

GUINNESS

Global Equity Income Fund



Annual review

2019

Dr Ian Mortimer, CFA & Matthew Page, CFA
Portfolio managers

GUINNESS
ASSET MANAGEMENT

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	£1,038m
Launch date	31.12.10
Historic OCF (Y Class)	0.88%
Current OCF (at fund size)	0.84%
Managers	Dr. Ian Mortimer, CFA Matthew Page, CFA
Analysts	Sagar Thanki Joseph Stephens

Performance 31.12.19

	1 year	3 years	From launch
Fund	21.2	33.8	161.6
Index	22.7	33.1	161.3
Sector	18.6	23.3	113.0

Annualised % gross total return from launch (GBP)

Fund	11.3%
Index	11.3%
Sector	8.8%

Benchmark index MSCI World Index

IA sector Global Equity Income

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



Source: Financial Express, bid to bid, total return. Y Class 0.88% OCF. Please refer to 'Performance data notes' for full details

Annual review

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 peer average 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 four 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 also 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 of 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.

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Guinness Global Equity Income Fund

- 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 assets under management at the start of 2019 to £1.2bn today.
- The philosophy and process behind the Guinness Global Equity Income Fund was designed by Ian Mortimer and Matthew Page, who 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 and 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.

	1yr	3yr	5yr	Since Launch*
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.

*Launch 31st December 2010

	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%
Position in IA Sector	2/18 funds	20/25 funds	6/32 funds	11/39 funds	26/41 funds	17/44 funds	28/48 funds	5/52 funds	18/54 funds
Quartile	1st	4th	1st	2nd	3rd	2nd	3rd	1st	2nd

Figure 2 – Calendar year total return in GBP, as of 31st December 2019. 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.

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Guinness Global Equity Income Fund

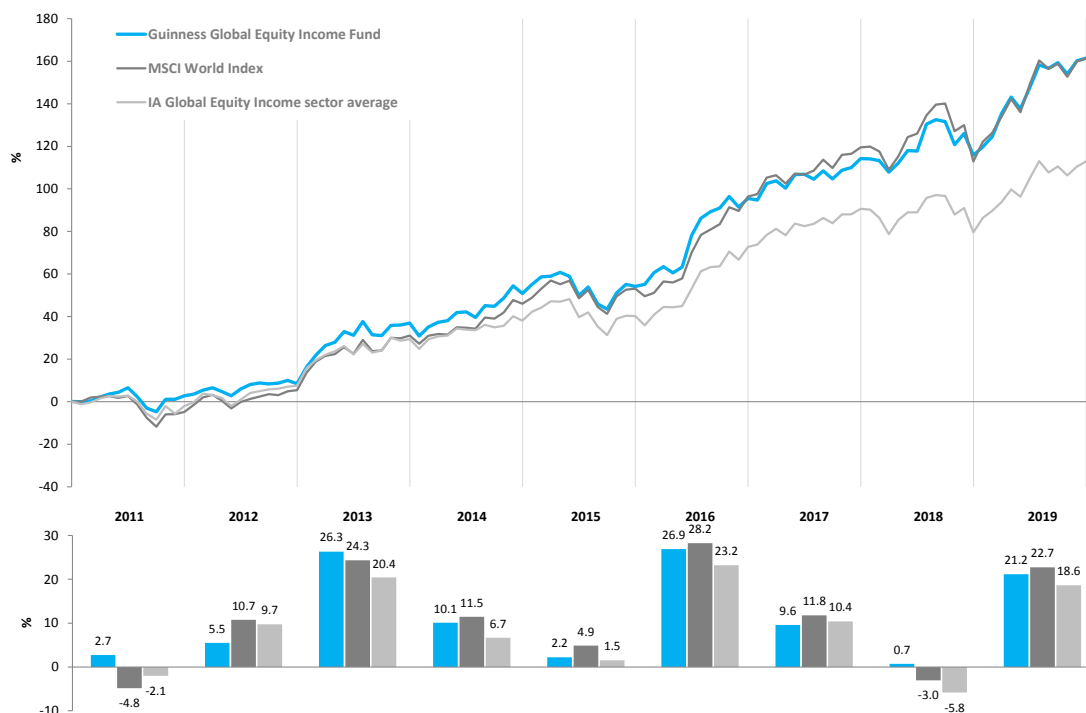


Figure 3 – Cumulative total return in GBP as of 31st December 2019. Source: Financial Express.

Dividends

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% (Y-class, in GBP), whilst the annualised growth rate over the last nine years has been 5.6%.

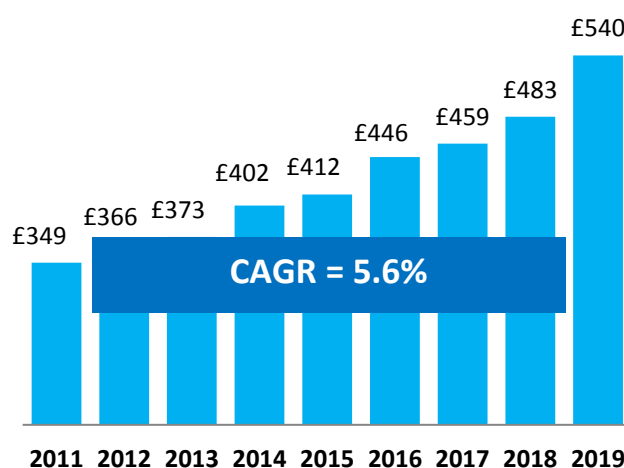


Figure 4 – Dividend Growth. Source: Guinness Asset Management.

Based on the price at the end of 2019, the Fund has a historic trailing 12-month dividend yield of 2.7% (net).

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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).

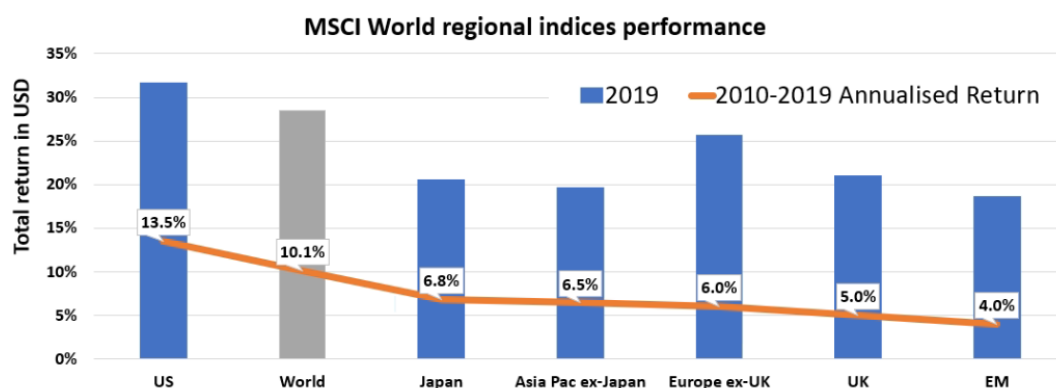


Figure 5 – Regional Performance (TR in USD). As of 31st December 2019. Source: Bloomberg

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

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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 benefit 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 to household goods).

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Guinness Global Equity Income Fund

- 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%) are 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. Of course, every year brings with it many unknown-unknowns and thus we seek to position the Guinness Global Equity Income Fund so that it is capable of weathering whichever direction the market takes.

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

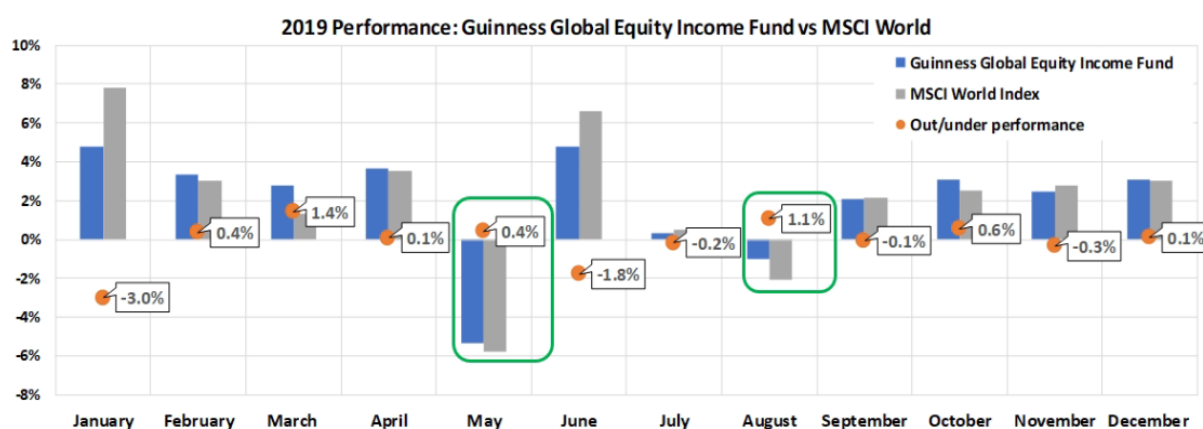


Figure 8 – Monthly total return of fund vs benchmark in 2019, in USD. Source: Bloomberg

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 in fact, 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.

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Guinness Global Equity Income Fund

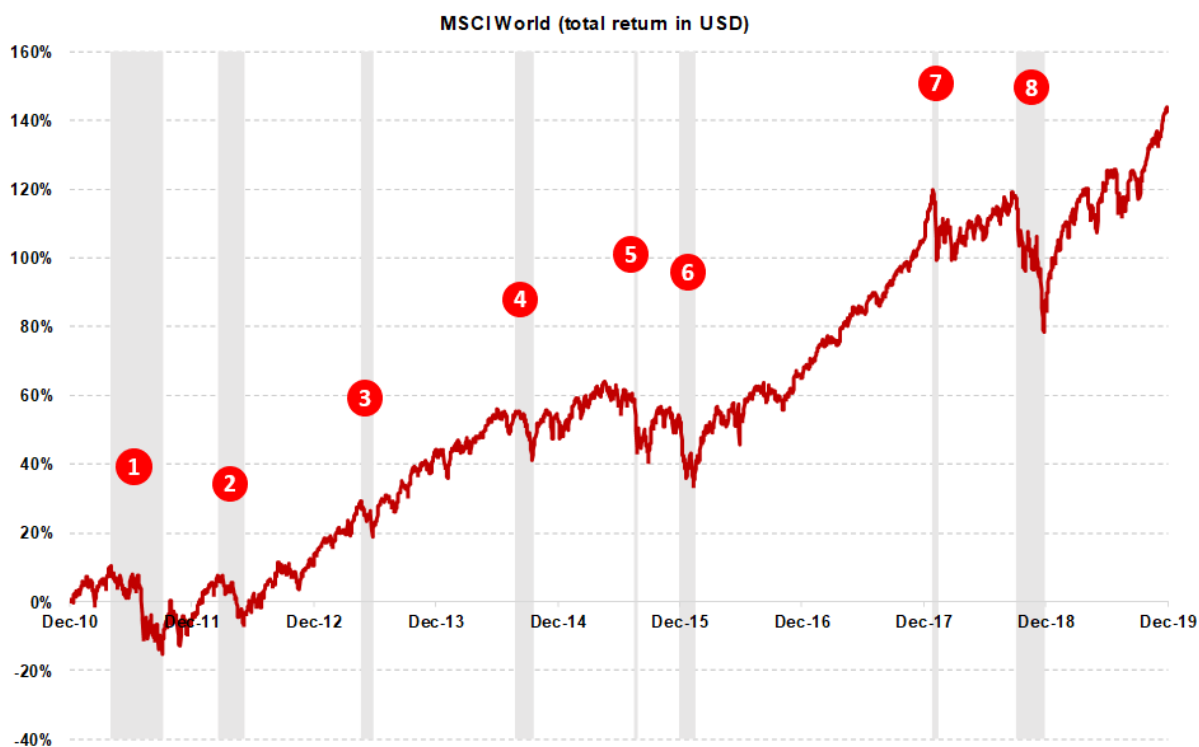


Figure 9 – Largest drawdowns in global equity markets since fund launch (31st December 2010).

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

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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.

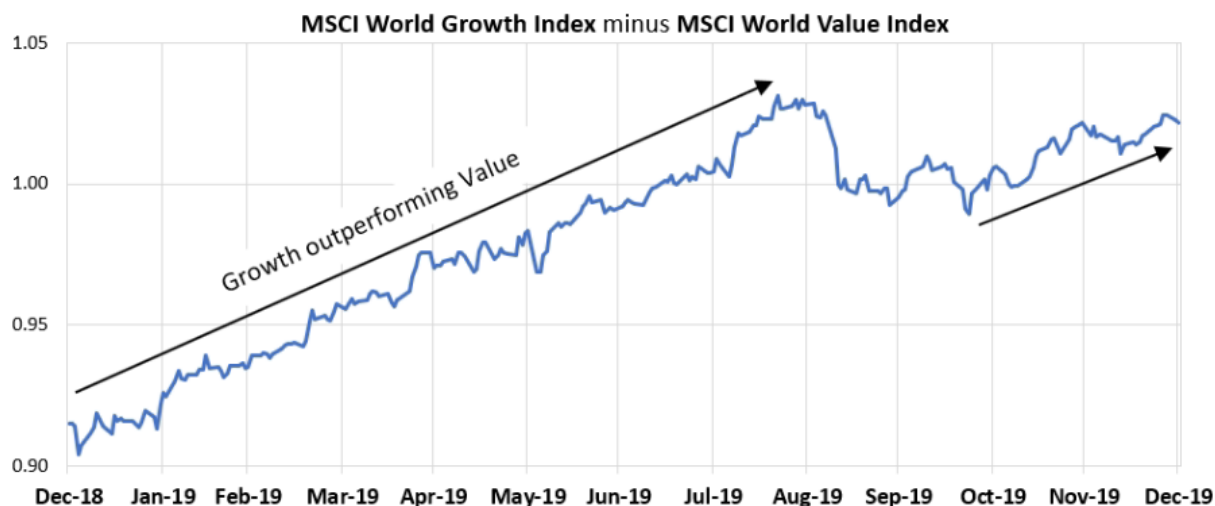


Figure 11: MSCI World style performance in 2019 (TR in USD). As of 31st December 2019.

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).

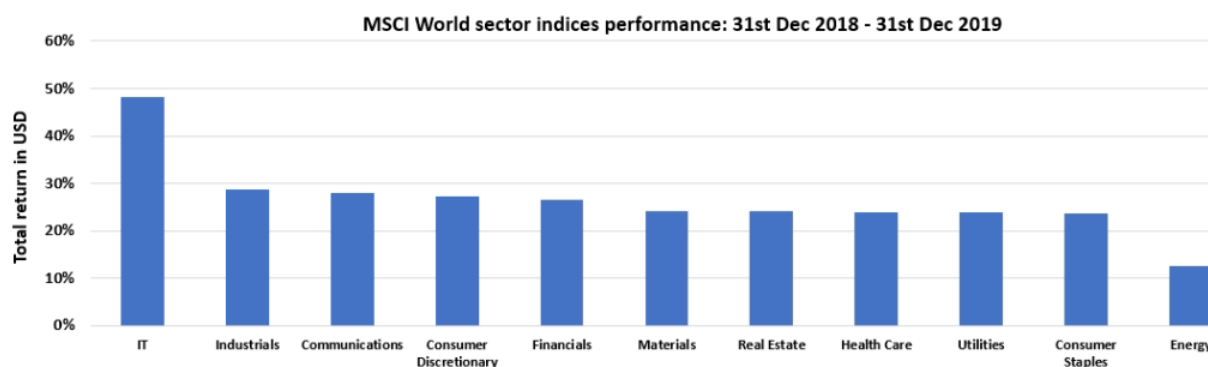


Figure 12: MSCI World sector performance in 2019 (TR in USD). As of 31st December 2019.

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 of Microsoft (+58%) and Paychex (+35%).

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- 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.

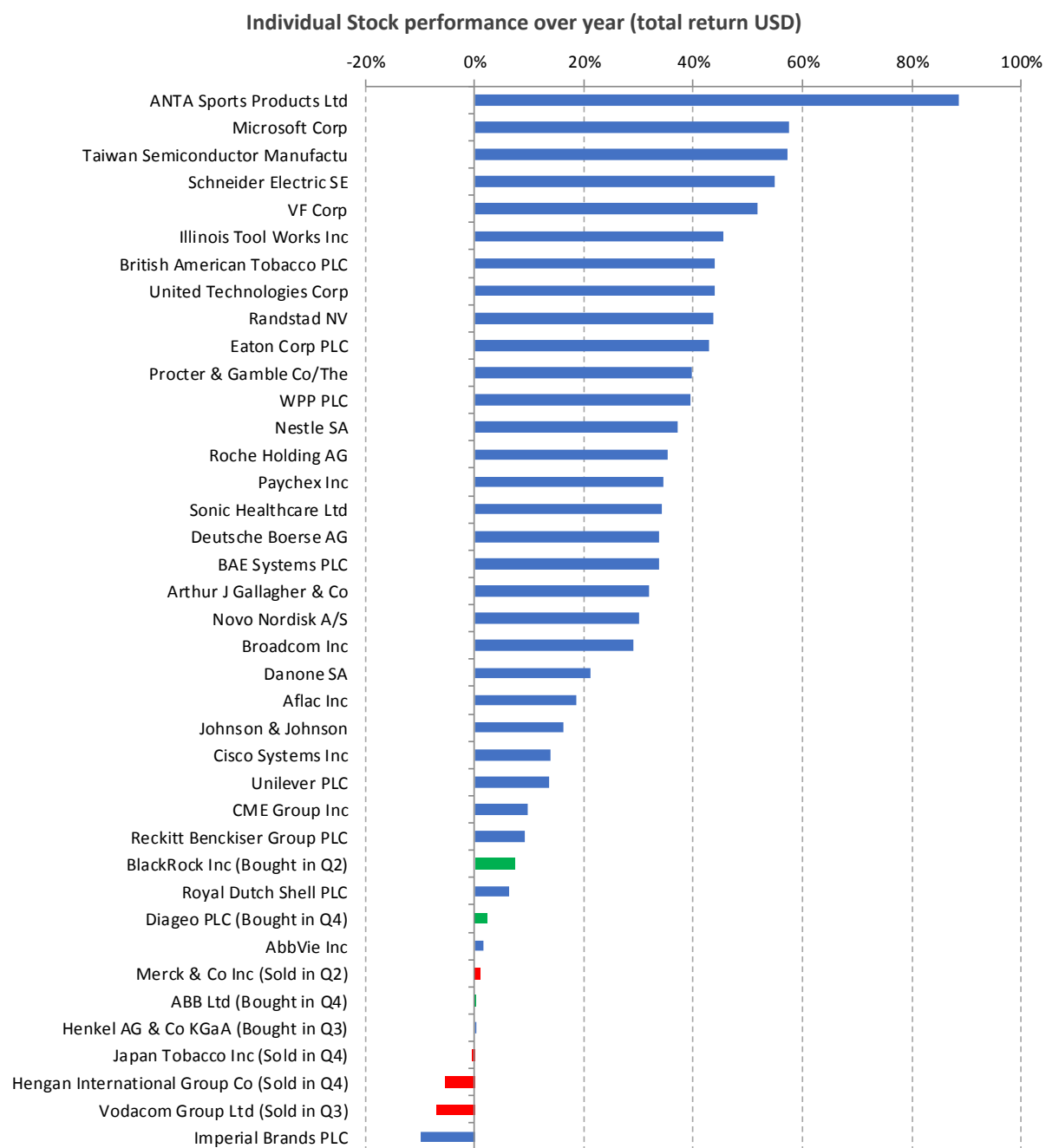


Figure 13: Individual stock performance over holding period during 2019 (TR in USD).

As of 31st December 2019. Source: Bloomberg

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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:

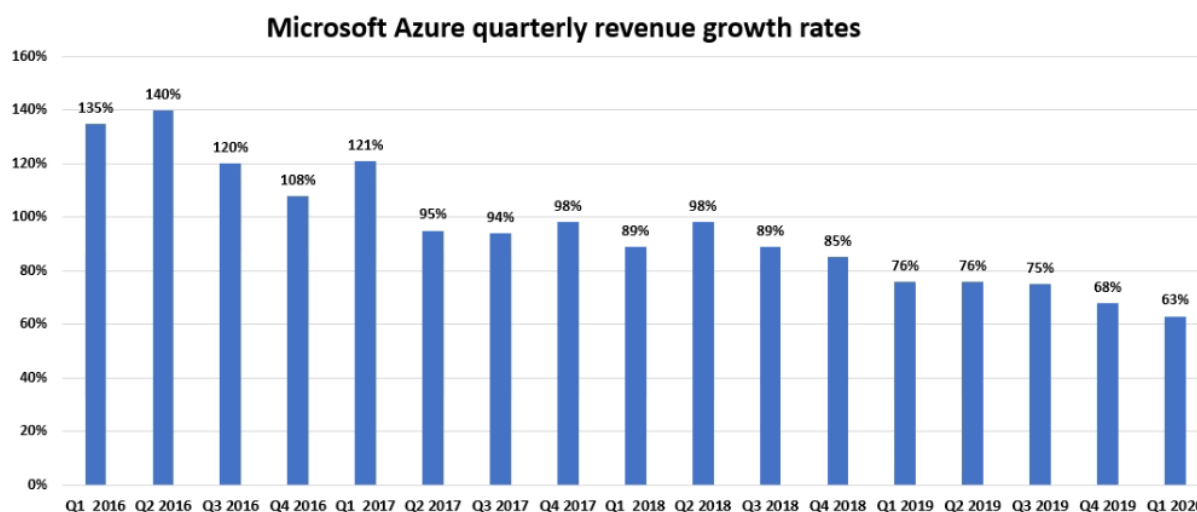
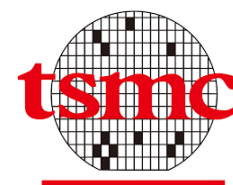


Figure 14: Quarters follow Company's Fiscal Year. Source: Bloomberg Intelligence

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, automobiles 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



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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 on 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. Enviably 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 ones, 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, replacing 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.



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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.

BLACKROCK

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 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



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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, supermarkets) 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.



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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.

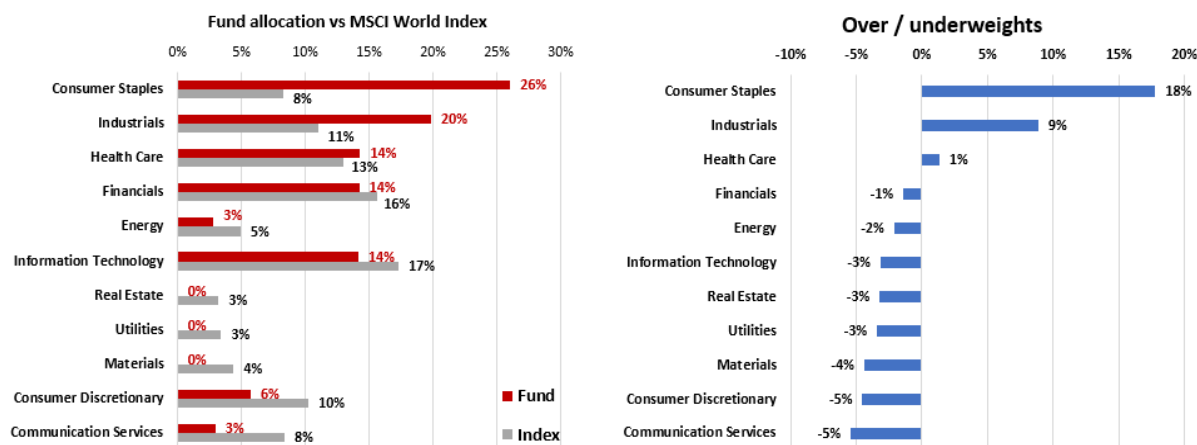


Figure 16 – Portfolio sector breakdown versus the MSCI World Index.

Source: Guinness Asset Management, Bloomberg (data as at 31st December 2019)

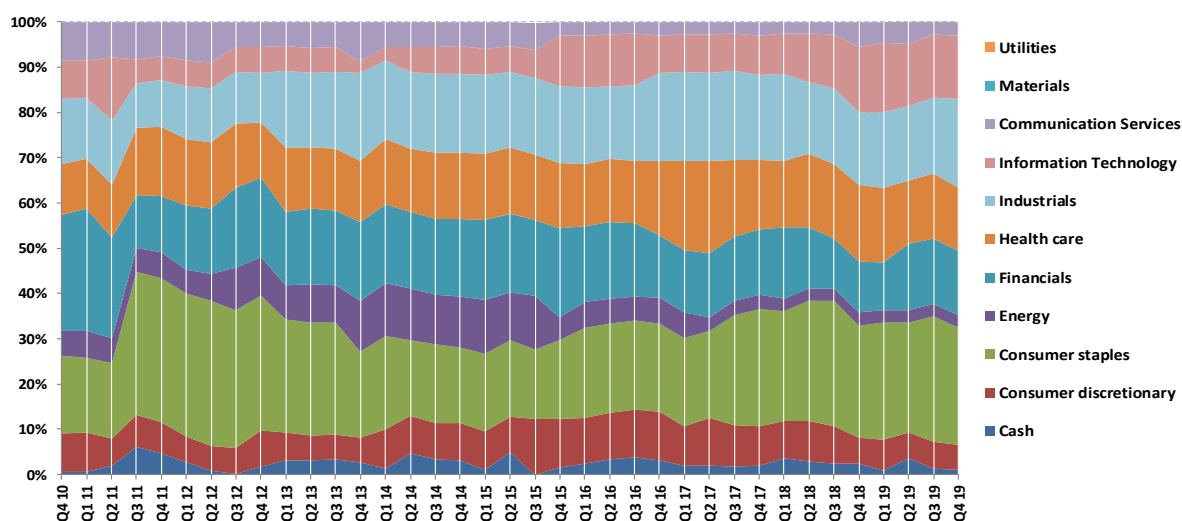


Figure 17 – Portfolio sector breakdown (as of 31st December 2019).

Source: Guinness Asset Management

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Guinness Global Equity Income Fund

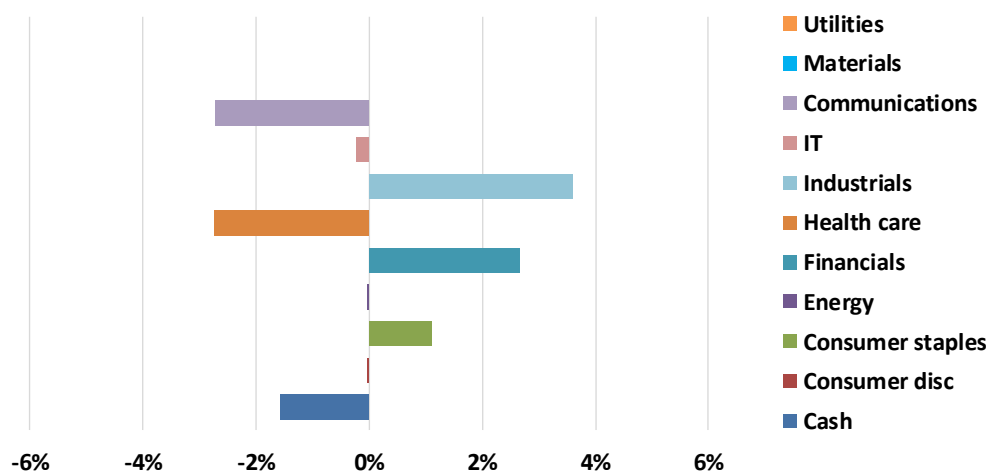


Figure 18 – Year-on-year change in sector breakdown (31st December 2019 vs 31st December 2018).

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.

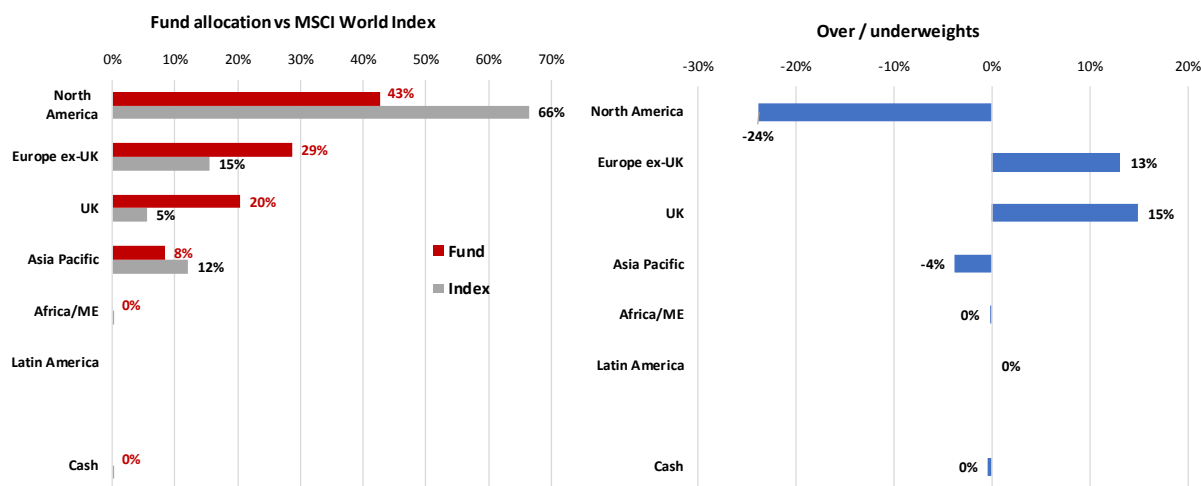


Figure 19 – Portfolio geographic breakdown versus the MSCI World Index.

Source: Guinness Asset Management, Bloomberg (data as at 31st December 2019)

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Guinness Global Equity Income Fund

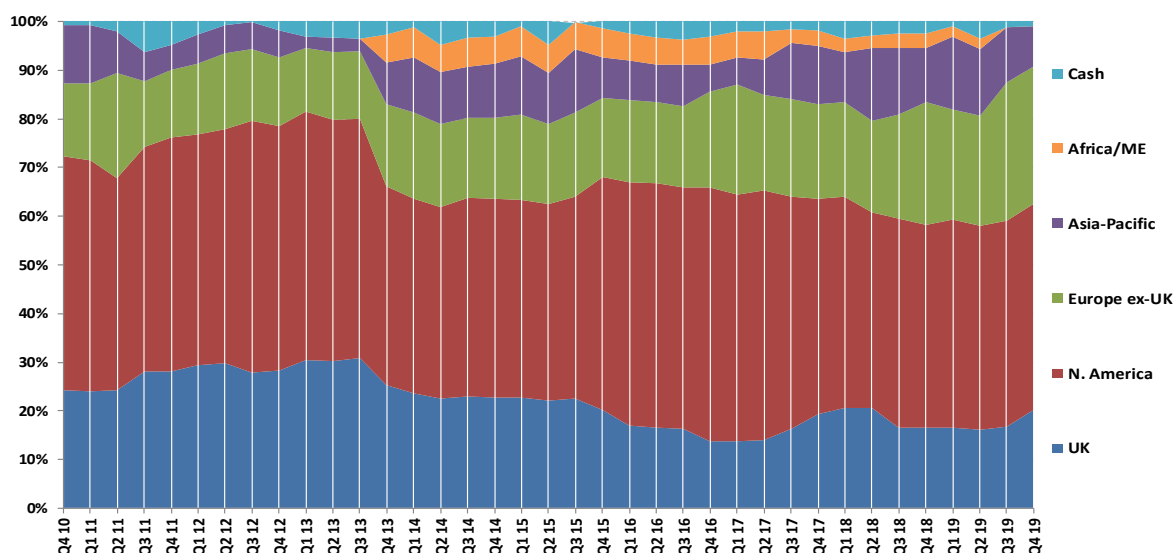


Figure 20 – Portfolio geographic breakdown (as of 31st December 2019).

Source: Guinness Asset Management

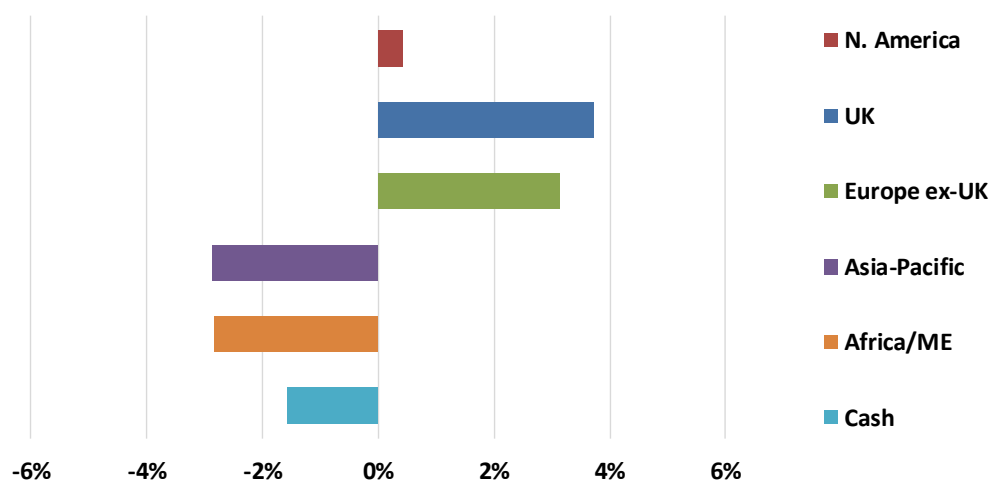


Figure 21 – Year on year change in geographic breakdown (31st December 2019 vs 31st December 2018).

Source: Guinness Asset Management

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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 creators of uncertainty in 2019
- The 2020 US Presidential Election, which will kick into 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.

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 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

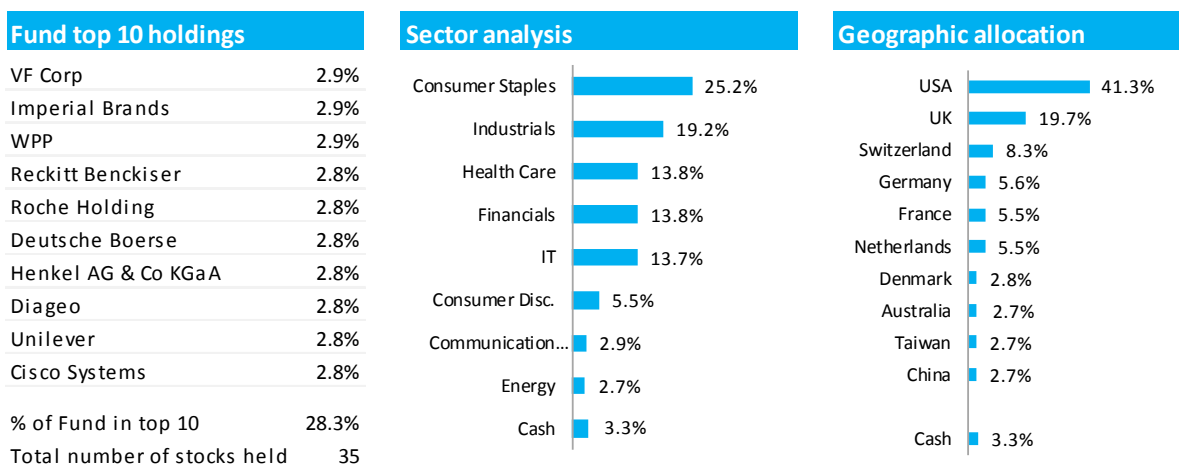
Portfolio managers, Guinness Global Equity Income Fund

January 2020

All Index and performance data source: Bloomberg, except Fund performance data, which is sourced from Financial Express and Guinness Asset Management.

PORTFOLIO

31/12/2019



PERFORMANCE

31/12/2019

Annualised % total return from launch (GBP)

Fund (Y class, 0.88% OCF)	11.3%
MSCI World Index	11.3%
IA Global Equity Income sector average	8.8%

Discrete years % total return (GBP)

	Dec '15	Dec '16	Dec '17	Dec '18	Dec '19
Fund (Y class, 0.88% OCF)	2.2	26.9	9.6	0.7	21.2
MSCI World Index	4.9	28.2	11.8	-3.0	22.7
IA Global Equity Income sector average	1.5	23.2	10.4	-5.8	18.6

Cumulative % total return (GBP)

	1 month	Year-to-date	1 year	3 years	5 years	From launch
Fund (Y class, 0.88% OCF)	0.5	21.2	21.2	33.8	73.5	161.6
MSCI World Index	0.6	22.7	22.7	33.1	79.0	161.3
IA Global Equity Income sector average	1.2	18.6	18.6	23.3	54.2	113.0

RISK ANALYSIS

31/12/2019

Annualised, weekly, from launch on 31.12.10, in GBP	Index	Sector	Fund
Alpha	0	0.38	1.57
Beta	1	0.75	0.86
Information ratio	0	-0.36	0.02
Maximum drawdown	-18.26	-15.50	-16.34
R squared	1	0.79	0.89
Sharpe ratio	1	0.48	0.66
Tracking error	0	6.09	4.43
Volatility	13.83	11.21	12.10

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

Source: Financial Express, bid to bid, total return. Fund launch date: 31.12.10. Fund Y class (0.88% OCF): Composite simulated performance based on actual returns of E share class (available from Fund launch), calculated in GBP. Fund returns are for share classes with a current Ongoing Charges Figure (OCF) stated above; returns for share classes with a different OCF will vary accordingly.

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.

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 Ongoing Charges Figure (OCF) 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.

GUINNESS

ASSET MANAGEMENT

Guinness Asset Management Ltd is authorised and regulated by the Financial Conduct Authority

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