies for 3-5 years on average, in a concentrated portfolio (35 stocks) of equally weighted positions, with an active share of >90% vs the benchmark.

Performance

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

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

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

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

The Fund also ranks in the top quartile of the sector over one year, three years, and five years.

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

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

The Fund has now outperformed its sector peers in 8 of the 10 years the Fund has been in existence and provided positive returns in each of the last 10 years.

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

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

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

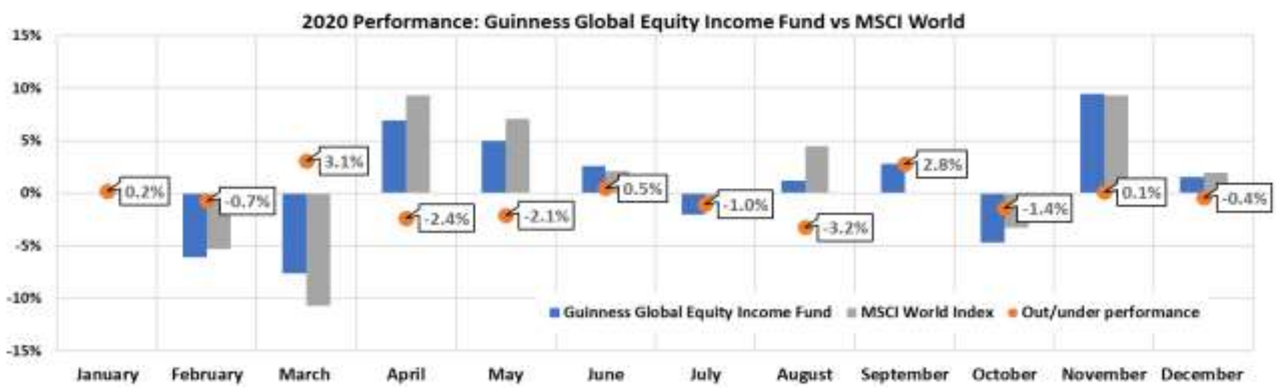


Figure 4 – Monthly total return of Fund vs benchmark in 2020, in GBP. Source: Bloomberg

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

Dividends

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

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

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

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

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

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

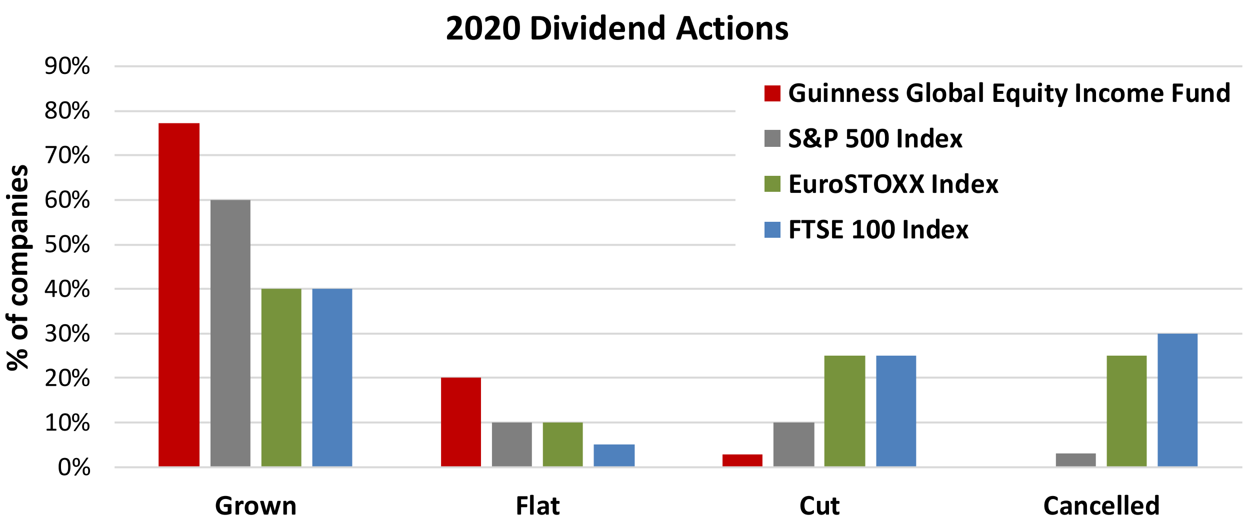


Figure 5 – Source: Guinness Asset Management, SocGen, as of 31st December 2020

Out of our 35 holdings:

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

The one company to cut its dividend was Imperial Brands, the tobacco manufacturer. The final dividend (related to 2019 profits) went ex- in February 2020 as expected, but the first interim dividend for 2020 (which is when the company has historically declared the growth in the dividend) was announced at the semi-annual results on 19th May and was rebased by 33%. Management did commit to a progressive dividend policy from this lower level, however. Although the company was able to pay an unaffected dividend, the new management team decided to use the approximately £650mn savings to pay down debt which, alongside the £1bn proceeds from the cigar business sale, will help achieve a target of <3X net debt/EBITDA over time.

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

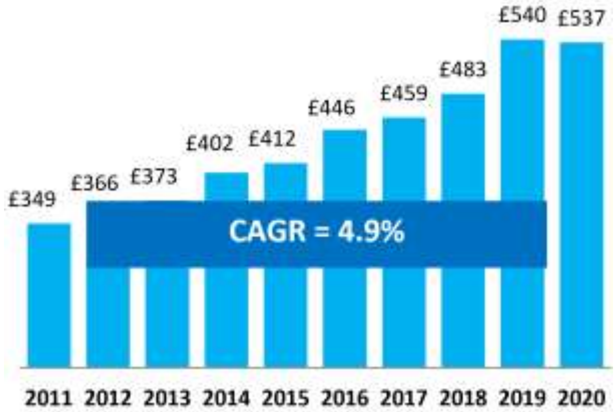


Figure 6 – Dividend Growth. Source: Guinness Asset Management.

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

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

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

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

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

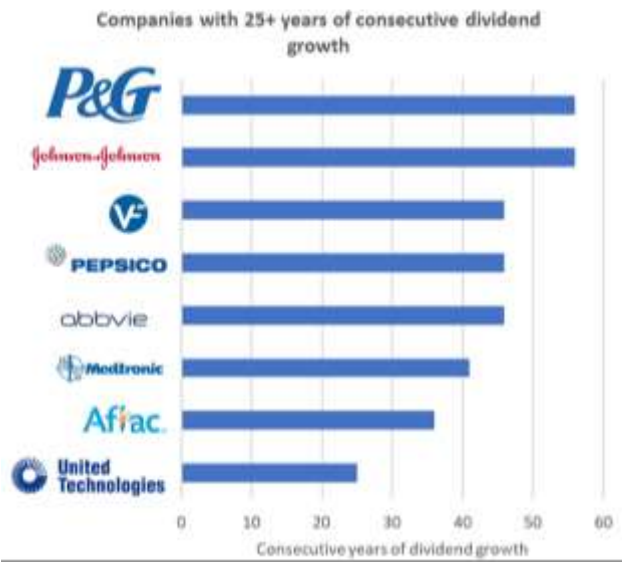


Figure 7 – Dividend Aristocrats. Source: Bloomberg, Guinness Asset Management.

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

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

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

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

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

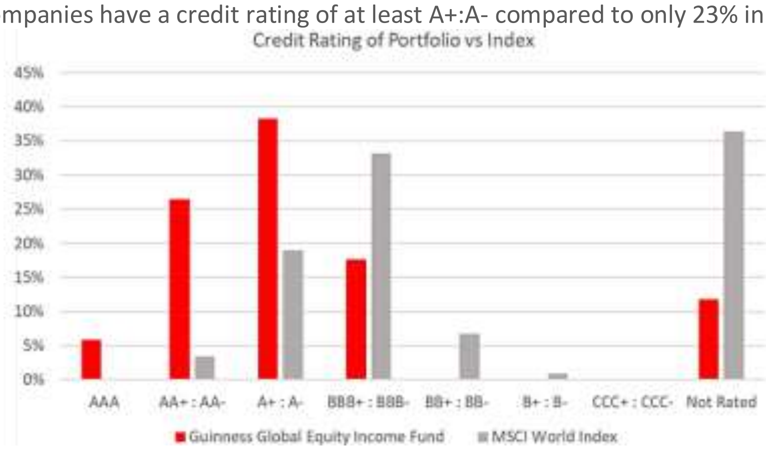


Figure 8 – Source: Bloomberg, S&P Credit Ratings, as of 31st December 2020

Review of 2020

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

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

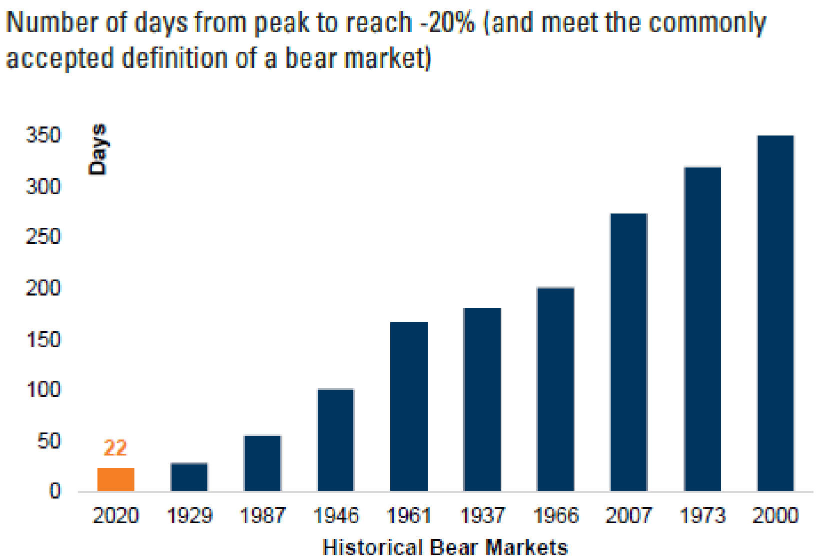


Figure 9 – Source: Bloomberg, Goldman Sachs Research

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

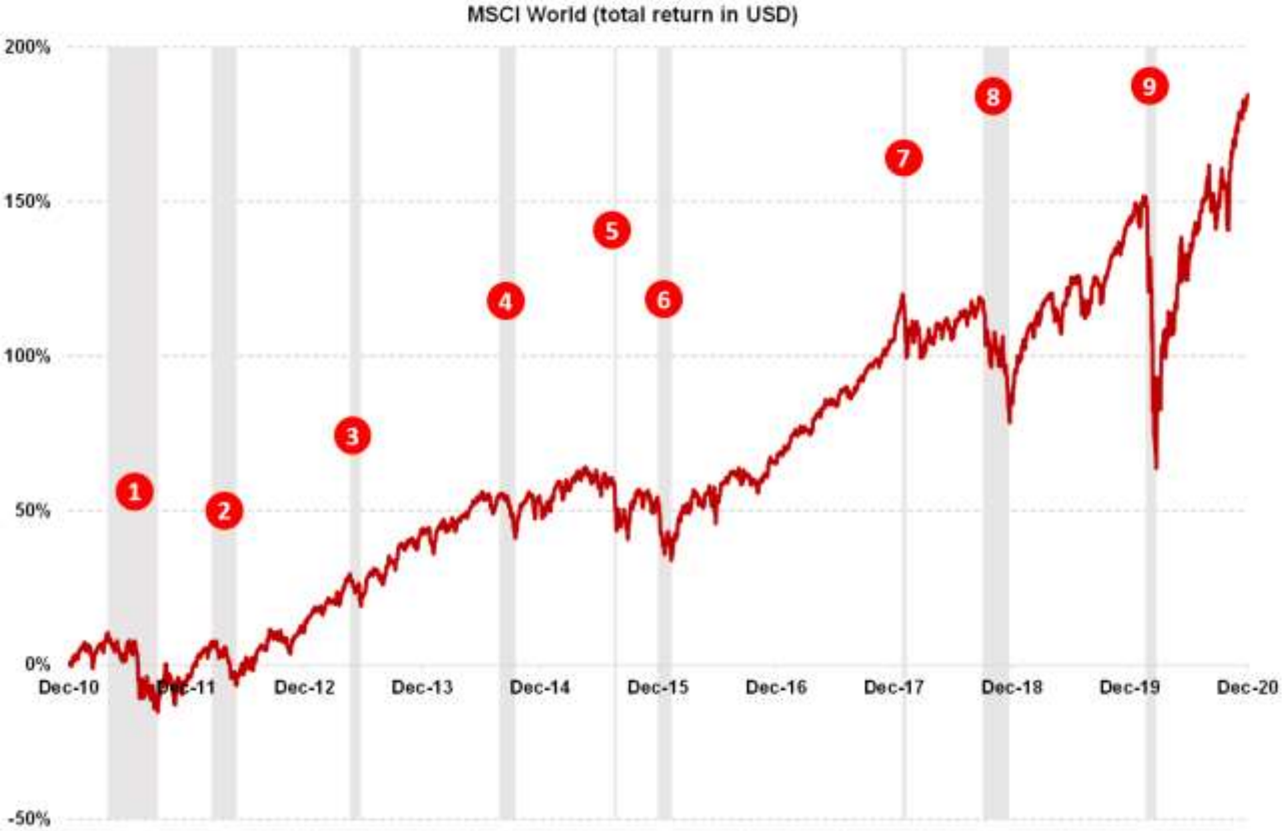


Figure 10 – Largest drawdowns in global equity markets since Fund launch (31st December 2010). Source: Bloomberg

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

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

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

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

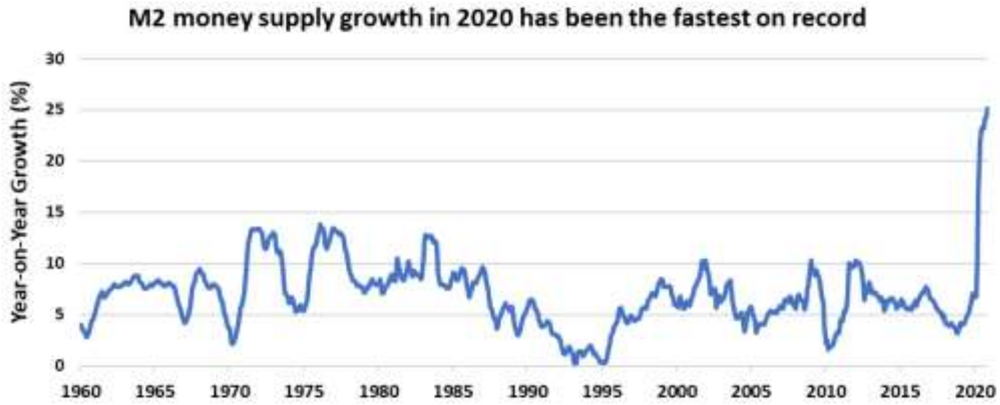


Figure 12 – Source: Bloomberg. Latest data as of 31st December 2020.

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

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

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

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

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

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

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

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

Sector & Regional Attribution

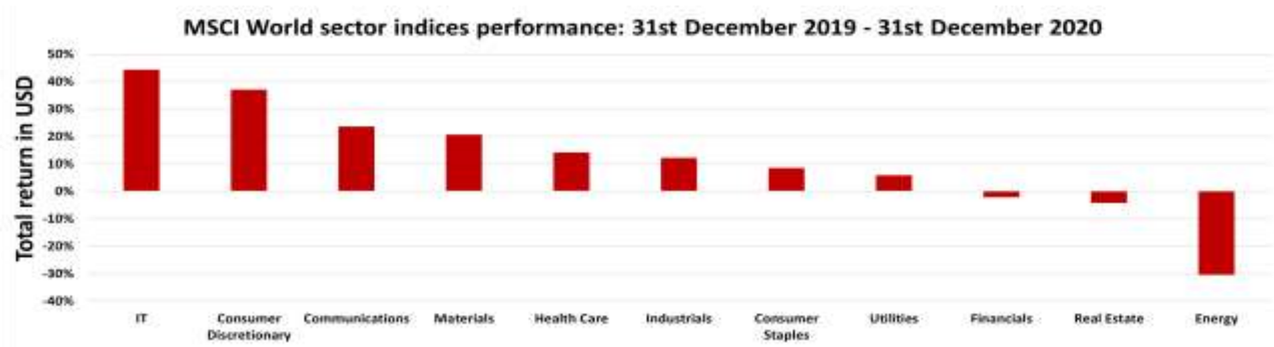


Figure 14 – MSCI World sector performance in 2020 (TR in USD). As of 31st December 2020. Source: Bloomberg

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

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

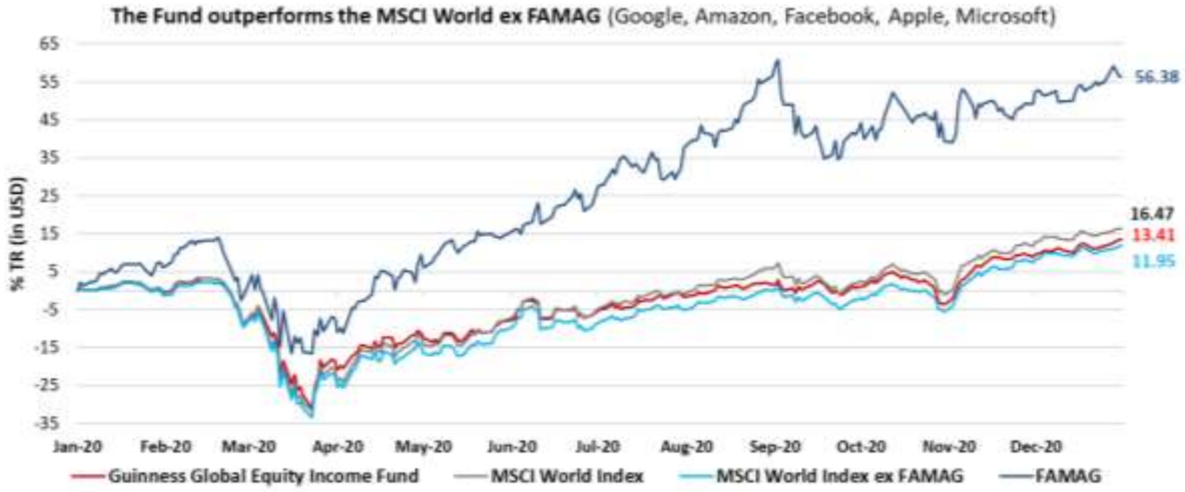


Figure 15 – Source: Bloomberg, as of 31st December 2020

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

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

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

In the Fund, we currently have a good balance between defensive exposure (Consumer Staples and Healthcare) and cyclical exposure (Industrials, IT, Financials). Whilst the defensive names tend to have lower beta and hold up better when markets are falling, the cyclical holdings allow the Fund to maintain performance when markets are rebounding and rising. We believe that within these more cyclical sectors we own the 'quality' businesses. All the companies we seek to invest in have strong balance sheets and a history of performing well in difficult market environments. Within Financials, for example, we do not own any banks, but we do own exchange groups such as CME and Deutsche Boerse (which do well in periods of market volatility as volumes tend to increase at these times, resulting in higher revenues).

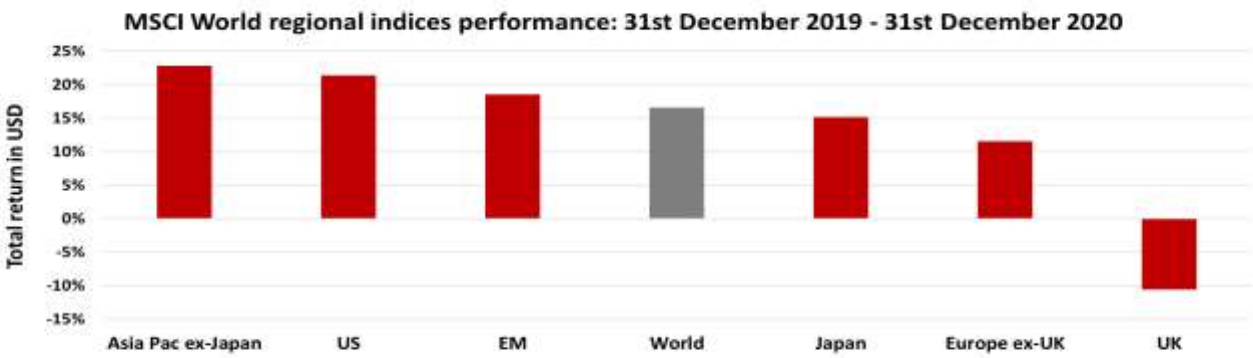


Figure 16 – Regional Performance (TR in USD). As of 31st December 2020. Source: Bloomberg

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

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

Individual Stock Performance

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

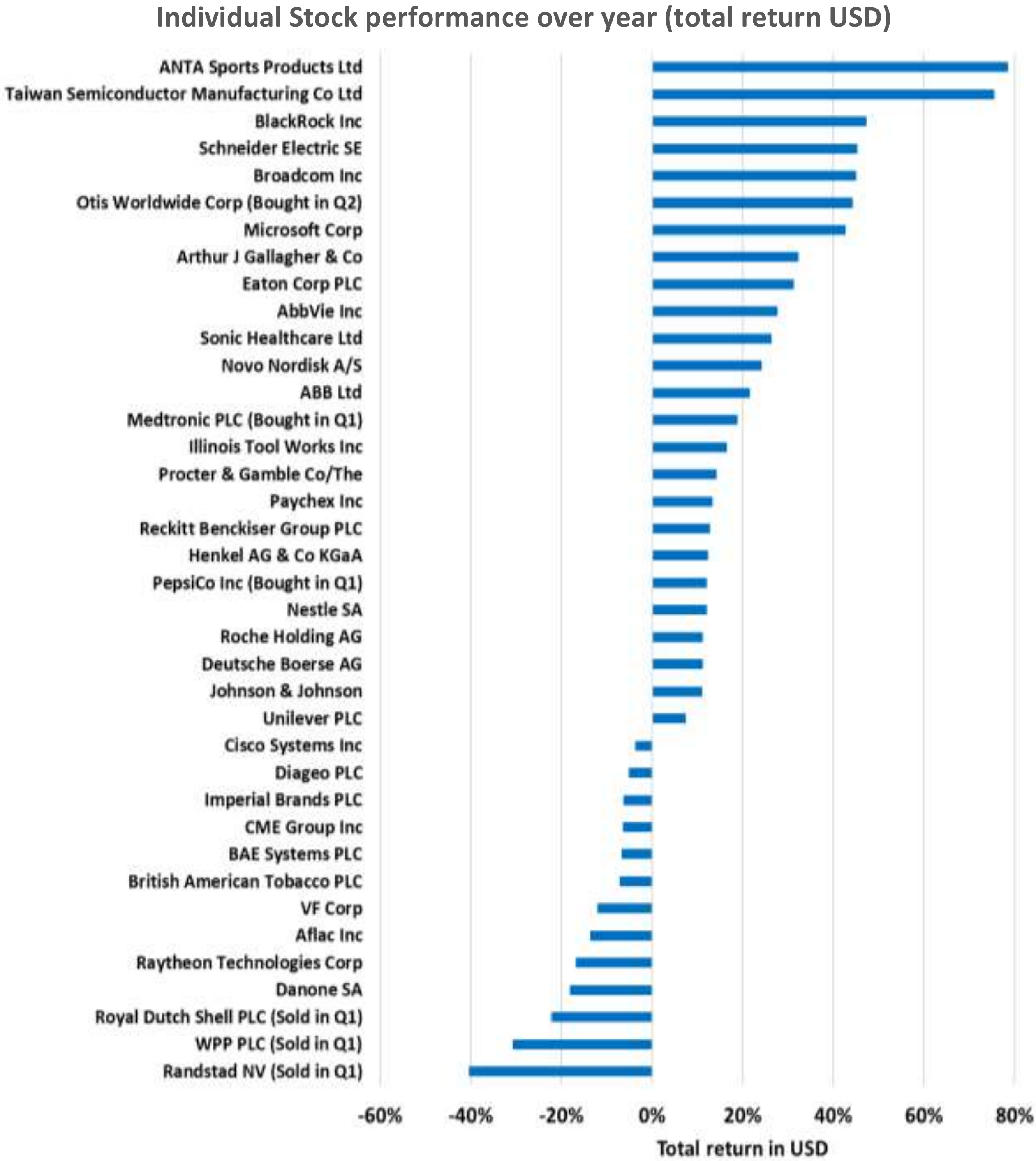


Figure 17 – Individual stock performance over holding period during 2020 (TR in USD). As of 31st December 2020. Source: Bloomberg

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

TSMC also performed very well in the year (+75.4% in USD) after the world's leading global foundry raised its 2020 sales target as well as the growth outlook for the integrated chip foundry sector. TSMC dominates the advanced node-processing foundry market with about 75% market share. The company's extreme ultraviolet lithography (EUV) process capacity is more than triple that of its peers such as Samsung and Intel after it spent more than $3.3 billion on 18 new EUV machines in 2019. TSMC's success in adopting the 5-nanometer node process in mass production this year should allow it to command a higher selling price, helping it maintain its revenue growth amid the Covid-19 pandemic. Further, Intel announced on 23rd July that it is planning to outsource production of some chip products to external manufacturers due to low production yield in its own 7-nm technology under development. This not only will pass more business to TSMC, but will extend its lead over Intel and other peers which cannot compete with the high required R&D expenditure. The company's expansion into a new semiconductor packaging business, although less profitable than chipmaking, should also help to retain its market share leadership amid increasing competition with Samsung.

The worst-performing stock over the year – which we continue to hold – was Danone (-18.0% in USD). Danone is a global food and beverage company organised into Diary & Plant-based products, Specialised Nutrition, and Water. The company enjoys a leading market share in a range of niche product categories (e.g. yoghurt, soy milk and out-of-home water) which in turn means that brands such as Activia, Actimel, Alpro, Evian and Volvic dominate prime retail shelf space. Recent organic growth has come via strong demand in China and greater direct-to-consumer sales online. However, Danone has lagged other consumer staples businesses in terms of growth and profitability, which is reflected in lower valuation multiples paid for the company today. To address this, the company has announced plans to cut costs by €1bn over the next few years, seeking to boost both gross and net margins, while continued efforts to deleverage further strengthens the company's balance sheet.

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

Changes to the Portfolio

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

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

Figure 18 – Number of changes to the portfolio

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

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

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

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

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

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

In the second quarter, the changes made to the portfolio related to our holding in United Technologies, which underwent a series of corporate actions at the start of April. The company spun out two businesses: Carrier, a manufacturer of heating, ventilating and air conditioning company spun out two businesses: Carrier, a manufacturer of heating, ventilating and air conditioning equipment, and Otis, a manufacturer of escalators and lifts. The remaining business segments related to aircraft engines and aerospace products and services then merged with Raytheon, the US defence company, to create Raytheon Technologies. Following this we decided to (i) sell all our shares in Carrier (ii) buy additional shares in Otis to bring it to a full position in the portfolio and (iii) buy additional shares in Raytheon Technologies to bring it to a full position in the portfolio. This left the Fund with our stated 35 positions, since in the first quarter we had sold three companies (Shell, WPP, Randstad) and only immediately replaced them with two (PepsiCo and Medtronic).

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

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

Portfolio Positioning

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

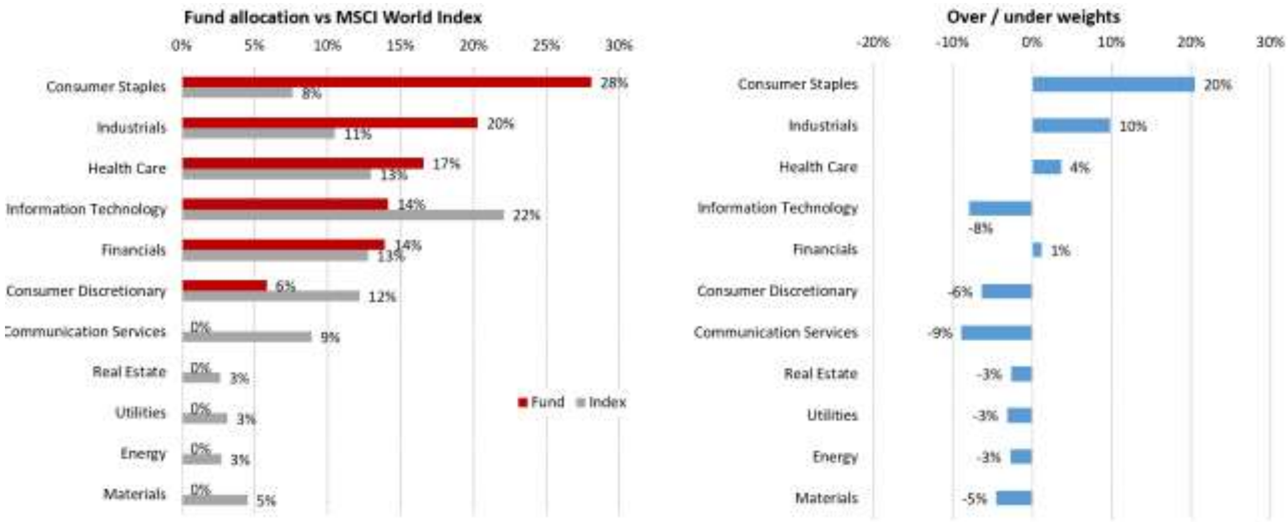


Figure 19 – Portfolio sector breakdown versus the MSCI World Index.
Source: Guinness Asset Management, Bloomberg (data as of 31st December 2020)

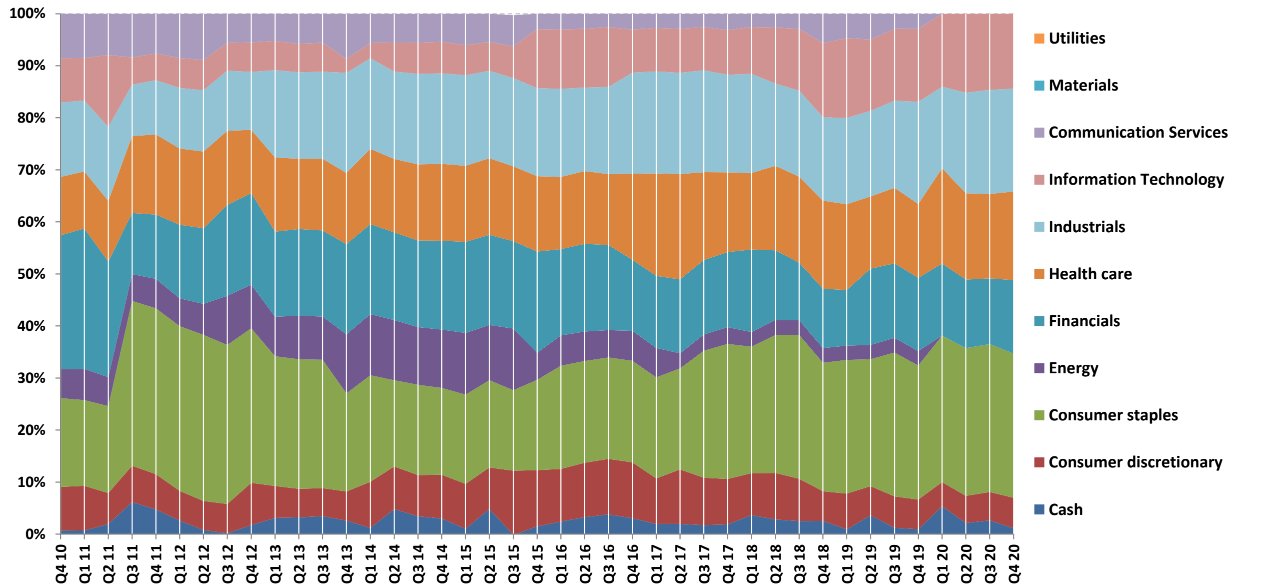


Figure 20 – Portfolio sector breakdown (as of 31st December 2020).
Source: Guinness Asset Management

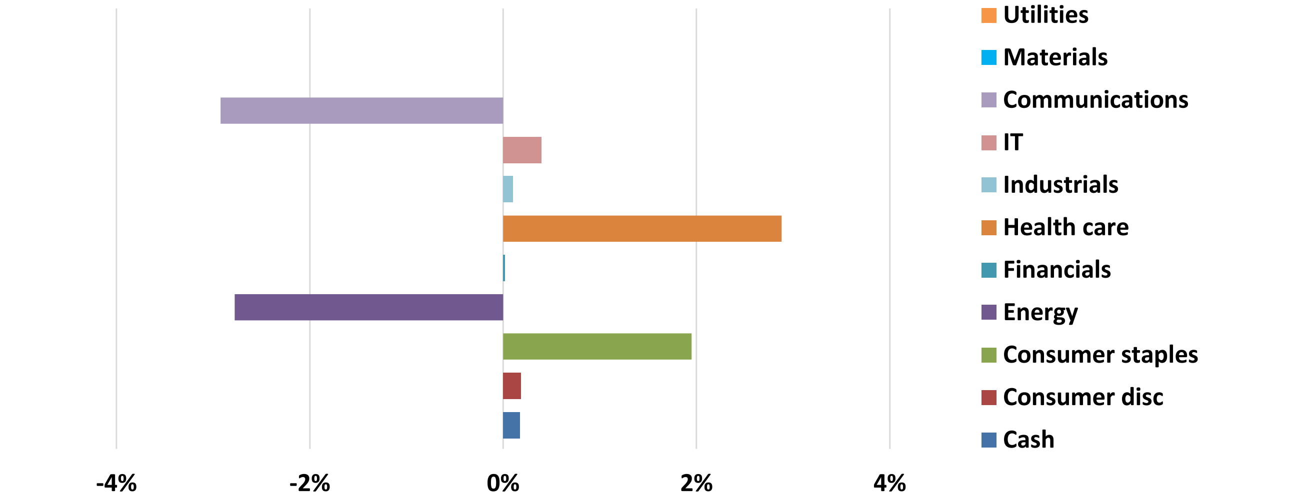


Figure 21 – Year on year change in sector breakdown (31st December 2020 vs 31st December 2019). Source: Guinness Asset Management

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

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

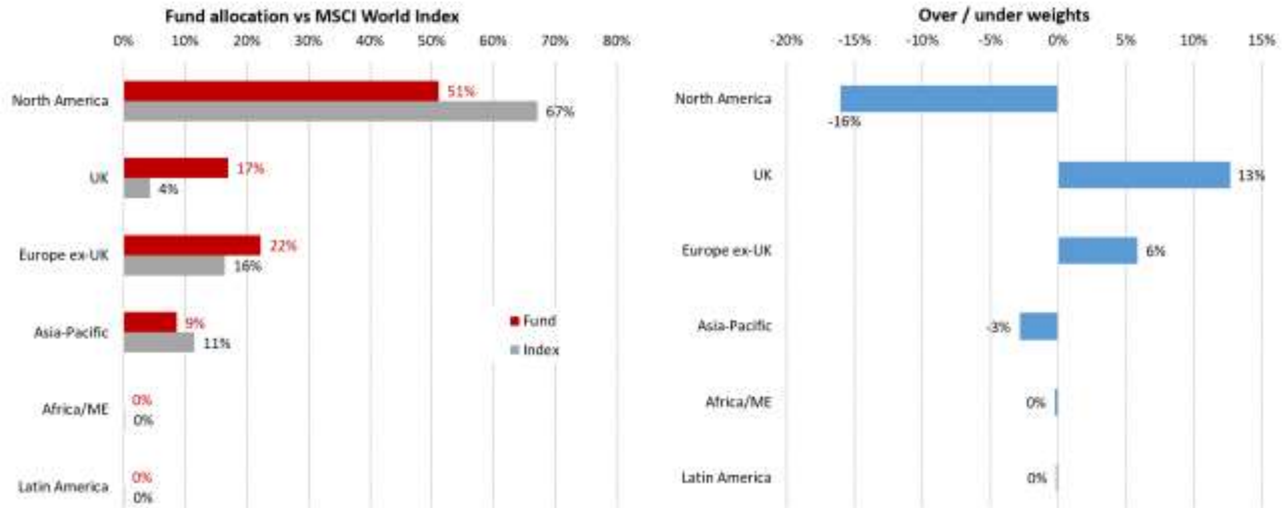


Figure 22 – Portfolio geographic breakdown versus the MSCI World Index. Source: Guinness Asset Management, Bloomberg (data as of 31st December 2020)

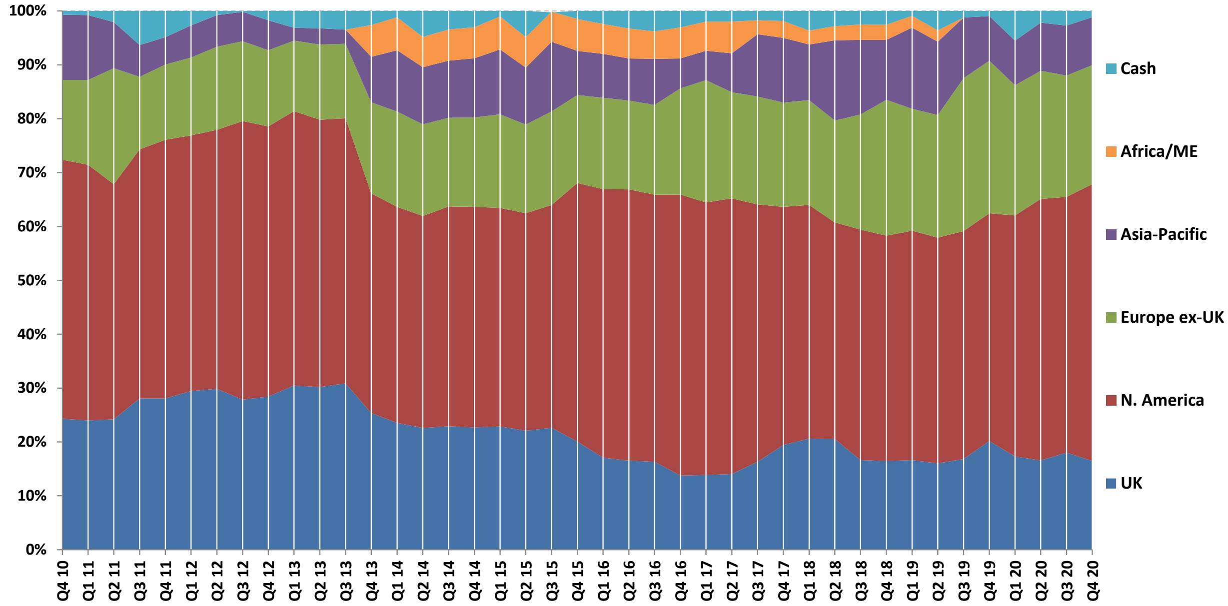


Figure 23 – Portfolio geographic breakdown (as of 31st December 2020). Source: Guinness Asset Management

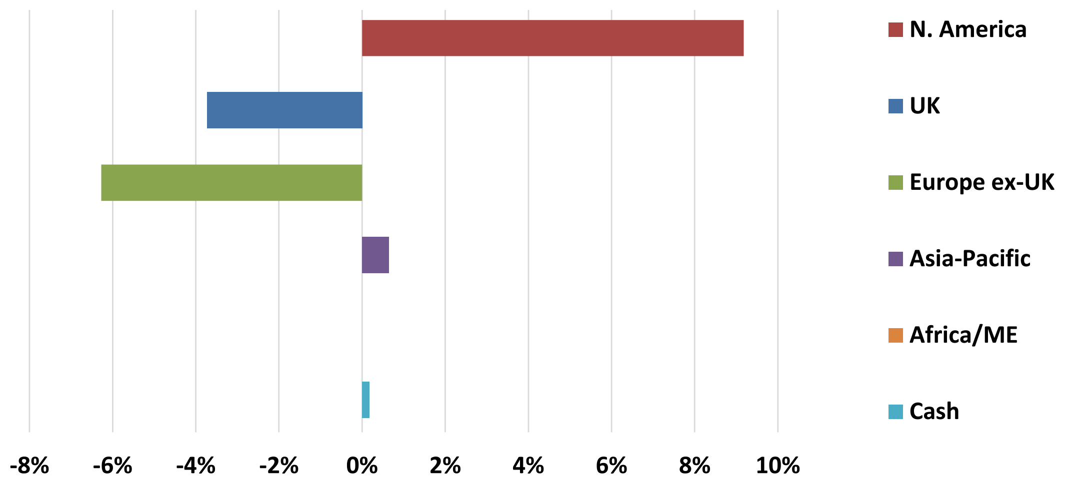


Figure 24 – Year on year change in geographic breakdown (31st December 2020 vs 31st December 2019). Source: Guinness Asset Management

Outlook

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

		Fund	MSCI World Index
Quality	Average 10-year Cashflow Return on Investment	17%	8%
	ROE	23%	8%
	Weighted average net debt / equity	66%	82%
Value	PE (2021e)	17.9	21.5
	FCF Yield (LTM)	6.4%	5.7%
Dividend	Dividend Yield (LTM)	2.6% (net)	1.8% (gross)
	Weighted average payout ratio	53%	80%
Conviction	Number of stocks	35	1650
	Active share	90%	-

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

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

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

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

Matthew Page, CFA
Dr Ian Mortimer, CFA
Portfolio managers, Guinness Global Equity Income Fund

8 For more information

Read more on the Fund

Visit our website for more information on the Fund and to register for regular email updates on its performance and portfolio.

UK investors should be aware that the Guinness Global Equity Income Fund is now available as a UK-domiciled fund denominated in GBP. The TB Guinness Global Equity Income Fund is available from a 0.89% OCF.

The historical performance of this Fund will replicate that of the Guinness Global Equity Income Fund – launched on 31st December 2010 and managed by Ian and Matthew since inception.

The documentation required to make an investment, including the Prospectus, the Key Investor Information Document (KIID) and the Application Form, is available from the literature section of our website.

How we manage the Fund

Read how we invest and why in our ***Investment process*** paper

Keeping you updated

Detailed portfolio and performance analysis

White papers

Our thoughts on a range of topics including: the importance of dividends; whether to meet company management; concentrated portfolios; the effectiveness of economic modelling.

To sign up for updates or search the archive, visit guinnessfunds.com

or contact our sales team

Contact our sales team

Our sales team are on hand to explain the Fund and its investment process in more detail and answer any queries you might have.

Deborah Kay **Head of Sales and Marketing**	+44 (0)20 7222 2037 deborah.kay@guinnessfunds.com
Charlie Riddell **Sales Manager**	+44 (0)20 7222 3473 charlie.riddell@guinnessfunds.com
Flurry Wright **Sales Manager**	+44 (0)20 7222 3714 flurry.wright@guinnessfunds.com
Alex Hall **IFA Sales Manager**	+44 (0)20 7042 6525 alex.hall@guinnessfunds.com
Conor Carroll **IFA Sales Manager**	+44 (0)20 7042 6526 conor.carroll@guinnessfunds.com
Rupert Bonsor **Family Office Sales Manager**	+44 (0)20 7042 6529 rupert.bonsor@guinnessfunds.com
Charlie Crole **Institutional Sales Manager**	+44 (0)20 7042 6526 charlie.crole@guinnessfunds.com

9 About Guinness Asset Management

Guinness Asset Management provides a range of long-only, actively managed funds to individual and institutional investors. Founded in 2003, Guinness is independent and is wholly owned by its employees.

We believe in in-house research, intelligent screening for prioritisation of research and well-designed investment processes. We manage concentrated, high conviction portfolios, with low turnover and no benchmark constraints. Since our establishment we have developed a variety of specialisms in global growth and dividend funds, global sector funds and Asian regional and country funds. The Guinness equity funds sit within an Irish-listed OEIC. They are managed alongside a range of similar SEC-registered funds offered to US investors by our US sister company, Guinness Atkinson Asset Management Inc. We also offer an Enterprise Investment Scheme (EIS service) investing in UK-based renewable energy projects and AIM-listed companies.

Our products

Equity income funds	Global	Global Equity Income Fund
	Regional	European Equity Income Fund Emerging Markets Equity Income Fund Asian Equity Income Fund
Growth funds	Global	Global Innovators Fund
Specialist investment funds	Energy	Global Energy Fund Sustainable Energy Fund
	Financials	Global Money Managers Fund
	China	Best of China Fund
Tax efficient services for UK investors	EIS	Guinness EIS AIM EIS
	Inheritance planning	Sustainable Infrastructure Service

Contact us

Tel
+44 (0) 20 7222 5703

Email
info@guinnessfunds.com

Web
guinnessfunds.com

18 Smith Square, London SW1P 3HZ

Issued by Guinness Asset Management Limited, authorised and regulated by the Financial Conduct Authority.

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.

Telephone calls will be recorded and monitored.

GUINNESS
ASSET MANAGEMENT