Guinness Global Equity Income Fund

INVESTMENT COMMENTARY – April 2021

About the Fund

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

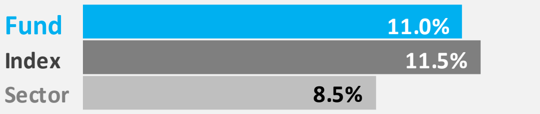
The Fund is managed for income and capital growth and invests in profitable companies that have generated persistently high return on capital over the last decade, and that are well placed to pay a sustainable dividend into the future.

Fund size	£1306m
Launch date	31.12.10
Historic OCF (Y Class)	0.82%
Current OCF (at fund size)	0.82%
Managers	Dr. Ian Mortimer, CFA Matthew Page, CFA
Analysts	Sagar Thanki Joseph Stephens

Performance **31.03.21**

	1 Yr	3 Yrs	5 Yrs	Launch
Fund	28.0	39.9	77.9	190.8
Index	38.4	46.0	95.0	205.1
Sector	32.0	29.2	59.8	130.9

Annualised % gross total return from launch (GBP)



Benchmark index	MSCI World Index
IA sector	Global Equity Income

Past performance should not be taken as an indicator of future performance. The value of this investment and any income arising from it can fall as well as rise as a result of market and currency fluctuations.

Source: Financial Express, bid to bid, total return. Y Class 0.82% OCF. Please refer to 'Performance data notes' on the last page of this document for full details.

Summary performance

In March the Fund was up 6.53% (in GBP), while the MSCI World Index benchmark was up 4.71% (in GBP), and the IA Global Equity Income sector was up 4.97% (average, in GBP).

- The Fund therefore outperformed the Index by 1.82% over the month, and outperformed its peer group by 1.56%.

In the first quarter of 2021 the Fund was up 2.92% (in GBP), while the MSCI World Index benchmark was up 3.95% (in GBP), and the IA Global Equity Income sector was up 4.98% (average, in GBP).

- The Fund therefore underperformed the Index by 1.03% over the quarter and underperformed its peer group by 2.06%.

- Through January and February, equity markets' advance was fuelled by cyclical sectors. Energy and Banks were the best performers and lack of exposure in the Fund to these sectors dragged on relative performance.

- The Fund's investment philosophy – unchanged since launch – seeks companies with persistently high return on capital, at attractive valuations, and with good dividend growth potential. This typically means that cyclical sectors – which are often commodity-focused and/or more regulated – are less prevalent in our investible universe.

Past performance should not be taken as an indicator of future performance. The value of investments and any income arising from them can fall as well as rise as a result of market and currency fluctuations.

It is pleasing to see that over the longer-term, the Fund has outperformed the IA Global Equity Income sector over 3 years, 5 years, 10 years and since launch:

Cumulative % total return, in GBP, to 31/03/2021	1 year	3 years	5 years	10 Years	Launch*
Guinness Global Equity Income	28.03	39.97	78.00	185.01	190.94
MSCI World Index	38.43	45.97	94.98	198.10	205.13
MSCI AC World Index	38.94	43.12	93.75	178.72	184.27
IA Global Equity Income sector average	32.04	29.19	59.78	127.43	130.85
IA Global Equity Income sector ranking	29/53	12/48	7/40	1/16	1/16
IA Global Equity Income sector quartile	3	1	1	1	1

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

Over the period since launch at the end of 2010, the Fund ranks 1st out of 16 funds in the IA Global Equity Income sector.

Summary: Dividend

So far, in 2021, we have had dividend updates from 20 of our 35 holdings:

- 16 companies announced increases for their 2021 dividend vs 2020.
- 3 companies announced a flat dividend vs 2020.
- 1 company announced a modest cut to its dividend vs 2020.
- 0 companies announced dividend cancellations.
  - This follows the Fund seeing 0 cancellations also in 2020.

So far, in the Fund, the average dividend growth announced for 2021 stands at 7.3%, and our Financial holdings have declared the largest year-on-year dividend increases:

- **Aflac**: To grow its dividend by 17.9% for 2021. This follows the 3.7% growth in 2020.
- **Blackrock**: To grow its dividend by 13.8% for 2021. This follows the 10.0% growth in 2020.
- **Arthur Gallagher**: To grow its dividend by 6.7% for 2021. This follows the 4.7% growth in 2020.
- **CME Group**: To grow its dividend by 5.9% for 2021. This follows the 13.3% growth in 2020.
- **Deutsche Boerse**: To grow its dividend by 3.4% for 2021. This follows the 7.4% growth in 2020.

The Fund holds no Banks, and never has. Banks tend to be screened out of our universe in our quest for companies with persistently high profitability. From a dividend perspective, no exposure proved beneficial in 2020 after European regulators asked Banks to pause dividend payments in order to preserve cash.

The three companies which held their dividend flat for 2021 – Henkel, Reckitt Benckiser, and ABB – all cited cautiousness and uncertainty as reasons for capital preservation. These companies continue to have strong balance sheets and low leverage, and we believe they have the ability to continue growing their dividend in the future.

- Henkel and ABB both have a low net-debt-to-equity of 6% and 11% respectively.

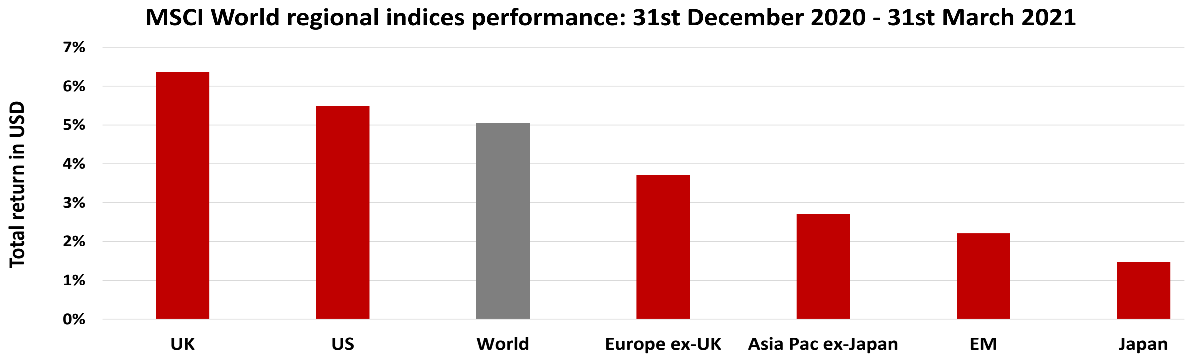
- Reckitt Benckiser's figure stands at 97%, though this is as a result of the company re-leveraging to finance the $18bn acquisition of Mead Johnson. The debt is very manageable given the cash-generative nature of RB's business and the interest expense is covered 8-times by earnings.

Danone, the one company to announce a cut in its dividend (by 7.6%) for 2021, grew its dividend in 2020 (by 8.3%). The global food and beverage company is organised into Dairy & Plant-based products, Specialised Nutrition, and Water, and enjoys a leading market share in a range of niche product categories (e.g. yoghurt, soy milk and out-of-home water). This in turn means that brands such as Activia, Actimel, Alpro, Evian and Volvic dominate prime retail shelf space. In recent years 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, and boost both gross and net margins, the company has announced plans to cut costs by €1bn over the next few years. Combined with continued efforts to deleverage, this further strengthens the company's balance sheet for the future, but in the short-term has meant that management has decided to reduce the dividend payment to reflect 2020's lower earnings. The reduced dividend (€1.94/share) is exactly the equivalent of the dividend paid by the company in 2019, and 7.6% less than 2020 (€2.10/share). This reflects the company's 13.2% decline in earnings in 2020 (from €3.85/share in 2019 to €3.34/share in 2020).

Quarter Review

Global equities advanced in the first quarter in 2021, supported by (1) the roll-out of Covid-19 vaccines, (2) news of further US fiscal stimulus, and (3) a pledge by the Fed Chairman, Jerome Powell, to keep interest rates lower-for-longer to help support the economic recovery. One year on from when equity markets bottomed, the MSCI World Index has rallied 79% (in USD) and is 18% above its pre-Covid highs.

Over Q1, the MSCI World Index rose 5% (in USD) and all regions registered gains:



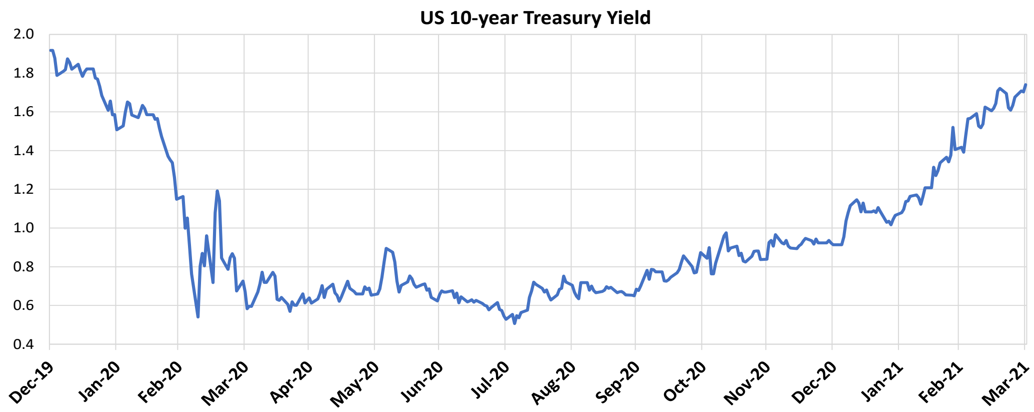
Source: Bloomberg. As of 31st March 2021

(1) With over 37% of American and 58% of British adults now having received at least one dose of vaccine, and the number of people being hospitalised with Covid much lower than at the start of the year, the continued rally in UK and US equity markets makes sense as investors look ahead to a hopefully successful reopening of economies.

(2) The surprise Democratic victory for the two Senate seats in Georgia paved the way for massive further US fiscal stimulus. March saw the passing of President Biden's bumper $1.9 trillion stimulus package, worth 9% of US GDP. This was followed up with an additional promise of $2 trillion in infrastructure spending, and led to upgrades in consensus forecasts for US growth for 2021, with +7% now expected.

(3) Some investors have worried that the size of the US stimulus, combined with pent-up savings, could lead to a pickup in inflation, potentially leading the Fed to tighten monetary policy to an extent that could be damaging for equity markets. However, despite upgrading its growth forecasts for this year and expecting unemployment to decline to 4.5% by the end of 2021, and 3.5% by the end of 2023, the Fed does not believe inflation will be sustainably above target and still expects not to raise rates before 2024.

Though the above-positive sentiment aided global equities overall in the quarter, markets were choppy and repeatedly tested as optimism drove bond yields higher. As of 31st March, the 10-year US Treasury yield stood at 1.75%, versus a low of 0.5% in August 2020 and 0.9% at the start of the year. The quarter marked the second worst for US Treasuries since 1980.

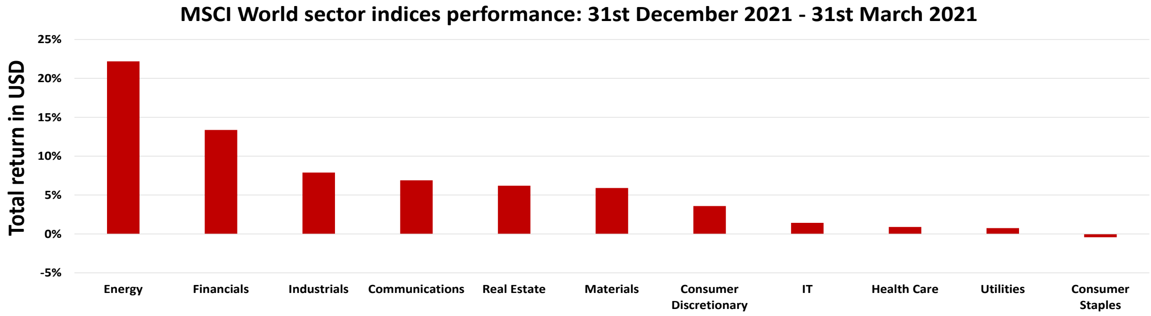


Source: Bloomberg. As of 31st March 2021

Despite the Fed's reassurances that interest rates will remain low, the sharp rise in yields sparked sell-offs in global equity markets due to fears that rates may not remain supportively lower-for-longer if there is a material spike in inflation. This particularly dragged on the outlook for growth stocks which are expected to see earnings growth further out into the future and so are more vulnerable to higher discount rates. In contrast, value stocks performed relatively better as the "stay-at-home" trade gave way to the "re-opening" trade. Higher commodity prices also helped value stocks, with oil up 22% and copper up 13% over the quarter.

Source: Bloomberg, in GBP. As of 31st March 2021

Not surprisingly, the sectors that are most sensitive to the economic cycle – such as Energy, Financials, and Industrials – performed best over the quarter, whilst defensive sectors, such as Consumer Staples and Healthcare, lagged and this was a drag on the Fund's performance in the quarter.



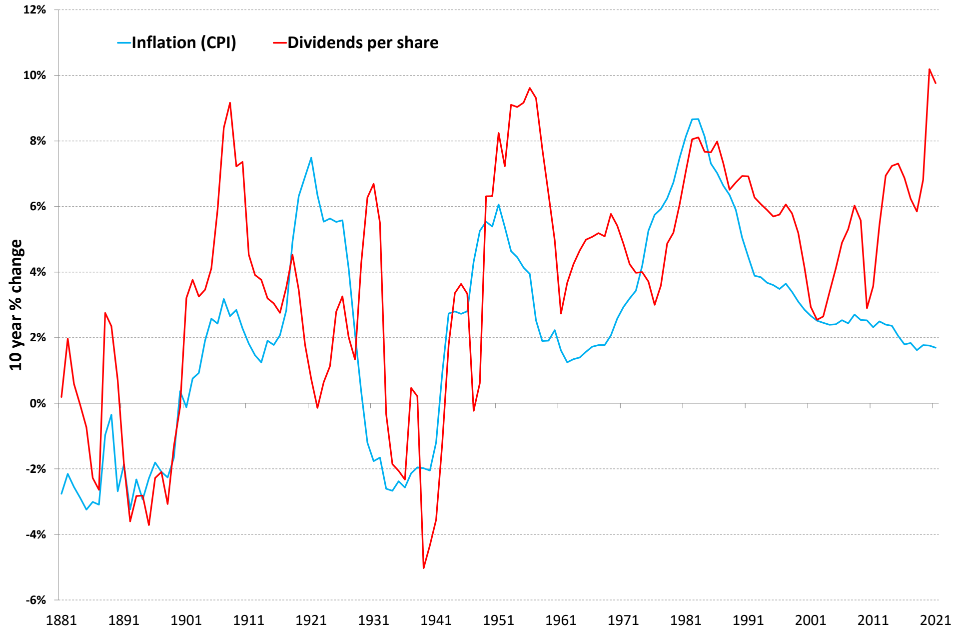
Source: Bloomberg. As of 31st March 2021

Energy was the best-performing sector with both WTI and Brent Crude Oil prices hitting new one-year highs in February, and Financials also did well as Banks benefitted from higher inflation and interest rate expectations. As these sectors participated in what is known as the reflationary trade, this helped markets like the UK perform strongly given higher exposure to these sectors.

In the Fund, we have no exposure to the Energy sector and have never owned any Banks. Companies within these sectors tend not to show up in our investible universe due to our focus on companies which have persistently high returns on capital and strong balance sheets. The stringent quality criteria excludes most companies within the commodity-based and regulated sectors where a business' profitability can be particularly sensitive to exogenous factors.

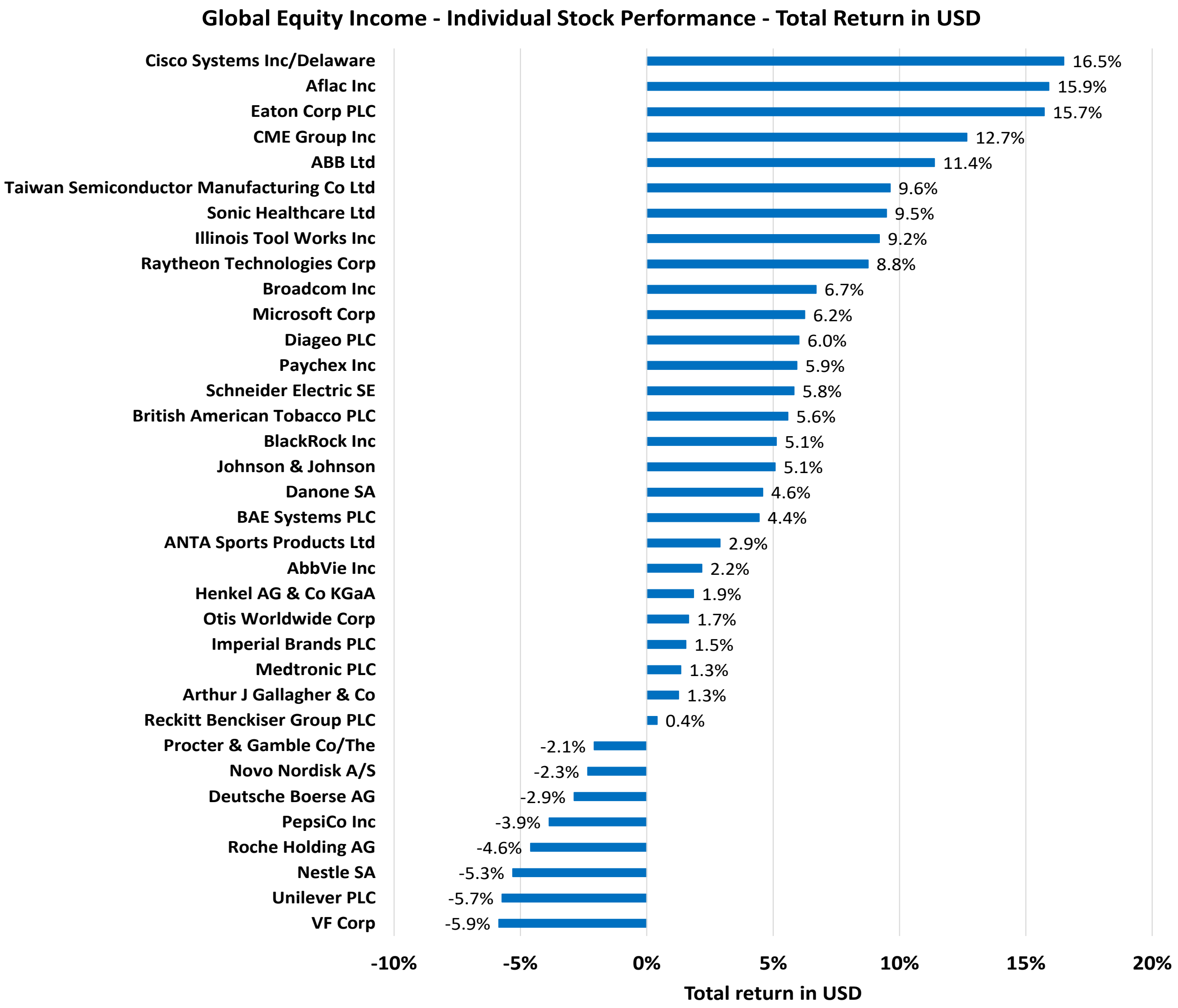
Despite no exposure to these sectors, we still believe that the Fund is somewhat naturally hedged against inflation given its focus on dividend-paying – and specifically dividend-growing – companies. Since the 1940s, over rolling ten-year periods to each year end, the average growth in the S&P 500 companies' dividends per share is 4% per year. Over the same period, inflation grew at 2% (consumer price index (CPI) calculated by the US Bureau of Labor Statistics). Indeed, looking at the correlation of dividend growth to inflation over rolling ten-year periods, as shown in the figure below, we can see a strong relationship overall (correlation 0.80). This shows that investing in divided-paying companies can, over the long term, provide an inflation hedge, in the sense that the income received in the form of dividends grows in line (or often at a higher rate) than inflation.

Rolling 10-year growth in inflation (CPI) and S&P500 dividends per share
January 1881 to January 2021



Source: Robert J. Shiller, stock market data used in "Irrational Exuberance", Princeton University Press,
Chart updated from Guinness Asset Management: "Why Dividends (Still) Matter"
Data as of 31st March 2021

Stock Selection



Source: Bloomberg. As of 31st March 2021

Cisco was the best performer in the quarter (+16.5% in USD) as re-opening optimism paved the return of enterprise clients' IT-purchasing decisions. Cisco is a leading maker of networking equipment (routers, switches, servers and software) and relative to peers, Cisco's enterprise and small- and medium-business (SMB) exposure is high, accounting for about 50% of sales. This end-market focus makes the company's revenues particularly sensitive to economic conditions, and so investors forecast higher 2021 sales growth as corporates resume upgrading their IT networks. We also continue to like Cisco's strong balance sheet which provides a buffer against any demand shocks: the business has $27.1 billion in gross cash and $11.1 billion net, which would allow it to comfortably fund operations, service and pay down debt, all whilst maintaining its dividend.

Aflac also performed well (+15.9% in USD) in the quarter after reporting earnings which beat consensus analyst forecasts. The company is the largest US-based provider of supplemental health and life insurance to individuals in the US and Japan. Being the largest provider of cancer and medical insurance in Japan, Aflac Japan contributes 70% of total company revenue. Customers are very sticky once they purchase insurance policies, so 95% of revenue in Japan (and 75% of US revenue) is recurring. This provides cashflow stability and finances the dividend which has grown for 38 consecutive years. The company also has a very strong balance sheet with little debt-to-equity (23%).

Eaton too had a strong quarter (+15.7% in USD) after it reported stronger-than-expected FY2020 earnings and revenues. The global power management company manufactures engineered products for industrial, vehicle, construction, and aerospace markets. Recent portfolio restructuring has included the sale of its Lighting and Hydraulics businesses, and acquisitions of Tripp Lite and Cobham Mission Systems, which respectively boost Eaton's exposure in the fast-growing electrical-equipment segment and the steady defence aerospace business. After a decade of focusing on margin expansion, the company is now prioritising growth initiatives and benefits from a number of mega-trends including electrification of vehicles and electricity grids, data centre growth, as well as greater demand for energy efficiency products.

VF Corp (-5.9% in USD) was the worst performer in the quarter. The global clothing manufacturer, whose line-up of high-profile brands includes Vans, The North Face, Timberland and Dickies, is a dividend aristocrat with 48 years of consecutive years of dividend growth. At the end of January, VF Corp reported fiscal 2021 third-quarter results that missed expectations, citing that a COVID-19 resurgence forced more retail store closures in the period. Nonetheless, the company lifted full-year 2021 guidance and sees good potential for future revenue growth from its newly acquired Supreme brand. "Digital and China" – as cited by CEO Steve Rendle – also remain key pillars of growth and management expect high-single-digit annual revenue gains through till 2024.

Unilever also performed poorly in the quarter (-5.7% in USD) with February (-9.4%) marking Unilever's worst monthly return since June 2008. The company reported FY2020 earnings which underwhelmed; Covid-induced lockdowns particularly impacted revenue growth in Emerging Markets – which derive 60% of Unilever's total revenue – whilst lower-than-expected margins sparked concerns about Unilever's growth strategy. Management outlined a long-term annual sales target of 3-5% and whilst this disappointed versus analyst expectations, CEO Alan Jope did say that the group is "targeting higher growth, with categories such as hygiene, skin care, prestige beauty, 'functional nutrition' and plant-based foods likely to be made a priority".

As one of the world's largest consumer goods producers, Unilever's products are used by 2.5 billion people daily. The company owns over 400 brands of which 13 brands generate annual revenues over €1bn, and account for more than half of the total revenue. Unilever has a strong balance sheet and cash flow generation, enabling its dividend to grow annually for the last 25 year. We also see the stock currently trading at an attractive valuation given that its 1-year forward price-to-earnings ratio (19.15x as of 31st March 2021) is below its 10-year average and below its peers.

Changes to the Portfolio

We made no changes to the portfolio in the quarter.

Portfolio Positioning

We continue to maintain a fairly even balance between quality defensive and quality cyclical/growth companies. We have approximately 50% in quality defensive companies (e.g. Consumer Staples and Healthcare companies) and around 50% in quality cyclical or growth-oriented companies (e.g.

Industrials, Financials, Consumer Discretionary, Information Technology, etc.) Within Financials, however, we do not own any Banks, which helps to dampen the cyclicality of our Financials.

The Fund also has zero weighting to Energy, Utilities, Materials, Real Estate and Communications. The largest overweight is to Consumer Staples.

Sector breakdown of the fund versus MSCI World Index.
Source: Guinness Asset Management, Bloomberg. Data as of 31st March 2021

In terms of geographic exposure (chart below), the largest difference between the Fund and the benchmark is our exposure to the US (as measured by country of domicile). The Fund over the quarter had on average c.51% weighting to North America which compares to the index at c.68%. The largest geographic overweight remains Europe ex-UK and the UK.

We are diversified around the world with 51% in the US, 39% in Europe and 9% in Asia-Pacific. Within the Asia-Pacific region we have one company listed in Hong Kong (Anta Sports), one company listed in Taiwan (Taiwan Semiconductor) and one company listed in Australia (Sonic Healthcare).

Regional breakdown of the fund versus MSCI World Index.
Source: Guinness Asset Management, Bloomberg. Data as of 31st March 2021

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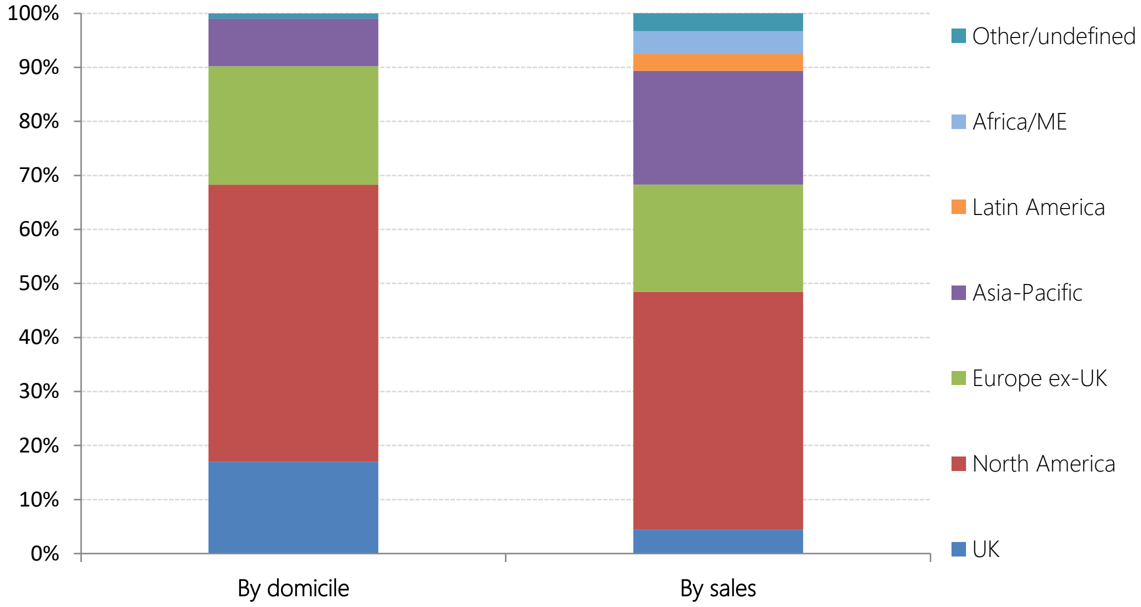
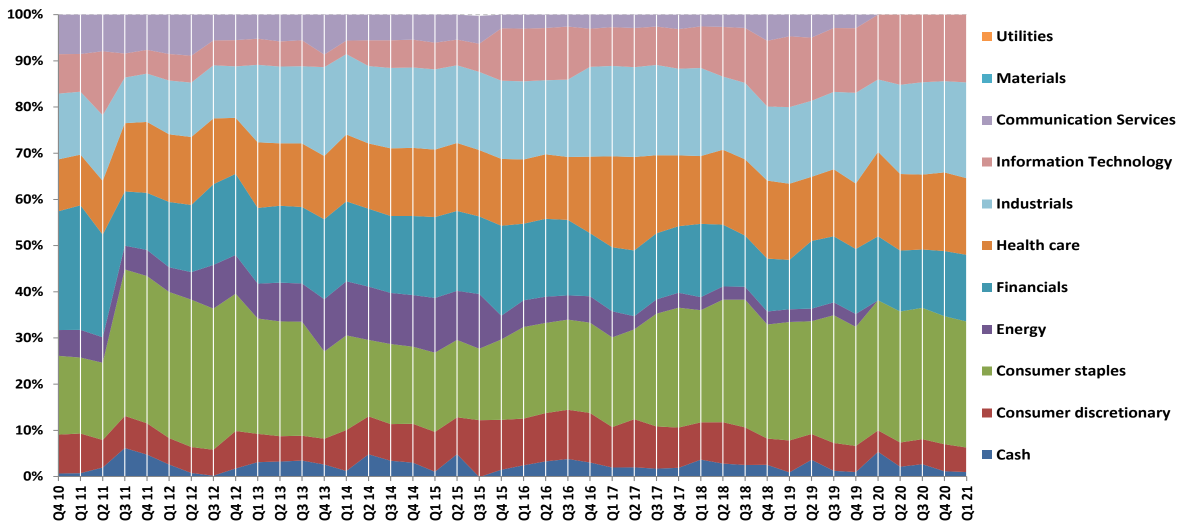
With regards to our UK exposure, we would note two main points, referring to the chart below; (i) the Fund has a lower exposure to the UK when considered in revenues (c.4%) versus by domicile (c.17%). This is because we have favoured UK domiciled companies with a more global exposure (such as Unilever and Imperial Brands); and (ii) there is a larger exposure to Asia-Pacific by revenues (c.20%) than the equivalent statistic as measured by domicile (c.9%).

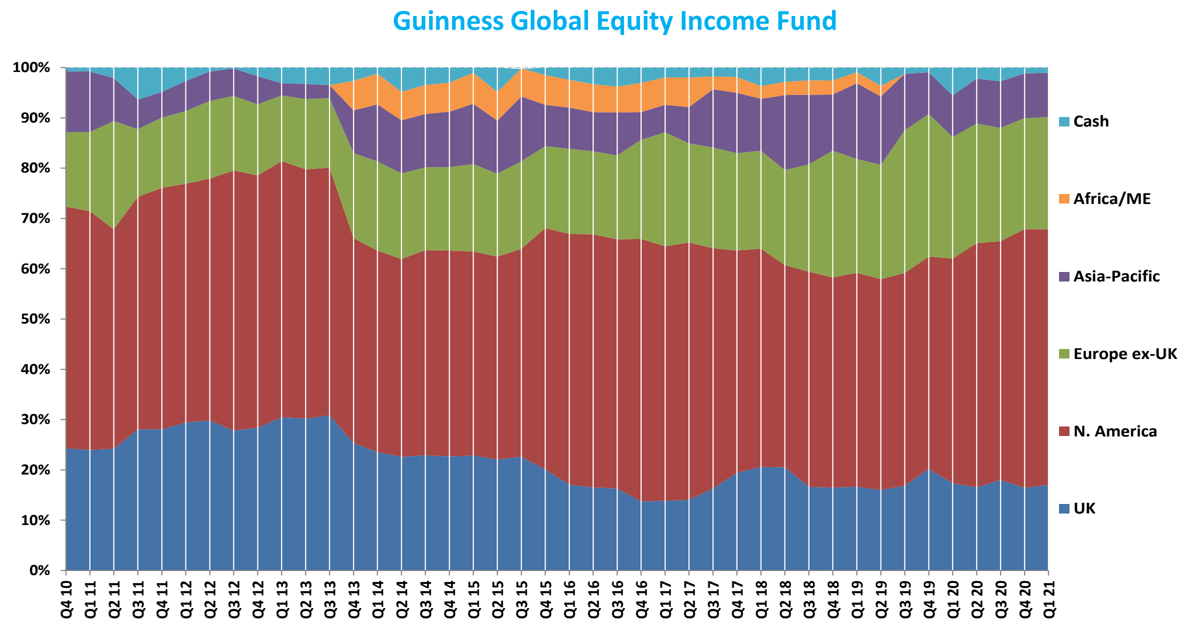


Geographic breakdown of the fund.
Source: Guinness Asset Management, Bloomberg. Data as of 31st March 2021

The two charts overleaf show how the exposure of the fund has evolved since we launched the strategy back in 2010.



Sector breakdown of the fund since launch.
Source: Guinness Asset Management. Data as of 31st March 2021



Geographic breakdown of the fund since launch.
Source: Guinness Asset Management. Data as of 31st March 2021

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. Based on the measures, holistically, the high-conviction fund has companies which are on average better quality at better value versus the index. We are pleased 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	18%	8%
	Weighted median net debt / equity	62%	75%
Value	PE (2021e)	18.2	21.2
	FCF Yield (LTM)	6.0%	5.7%
Dividend	Dividend Yield (LTM)	2.5% (net)	1.7% (gross)
	Weighted average payout ratio	58%	75%
Conviction	Number of stocks	35	1650
	Active share	90%	-

Portfolio metrics versus index.
Source: Guinness Asset Management, Credit Suisse HOLT, Bloomberg. Data as of 31st March 2021.
Historic yield reflects the distributions declared over the past 12 months expressed as a percentage of the mid-market price, as at the date shown. It does not include any preliminary charges. Investors may be subject to tax on the distribution.

The Fund at quarter end was trading on 18.2x 2021 expected price to earnings; a discount of 14.0% to the broad market. The Fund also has a 47% higher dividend yield vs the MSCI World Index.

Not only does the Fund's attractive valuation provide a margin of safety as higher interest rate expectations weigh on richly valued growth stocks, but the Fund's focus on dividend growth also provides an inflation hedge should the global economy overheat. We believe the holdings selected in the Fund remain very robust and are well placed to weather whatever the future 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.

Portfolio Managers

Matthew Page, CFA

Dr Ian Mortimer, CFA

Analysts

Joseph Stephens

Sagar Thanki

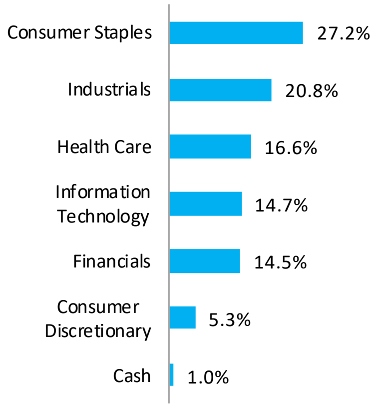
PORTFOLIO

31/03/2021

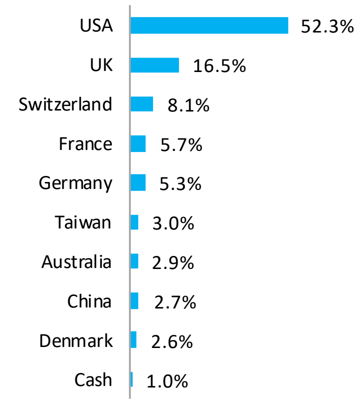
Fund top 10 holdings

Illinois Tool Works	3.3%
Aflac	3.2%
Eaton	3.2%
CME Group	3.1%
Cisco Systems	3.0%
Raytheon Technologies	3.0%
Broadcom	3.0%
British American Tobacco	3.0%
Taiwan Semiconductor	3.0%
ABB	3.0%
% of Fund in top 10	30.8%
Total number of stocks held	35

Sector analysis



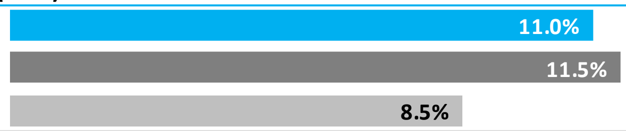
Geographic allocation



PERFORMANCE (see performance notes overleaf)

31/03/2021

Annualised % total return from launch (GBP)



Discrete years % total return (GBP)	Mar '21	Mar '20	Mar '19	Mar '18	Mar '17
Fund (Y class, 0.82% OCF)	28.0	-3.5	13.3	2.0	24.7
MSCI World Index	38.4	-5.8	12.0	1.3	31.9
IA Global Equity Income sector average	32.0	-9.8	8.5	-1.4	25.4
IA Global Equity Income sector ranking	29/53	14/53	14/51	13/49	31/42
IA Global Equity Income sector quartile	3rd	2nd	2nd	2nd	3rd

Cumulative % total return (GBP)	1 month	Year-to-date	1 year	3 years	5 years	From launch
Fund (Y class, 0.82% OCF)	6.5	2.9	28.0	39.9	77.9	190.8
MSCI World Index	4.7	4.0	38.4	46.0	95.0	205.1
IA Global Equity Income sector average	5.0	5.0	32.0	29.2	59.8	130.9

RISK ANALYSIS

31/03/2021

Annualised, weekly, from launch on 31.12.10, in GBP	Index	Sector	Fund
Alpha	1.02	-0.54	-0.29
Beta	0.85	0.77	0.77
Information ratio	-0.11	-0.42	-0.41
Maximum drawdown	-21.78	-22.41	-22.41
R squared	0.88	0.80	0.80
Sharpe ratio	0.55	0.31	0.39
Tracking error	4.96	6.58	6.62
Volatility	13.26	12.48	12.56

Past performance should not be taken as an indicator of future performance. The value of this investment and any income arising from it can fall as well as rise as a result of market and currency fluctuations.
Source: Financial Express, bid to bid, total return. Fund launch date: 31.12.10. Fund Y class (0.82% OCF): Composite simulated performance (see Performance data notes below) based on actual returns of E share class (available from Fund launch), calculated in GBP. Fund returns are for share classes with a current Ongoing Charges Figure (OCF) stated above; returns for share classes with a different OCF will vary accordingly.

Performance data notes

1) The performance numbers displayed on the previous page are calculated in GBP (Sterling). Please note: The Fund's Y class was launched on 11.03.15. The performance shown is a composite simulation for Y class performance being based on the actual performance of the Fund's E class, which has an OCF of 1.24%, and has existed since the Fund's launch. The Fund's E class is denominated in USD but for the purposes of this performance data its performance is calculated in GBP.

Important information

Issued by Guinness Asset Management Limited, authorised and regulated by the Financial Conduct Authority.

This report is primarily designed to inform you about Guinness Global Equity Income Fund. It may provide information about the Fund’s portfolio, including recent activity and performance. It contains facts relating to the equity markets and our own interpretation. Any investment decision should take account of the subjectivity of the comments contained in the report.

This document is provided for information only and all the information contained in it is believed to be reliable but may be inaccurate or incomplete; any opinions stated are honestly held at the time of writing, but are not guaranteed. The contents of the document should not therefore be relied upon. It should not be taken as a recommendation to make an investment in the Fund or to buy or sell individual securities, nor does it constitute an offer for sale.

Risk

The Guinness Global Equity Income Fund is an equity fund. Investors should be willing and able to assume the risks of equity investing. The value of an investment and the income from it can fall as well as rise as a result of market and currency movement, and you may not get back the amount originally invested. Details on the risk factors are included in the Fund’s documentation, available on our website. Shareholders should note that all or part of the fees and expenses will be charged to the capital of the Fund. This will have the effect of lowering the capital value of your investment.

Documentation

The documentation needed to make an investment, including the Prospectus, the Key Investor Information Document (KIID) and the Application Form, is available from the website www.guinnessfunds.com , or free of charge from:

- the Manager: Link Fund Administrators (Ireland) Ltd, 2 Grand Canal Square, Grand Canal Harbour, Dublin 2, Ireland; or,
- the Promoter and Investment Manager: Guinness Asset Management Ltd, 18 Smith Square, London SW1P 3HZ.

Residency

In countries where the Fund is not registered for sale or in any other circumstances where its distribution is not authorised or is unlawful, the Fund should not be distributed to resident Retail Clients.

NOTE: THIS INVESTMENT IS NOT FOR SALE TO U.S. PERSONS.

Structure & regulation

The Fund is a sub-fund of Guinness Asset Management Funds PLC (the “Company”), an open-ended umbrella-type investment company, incorporated in Ireland and authorised and supervised by the Central Bank of Ireland, which operates under EU legislation. If you are in any doubt about the suitability of investing in this Fund, please consult your investment or other professional adviser.

Switzerland

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Singapore

The Fund is not authorised or recognised by the Monetary Authority of Singapore (“MAS”) and shares are not allowed to be offered to the retail public. The Fund is registered with the MAS as a Restricted Foreign Scheme. Shares of the Fund may only be offered to institutional and accredited investors (as defined in the Securities and Futures Act (Cap.289)) (‘SFA’) and this material is limited to the investors in those categories.

Telephone calls will be recorded and monitored.