FUND PROFILE

RSMR

GUINNESS GLOBAL INVESTORS

GUINNESS GLOBAL EQUITY INCOME

February 2022

RSMR RATED FUND

OUR RESEARCH. YOUR SUCCESS

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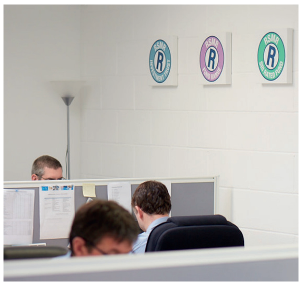


GUINNESS GLOBAL EQUITY INCOME

OUR FUND PROFILES provide an in-depth review of our leading rated funds and are designed to give advisers, paraplanners and analysts an ‘under the bonnet’ view of the fund. In providing more detailed commentary than a standard fund factsheet we believe our fund profiles set the standard for the next generation of research notes, aiding in fund selection and in meeting the ongoing suitability requirements expected by the FCA, and helping ensure firms deliver good client outcomes.

All of our rated funds are subject to rigorous and ongoing scrutiny on both a qualitative and quantitative basis. Our fund methodology is available for download from the RSMR Hub – www.rsmr.co.uk

Guinness Global Equity Income Fund has been rated by RSMR since March 2014. The fund was launched in December 2010. The strategy now has over £1.8 billion of assets under management, and it can be accessed via a Dublin-based OIEC and a UK domiciled OEIC fund.

Having worked together on global growth mandates for a number of years the fund managers – Ian Mortimer and Matthew Page – decided to launch an income producing strategy, recognising the importance of income in the production of total returns and the fact that their approach should result in investors being provided with a sustainable and growing level of income. Whilst not having a specific income target, dividend payments have grown every year since launch and the fund has generated capital growth.

The clearly defined investment process has been consistently applied. Investments are selected taking a three to five-year time horizon and, as with other Guinness portfolios, this is a high conviction strategy with an active share in excess of 90% relative to the benchmark. The portfolio is equally weighted with 35 holdings and is managed on a one-in-one-out basis. The investment managers are very conscious of liquidity concerns and by its nature, the fund typically has a low turnover.

The Guinness Global Equity Income Fund provides a solid core holding for global equity income investors.

Robin Ghosh – Senior Investment Research Manager, RSMR

Robin joined RSMR in 2018 as Investment Research Manager & Portfolio Manager for the Rfolios discretionary portfolio service.

He has been in the industry for nearly 20 years. After starting his career in Leeds at a firm of stockbrokers he moved in 2004 to BWD Rensburg, which later became Investec Wealth & Investment, as a discretionary investment manager. He managed the portfolios for a wide range of private clients, trusts and charities. Then, after a brief spell as a wealth advisor, he joined the wealth management arm of a regional law firm, managing the investments for a number of families, their pensions and trusts. There, he was also part of the research team and asset allocation committee member that was responsible for maintaining the firm’s investment models.

IA GLOBAL EQUITY INCOME

Guinness Global Equity Income sits in the IA Global Equity Income sector. Funds in this sector invest at least 80% of their assets globally in equities which must be diversified by geographic region. The fund must also achieve a historic yield on the distributable income of more than 100% of the MSCI World Index yield at the fund's year end on a 3-year rolling basis and 90% on an annual basis.

The last two years has seen a marked deterioration for global equity dividends as the effects of Covid-19 took hold. Many companies slashed dividend payments to conserve cash as large sections of the global economy went into lockdown. This was compounded by regulatory constraints and government pressures to restrict payments. In the UK the cuts to equity dividends in 2020 were particularly sharp and whilst the recovery in pay outs over the following year were strong, total dividends remained 17 percent lower than the 2019 pre-Covid peak. The global backdrop was better and consequently the cuts to global dividends in 2020 were less severe. The rebound in business activity in 2021 and a rise in consumer demand boosted profits for most sectors which were hit by the pandemic and global corporate dividends paid out just 3% less than pre crisis levels in 2021, reflecting a sharp snapback in earnings post the pandemic-driven weakness, coupled with strong corporate balance sheets which bolster the ability of firms to increase dividends.

Mining firms led the dividend pay-outs, boosted by a surge in commodity prices over 2021 which led many companies in this sector to issue additional special dividends. The financial sector also delivered higher dividends, as global central banks such as the Federal Reserve and the European Central Bank relaxed the restrictions on dividends and buybacks that they had imposed in 2020.

2022 should see most global companies raise or hold steady their dividends as earnings were robust in 2021 in a lot of sectors and whilst some growth is already baked into prices, there is still a generally positive outlook for those companies that can continue to grow earnings and take advantage of opportunities.

Volatility in investment styles and short-term sentiment can change quickly, making it challenging to identify clear winners and it is prudent to adopt a balanced approach. Across many markets, valuations are still high relative to history by most metrics, reducing the margin for error should there be surprises to the downside.

GUINNESS GLOBAL INVESTORS

Guinness Global Investors (founded in 2003) is an independent asset management business 100% owned by its employees. It is part of a group of companies founded by Tim Guinness to manage investment products. Other firms in the group are Guinness Atkinson Asset Management which runs funds for US investors and Guinness Capital Management which provides seed capital for new funds. The investment teams for all products are based in London and the firms benefit from shared resources and shared investment management costs. Business strategy, sales and marketing, compliance and operations for Guinness Global Investors and Guinness Capital Management are undertaken in London. These functions are undertaken in the US for Guinness Atkinson Asset Management.

The combined assets under management were £4.5 billion as at 31 December 2021. Guinness Global Investors has no debt. The group has 52 employees, and it manages a range of OEICs, US mutual funds and segregated mandates. It is well known for managing global equity, energy and Asian equity strategies.

All the firms within the group are 100% owned by their employees and Guinness Global Investor's major shareholder is Tim Guinness (60%). There is an equity incentive scheme in place which has enabled key team members to acquire equity in both Guinness Global Investors and Guinness Atkinson Asset Management.

The group is focused purely on active, non-benchmark constrained, investment management.

GUINNESS GLOBAL EQUITY INCOME FUND

Manager	Ian Mortimer and Matthew Page
Structure	OEIC (UCITS). UK Onshore and Offshore Dublin Based options available
IA Sector	IA Global Equity Income
Launched	31 December 2010
Fund Size	£1,800m as at 31 December 2021 and £2,100m in the strategy

Fund Manager

The fund has been co-managed by Ian Mortimer and Matthew Page since launch. Having managed global growth portfolios together, this fund was their idea and the fundamental aspects of the process draw upon the style of management that they employ on their growth portfolios. This provides the fund with a unique approach to global equity income investing.

Ian and Matthew share equal responsibility for the fund, and they work together with three dedicated analysts – Sagar Thanki, Joseph Stephens and William van der Weyden.

Dr Ian Mortimer, CFA – Portfolio Manager

Ian joined Guinness Global Investors in December 2006 having just completed a DPhil in Experimental Physics at Christ Church, University of Oxford. He also obtained a Master's in Physics in 2003 from University College London. He is a CFA Charterholder and is also co-manager of the Guinness Global Innovators strategy.

Matthew Page, CFA – Portfolio Manager

Matthew joined Guinness Global Investors in September 2005. Prior to this, he joined Goldman Sachs on the Graduate scheme working in foreign exchange and then fixed income. He graduated from New College, University of Oxford, in 2004 with a Master's in Physics. He is a CFA charterholder and also co-manager of the Guinness Global Innovators strategy.

The two managers have material stakes (>5%) in the equity of Guinness Global Investors.

Sagar Thanki – Analyst

Sagar joined Guinness Global Investors in February 2017, prior to which he worked at Bloomberg as an equity specialist, within Financial Analytics and Sales. He graduated from Selwyn College, University of Cambridge, with a Master's in Economics.

Joseph Stephens – Analyst

Joseph joined Guinness Global Investors in July 2018. He graduated with a Master's in Mathematics from the University of Bath before obtaining a Master's in Investment Management from the Henley Business School. He has also passed the CFA level 3 examination.

William van der Weyden – Analyst

William joined Guinness Global Investors in 2021 having previously worked at St James's Place DFM as an Equity Analyst, specialising in the UK Technology and Telecommunications sectors. He graduated from Homerton College, University of Cambridge, with a Master's degree in Management, following his BSc in Maths and Physics at the University of Bath. William also holds the IMC qualification.

In addition to Guinness Global Equity Income, the investment team manages the Guinness Atkinson Dividend Builder, a US mutual fund, and dVAM Global Equity Income, which mirrors Guinness Global Equity Income. They also manage Guinness Global Innovators and Guinness Atkinson Global Innovators, which mirror each other and have a global growth focus.

The investment team is relatively stable. An analyst left in Q3 2018 (and he left the investment management industry) and was replaced with Joseph Stephens.

Fund Objectives & Targets

The genesis of the fund came about at the tail end of the Great Financial Crisis when Ian Mortimer and Matthew Page thought about how they could create a fund that invests in robust businesses that perform well regardless of the economic environment, particularly when the backdrop is more challenging. In developing the ethos of what characterises a good business they struck upon return on capital as a metric that encapsulates many of the factors that they seek. These companies tend to allocate capital well, reinvesting into higher return projects which over time grows the asset base of company and improves cash flow.

The managers believe that there is a persistency in these high return companies and so the high quality companies of the future will have had a high return consistently over the last ten years. The ten-year period was chosen as it encompasses at least one full business cycle and reduces the potential universe of stocks sufficiently to still have a broad spread of sectors and geographies.

The Guinness Global Equity Income strategy is designed to provide income and capital growth by investing in companies that can pay sustainable, growing dividends.

Having managed portfolios focusing on global growth, the fund managers made the decision to launch an income fund which would draw on the investment philosophy and process of their growth orientated portfolios, adapted to produce a growing level of income and offer the prospect of long term capital growth.

Investment Philosophy & Process

Fundamental analysis is at the heart of the philosophy. The starting point is to determine the investment universe which is about identifying quality, well run, and profitable companies, not just looking for companies with a high dividend yield. The basis of the investment thesis is that good companies tend to stay good.

The first part of the process involves screening the c.16,500 companies listed across the globe and identifying those that have achieved at least a 10% real return on capital in each year over the last ten years. Ten percent is well above the average real cost of capital of around 5-7% over the past 10 years. This means the companies that are achieving this threshold are truly creating value for their shareholders. The most cyclical companies or those with high but declining or volatile earnings will not be able to consistently achieve this level. Business cycles tend to last less than ten years and so the companies in the investible universe have shown they can weather most economic environments. On average, the managers estimate that only 3% of global listed companies pass the threshold and so they think it is a mark of genuine quality. The managers calculate that those that pass the threshold have a 95% chance of achieving a return greater than 10% in the following year, and an 80% chance that they will continue to do so for the next four years. This level of returns enables companies to reinvest in their businesses and compound their equity growth. It also often coincides with the ability to pay a sustainable dividend and, more importantly a growing dividend in the future.

The managers also screen for balance sheet strength by looking at a range of metrics and look for and critical mass by excluding companies with a market capitalisation of less than $1 billion. After applying these screens there is an investment universe of around 500 companies from which to build the portfolio.

The managers have applied these screens to the full range of globally listed companies each year back to 2000 and have noted the following trends and characteristics:

- Turnover – The universe's turnover is relatively low. Excluding the impact of new entrants, the average fall-out rate is 5%

- Sectors – There is good sector diversity, and weights in the universe have been reasonably constant. More cyclical sectors (such as energy and Commodities) tend to have a lower weighting, as do sectors with no pricing power (e.g. Utilities).

- Geography – The geographic split has evolved over time. Whilst the number of companies from developed markets has increased, qualifying Asian and other emerging market companies have increased much faster.
- Market capitalisation – As well as a good range of large and mega cap stocks, a healthy number of mid-sized companies deliver consistent returns.

These characteristics combined (wide diversification across sector, market cap, and geography) mean that the managers are not constrained when selecting potential investments for the portfolio. The screening for persistent high returns on capital identifies many high yielding companies, despite there being no screen applied to dividend yields. On average, since 2000, over 50% of qualifying companies have yielded over 2%.

The next stage of the process is to prioritise companies for further due diligence. Three factors are considered in idea generation: Quality, Valuation and Dividends. In many respects, this is about determining the direction of travel on all three counts. In terms of Quality, they consider margins (absolute and growth), return on capital (absolute and growth) and balance sheet strength (debt/equity, net debt/equity, and interest rate cover). On Value they look at price multiple (price/earnings, EV/EBITDA, and Price/Cash Flow). Dividend yields, pay-out ratios and growth rates are also considered. Idea generation is about screening for a combination of different factors.

Once the ideas have been generated, they subject companies to a thorough due diligence process. Financial models are constructed to understand how the business has evolved over the previous 15 years (if possible). The models cover factors such as growth, margins, uses of cash amongst capital expenditure, acquisitions, share buybacks, repayment of debt, balance sheet evolution, drivers on return of capital, key geographic regions, valuations relative to peers and the company's own history, earnings sentiment and dividend cover.

They also seek to understand what the wider analyst community is forecasting for the business and the drivers behind this. They seek to form an opinion on subjective factors surrounding industry trends and company specific issues.

Meeting company management is not essential – as physicists, the managers prefer metrics over compelling themes or catalysts. Identified themes or catalysts are often priced-in to the valuations of companies, with stretched expectations of growth leading to higher risk than is often perceived.

The process has a strong sell discipline. The key considerations of which are:

1. Quality – If the quality of a business deteriorates in terms of its return on capital or its balance sheet and growth opportunities
2. Valuation – If the valuation anomaly the managers identified is diminished or has disappeared
3. Dividend – If there is a change in capital budgeting or dividend policy
4. Conviction – If the original thesis no longer holds or they have a better idea

ESG Considerations

Guinness Global Investors have a firm wide exclusionary policy that prevents investments into cluster munitions and thermal coal extraction and material usage. They are also signatories to the United Nations PRI. They operate a proprietary ESG scorecard and undertake a qualitative assessment of all potential investments and ESG analysis forms part of this. They have developed a model based on the Sustainability Accounting Standards Board's (SASB) materiality matrix which is seen as a risk analysis tool and augments their financial analysis.

Robust analysis is carried out on the governance aspects of the companies, particularly renumeration and this often drives their proxy voting. Carbon intensity and transition risk are other factors which are measured and monitored for the portfolio.

Portfolio Construction

The fund will typically hold 35 equally weighted stocks. The advantages to this approach are that:

- It reduces stock specific risks as the portfolio cannot be overweight in a small number of favoured companies
- There is no long tail of small holdings which can detract from performance
- The one-in-one-out approach results in a strong sell discipline being applied
- The portfolio is truly active and not tied to its benchmark
- The managers will actively trim winners and top up underperformers

The portfolio will normally only hold up to a maximum of 30% in any one Global Industry Classification (GICs) sector. In addition, there is a limit of 20% being directly invested in emerging markets. Typical regional exposures will vary but will likely be within the following bands:

UK	0-30%
Europe ex-UK (Developed Markets)	0-60%
Pacific ex-Japan (Developed Markets)	0-30%
North America	0-60%
Emerging Markets	0-20%
Other Developed Markets	0-20%
Cash	0-5%

Normally, 100% of the fund will be invested in companies with a market capitalisation of over US$1 billion and the level of turnover on the fund is expected to be between 20-30% per annum with an average 3-5 year holding period.

POSITIONING AND STRATEGY

The fund is fundamentally driven by stock selection and is index agnostic. Whilst macro factors are considered at stock level, there is no over-arching macro or thematic strategy. The portfolio structure owes more to the four key tenets to the approach: Quality, Value, Dividend and Conviction.

Quality looks at selecting companies with a long history of persistent high return on capital and avoiding highly leveraged companies. As at 31 December 2021, the average Return on Equity of the portfolio was 28% compared to 22% from the benchmark. The weighted average net debt/equity of the portfolio was 57% whilst it was 67% on the benchmark.

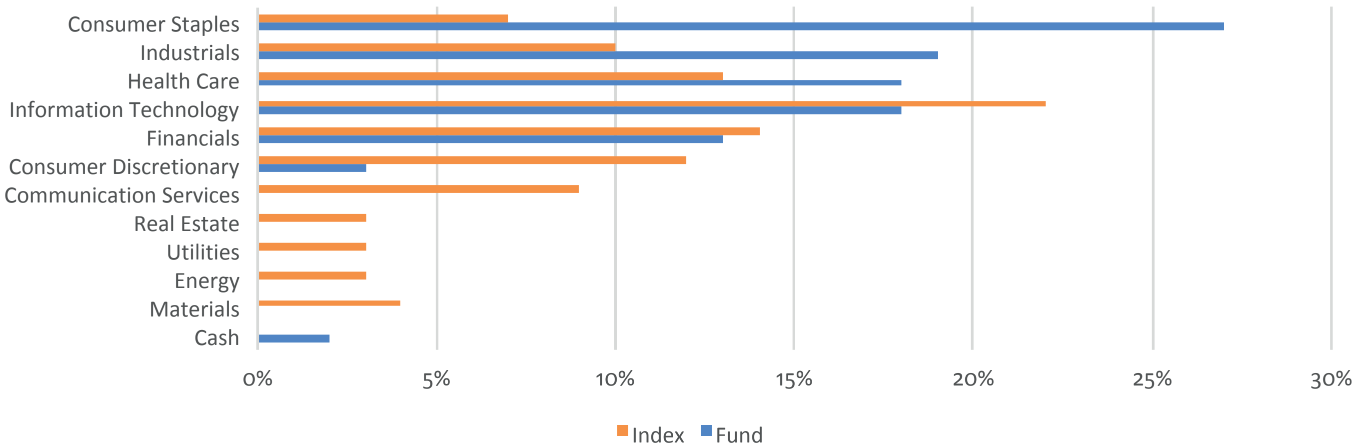
Value is about selecting companies that are cheap relative to the market, their peers, or their own history. The PE ratio (31/12/21) stands at 18.0x on the portfolio – it is 20.3x on the benchmark. The FCF yield on the portfolio was 4.3% whilst the benchmark stood at 4.8%.

The portfolio targets a moderate dividend yield and does not screen for high dividend companies with the aim being to grow the dividend stream year on year. The net dividend yield on the portfolio at the end of 2021 was 2.2% (net), the gross yield on the benchmark was 1.7%. The weighted average pay-out ratio on the fund was 50%. It was 42% on the benchmark.

In terms of Conviction, the portfolio holds 35 stocks and has an active share in excess of 90%. The managers believe that the companies they hold are well placed to weather whatever happens next and will come out the other side ready for their next stage of growth.

In terms of sectors and geography, the portfolio is still well diversified:

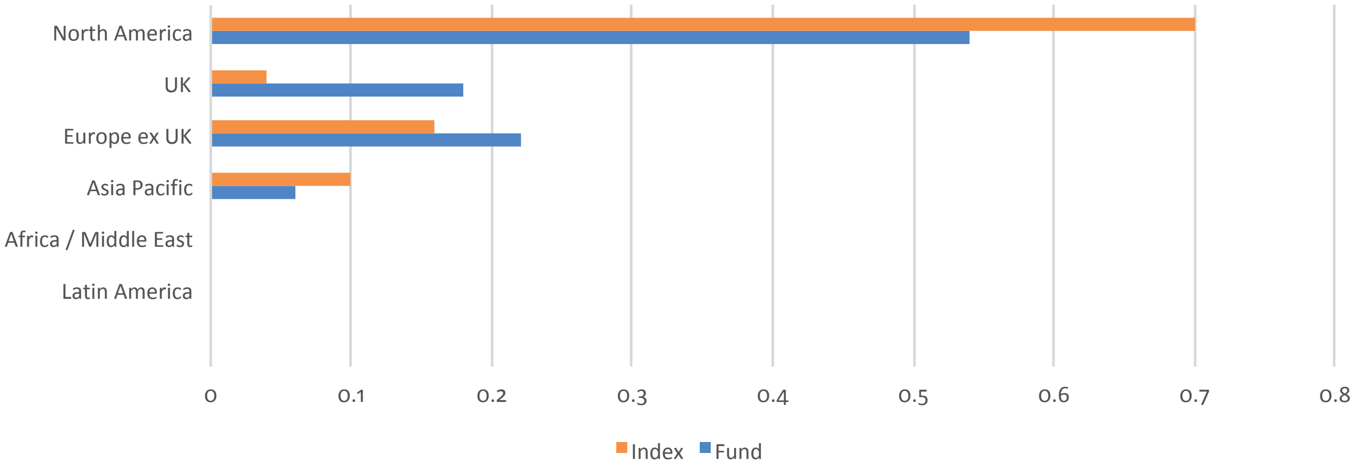
Sector Allocation vs Benchmark



The managers continue to maintain an even balance between quality defensive and quality cyclical/growth companies with approximately 50% in quality defensive companies (for example, Consumer Staples and Healthcare companies) and around 50% in quality cyclical or growth orientated companies (for example, Industrials, Financials, Consumer Discretionary, Information Technology, etc).

Within Financials they do not own any Banks, which helps to dampen the cyclicality of the other Financials held. The fund also has zero weightings to Energy, Utilities, Materials, and Real Estate. The largest overweight is to Consumer Staples.

Geographic Allocation vs Benchmark



In terms of geographic exposure (see chart above), the largest difference between the portfolio and the benchmark is the exposure to the US (as measured by country of domicile). The portfolio over the quarter had, on average, c50% exposure to North America which comprises around 67% of the benchmark. The largest geographic overweight remains Europe ex UK and the UK (with a combined weighting of 40%).

With regards to the UK exposure, there are two points to note:

1. The fund has a lower exposure to the UK when considered in revenues (c.4%) versus by domicile (c.18%) because they have favoured UK domiciled companies with a more global exposure (such as Unilever, Diageo, British American Tobacco and Imperial Brands); and

2. There is a larger exposure to Asia Pacific by revenues (c.20%) than the equivalent statistic as measured by domicile (c.6%).

Within the Asia Pacific region there is one company in Taiwan (Taiwan Semiconductor) and one company listed in Australia (Sonic Healthcare).

Performance

Over the longer term (one, three and five years), the fund has outperformed the IA Global Equity Income sector average, and since inception the fund has been the top performing fund against its peers, coming 1st out of a peer group of 14 funds. Over ten years, the fund is third out of a peer group of 20 funds. As the portfolio is equally weighted, alpha comes from stock selection, driven by the investment process and any additional contributions from other factors are marginal.

The following graph illustrates the cumulative performance of the fund versus the IA Global Equity Income sector average over the last three years.

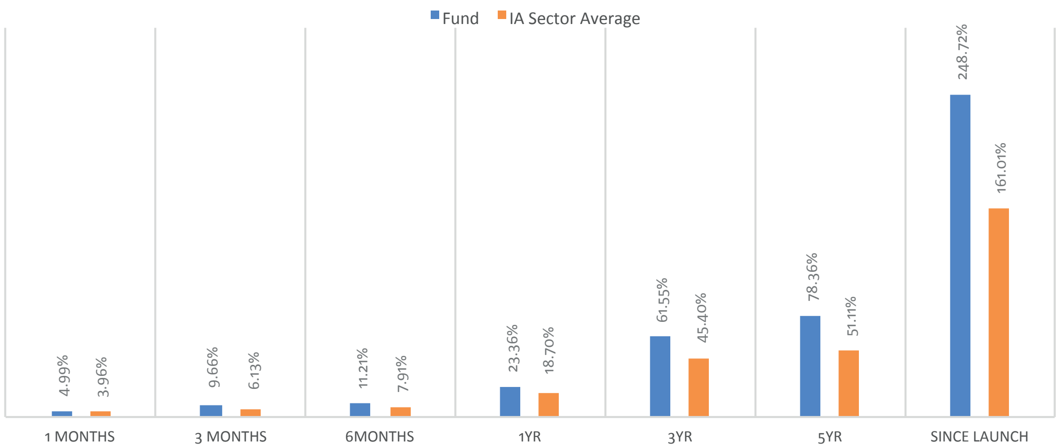
Performance vs IA Sector Average

As quality is an overriding factor within the portfolio, the managers believe that these types of companies have enabled the fund to outperform its benchmark when markets have fallen. There have been five 10% plus corrections in markets since the fund was launched and the fund did not capture the whole of the downside on these occasions which has enabled it to outperform its peers. Here are the corrections and the downside capture of the fund:

Reason for Sell Off	Start Date	End Date	Downside Capture
European Crisis / Greece	05/02/2011	04/10/2011	71%
US Credit Rating Downgrade	19/03/2012	04/06/2012	72%
China Growth Concerns	31/12/2015	11/02/2016	53%
Tech Sell Off / US China Trade Issues	03/10/2018	25/12/2018	69%
Coronavirus	19/02/2020	23/03/2020	96%

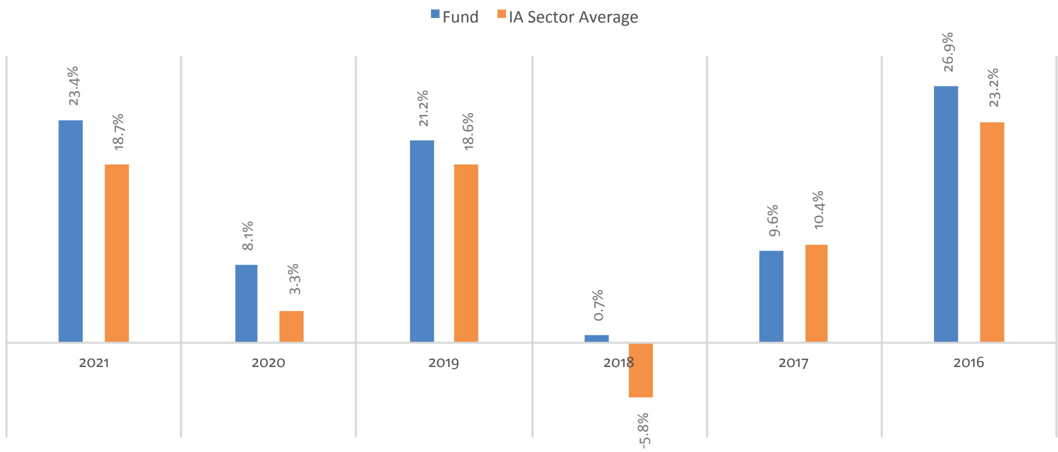
On average the fund only captured 72% of market downside in the five corrections (>10% drawdown) since the fund was launched at the end of 2010 (Source: Guinness Global Investors, Bloomberg).

Performance vs IA Sector



When the markets are more risk-on in nature, the portfolio has performed well owing to the quality cyclical exposure capturing most of the upside but, when global markets are driven by the high growth names, the fund will not generally keep up as companies such as Google (Alphabet) and Facebook (Meta) don't pay a sufficient dividend and so will not feature in the portfolio. When markets are experiencing events such as interest rate rises and bond proxy type investments sell off, the portfolio has also performed well as they do not have exposure to longer duration assets in the Utilities and Telecom sectors. In aggregate, the fund has matched the performance of the global indices but with a beta of 0.85.

Performance vs IA Sector



In 2021, performance was driven a wide selection of names, across several sectors. Novo Nordisk was one of the top performers on the back of strong sales of the anti-diabetes and weight loss treatments. Microsoft was also a strong contributor, despite it sitting on a lower yield, added to returns. Broadcom, a semiconductor producer and also in the IT sector, produced good returns as it is exposed to secular growth themes such as 5G roll out. The Industrials sector contributed through Eaton, a global power management company which manufactures engineered products for industrial, vehicle, construction, and aerospace markets. In Financials, Arthur J Gallagher performed well, and Diageo bounced back from a muted 2020.

SUMMARY & EVALUATION

Guinness Global Equity Income has been rated by RSMR since March 2014. It was launched in December 2010 when the fund managers, Ian Mortimer and Matthew Page decided to launch an income producing strategy, recognising the importance of income in the production of total returns. The duo decided that their approach to managing global growth mandates, which they had carried out successfully for several years, could be adapted and applied to global equity income mandates.

The crux of the process is to invest in companies which have delivered a 10% return on capital in every year over the last decade, and which have balance sheet strength and critical mass. Having screened the universe of global listed stocks since 2000, over 50% of qualifying companies delivered a yield of over 2% but the screen pays no attention to yield with a focus on quality, stable, profitable companies which differentiates this fund from its peers. In terms of dividends, the managers target a moderate dividend yield with a view to grow the dividend stream year on year. Other than in 2020, when the fund trimmed its dividend by 0.5%, the dividend stream and capital has increased in every year since launch.

This is a high conviction strategy with an active share of over 90% relative to its benchmark, being equally weighted in 35 stocks. This is not a high-income strategy but one of dividend growth. By adopting this approach, long term investors should be provided with a sustainable and growing level of income, and the nature of the process makes it an attractive core holding for global equity income investors.

RSMR

Established in 2004 RSMR provides research and analysis to firms working across the UK's personal financial services marketplace.

Our work is completed with total impartiality, without any conflict of interest and delivered to a high professional standard by a team of experienced and highly qualified people.

Working with advisers

We provide specialist research, analysis and support to a diverse range of financial advisers and planners helping them to deliver sound advice to their clients, backed by rigorous and structured research and due diligence.

The main regulatory body in the UK, the FCA, states that personal recommendations made by advisers should be 'based on a comprehensive and fair analysis of the relevant market' and this has led to closer scrutiny of the whole advice process. Our solutions are designed to help advisers meet these challenges whilst recognising that advisory firms require a range of flexible options that best meet their own business needs and those of their clients.

Working with providers

We work with all the leading fund groups, life and pension companies and platform operators across the financial services sector offering straight forward and pragmatic advice to help add value and improve their business performance and efficiency whilst treating customers fairly in line with FCA requirements.

Ratings

Our innovative ratings are now recognised as market leading and cover a broad area of investment solutions including single strategy funds, SRI funds, Multimanager and multi-asset funds, DFMs and investment trusts. Our familiar 'R' logo is now recognised as a trusted badge of quality by advisers and providers alike and a 'must-have' when selecting funds. Our ratings are founded on a strict methodology that considers performance and risk measures but places a greater emphasis on the ability of fund managers to continue to deliver performance in the years ahead. based on our in-depth face-to-face meetings with fund managers across the globe.

We understand financial services and we will work alongside you to deliver tailored solutions that are right for your clients and your business.

Our research. Your success.

NOTES

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