Guinness Global Equity Income Fund

INVESTMENT COMMENTARY – February 2020

About the Fund

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

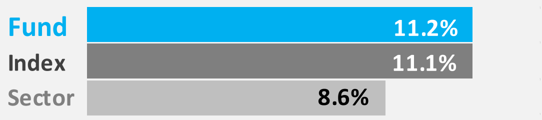
The Fund is managed for income and capital growth and invests in profitable companies that have generated persistently high return on capital over the last decade, and that are well placed to pay a sustainable dividend into the future.

Fund size	£1.1bn
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 — 31.01.20

	1 year	3 years	From launch
Fund	19.2	34.4	161.8
Index	17.5	32.1	161.0
Sector	13.8	22.0	112.1

Annualised % gross total return from launch (GBP)



Benchmark index	MSCI World Index
IA sector	Global Equity Income

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

PORTFOLIO ADVISER FUND AWARDS '19 GOLD INTERNATIONAL EQUITY INCOME LAST WORD

PORTFOLIO ADVISER FUND AWARDS '18 GOLD INTERNATIONAL EQUITY INCOME LAST WORD

ELITE RATED by FundCalibre.com

Summary performance

In January, the Guinness Global Equity Income Fund produced a total return of 0.10% (in GBP) versus the MSCI World Index return of -0.11%. The Fund therefore outperformed by 0.21%.

The Fund has tended to outperform the market at times of stress, and January saw geopolitical conflict between the US and Iran, as well as a new coronavirus emerging from Wuhan in China. As the market sold off on fears of the escalation of the coronavirus mid-month, the Fund held up well. From market peak on 17th January to month-end, the market fell 4.11%. Over the same period the Fund fell 3.46%, therefore outperforming by 0.65%. The Fund has low direct exposure to China; we have one Chinese-domiciled company, ANTA Sports, which fell 11.47% (in USD) between 17th January and month-end.

Over both the short and long term, it is pleasing to see that the Fund's strategy remains strong versus its IA Global Equity Income Sector peers.

	1yr	3yr	5yr	Since Launch*
Fund	19.2%	34.4%	68.9%	161.8%
Index	17.5%	32.1%	75.3%	161.0%
IA sector average	13.8%	22.0%	49.1%	112.1%
Rank vs peers	14/54	7/48	9/41	2/18
Quartile	**2nd**	**1st**	**1st**	**1st**

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

January in Review

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

This initial optimism was eventually dampened, however, by two 'black swan' events. The first was the exchange of missiles between the US and Iran and the killing of a key Iranian military figure. Although perhaps far from resolved, the incident has currently de-escalated to the market's satisfaction. The second event, and the one garnering greater investor attention, is the outbreak of the new coronavirus that has swiftly spread from China to other regions of the world.

While China has taken measures to restrict movement within the country, the increase in tourism accompanying the Chinese Lunar new year may have encouraged the spread to different regions including the US and UK. By the end of the month, over 17,000 cases had been confirmed globally with 362 confirmed fatalities – a mortality rate of around 2.7%. By comparison, the SARS outbreak of 2003 affected over 8,000 people and resulted in the death of 774 – a mortality rate of around 10% and significantly greater than that of the new coronavirus.

While we are still in the early stages of the outbreak, China and indeed the rest of the world are keen to manage the situation more effectively than that the SARS outbreak; the Lunar New Year holiday has been extended around China, many flights have been cancelled to and from China, and the Chinese government has responded by cutting the repo rate by 10bps and injecting $174bn into money markets to ensure sufficient liquidity in the banking system.

While the outbreak will undoubtedly cause short-term disruption to travel and tourism, consumer purchases, supply chains and economic growth in China, we believe the fund is well positioned to weather this uncertainty:

- We do not own any stocks with revenue exposed to travel & tourism.

- We only own one domestically focused Chinese holding: Anta Sports.
    - Anta Sports (down 2% in USD over the month (MSCI China is down 5.1% in USD)) has direct exposure being in the consumer sector. However, with 25% of revenue derived from online, this is likely to help dampen the negative effects.

- Indirect effects of the outbreak may include a slowdown in global growth which may affect more cyclical industries such as Industrials and IT components. However, we reiterate that the investment theses for these holdings are long-term.

- The fund invests in high-quality companies with high returns on capital and low levels of debt which are likely to fare better in times of uncertainty.

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Further, while there is always the chance that the next outbreak could have greater consequences than those in the past, the global economy and markets have been relatively immune to the effects of past viral epidemics; a short-term dip in stocks has tended to be followed by the continuation of the upward trend.

Source: Charles Schwab, FactSet, as of 21st January 2020

Of course, we need to be careful about making simple comparisons with the past, because these viruses are all unique. China is also much more integrated into the global economy today than in 2003. The economic cost of lost production due to widespread shutdowns and the resources devoted to the crisis could have the potential to trigger a recession in the global economy, which is already vulnerable to a shock due to last year's trade-driven slowdown. Also, the re-inversion of the yield curve (when the 10-year Treasury yield falls below the 3-month yield) may bring recession fears to the forefront of investors' minds given its reliable historical record as a precursor signal.

As an offset to these concerns, any related tightening of financial conditions could be met with additional monetary and fiscal support by authorities which could limit the downside for equity markets.

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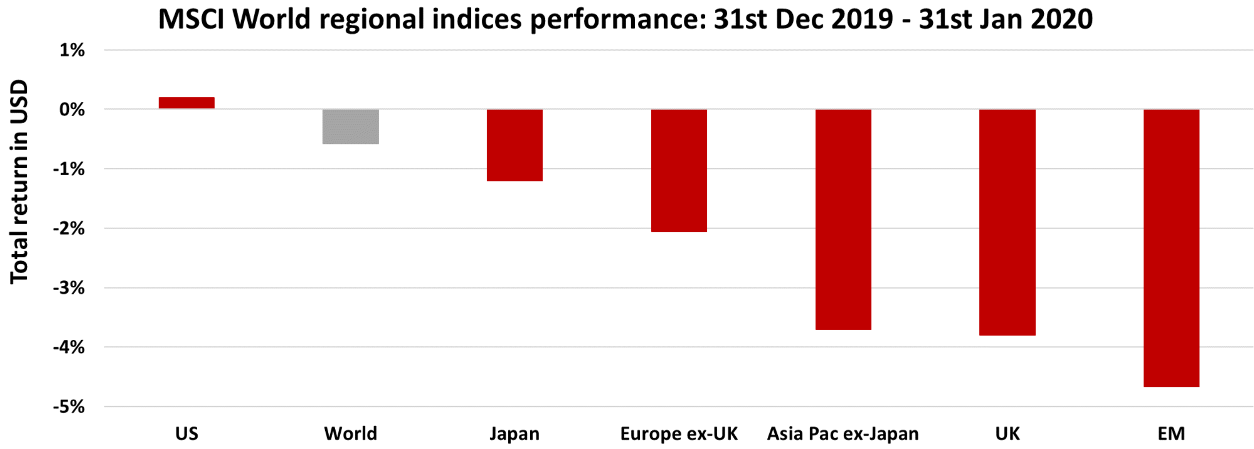
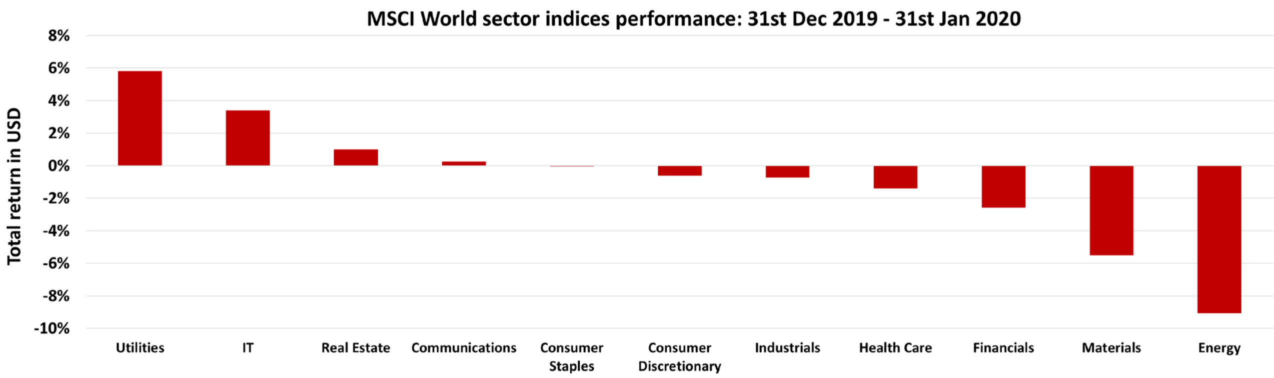


Source: Bloomberg, as of 31st January 2020

Unsurprisingly, Asia Pacific ex Japan and Emerging Markets were among the worst-performing regions over the month, and the Fund's underweight exposure here was beneficial to performance. The US was the best-performing region, helped by a solid start to the earnings season as several blue-chip companies reported positive earnings outlooks. Underweight exposure to the US proved a drag but was countered by strong stock selection.

In the UK, the 'Boris Bounce' did not last particularly long and January saw relatively weak performance. 31st January 2020 became the day the UK officially left the European Union, 47 years after joining the Common Market. The country is now in something of a limbo period until 31st December 2020, by when it seeks to have signed a trade agreement with the EU. In parallel, Boris Johnson's Government will be looking to reach deals with other countries including the US. This special relationship has, however, been under pressure from plans for a tax on digital services which would impact US technology giants and the UK's decision to allow the purchase of 5G telecoms equipment from Huawei, seen by the Americans as a security risk. The Bank of England opted to keep interest rates unchanged in January, although the Monetary Policy Committee said it was ready to cut them if the post-election bounce in confidence loses momentum.



Source: Bloomberg, as of 31st January 2020

The equity sectors saw a wide range of returns. Utilities – generally regarded as more defensive – shone, while the Technology sector benefited from strong earnings reports. On the other hand, the Energy and Materials sectors fell noticeably as commodity prices slipped.

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After being the worst-performing sector in 2019, Energy is under pressure again as the coronavirus threatens fuel demand from China, the world's largest oil and gas importer. Fears over this outbreak have reduced air travel, driving, trucking and factory use, further shrinking demand. In an attempt to stem the fall in oil prices, policymakers from some of the world's largest oil producers (namely OPEC) are moving to curb their production. The US, a non-member, is expected to continue growing its production steadily over the coming years, potentially thwarting OPEC's efforts to stabilise oil prices. Our exposure to the Energy sector in the Fund is limited to one stock (Royal Dutch Shell) and we have no holdings in the Materials sector.

The Fund's outperformance in the month can largely be attributed to good stock selection, with **BAE Systems** coming out as the top performer (+11.2% in USD). The company provides some of the world's most advanced defence, aerospace and security solutions. Its recent share price rally comes after management announced it is proposing to buy Collins Aerospace's GPS business for a consideration of $2 billion. The asset is for sale as part of the regulatory process for the merger between Raytheon and United Technologies, and it is the largest deal for BAE Systems in a decade – equating to approximately 8% of current market capitalisation. The market received the news well as the GPS business will integrate easily into the electronic systems segment; it has a large installed base on more than 280 military platforms and is expected to grow revenues in excess of 10% per year over the next four years while maintaining margins. The deal will make BAE the largest supplier of military GPS receivers, with twice the market share of its nearest competitor, and reinforce the group's position as a strategic supplier to the US Department of Defense.

Longer-term, the defence industry is expected to deliver an improving growth rate in future years as continued geopolitical risks in a variety of regions are expected to result in faster growth in defence spending. The US has already increased its defence budget, while other NATO members are expected to do likewise as they seek to meet their responsibilities and achieve the required military spending of 2% of GDP. This could act as a tailwind for defence-related companies and boost BAE's financial performance.

CME Group also performed particularly well (+8.2% in USD), and this coincided with a return of higher volatility arising from the US-Iran conflict and the spread of the coronavirus. In the longer term, the exchange is well positioned to integrate the NEX acquisition and offer clients a more holistic solution with its futures, options and data products. The NEX deal should also support CME's international expansion plans, since 50% of NEX's revenue is generated outside of the US. Data and analytics are a key area of focus for the company in 2020, with an outlook to expand recurring revenue. CME is also particularly well placed to benefit from any increased interest rate hedging around the Fed's interest rate decisions and rising US oil exports thanks to its dominant Fed Funds and WTI futures contracts. The company has largely opted to pursue an organic growth strategy and this has meant low debt-to-equity at 17% with returns on capital increasing every year for the last five.

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VF Corp was the worst performer in the month (-16.7% in USD). The global apparel company owns brands such as Timberland and The North Face (outdoor-oriented brands), and Vans (skateboard-inspired footwear). The recent poor performance comes as 60% of its stores in China are temporarily closed due to coronavirus, leading investors to speculate that VF could miss its 4Q outlook. We view this as a near-term headwind, with longer-term prospects in China – 6% of total sales – still very promising.

We made no changes to the portfolio during the month

We thank you for your continued support.

Portfolio Managers
Matthew Page, CFA
Dr Ian Mortimer, CFA

Analysts
Joseph Stephens
Sagar Thanki

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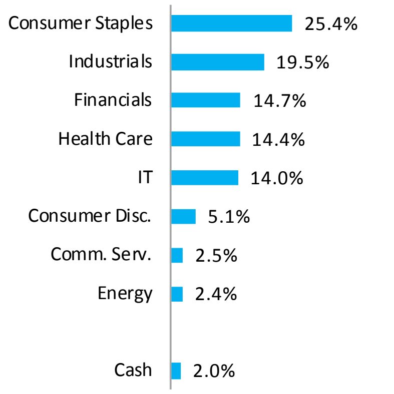
PORTFOLIO

31/01/2020

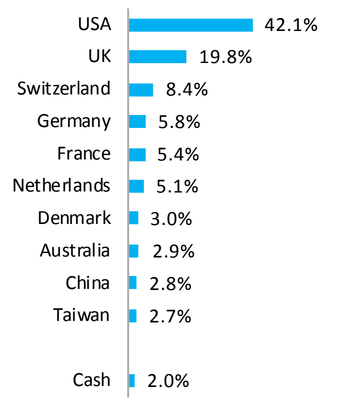
Fund top 10 holdings

Gallagher, Arthur J	3.0%
BAE Systems	3.0%
Microsoft	3.0%
Novo Nordisk	3.0%
CME Group	3.0%
Blackrock	3.0%
Imperial Brands	3.0%
Unilever	3.0%
Deutsche Boerse	3.0%
Sonic Healthcare	2.9%
% of Fund in top 10	29.8%
Total number of stocks held	35

Sector analysis



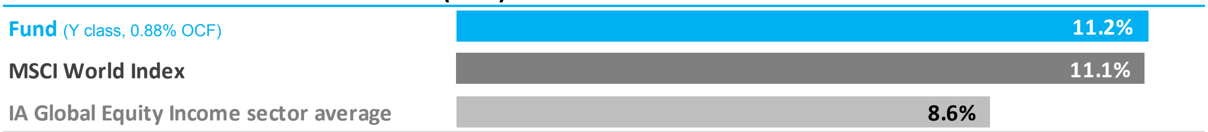
Geographic allocation



PERFORMANCE

31/01/2020

Annualised % total return from launch (GBP)



Discrete years % total return (GBP)	Jan '16	Jan '17	Jan '18	Jan '19	Jan '20
Fund (Y class, 0.88% OCF)	0.0	25.6	9.9	2.6	19.2
MSCI World Index	0.5	32.0	11.3	1.0	17.5
IA Global Equity Income sector average	-4.5	28.0	9.4	-2.1	13.8

Cumulative % total return (GBP)	1 month	Year-to-date	1 year	3 years	5 years	From launch
Fund (Y class, 0.88% OCF)	0.1	0.1	19.2	34.4	68.9	161.8
MSCI World Index	-0.1	-0.1	17.5	32.1	75.3	161.0
IA Global Equity Income sector average	-0.4	-0.4	13.8	22.0	49.1	112.1

RISK ANALYSIS

31/01/2020

Annualised, weekly, from launch on 31.12.10, in GBP	Index	Sector	Fund
Alpha	0	0.31	1.49
Beta	1	0.75	0.86
Information ratio	0	-0.36	0.01
Maximum drawdown	-18.26	-15.50	-16.34
R squared	1	0.79	0.89
Sharpe ratio	1	0.45	0.63
Tracking error	0	6.06	4.42
Volatility	13.83	11.20	12.08

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Source: Financial Express, bid to bid, total return. Fund launch date: 31.12.10. Fund Y class (0.98% OCF): Composite simulated performance based on actual returns of E share class (available from Fund launch), calculated in GBP. Fund returns are for share classes with a current Ongoing Charges Figure (OCF) stated above; returns for share classes with a different OCF will vary accordingly.

Performance data notes

1) The performance numbers displayed on the previous page are calculated in GBP (Sterling). Please note: The Fund's Y class was launched on 11.03.15. The performance shown is a composite simulation for Y class performance being based on the actual performance of the Fund's E class, which has an annual management charge 0.75%, 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.