Guinness Global Equity Income Fund

INVESTMENT COMMENTARY – October 2020

About the Fund

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

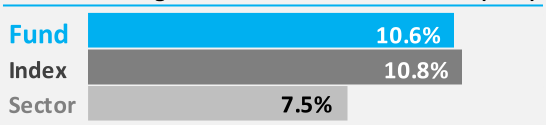
The Fund is managed for income and capital growth and invests in profitable companies that have generated persistently high return on capital over the last decade, and that are well placed to pay a sustainable dividend into the future.

Fund size	£1057m
Launch date	31.12.10
Historic OCF (Y Class)	0.88%
Current OCF (at fund size)	0.86%
Managers	Dr. Ian Mortimer, CFA Matthew Page, CFA
Analysts	Sagar Thanki Joseph Stephens

Performance **30.09.20**

	1 year	3 years	From launch
Fund	3.0	30.4	167.0
Index	5.2	29.8	172.3
Sector	-3.9	10.0	102.3

Annualised % gross total return from launch (GBP)



Benchmark index	MSCI World Index
IA sector	Global Equity Income

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

Summary performance

In September the Fund was up 2.83% (in GBP), the MSCI World Index benchmark was flat 0.00% (in GBP), and the IA Global Equity Income sector was up 0.03% (average, in GBP).

- The Fund therefore outperformed the Index by 2.83% over the month, and outperformed its peer group by 2.80%.
- In USD, the Fund was down -0.71% in September versus the Index, down -3.45%. The large differential versus performance in Sterling results from the weakening of Sterling over the month (GBPUSD down -3.5%).

In the third quarter of 2020 the Fund was up 1.98% (in GBP), the MSCI World Index benchmark was up 3.15% (in GBP), and the IA Global Equity Income sector was up 1.33% (average, in GBP).

- The Fund therefore underperformed the Index by 1.17% over the quarter, but outperformed its peer group by 0.65%.

It is pleasing to see that the Fund has outperformed the IA Global Equity Income sector over both the short term and all the longer-term periods outlined in the table below:

	YTD	1yr	3yr	5yr	Since Launch*
Fund	2.1%	3.0%	30.4%	86.0%	167.0%
MSCI World Index	4.2%	5.2%	29.8%	92.8%	172.3%
IA sector average	-5.0%	-3.9%	10.0%	54.1%	102.3%
Rank vs peers	7/55	8/55	4/50	2/42	1/18
Quartile	1st	1st	1st	1st	1st

Source: Financial Express. Cumulative Total Return in GBP as of 30th September 2020. *Launch 31st December 2010

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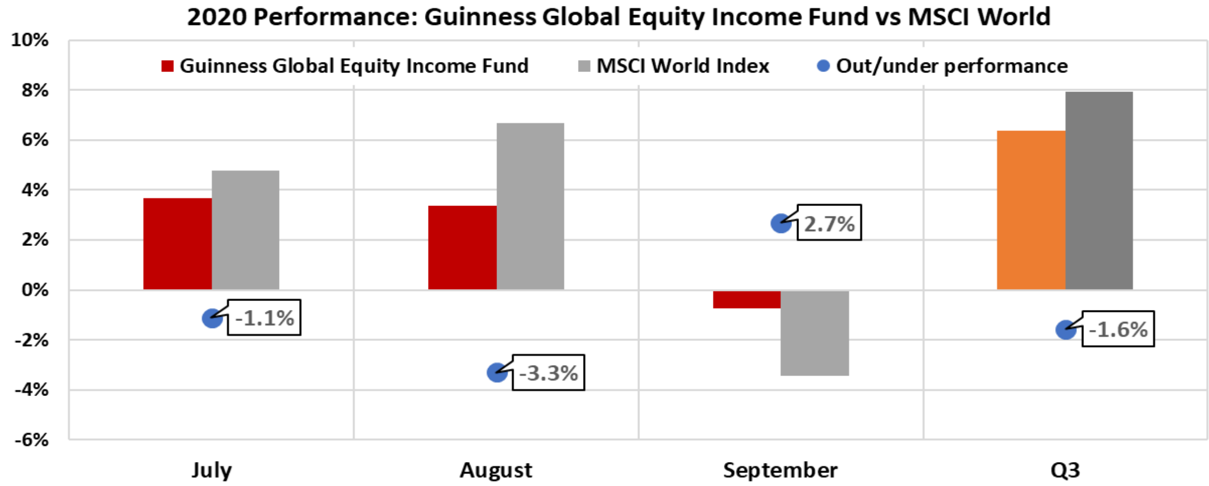
Since launch at the end of 2010, the Fund ranks 1st out of 18 funds in the IA Global Equity Income sector.

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. The Fund has a fairly even balance between quality defensive and quality cyclical/growth companies; in turn, the Fund tends to outperform when markets are weaker, whilst also providing reasonable upside when markets are rising.

This is exactly what we saw in the third quarter:



Source: Financial Express. Cumulative Total Return % in USD, as of 30th September 2020

Summary: Dividends

Overall, in the quarter and year-to-date, dividend-orientated strategies have lagged the market. The MSCI World High Yield Index was down -0.88% (TR in GBP) in Q3 and is down -7.25% year-to-date. In both periods the Fund has outperformed this Index, by 2.86% and 9.31% respectively.

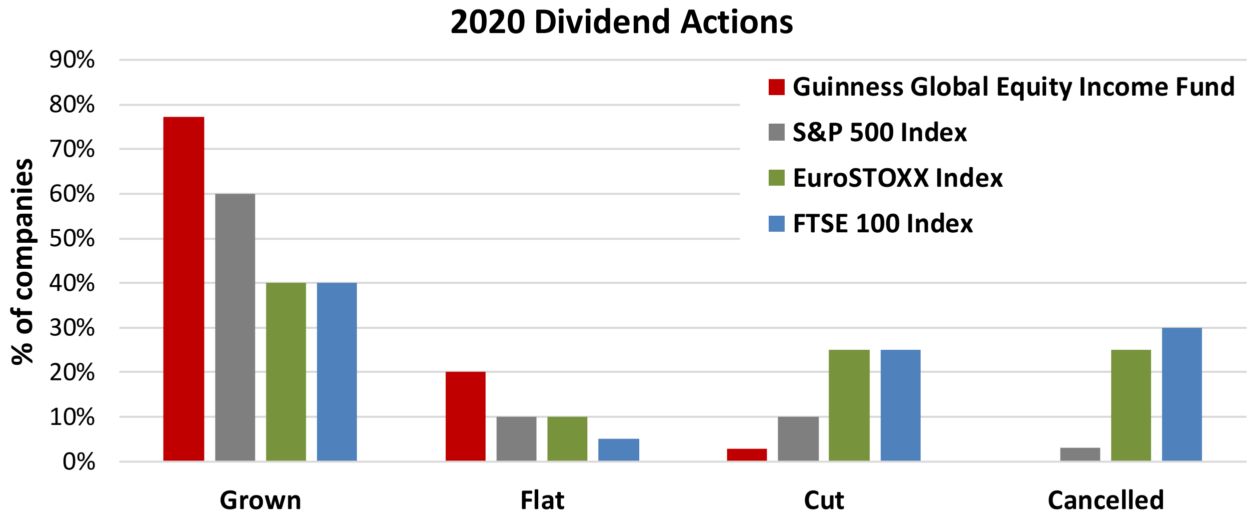
Dividend payments have been top of mind in the current market environment where we have seen significant demand shocks across many sectors of the equity market, leading to a significant proportion of companies suspending or reducing their dividend payments.

- In Europe, the overall EuroSTOXX Index dividend is expected to decline by over 30% in 2020 compared to 2019; 25% of all companies in the index have cancelled their dividend so far this year with a further 25% having reduced their dividend.
- Similarly, in the UK, the FTSE100 Index dividend for 2020 is expected to decline by over 35%; 30% of companies have cancelled and a further 25% have reduced their dividend so far this year.
- In the US, these respective figures are much lower owing to a culture of progressive dividend policies, a focus on share buybacks, and more conservative payout ratios.

Broadly, the dividend cuts seen this year have been concentrated in companies affected by (i) significant loss of revenues from COVID lockdowns (airlines, travel & leisure, retail, energy), (ii) regulatory pressure (European banks, insurance), (iii) government pressure (French state-owned businesses in particular),

(iv) companies with weak balance sheets conserving capital by reducing or cancelling dividend payments.

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



Source: Guinness Asset Management, SocGen, as of 30th September 2020

Data for the Fund includes companies that have declared their 2020 dividend action and includes our expectation for the 2 remaining Fund holdings which will declare their dividend action in Q4.

So far, out of our 35 holdings:

- 26 companies have **grown** their dividend this year
- 6 companies have kept their dividend **flat**
- 1 company **cut** its dividend (Imperial Brands)
- 0 companies **cancelled** their dividend
- For the 2 remaining companies, we expect Broadcom to grow its dividend in Q4, and expect VF Corp to maintain a flat dividend this year. This is reflected in the chart above (both companies have paid dividends in all 3 quarters so far this year, they just do not typically announce their year-on-year growth in their quarterly dividend until Q4).

Our current expectation is that the 2020 fund dividend distribution will be very similar to 2019 – but we note there are some moving parts to this analysis (e.g. FX rates or portfolio changes).

In the coming years we believe income will be more in demand, but dependable and sustainable income will be harder to find, which we believe will be positive for the dividend paying companies that we own. The growing dividends that our stocks provide are a consequence of the companies themselves being able to grow successfully; 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. We therefore believe that our approach should stand us in good stead in our search for rising income streams and long-term capital growth in the future.

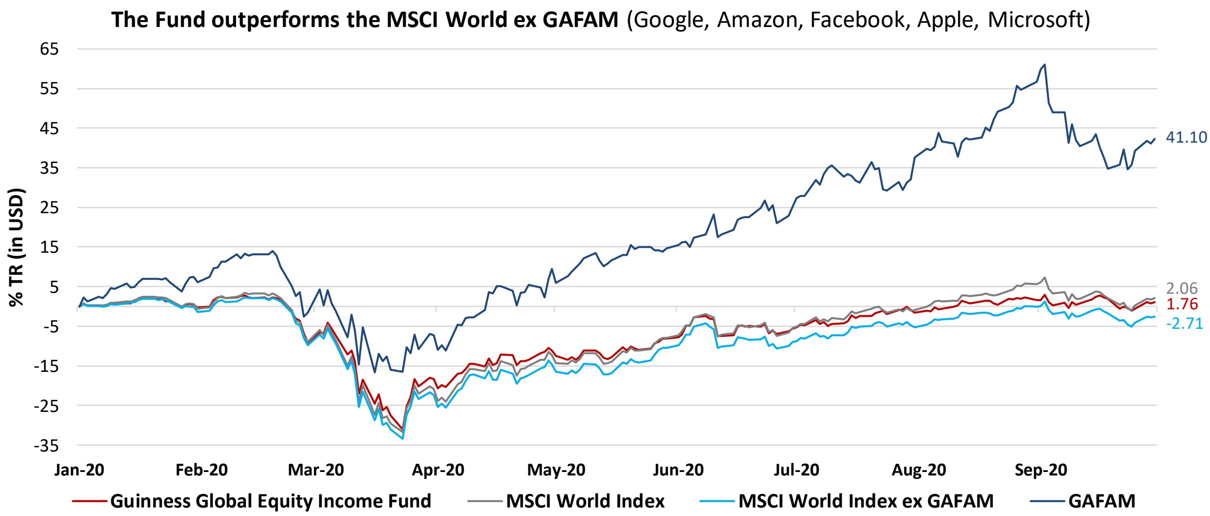
Quarter Review

The tone was predominantly 'risk on' in markets over the quarter, underpinned by supportive central bank policy, the gradual reopening of economies and, to some degree, hopes of a Covid-19 vaccine. The Federal Reserve (Fed) announced a change to its inflation targeting regime in August, saying it would target an average 2% inflation rate, allowing periods of overshoot. This was well received by markets, and despite the decline in September, global equity markets rose overall in the third quarter.

The quarter began with the continuation of a strong market rally led by the US 'Big Tech' companies. The Fund's underexposure here largely explains the underperformance seen in July and August, and also goes some way in explaining the outperformance in September, when these names saw a sharp correction.

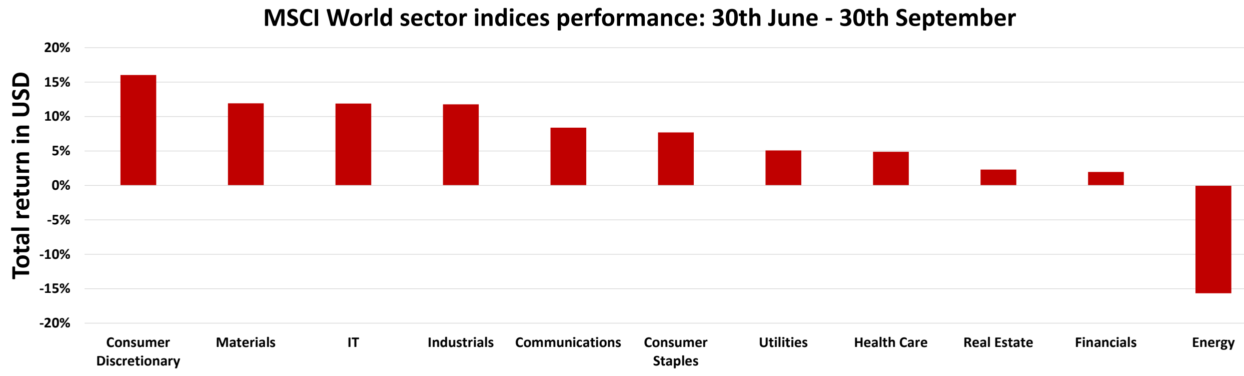
At quarter end, the five largest weighted companies in the MSCI World Index (Apple, Microsoft, Amazon, Facebook, Alphabet ['Google' in the chart below]) made up 14% – the largest concentration the Index has ever seen in only five holdings. The performance of these stocks was therefore highly influential on the Index's overall performance, and also on the respective performance of the IT, Consumer Discretionary and Communications sectors.

The chart below compares the Fund's year-to-date performance to the MSCI World index including and excluding these five stocks; this visual highlights that the Fund's relative underperformance is somewhat explained by the Index's narrow leadership:



Source: Bloomberg PORT, as of 30th September 2020

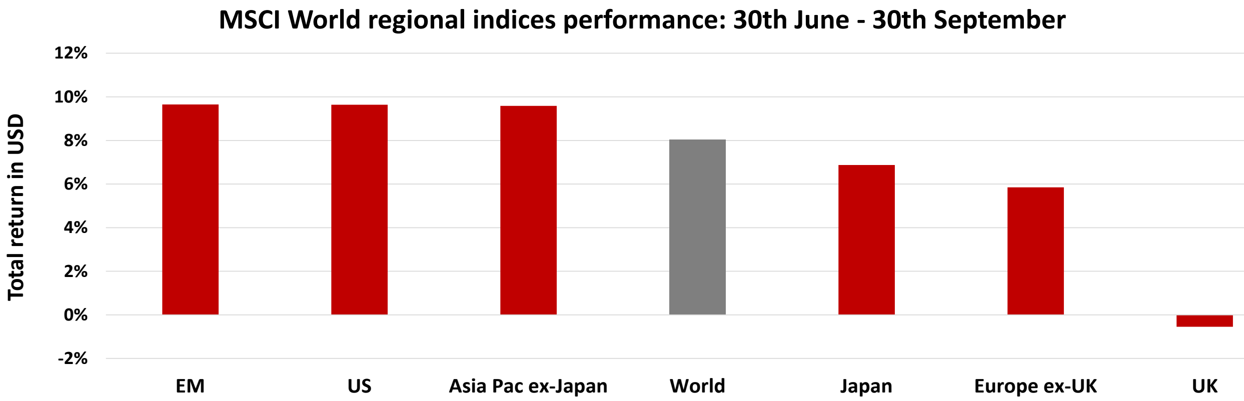
Aided by the 'GAFAMs' in July and August, the Consumer Discretionary, IT and Communications sectors posted strong returns, whilst the defensive sectors – including Healthcare and Consumer Staples – relatively lagged. Though this trend remained for the quarter overall, there was some reversal in September as uncertainty over US elections and fiscal stimulus negotiations weighed on the cyclical sectors and large-cap technology names. The MSCI World Index's streak of five monthly advances came to an end in September, and sector leadership tilted towards the defensive sectors. Strong showings within the Consumer Staples and Healthcare sectors aided the Fund's outperformance in the month but was not sufficient enough to overturn overall underperformance in the quarter.



Source: Bloomberg, as of 30th September 2020

All sectors bar Energy registered positive gains in Q3 and the Fund benefited from zero exposure in the sector. Holding no banks was also once again beneficial to the Fund. They have underperformed in recent times due a number of reasons: firstly, central banks across the world have cut interest rates and reiterated that they will remain near-zero for the foreseeable future. Lower rates in turn 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. Thirdly, to add salt to the wounds, regulators in the US ruled that banks must cap dividends and undertake no share buybacks, whilst in Europe, banks are being forced to withhold all dividend payments until at least next year.

Regionally, Emerging Markets and Asia Pac ex-Japan were amongst the best performing regions in the quarter, largely benefiting from a weak US Dollar, ongoing monetary and fiscal stimulus, and a continued recovery in economic data. Equity markets in the regions weathered an acceleration in new Covid-19 cases and the escalation of US-China tensions which led to tit-for-tat consulate closures, new restrictions on Chinese telecom company Huawei, and Presidential orders preventing US companies doing business with TikTok and WeChat. 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 quarter.

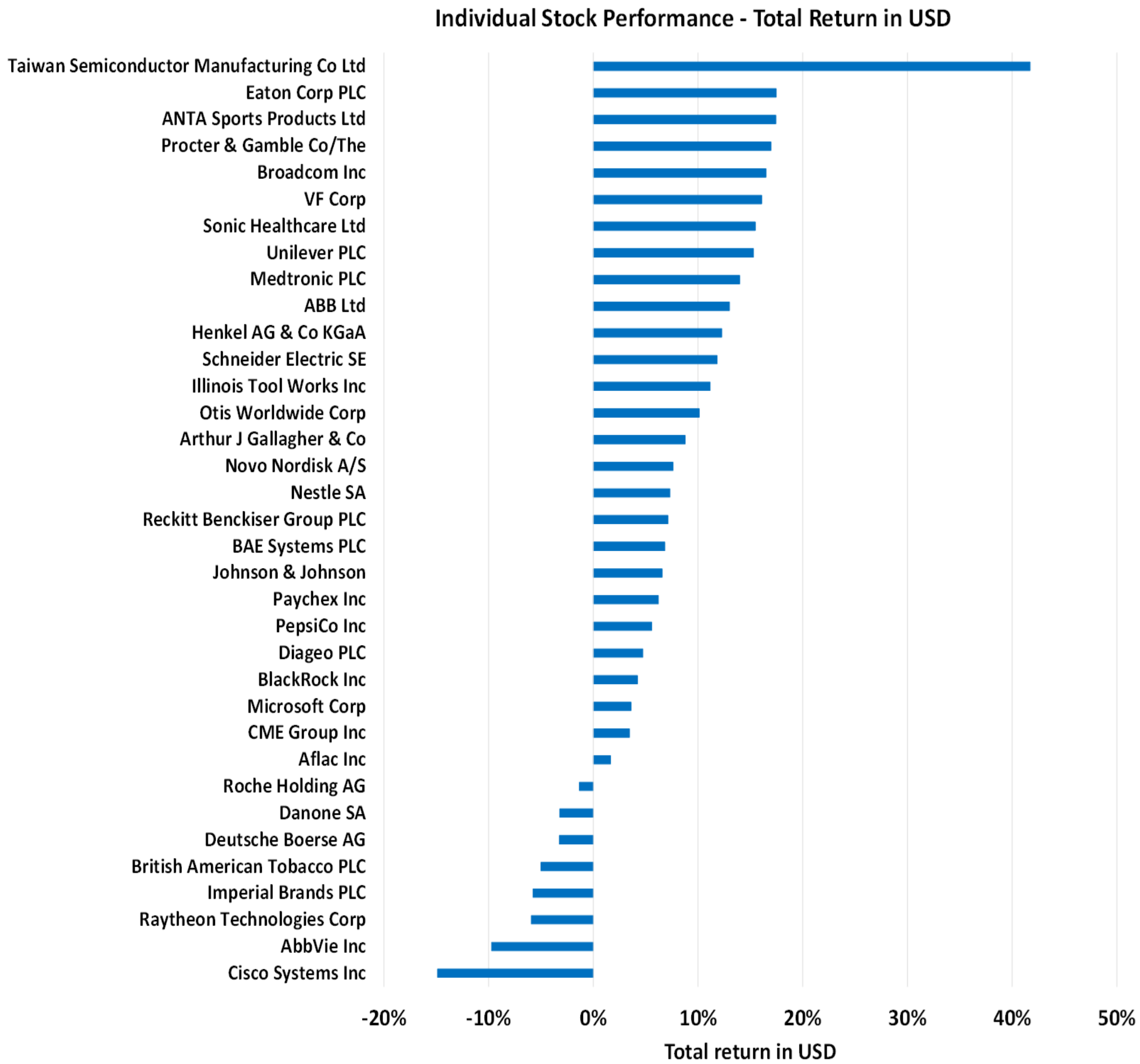


Source: Bloomberg, as of 30th September 2020

US equity markets also continued their ascent in the quarter 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. The unemployment rate however dropped to 8.4% in August – down from 10.2% in July and below consensus expectations of 9.8%. The labour force participation rate also improved, but it is still below its February pre-pandemic level. Industrial production rose for the fourth consecutive month in August, albeit at a much lower rate than earlier in the summer, signalling a slowing recovery in manufacturing. Similarly, retail sales increased in August, but again at a slower rate and below consensus expectations.

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 given that the largest UK companies collectively derive over 70% of their earnings from 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 quarter – a trend also seen for much of this year. Any drag on Fund performance from being overweight UK was however limited given good stock selection in Unilever, Reckitt Benckiser, BAE Systems and Diageo.

Stock Selection



Source: Bloomberg. As of 30th September 2020

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TSMC (Taiwan Semiconductor Manufacturing Company) was the best performer in the Fund in the quarter (+41.7% 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 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 who 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.

Cisco was the worst performer in the quarter (-14.9% in USD) after earnings results showed that the uncertainty from pandemic disruptions extended to 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. Nonetheless we continue to like Cisco's strong balance sheet which provides a buffer against the coronavirus induced demand shock. 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.

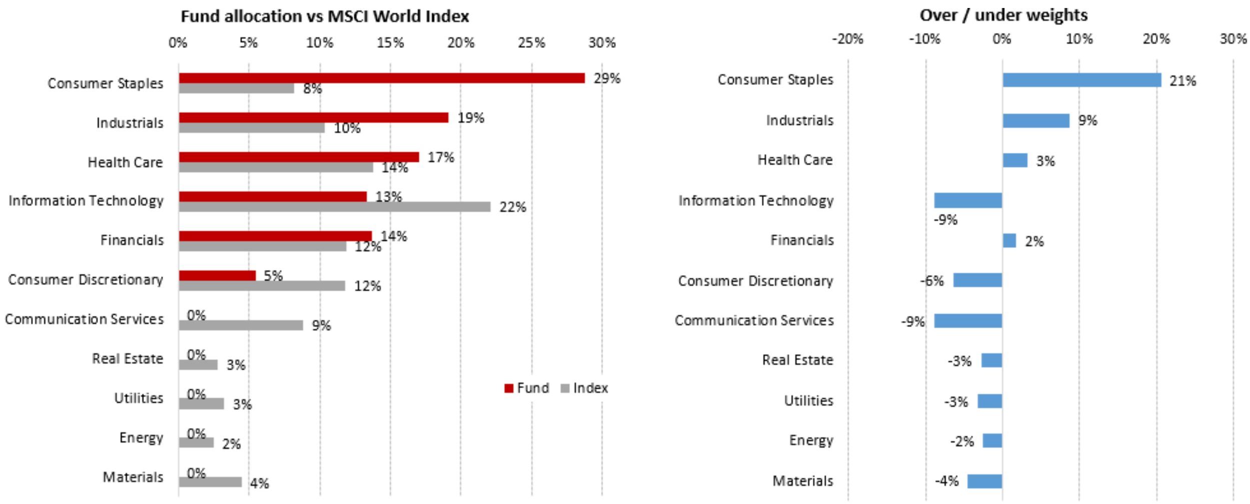
Changes to the Portfolio

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, and Real Estate. The largest overweight is to Consumer Staples.

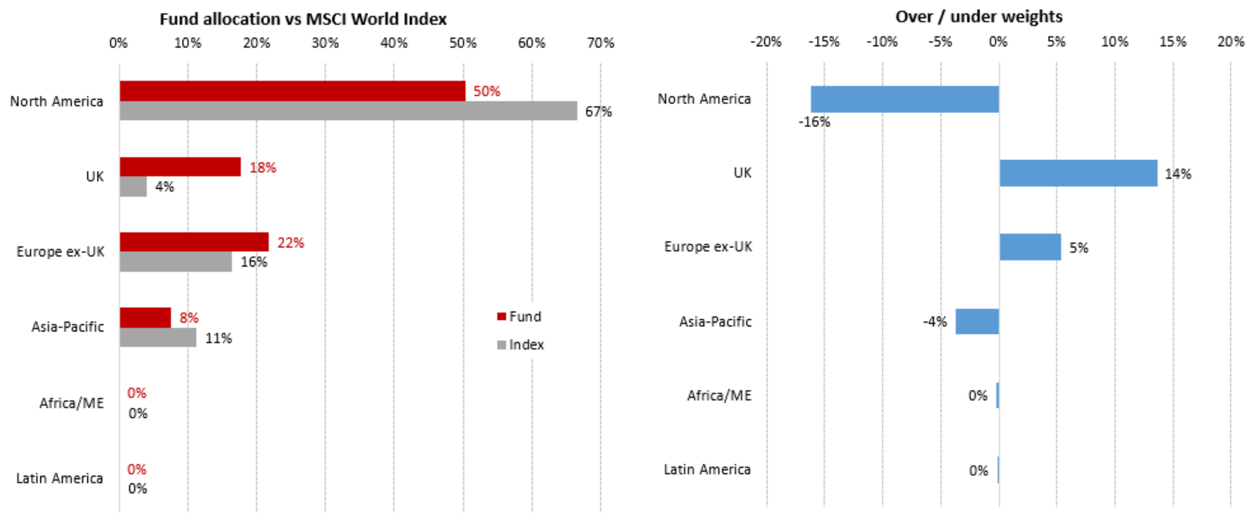


Sector breakdown of the fund versus MSCI World Index.

Source: Guinness Asset Management, Bloomberg. Data as of 30th September 2020

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.50% weighting to North America which compares to the index at c.67%. The largest geographic overweight remains Europe ex-UK and the UK.

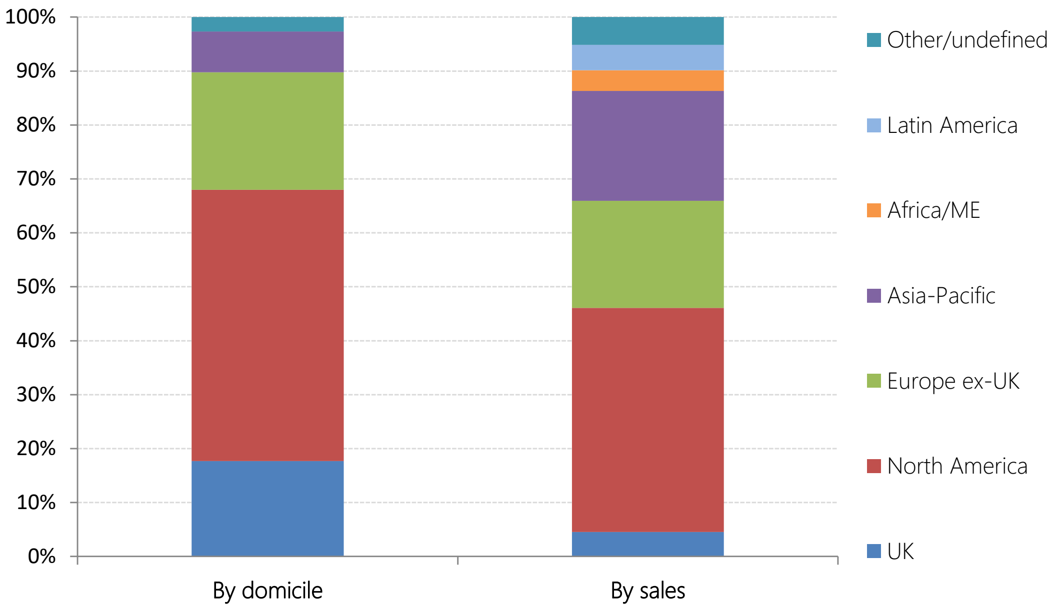
We are diversified around the world with 50% in the US, 40% in Europe and 8% in Asia-Pacific. Within the Asia-Pacific region we have one company listed in Hong Kong (Anta Sports), one company listed in Taiwan (Taiwan Semiconductor) and one company listed in Australia (Sonic Healthcare).



Regional breakdown of the fund versus MSCI World Index.

Source: Guinness Asset Management, Bloomberg. Data as of 30th September 2020

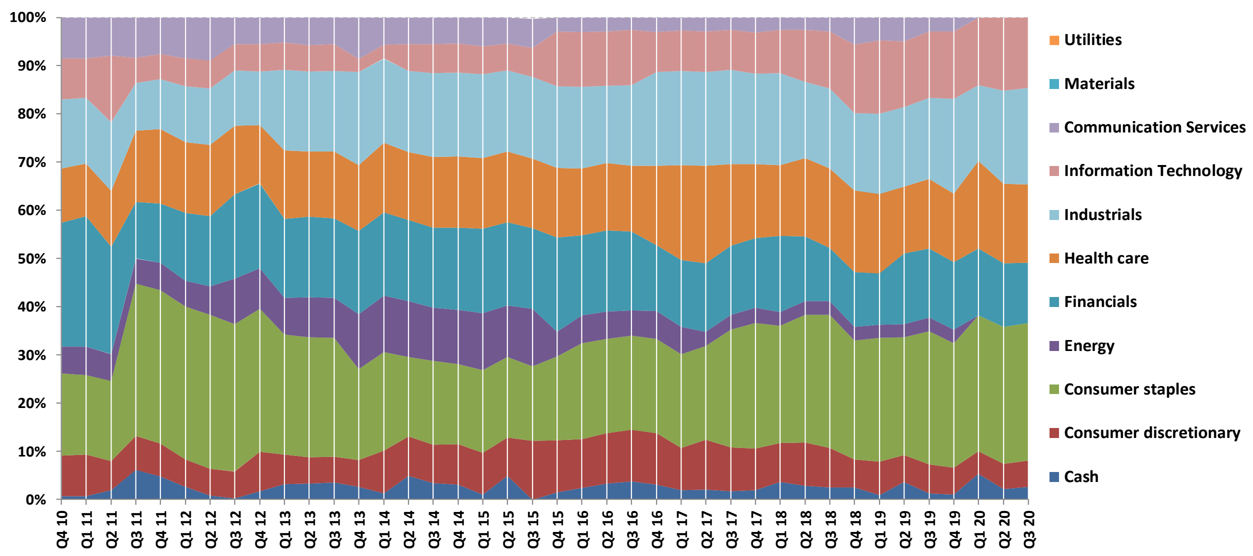
With regards to our UK exposure, we would note two main points, referring to the chart overleaf; (i) the Fund has a lower exposure to the UK when considered in revenues (c.4%) versus by domicile (c.18%). This is because we have favoured UK domiciled companies with a more global exposure (such as Unilever 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.8%).



Geographic breakdown of the fund.

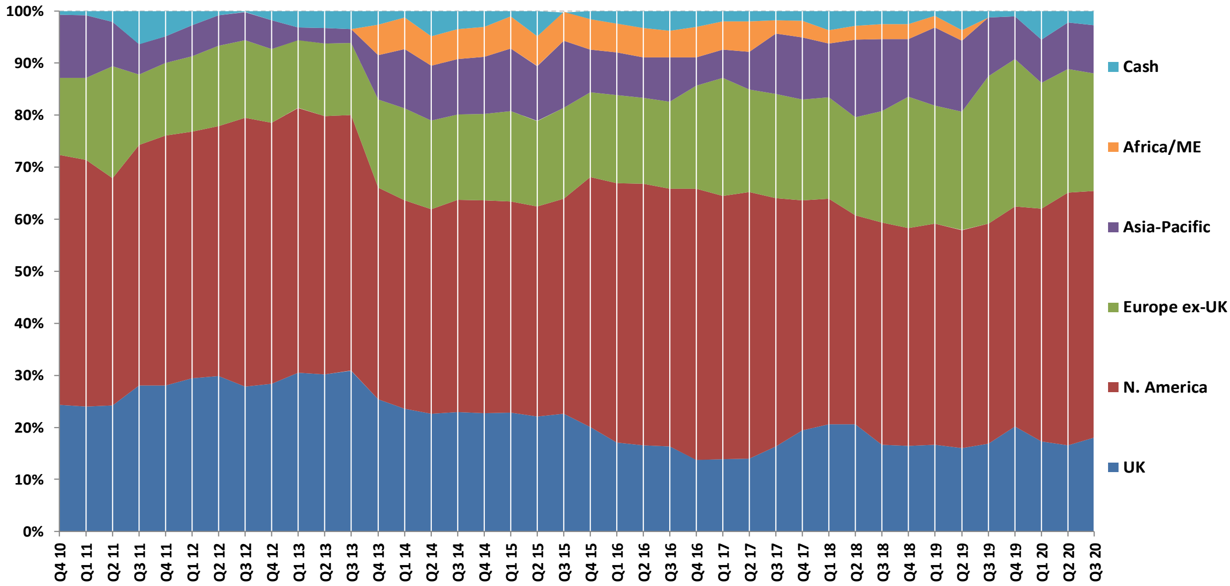
Source: Guinness Asset Management, Bloomberg. Data as of 30th September 2020

The below two charts 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 at 30th September 2020



Geographic breakdown of the fund since launch.

Source: Guinness Asset Management. Data as at 30th September 2020

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	17%	8%
	Weighted average net debt / equity	53%	68%
Value	PE (2020e)	18.3	24.0
	FCF Yield (LTM)	6.2%	5.5%
Dividend	Dividend Yield (LTM)	2.5% (net)	2.1% (gross)
	Weighted average payout ratio	62%	79%
Conviction	Number of stocks	35	1650
	Active share	90%	-

Portfolio metrics versus index.

Source: Guinness Asset Management, Credit Suisse HOLT, Bloomberg. Data as of 30th September 2020

The fund at quarter end was trading on 18.3x 2020 expected price to earnings; a discount of 23.8% to the broad market.

With so much uncertainty, not least from the upcoming US elections and COVID vaccine optimism, forecasting earnings is very difficult. What we can focus on with a higher level of clarity is the balance sheet strength of our companies and we believe the holdings we have selected in the Fund remain very robust. We believe these companies are well placed to weather whatever happens next and will come out the other side ready for their next stage of growth. As investors in these companies we will receive a share of their profits each year in the form of a dividend and look forward to seeing those dividends grow.

We thank you for your continued support.

Portfolio Managers

Matthew Page, CFA

Dr Ian Mortimer, CFA

Analysts

Joseph Stephens

Sagar Thanki

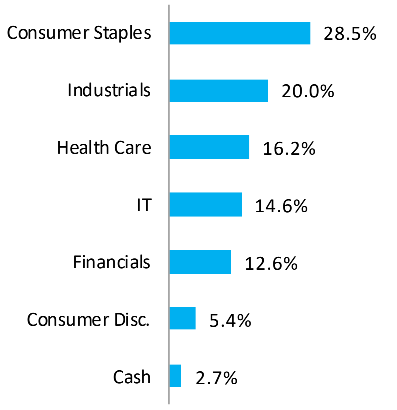
PORTFOLIO

30/09/2020

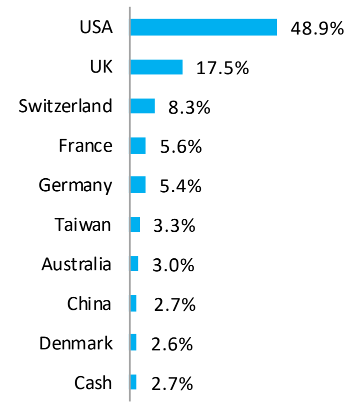
Fund top 10 holdings

Taiwan Semiconductor	3.3%
Unilever	3.2%
Eaton	3.1%
Diageo	3.0%
Sonic Healthcare	3.0%
British American Tobacco	3.0%
Schneider Electric	3.0%
Broadcom	3.0%
Procter & Gamble	2.9%
ABB	2.9%
% of Fund in top 10	30.4%
Total number of stocks held	35

Sector analysis



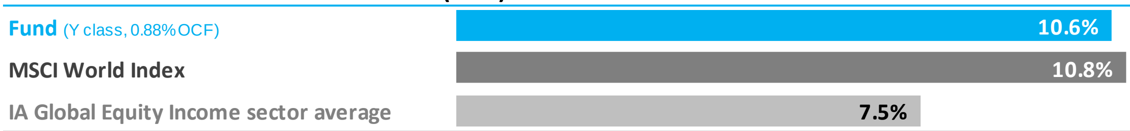
Geographic allocation



PERFORMANCE (see performance notes overleaf)

30/09/2020

Annualised % total return from launch (GBP)



Discrete years % total return (GBP)	Sep '20	Sep '19	Sep '18	Sep '17	Sep '16
Fund (Y class, 0.88% OCF)	3.0	12.0	13.2	7.2	33.1
MSCI World Index	5.2	7.8	14.4	14.4	29.9
IA Global Equity Income sector average	-3.9	7.0	7.0	12.3	24.7

Cumulative % total return (GBP)	1 month	Year-to-date	1 year	3 years	5 years	From launch
Fund (Y class, 0.88% OCF)	2.8	2.1	3.0	30.4	86.0	167.0
MSCI World Index	0.0	4.2	5.2	29.8	92.8	172.3
IA Global Equity Income sector average	0.0	-5.0	-3.9	10.0	54.1	102.3

RISK ANALYSIS

30/09/2020

Annualised, weekly, from launch on 31.12.10, in GBP	Index	Sector	Fund
Alpha	0.00	-0.54	1.24
Beta	1.00	0.77	0.86
Information ratio	0.00	-0.42	-0.04
Maximum drawdown	-24.58	-22.41	-21.78
R squared	1.00	0.80	0.89
Sharpe ratio	0.50	0.31	0.54
Tracking error	0.00	6.58	4.74
Volatility	14.48	12.48	13.12

Past performance should not be taken as an indicator of future performance. The value of this investment and any income arising from it can fall as well as rise as a result of market and currency fluctuations.
Source: Financial Express, bid to bid, total return. Fund launch date: 31.12.10. Fund Y class (0.88% OCF): Composite simulated performance (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

This is an advertising document. The prospectus and KIID for Switzerland, the articles of association, and the annual and semi-annual reports can be obtained free of charge from the representative in Switzerland, Carnegie Fund Services S.A., 11, rue du Général-Dufour, 1204 Geneva, Switzerland, Tel. +41 22 705 11 77, www.carnegie-fund-services.ch. The paying agent is Banque Cantonale de Genève, 17 Quai de l'Ile, 1204 Geneva, Switzerland.

Singapore

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

Telephone calls will be recorded and monitored.