INVESTMENT RESEARCH

Why Quality Matters

The empirical case for quality investing: why high-quality businesses outperform, how to identify them, and why the market consistently undervalues them.

GUINNESS GLOBAL INVESTORS

POSITIVELY DIFFERENT

About this paper

This paper sets out the empirical and theoretical case for quality as an investment approach. It examines how quality companies are defined, what distinguishes them in practice, and why their characteristics translate into superior risk-adjusted returns over time. The analysis uses data from FactSet spanning the period 1991–2025. All performance data is in USD on a total return basis.

Past performance is not a reliable indicator of future results. This document is provided for informational purposes and does not constitute investment advice.

Risk

This is a marketing communication. Please refer to the prospectus, supplement, KIDs and KIIDs for the Funds (available on our website), which contain detailed information on their characteristics and objectives and full information on the risks, before making any final investment decisions.

The Guinness Global Equity Income Fund and Guinness Global Innovators Fund are equity funds. 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.

The Funds are actively managed with the MSCI World Index used as a comparator benchmark only. The Funds invest primarily in global equities which are selected on the basis of persistently high returns on capital and strong balance sheets.

Team

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Introduction

Investing in high-quality companies is an intuitively appealing strategy, yet the concept of quality itself is not easily defined. At its core, quality is subjective, but from a long-term investor's perspective it can be broadly understood as a company's ability to allocate capital effectively over time. High-quality businesses sustainably deploy capital into projects with attractive expected returns without compromising their long-term financial health. This disciplined reinvestment creates a compounding flywheel, enabling such companies to build - and crucially, sustain - competitive advantages over time.

The importance of quality stems from the fundamental drivers of equity returns. Over long periods, share price performance is determined primarily by revenue growth and profitability rather than fluctuations in valuation multiples. To deliver sustained growth and resilient margins, companies must generate sufficient free cash flow and possess the discipline and long-term mindset required to allocate that capital to projects with the highest returns. In contrast, lower-quality businesses tend to be short-sighted or highly cyclical, are often characterised by slimmer margins, limited financial flexibility and higher leverage, and can prioritise near-term outcomes at the expense of long-term compounding. While quality strategies can underperform during speculative or extreme risk-on market environments, quality has historically delivered excess returns over full market cycles by providing resilience during periods of economic uncertainty but still participating meaningfully in market upside.

When it comes to specifics, however, and while there is extensive literature examining quality as a style factor, no single definition prevails. Commonly cited indicators such as profitability can raise questions: which margin should matter most? Should return-based metrics such as return on assets or return on equity take precedence? Subjectivity also arises in categorical interpretations, with quality sometimes conflated with defensiveness, market capitalisation, or maturity. But while strong balance sheets and durable competitive advantages are often found in larger or less capital-intensive businesses, smaller or faster-growing companies can also exhibit high quality if they allocate capital effectively.

Accordingly, we adopt a holistic approach to defining and identifying quality, focusing on businesses that demonstrate persistently high returns on capital – the measure we believe provides the greatest alignment to real value creation – alongside strong balance sheets. While no framework can eliminate uncertainty completely, these characteristics provide a robust foundation for long-term compounding and, ultimately, sustainable investment outperformance.

In this paper we set out the empirical case for quality as a durable source of long-term equity outperformance. We show that rather than simply being 'defensive', quality companies sustain more durable growth, exhibit a higher frequency of positive corporate outcomes, and resultingly outperform lower-quality peers, being systematically mispriced by a market that underestimates the persistence of high returns on capital. In particular, we examine the case for **PROVEN** quality:

PERSISTENT RETURNS

Quality companies can sustain high returns on capital far longer than the market assumes.

REPEATED OUTCOMES

Quality companies show a systematically higher frequency of positive corporate events: more dividend growth and reinvestment, less need for external financing, and lower risk of earnings disappointments.

OUTPERFORMANCE

Quality companies outperform low-quality companies in the long run, with lower volatility – producing superior risk-adjusted returns.

VALUE ASYMMETRY

Quality companies tend to show a positive skew in upside and downside capture versus lower-quality companies, protecting more on the downside while participating meaningfully on the upside.

ENDURING GROWTH

Quality companies demonstrate a more resilient growth profile. The mean reversion (or 'fade') in growth tends to be slower than in low-quality companies.

NAVIGATION OF MARKET STRESS

Quality companies tend to outperform when it matters most: in downturns, slowing GDP growth, rising inflation and heightened market volatility.

Defining Quality

The first hurdle in establishing an investment strategy centred upon quality is defining it. However, there is no single, universally accepted definition. This subjectivity is evident even among widely used index providers. The MSCI Quality Index, for example, defines quality using a combination of return on equity, earnings volatility, and financial leverage. The S&P 500 Quality Index uses return on equity, accruals ratios, and financial leverage, while FTSE quality indices focus on return on assets, asset turnover, accruals, and leverage. Definitions vary further among actively managed investment strategies. Even where market participants agree on the variables to use, methodologies diverge in terms of time horizons, thresholds, and factor weightings.

WHICH MEASURE MATTERS MOST?

Each commonly used return metric offers useful insight into business quality, but none is without limitations. Return on equity (ROE), while intuitive and widely used, is highly sensitive to a company's financing mix and capital allocation decisions. Increased leverage or aggressive share buyback programmes can mechanically inflate ROE without any improvement in underlying business economics. Return on assets (ROA) improves on this by focusing more directly on operating efficiency and reducing the influence of capital structure, though it remains affected by accounting differences and asset intensity across industries.

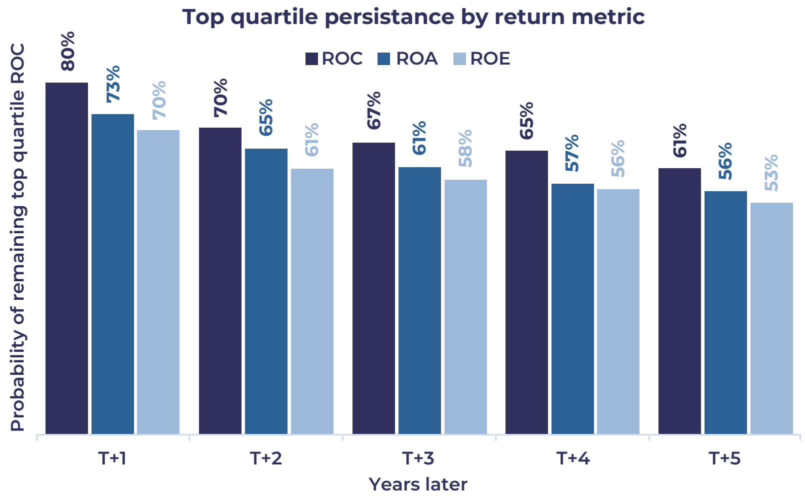
Our preferred metric is return on capital (ROC). It is less distorted by leverage, more comparable across different capital structures and industries, and most directly connected to the mechanism through which businesses create lasting value: the sustained ability to earn returns that exceed the cost of the capital deployed.

HIGH-QUALITY COMPANIES TEND TO REMAIN HIGH-QUALITY

As investors, we care more about the future than the past. Whatever past success a company has had, we want to know if that success is going to continue. While high return-based metrics can provide confidence in a company's point in time quality, we believe true quality is characterised by the ability to sustain and compound those returns over time. As shown below, return on capital exhibits the strongest persistence of future returns over subsequent years, compared to both ROA and ROE. ROC can therefore serve as a powerful leading indicator of long term value creation, reinforcing its relevance as a core quality signal.

For a company in the top quartile of ROC today, there is an 80% probability it remains in the top quartile next year, 67% in three years' time and 61% in five years' time.

Figure 1: Return on capital shows the strongest persistence of high returns over time



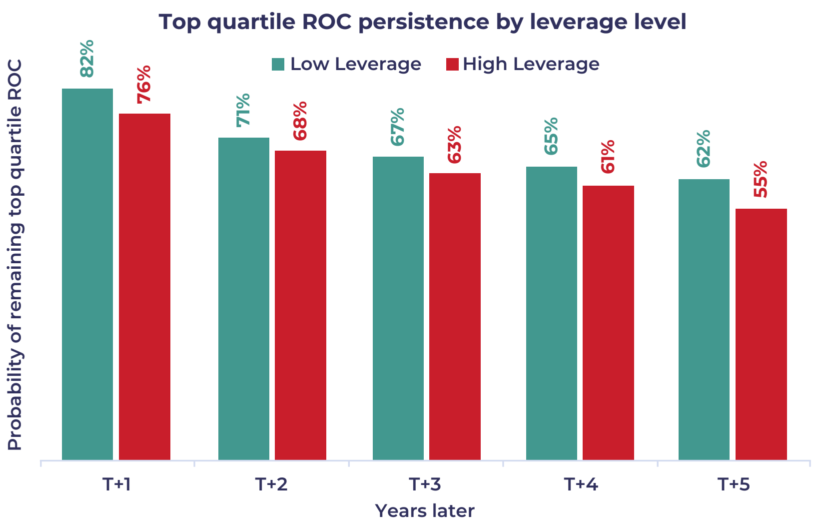
Source: FactSet, Guinness Global Investors. Data from 2000 – 2024. Universe is constructed using all developed market listed companies with market capitalisations greater than $1bn. Graph figures are medians over rolling T+1 to T+5 periods.

WHY LEVERAGE ALSO MATTERS

ROC alone, however, may not be sufficient. Businesses that generate high returns but rely on excessive leverage can quickly unravel as cash flows are diverted to debt servicing or when balance sheet fragility is exposed during periods of economic stress. In such environments, previously stable cash flows may prove less reliable, constraining reinvestment and undermining long-term returns.

By pairing return on capital with low leverage, investors gain an additional margin of safety in the form of financial resilience. This combination reduces downside capture in weaker equity markets and can help maintain a disciplined focus on sustainable value creation. This is reflected in greater persistence of returns: low-leverage companies are more likely to remain high-quality than high-leverage businesses.

Figure 2: Combining ROC with low leverage increases persistence

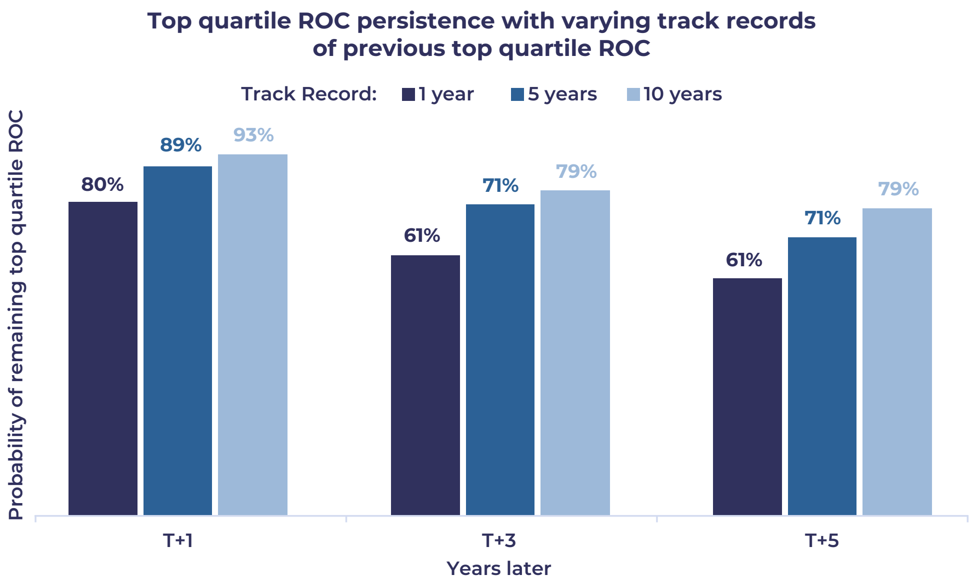


Source: FactSet, Guinness Global Investors. Data from 2000 – 2024. Universe is constructed using all developed market listed companies with market capitalisations greater than $1bn. Graph figures are medians over rolling T+1 to T+5 periods. High/Low Leverage defined by companies with Debt/Equity above/ below universe median.

HISTORY MATTERS

As we extend the period over which we screen for top-quartile ROC, the persistence signal strengthens. Companies with one year of top-quartile ROC already show a strong probability of maintaining that status in the years that follow, as shown above. However, extending this to 10 consecutive prior years of top-quartile ROC raises the probabilities significantly, as shown below.

Figure 3: ROC persistence increases with longer track records of top-quartile ROC



Source: FactSet, Guinness Global Investors. Data from 2000 - 2024 Universe is constructed using all developed market listed companies with market capitalisations greater than $1bn. Graph figures are medians over rolling T+1 to T+5 periods.

Put simply, companies with longer track records of high ROC are more likely to keep allocating capital well – in other words, 'good companies stay good'. We therefore favour longer records over shorter ones. In practice, the appropriate threshold depends on the investment strategy: more defensive strategies may seek extended histories of sustained top-quartile ROC, while quality growth strategies may screen for a shorter history of top-quartile ROC to capture businesses earlier in their compounding lifecycle.

The persistence analysis above establishes the basis for the first pillar of our **PROVEN** quality framework: **PERSISTENT RETURNS**. High ROC is not merely a snapshot of current competitive strength; it is a durable, self-reinforcing characteristic, and the foundation upon which long-term outperformance is built, and even more so with longer track records of this success. In the following section, we explore the fundamental characteristics that differentiate these businesses from their lower-quality counterparts.

Characteristics of Quality Companies

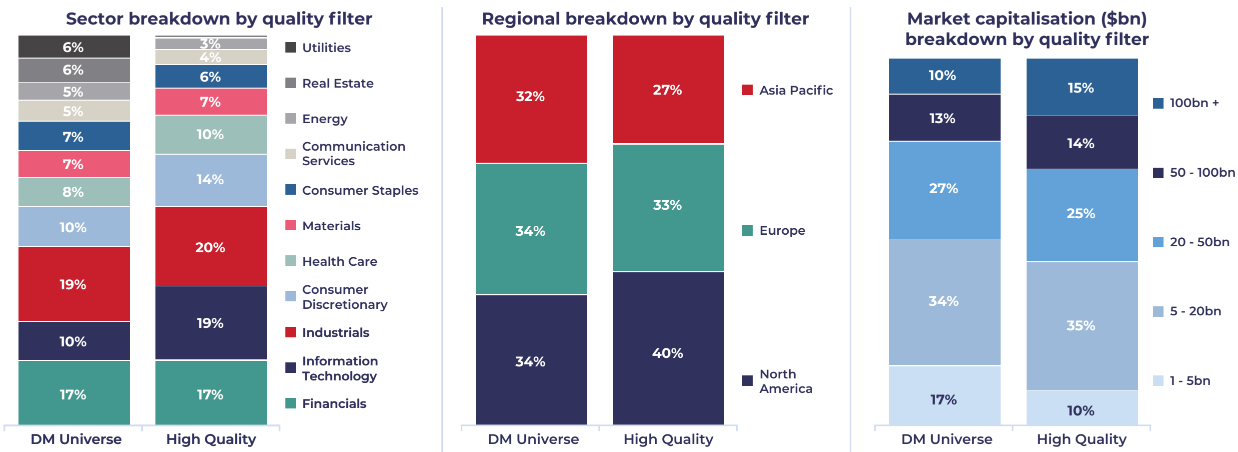
1. **Quality companies can be found across geographies, sectors, market caps, and growth profiles.**
2. **Corporate growth rates mean-revert. Overlaying quality onto growth increases its durability and persistence.**
3. **High-quality companies exhibit a higher frequency of positive corporate behaviours and outcomes.**

QUALITY IS MORE WIDESPREAD THAN YOU THINK

While our definition of quality – high returns on capital alongside strong balance sheets – sets a deliberately high threshold, it should not be conflated with a subset of defensive sectors, large-capitalisation stocks, or mature businesses. Although companies exhibiting both high ROC and conservative balance sheets are less common in highly commoditised industries or in sectors where regulation constrains profitability, this framework does not imply a restricted opportunity set.

In practice, when compared to our broad developed market (DM) universe, our quality filter does not dramatically skew sectoral, regional or market cap exposures. While such companies are relatively more frequently observed in less capital-intensive industries such as Information Technology, our definition of quality enables broad and diversified exposure across the global equity universe.

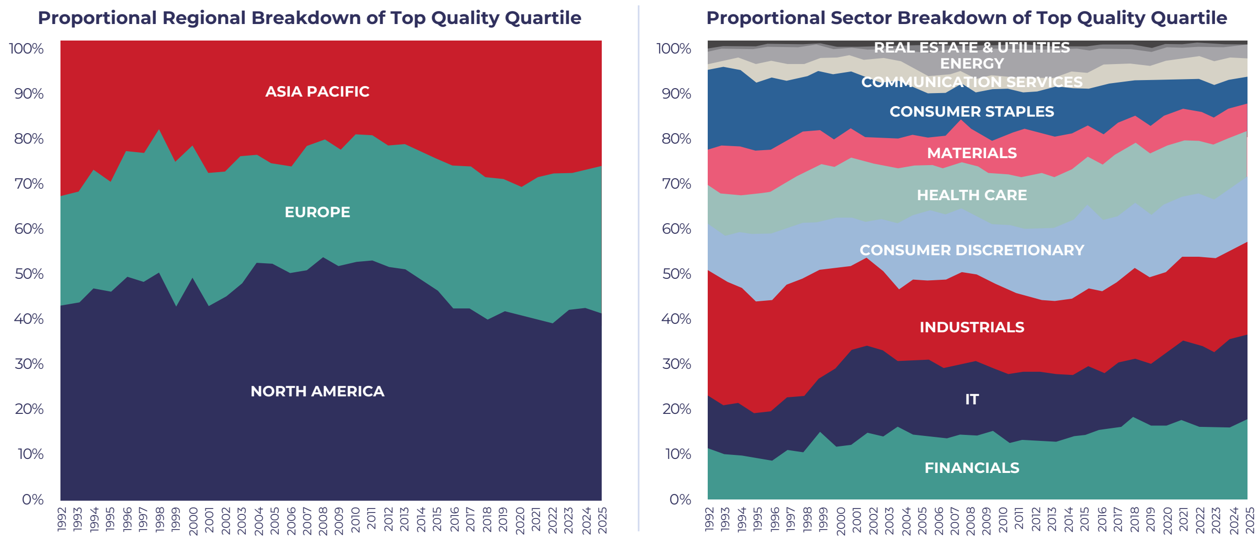
Figure 4: Quality companies span sectors, geographies, and market capitalisations



Source: FactSet, Guinness Global Investors. Data for 2025 universe. DM Universe is constructed using all developed market listed companies with market capitalisations greater than $1bn. High Quality refers to the subset of companies in the universe which have top quartile ROC and below median D/E.

Over the last three decades, the universe has grown, but its composition by region and sector has remained broadly stable. Regionally, the share of ex-North American companies has edged higher – a reflection of new quality entrants outside North America rather than a shrinking North American cohort – while North America remains home to the largest number of high-quality businesses. At the sector level, weights have shifted with broader market concentration but without any structural reorientation. The most notable change has been the rising share of Information Technology, a sector most recently characterised by the continual creation of new, capital-light businesses capable of sustaining high returns on capital. Critically, the structural consistency of this universe over time allows for disciplined, repeatable portfolio construction.

Figure 5: The universe of quality businesses has remained broadly stable over time

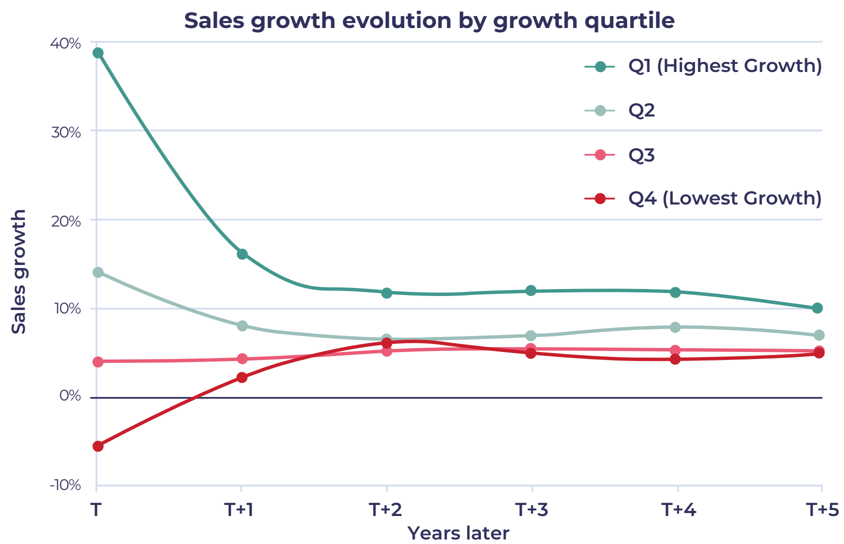


Source: FactSet, Guinness Global Investors. Data for 2025 universe. DM Universe is constructed using all developed market listed companies with market capitalisations greater than $1bn. High Quality refers to the subset of companies in the universe which have top quartile ROC and below median D/E.

GROWTH WITHOUT QUALITY MAY NOT PERSIST

Importantly, this definition of quality does not exclude growth businesses. While high-growth companies often require elevated levels of reinvestment and external financing, there is a subset of 'quality growth' companies that pursue expansion through disciplined capital allocation and sustained value creation. When seeking growth opportunities, we argue that quality is a better starting point than growth itself. Corporate growth rates show limited persistence over time and typically mean-revert; rapidly growing sectors attract capital, competition intensifies, and growth rates often moderate towards industry or market averages.

Figure 6: Corporate growth rates have low persistence; growth rates mean-revert

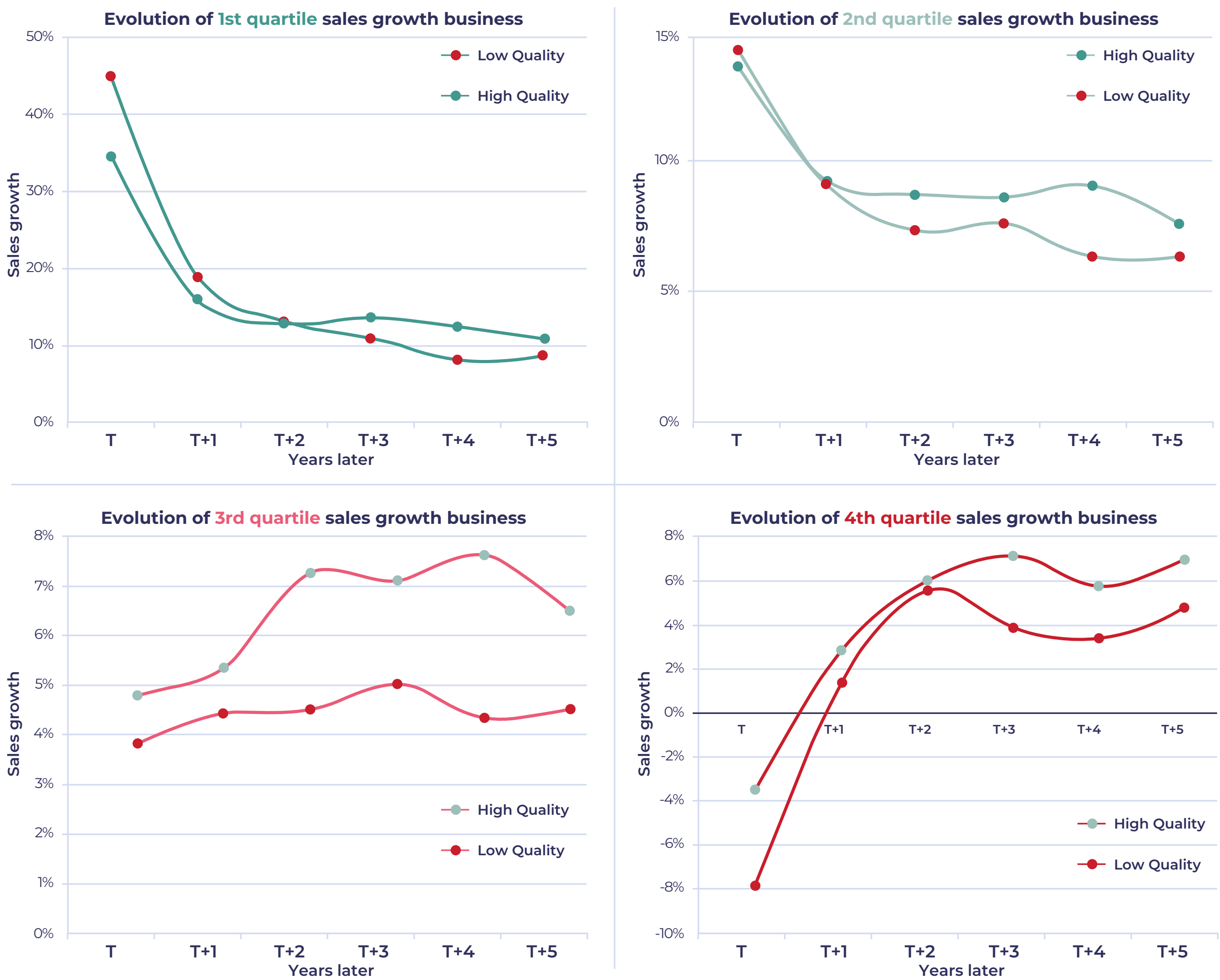


Source: FactSet, Guinness Global Investors. Data from 2000 – 2024. Universe is constructed using all developed market listed companies with market capitalisations greater than $1bn. Graph figures are medians over rolling T+1 to T+5 periods.

However, we find that high-quality businesses exhibit a slower decay in corporate growth rates (their growth is more durable) than lower-quality businesses, where growth rates fade more quickly. This holds not only among the highest-growth companies, but across all growth quartiles. High quality supports higher growth for longer.

Across all four growth quartiles, the highest quality businesses delivered five year compound annual sales growth that was, on average, 1.5 percentage points higher than the lowest quality subset.

Figure 7: Quality businesses sustain higher growth for longer



Source: FactSet, Guinness Global Investors. Data from 2000 – 2024. Universe is constructed using all developed market listed companies with market capitalisations greater than $1bn. Graph figures are medians over rolling T+1 to T+5 periods. High Quality refers to the subset of companies in the universe which have top quartile ROC and below median D/E. Low Quality refers to the subset of companies in the universe which have bottom quartile ROC and above median D/E.

MORE POSITIVES, FEWER NEGATIVES

Quality persists because it is reinforced by incremental capital allocation decisions. Strong management teams deploy capital with discipline, reinvesting in opportunities where incremental returns are attractive while protecting the balance sheet. The result is a business that compounds value through business cycles and subsequently experiences a higher frequency of positive corporate behaviours and outcomes than negative ones. This is the asymmetry shown in Figure 8 and the next pillar of our **PROVEN** quality framework: **REPEATED OUTCOMES**.

Figure 8: Quality companies produce more positive corporate outcomes than negative ones

Behavioural Outcomes by Quality Cohort

Median proportion of stocks exhibiting each outcome per year, 1991-2025. Values shown as % of cohort.

• High Quality (HQ) • Low Quality (LQ)

Quality businesses demonstrate superior earnings stability and more reliable delivery versus analyst expectations.

Operational			HQ minus LQ
Operating margin falls > 20%	9.3%	21.3%	-12.0pp
EBIT decreases > 10%	14.3%	26.6%	-12.3pp
EPS negative surprise > 5%	12.1%	23.9%	-11.8pp

High-quality companies are less likely to exhibit negative operational outcomes thanks to more resilient cash flow generation and superior pricing power. This leads a lower risk of sharp deterioration in fundamentals, whether through contracting margins or growth that is volatile and less predictable.

Quality businesses are less likely to seek material additional external financing through share issuance or debt.

Financing			HQ minus LQ
Share Issuance > 1% of Market Cap	10.5%	21.4%	-10.9pp
Increased D/E > 25%	7.3%	23.7%	-16.4pp

More predictable operational outcomes mean high-quality companies are more likely to avoid forced dilutive financing. They are less likely to issue shares or take on excessive debt to plug funding gaps – preserving optionality for management.

Quality companies are more likely to reinvest at higher rates in R&D and capital, sustaining their long-run competitive advantage.

Reinvestment			HQ minus LQ
Increased R&D	58.9%	68.0%	+9.1pp
Increased Capex	56.5%	63.4%	+6.9pp

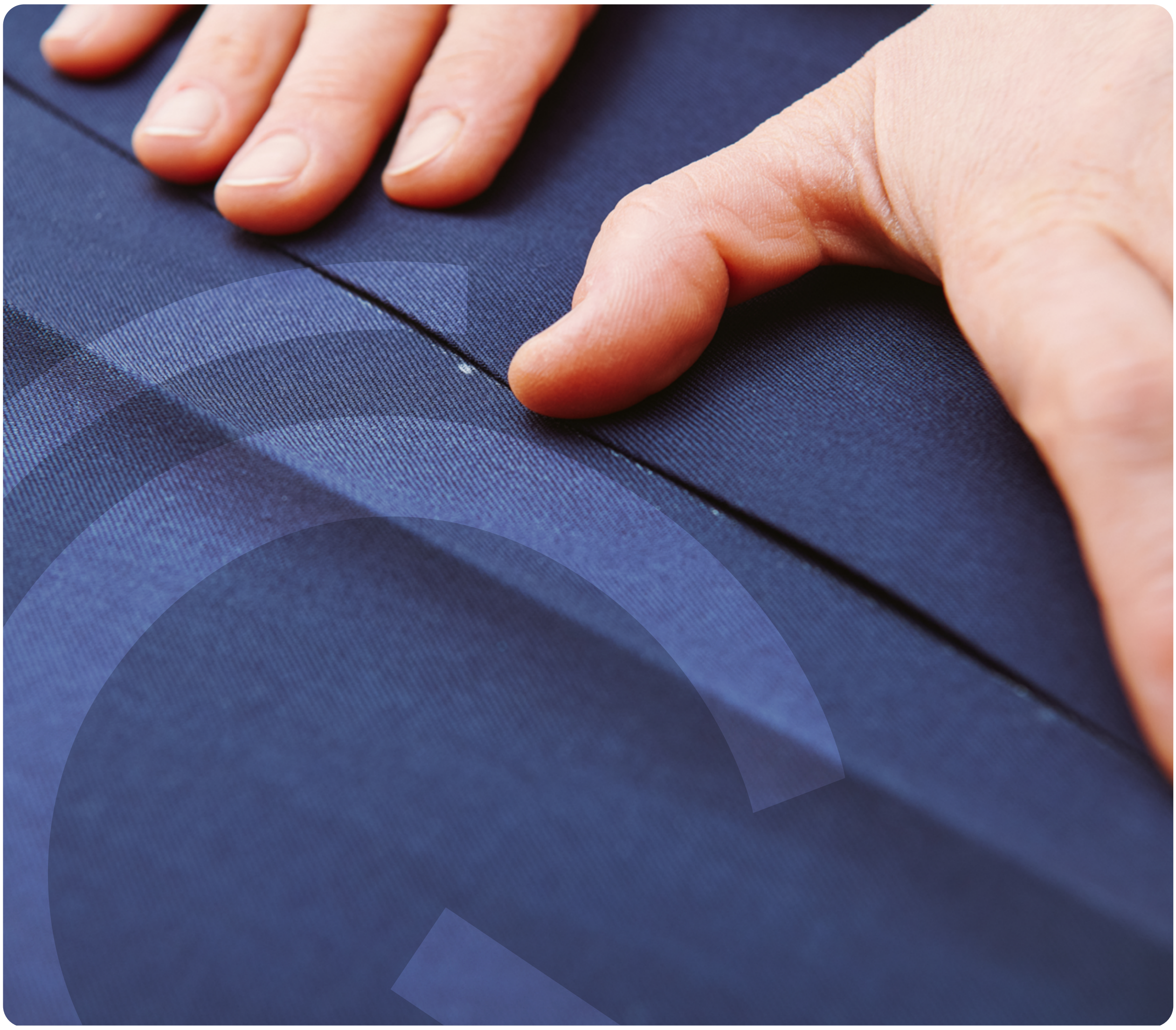
This combination of highly cash-generative business models and low reliance on external financing enables high-quality businesses to reinvest more reliably in future revenue-generating activities such as R&D and capital expenditure. That reinvestment creates a flywheel upon which those positive operational outcomes can continue.

Quality companies are more likely to grow dividends consistently and return cash to shareholders; dividend cuts are rare.

Shareholder Returns		HQ minus LQ
Raised Dividend	60.7% 79.2%	+18.5pp
Cut / Cancelled Dividend	7.2% 15.0%	-7.8pp
Share Buyback > 1% of Market Cap	21.4% 33.0%	+11.7pp

Source: FactSet, Guinness Global Investors. Data from 1991 – 2025 based on an internally developed Global Developed Markets equity universe for any given year using the 85% market capitalisation coverage rule applied independently per country. Quality quartiles based on composite ROC and Debt/Equity z-scores.

High-quality firms exhibit a greater capacity to return capital to shareholders sustainably and to grow such payouts, while retaining the flexibility to invest opportunistically. Strong balance sheets allow these companies to support dividends through the economic cycle, avoid forced dividend cuts or capital raising in periods of stress, and selectively reinvest when attractive opportunities arise.



Performance of Quality Companies

1. **Quality businesses outperform over the long run - with better risk-adjusted returns.**
2. **Quality businesses offer asymmetric return profiles - participating in rising equity markets while capturing less downside.**
3. **Quality businesses outperform when it matters most - in downturns, periods of slow growth, and volatile market environments.**

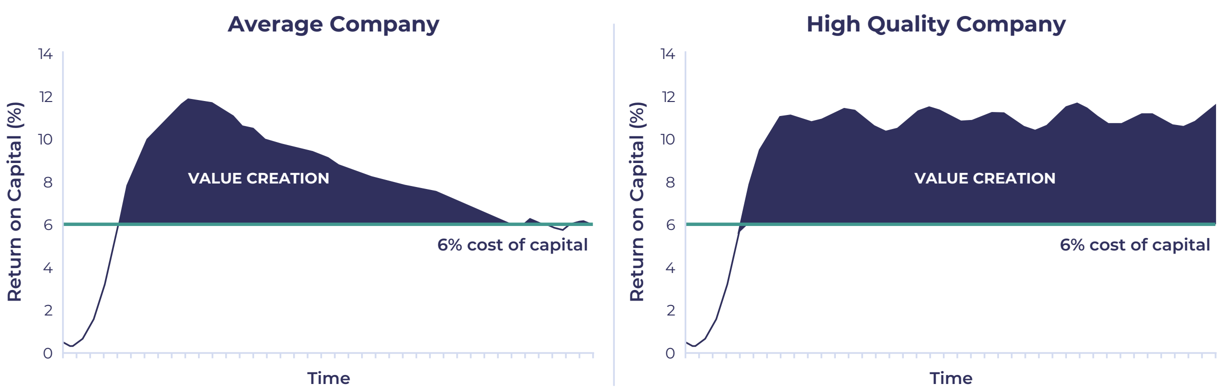
THE MISPRICING OPPORTUNITY

The misunderstanding of the persistence of high returns on capital that quality companies generate creates opportunities to identify good businesses at advantageous valuations. The anomaly arises from a conflict between the assumption of market efficiency and the reality that high-quality companies often remain high-quality for longer than the market expects.

Economic theory suggests that when a company earns excess returns, competition should increase, eroding those returns and driving ROC back toward the cost of capital. This is shown visually in the 'average' company graph below. While this dynamic holds for many businesses, it frequently fails to account for the persistence of elevated returns among truly high-quality companies.

The resulting mispricing occurs when the market values a high-quality business as if it were an 'average company' by implicitly assuming its returns on capital will fade toward the cost of capital as the typical company does. This understates the persistence of returns in high-quality businesses, where competitive advantages, balance sheet strength and disciplined capital allocation allow management to defend structurally higher ROC against competitive pressure for far longer than the market often discounts.

Figure 9: The market prices quality companies as average - they are not



Source: Guinness Global Investors.

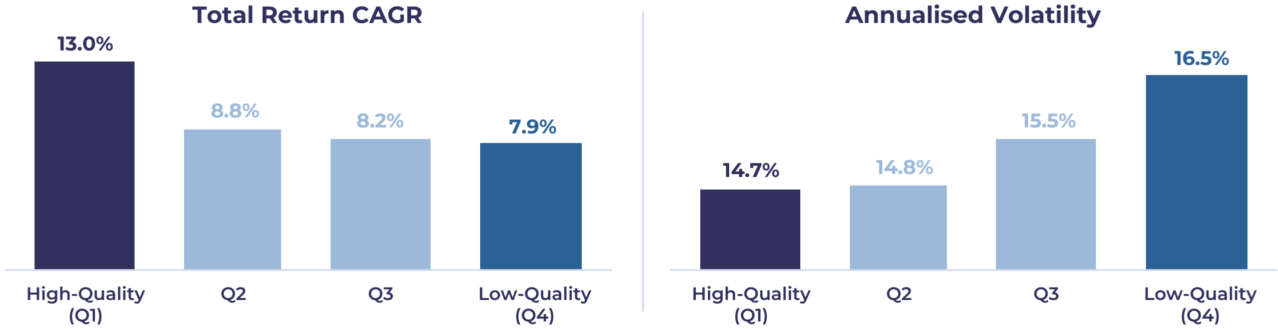
This misunderstanding of a quality company's ability to sustain competitive advantages over longer periods than assumed by the market is one of the key drivers of why quality businesses outperform low-quality businesses over time.

BACKTESTING COHORTS OF QUALITY

To evaluate the third and perhaps most important pillar of our **PROVEN** quality framework, **OUTPERFORMANCE**, we construct four baskets of companies characterised by their level of ROC and leverage. Our analysis shows that from 1991 to 2025, businesses in the top quartile by quality produced an annualised total return of 13.0%, compared to lowest-quality quartile's 7.9%. What's more, they did so with lower levels of volatility, which led to superior risk-adjusted returns for investors.

Over the 35 years of backtesting, high quality businesses outperformed low quality businesses in 26 of them.

Figure 10: High-quality businesses outperform across return, and volatility metrics



Source: FactSet, Guinness Global Investors. Data from 1991 – 2025 based on an internally developed Global Developed Markets equity universe for any given year using the 85% market capitalisation coverage rule applied independently per country. Quality quartiles based on composite ROC and Debt/Equity z-scores. Returns in USD. CAGR: compound annual growth rate.

WHEN DIDN'T QUALITY WORK?

Despite the strong long-term outperformance of the quality factor, it is important to recognise that quality can underperform and for us to be able to understand the drivers behind this. Fortunately, these periods have historically been less common, and they overlap with some notable market episodes. Below, we highlight seven distinct periods in which high-quality businesses underperformed low-quality businesses and the market environment during each one.

Figure 11: Periods in which Low Quality outperformed High Quality

Start Date	End date	Duration (months)	Q1 (high quality)	Q4 (low quality)	Q1 vs Q4 (pp)	Significant events during period
Apr-1992	Jun-1994	26	26.2%	57.9%	-31.7	Rebound from early 1990s recession
Feb-2000	Sep-2001	19	-20.8%	-7.1%	-13.7	Dot-com bubble unwind
Jan-2002	Feb-2007	61	108.4%	178.0%	-69.7	Expansion after dot-com bubble burst
Feb-2009	Aug-2009	6	47.4%	72.6%	-25.2	Rally following Global Financial Crisis
Aug-2012	Apr-2013	8	17.3%	27.6%	-10.3	Post-European debt crisis recovery
Sep-2020	May-2022	20	14.8%	24.0%	-9.2	Covid-19 reopening and vaccine optimism
Jan-2025	Dec-2025	11	23.3%	31.9%	-8.6	AI enthusiasm / Liberation Day reversal
Average relative outperformance					-24.0	

Source: FactSet, Guinness Global Investors. Monthly data in USD 1991–2025 based on an internally developed Global Developed Markets equity universe for any given year using the 85% market capitalisation coverage rule applied independently per country. Quality quartiles based on composite ROC and Debt/Equity z-scores and rebalanced annually. Periods defined by the low-quality universe outperforming the high-quality universe by at least 5%.

These episodes have some common threads. Apart from the dot-com bubble unwind, which we discuss below, all are characterised by recovery rallies following a market stress event such as the European debt crisis. Commodity or real estate upswings are also challenging for the factor, as high-quality stocks are less commonly found in commoditised or regulated industries. For example, the period preceding the Global Financial Crisis was characterised by a booming housing market in the US and material credit expansion causing leveraged, cyclical companies to outperform. As markets rotated into the relevant industries, quality lagged, being underrepresented in the sectors that outperformed.

Overall, it is worth noting that quality still delivered a positive return in every one of these underperformance periods except the dot-com unwind. The underperformance for investors in our basket of high-quality companies generally came in the form of missed upside rather than absolute losses.

REDUCED DOWNSIDE CAPTURE

As discussed previously, quality is sometimes conflated with defensiveness. Although we use a different definition, this is understandable. As highlighted in the previous section, high-quality companies typically generate more sustainable cash flows, reducing the likelihood of negative earnings surprises. Their limited reliance on leverage to drive growth means they are not burdened by excessive debt servicing during periods of economic stress, affording them greater financial flexibility. Strong balance sheets and resilient business models allow them to withstand downturns more effectively, preserving capital during severe market dislocations.

This resilience is reflected in superior downside capture characteristics. In falling markets, high-quality stocks tend to fall in price materially less than lower-quality peers, helping to avoid permanent capital destruction and reducing volatility over full market cycles. Since 1991, our global developed market universe has experienced 11 major drawdowns (where there is a market-wide fall of more than 10%). The highest-quality businesses outperformed the lowest-quality in nine out of 11 drawdowns, with an average outperformance of 3.3%.

Figure 12: High-quality companies outperform in 9 of 11 major market drawdowns

Event	Peak date	Trough date	Market drawdown	Duration (months)	Q1 (high quality)	Q4 (low quality)	Q1 vs Market (pp)	Q1 vs Q4 (pp)
1. Asian crisis / Russian default	Jul-97	Aug-98	-18.2%	13	-8.8%	-21.0%	+9.4	+12.2
2. Dot-com burst / 9-11 attacks	Mar-00	Sep-01	-25.7%	18	-24.4%	-12.6%	+1.3	-11.8
3. Post dot-com bear market	May-02	Mar-03	-19.8%	10	-19.8%	-21.5%	+0.0	+1.7
4. Global Financial Crisis	Oct-07	Feb-09	-53.5%	16	-48.8%	-60.8%	+4.7	+12.0
5. European debt crisis (early)	Apr-10	Jun-10	-10.8%	2	-9.9%	-12.0%	+0.8	+2.1
6. US downgrade / European crisis	Apr-11	Sep-11	-18.7%	5	-16.9%	-20.4%	+1.7	+3.5
7. China slowdown / oil price crash	Apr-15	Jan-16	-12.3%	9	-9.5%	-15.8%	+2.8	+6.3
8. Trade war / Fed rate fears	Jan-18	Dec-18	-15.7%	11	-13.5%	-16.8%	+2.1	+3.3
9. Covid-19 pandemic	Dec-19	Mar-20	-23.7%	3	-19.1%	-26.3%	+4.6	+7.2
10. Inflation surge / Ukraine war	Dec-21	Sep-22	-26.0%	9	-27.0%	-25.0%	-1.0	-2.0
11. Higher-for-longer interest rates	Jul-23	Oct-23	-11.8%	3	-10.3%	-11.7%	+1.4	+1.3
Average outperformance							+2.6	+3.3

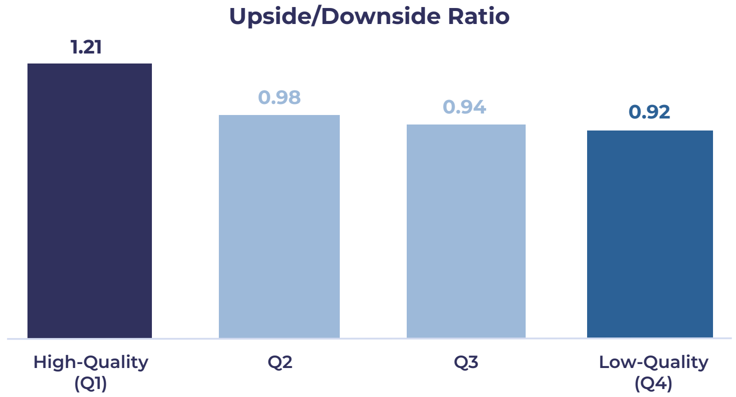
Source: FactSet, Guinness Global Investors. Data from 1991 – 2025 based on an internally developed Global Developed Markets equity universe for any given year using the 85% market capitalisation coverage rule applied independently per country. Quality quartiles based on composite ROC and Debt/Equity z-scores. Drawdowns calculated as periods where the universe fell more than 10%. Data in USD.

The two episodes where high-quality companies underperformed during drawdowns – the dot-com bust and the 2022 inflation surge – were both driven by extreme sector dispersion. In 2000/01, quality faced a significant headwind from its structural overweight to Technology (the worst-performing sector) as high-quality IT names that had seen large bubble-era gains had further to fall. Cisco, for example, sank 84% over the drawdown. In 2022, the drawdown was broad-based, with Energy the only sector with positive returns – a sector underrepresented in the quality basket, creating a headwind for the factor.

ASYMMETRIC RETURNS

Crucially, quality is not merely defensive; high-quality companies still participate meaningfully in rising markets. While they may modestly lag lower-quality stocks during sharp, sentiment-driven rallies, their resilience in drawdowns tends to more than offset this. The result is a more favourable asymmetric return profile, with a wider gap between upside and downside capture than typically observed in lower-quality businesses. Over time, this underpins superior compounding and is the next pillar of our PROVEN quality framework: **VALUE ASYMMETRY**.

Figure 13: Quality delivers an asymmetric return profile: more upside, less downside

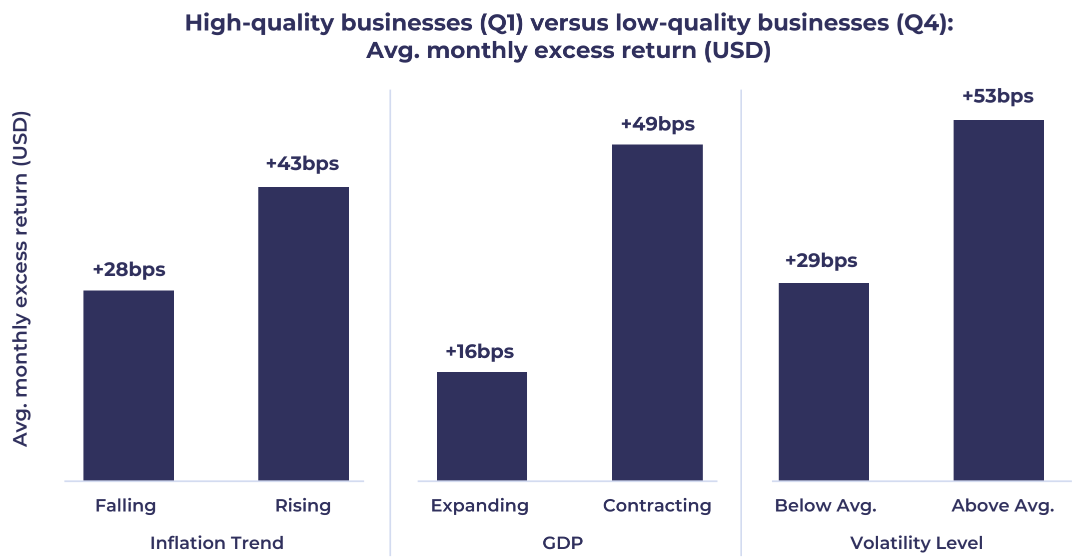


Source: FactSet, Guinness Global Investors. Data from 1991 – 2025 based on an internally developed Global Developed Markets equity universe for any given year using the 85% market capitalisation coverage rule applied independently per country. Quality quartiles based on composite ROC and Debt/Equity z-scores.

QUALITY ACROSS MACROECONOMIC REGIMES

Extending this analysis to varying macroeconomic environments reinforces the picture. Quality's relative outperformance is strongest when economic conditions are least favourable: rising inflation, slowing GDP growth, and above-average market volatility. This reflects the resilience of quality businesses not just to equity market movements, but to shifting macroeconomic conditions. This is the **NAVIGATION OF MARKET STRESS** pillar of the **PROVEN** quality framework.

Figure 14: Quality's outperformance strengthens as macroeconomic conditions deteriorate

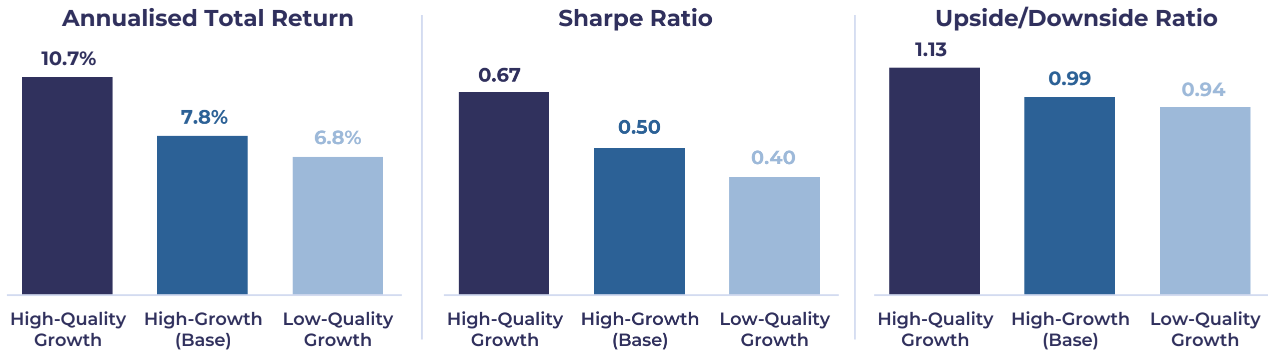


Source: FactSet, Guinness Global Investors, OECD, CBOE. Data from 1999 – 2025 in USD on a monthly basis. Stocks are selected from our universe of the largest businesses in each year which make up 85% of global market capitalisation. Quartiles of quality are based on the average of ROC and Debt/Equity z-scores. GDP trend is based on OECD G20 Composite Leading Indicator, Inflation is based on OECD G20 Inflation Index, and trend is based on current month CPI vs a 6-month moving average. Volatility level is calculated using the VIX index.

QUALITY AND GROWTH: A POWERFUL COMBINATION

As shown earlier, overlaying quality onto growth produces more durable top-line expansion: high-quality growth businesses experience a slower fade in sales growth over time. That durability translates into superior returns. Since 2000, a portfolio of faster-than-average sales growers has delivered a 7.8% total return (annualised), but dividing that cohort by quality reveals a stark divergence. Growth businesses in the top quartile for quality generated a 10.7% return versus 6.8% for low-quality peers, alongside a materially higher Sharpe ratio (0.67 vs. 0.40) and a more favourable upside/downside capture (1.13 vs. 0.94). In short, growth alone is not enough – quality determines whether it compounds. This combination of superior growth persistence in high-quality businesses forms the ENDURING GROWTH pillar of the PROVEN quality framework.

Figure 15: Overlaying quality onto growth produces superior returns across every metric



Source: FactSet, Guinness Global Investors. Universe: largest global companies comprising 85% of market capitalisation, 1991–2025, USD monthly. Growth defined as above/below median rolling 3-year sales CAGR. For the Sharpe Ratio, the risk-free rate has been assumed to be 0%.

Taken together, the evidence supports a clear conclusion: quality businesses have historically delivered stronger long-run returns with better risk-adjusted characteristics, driven by more persistent fundamentals and a favourable asymmetry between upside and downside capture. Importantly, quality also improves the durability of growth, helping to distinguish businesses whose sales expansion can compound from those where growth fades. In the next section, we outline how we translate this quality framework into our fund strategies across the Guinness range.

Guinness Quality Strategies

The analysis above shows that quality – defined as persistently high returns on capital alongside strong balance sheets – is associated with superior long-run outcomes. High-quality businesses exhibit greater persistence in economic returns, more durable growth, and a favourable imbalance of upside and downside capture, particularly in less supportive macro environments.

We believe these characteristics are frequently underappreciated by the market, creating scope for mispricing. That is why quality sits at the core of our investment philosophy: we start by identifying companies with high returns on capital, conservative leverage, and understandable, repeatable business models that can compound value through the cycle.

Importantly, the opportunity set is broader than a purely defensive, large-cap interpretation of quality. As the earlier sections have highlighted, quality can be found across sectors, regions, capitalisations, and growth profiles. Accordingly, we invest in quality through multiple investment strategy lenses: quality defensives and quality growth; quality large-cap and quality mid-cap; and quality across global regions and sectors.

INCOME STRATEGIES

Quality Defensives

Typically, less 'risky' than their quality growth counterparts, Quality Defensives provide investors with greater security during periods of market volatility while still retaining meaningful upside participation when conditions are supportive. As highlighted earlier, high-quality businesses are more likely to pay sustainable and growing dividends. Lower-quality peers may offer optically higher yields but often lack the financial strength to grow distributions consistently. They tend to be more economically sensitive and therefore more exposed to dividend cuts or cancellations during downturns. For this reason, our equity income strategies begin by screening for quality – specifically persistently high returns on capital and low leverage – rather than screening for high dividend yield. A high yield can indicate a company that is temporarily out of favour, but it can also signal structural decline. In more concerning cases, companies may increase borrowing to maintain dividend payments, weakening balance sheets and reducing resilience precisely when it is most needed. By contrast, companies that generate high returns on capital and maintain conservative leverage are better positioned to fund dividends from internally generated cash flows, enabling sustainable value creation and long-term dividend growth without reliance on debt.

This philosophy underpins the Guinness Equity Income range. Our objective is to construct portfolios of financially robust businesses capable of weathering economic uncertainty while still participating in market upside, delivering a more balanced and durable approach than traditional deep value or purely defensive income strategies. The aim is to provide investors with both long-term capital growth and a dependable, growing income stream.

GROWTH STRATEGIES

Quality Growth

Quality Growth tilts the quality discipline towards companies with stronger structural growth opportunities while maintaining the resilience that quality provides. As the growth durability analysis above demonstrated, high-quality growth businesses exhibit a materially slower decay in sales growth rates over time, and this translates directly into superior long-term returns. Growth investing without a quality filter presents a clear pitfall: historical corporate growth rates exhibit weak persistence, meaning past growth is often a poor predictor of future success. By starting with quality – high returns on capital and low leverage – we gain confidence that companies have the financial strength and competitive positioning to compound durable sales growth into sustainable cash flows and to reinvest effectively.

This forms the foundation of the Guinness Quality Growth range: providing exposure to structural growth themes through portfolios of high-quality businesses, while avoiding the excessive downside risk often associated with more speculative growth strategies.

Conclusion

Quality investing is grounded in a simple but powerful observation: the market consistently underestimates how long high-quality companies stay high-quality. Companies with persistently high returns on capital and strong balance sheets outperform over full market cycles – not because they are immune to downturns, but because their fundamental resilience is deeper and more durable than the market prices in.

The evidence presented in this paper is consistent across every dimension. High-quality businesses generate more positive corporate outcomes than negative ones. They sustain growth for longer. They protect capital in downturns while meaningfully participating in rising equity markets. Their outperformance is strongest precisely when investors need it most: in slowing growth environments, periods of elevated inflation, and markets characterised by above-average volatility. These characteristics make up our PROVEN quality framework.

For Guinness quality strategies, this is not merely an empirical observation – it is the foundation of our investment philosophy.

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

- the Manager: Waystone Management Company (IE) Limited (Waystone IE) 2nd Floor 35 Shelbourne Road, Ballsbridge, Dublin D04 A4E0, Ireland or
- the Promoter and Investment Manager: Guinness Asset Management Ltd, 18 Smith Square, London SW1P 3HZ.

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Telephone calls will be recorded and monitored.

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