GUINNESS

Global Equity Income Fund

Annual review

2015

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

Guinness Global Equity Income Fund passed its fifth anniversary on 31st December 2015.

GUINNESS
ASSET MANAGEMENT LTD

Fund size (31.12.15)	£100m
Launch date	31.12.10

Aim

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.

Performance 31.12.15

Fund	Guinness Global Equity Income (X)
Index	MSCI World Index
Sector	IA Global Equity Income

	2013	2014	2015
Fund	26.3	10.1	2.0
Index	24.3	11.5	4.9
Sector	20.4	6.7	1.5

	1 year	3 years	5 years
Fund	2.0	41.9	53.8
Index	4.9	45.3	53.2
Sector	1.5	30.4	40.2

Annualised % total return from launch (GBP)

Fund	9.0%
Index	8.9%
Sector	7.0%

Risk analysis (annualised, weekly, from launch)

	Index	Sector	Fund
Alpha	0	0.3	1.3
Beta	1	0.8	0.9
Info ratio	0	-0.3	0.0
Max drwdn	-18.3	-15.5	-16.3
Tracking err	0	6.0	4.4
Volatility	13.5	11.5	12.1
Sharpe ratio	0.4	0.3	0.4

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

Source: Financial Express, bid to bid, total return
Fund X class: Simulated performance based on actual returns of E share class (available from Fund launch), calculated in GBP.

Annual review

Performance

2015 was another good year for the Guinness Global Equity Income Fund, outperforming the IA Global Equity Income sector for the third year in a row. The end of 2015 marks the 5th anniversary of the Fund's inception, and we are pleased to have provided five consecutive years of positive returns.

Figure 1: Calendar year performance

vs IA Global Equity Income sector & MSCI World Index

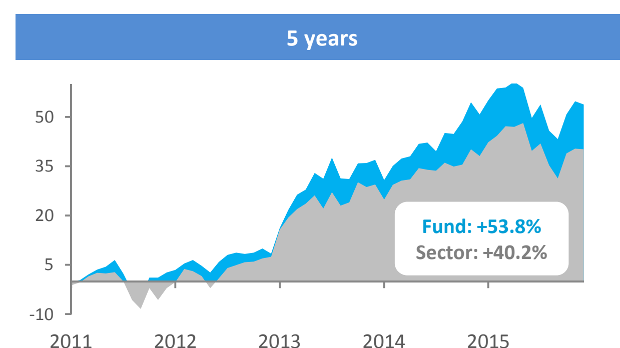
Fund E-class TR in GBP	2011	2012	2013	2014	2015
Quartile rank	1st	4th	1st	1st	2nd
Fund	2.7%	5.5%	26.3%	10.1%	2.0%
Sector	-2.1%	9.7%	20.4%	6.7%	1.5%
Index	-4.8%	10.7%	24.3%	11.5%	4.9%

In 2015 the Fund produced a total return of 2.0%, compared to the IA Global Equity Income sector's 1.5% and the MSCI World Index return of 4.9%. The Fund therefore outperformed the sector by 0.5% and underperformed the Index by 2.9%.

Over three and five years the Fund ranks in the top quartile of funds in the IA Global Equity Income sector.

Figure 2: Cumulative performance

Fund E-class, TR in GBP to 31.12.15	1 year	3 years	5 years
Quartile rank	2nd	1st	1st
Fund	2.0%	41.9%	53.8%
Sector	1.5%	30.4%	40.2%
Index	4.9%	45.3%	53.2%



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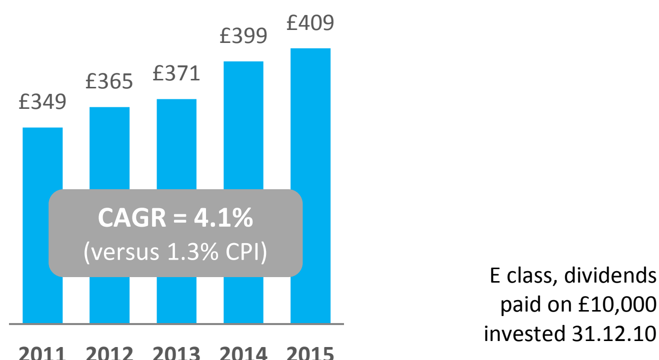
Dividend

Importantly, our focus on companies that offer potential for dividend growth rather than a high dividend yield today means we have managed to grow the dividend distributed by the Fund every year. This year the Fund grew the dividend by 2.5% (E-class), whilst the annualised growth rate over the last five years has been 4.1%.

Figure 3: Dividend growth

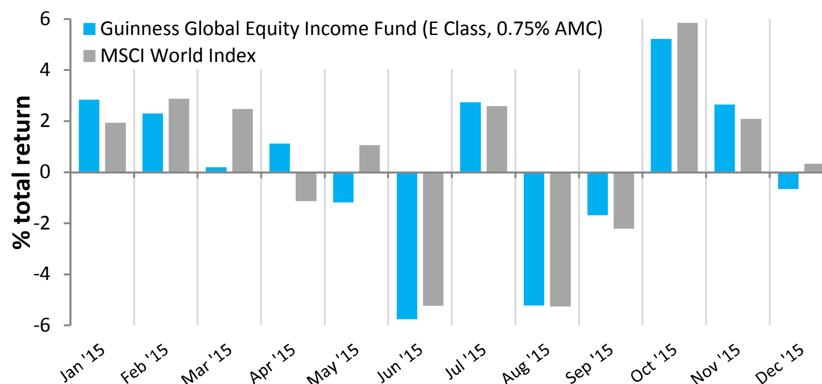


Based on the price at year end, the Fund has a historic 12 month dividend yield of 3.3%.

Review of 2015

2015 was a volatile year, with global equities swinging fairly widely from positive to negative returns from one month to the next. Over the course of the year there were two months where the Fund underperformed by more than 1%: March and May.

Figure 4: Monthly total return of Fund vs benchmark in 2015



The Fund underperformed in March in a rally that was characterised by small cap. stocks outperforming large cap. and emerging markets outperforming developed markets. Healthcare was the strongest sector in the month, particularly the biotech sector, where we did not have any exposure. However, our top two performing stocks in the month were in the healthcare sector: Teva Pharmaceuticals and Sonic Healthcare.

The underperformance in May was largely a result of our exposure to Asia and emerging markets stocks. The four stocks we owned at the time in Asia and emerging markets (CNOOC, China Mobile, Li & Fung and Vodacom) were our worst performing stocks in the month. We also saw very strong performance in the semiconductor sector, to which we did not have any exposure.

Looking at 2015 as a whole it was striking to note the divergence in performance of value and growth stocks. This was a trend that had begun in late 2014 and continued almost uninterrupted through the year.

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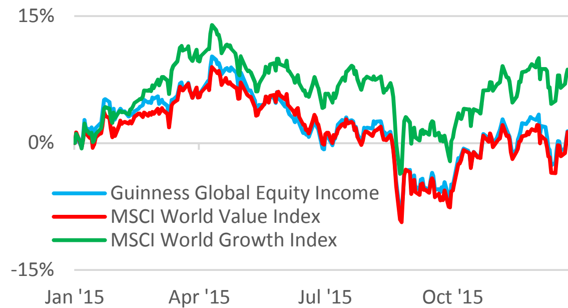
Figure 5: Value vs growth index performance in 2015 (all TR in GBP)



It has been well documented that a handful of large, expensive, growth companies like Amazon and Facebook drove the majority of Index performance in the US in 2015. This broad trend of the market rewarding companies that could show growth in revenues or earnings was also seen throughout the rest of the world, as the divergence between the two MSCI World indices shows above. Our approach in the Fund has always been to focus on the value end of the market, and one of the reasons the Fund underperformed the benchmark was our lack of exposure to these more expensively-valued growth stocks. The chart above shows how the Fund performance much more closely followed the value index in 2015. Since the end of September 2014 (when this divergence started), the growth index has outperformed value by over 11%, a significant figure. We cannot, of course, say that this trend will start to reverse in 2016, but the size of the divergence suggests to us that value stocks could well have a better chance of outperforming over the next 3-5 years as this gap is closed.

When we look back at how individual holdings performed in 2015, the picture largely reflects the macro environment – namely falling commodity prices, looming interest rate rises in the US, a slower rate of economic growth in China, continued uncertainty in Europe, and the interlinked effects of all of these factors.

Figure 6: S&P GSCI Commodity Index

Commodity prices started their precipitous decline back in the summer of 2014, staged a small rebound in the first half of 2015 and then continued their decline in the second half of the year.

We did not have any exposure to the mining sector so we certainly benefitted from that. We did, however, have a small overweight exposure to the energy sector in the form of Royal Dutch Shell, Total, ENI and CNOOC. The MSCI World Energy sector fell by 22.1% (in USD, see Figure 7) in 2015, but only one of the energy companies that we owned was down by more than that: Royal Dutch Shell. As a group the energy companies that we owned held up well relative to the energy sector.

Expectations of rising interest rates in the US was not a new story for 2015 – they were very much part of the narrative in 2013 and 2014 as well. The companies that we own tend to have a large spread between their cost of capital and their return on capital. So the effect of rising interest rates is less of an issue on their valuation than for poor companies with a narrow spread. At the same time the companies we invest in tend to have strong balance sheets, with reasonable amounts of debt and strong credit profiles. Many of these companies have been refinancing their debt over the last five years at extremely attractive rates for long durations. Rising interest rates will have only a modest and gradual effect on their cost of debt financing.

We have a preference for companies that have the ability to grow their dividend over time. Companies can achieve this if they earn a return-on-capital greater than their cost of capital, and can reinvest their profits at a similarly high return-on-capital for the future. This will lead to growth in cash flows, and thus sustainable dividend growth. We therefore tend to avoid companies that offer a high dividend yield but few prospects for growth (such as REITs, MLPs and regulated industries like utilities). These companies are more sensitive to interest rate rises due to their high leverage and bond-like characteristics.

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The risk of chasing high dividend yield came into stark relief in 2015 in the shape of MLPs. The S&P MLP Index fell -35.1% in 2015. MLPs tend to have a combination of high leverage, low return-on-capital and low growth prospects, which is the antithesis of what we look for. MLPs had been bid up in the hunt for yield on the thesis that these companies were largely immune to changes in the oil price as they were simply transporting the oil and taking a fee. They took on more debt to engage in more growth opportunities, and thereby provide a higher dividend. However, the significant fall in oil prices has led to lower onshore oil production in the US and therefore many of these growth projects have been canned.

The way that changes in interest rate expectations did affect the portfolio in 2015 was really limited to the effect of a stronger dollar on emerging market currencies. The direct effect was minimal, with our 3% position in Vodacom in South Africa being the only direct EM currency exposure we had. While Vodacom fell around 8% over the year, it was by no means a disaster. The more significant factors were secondary. Aberdeen Asset Management, which has historically had a strong franchise in emerging market funds, suffered from a mix of poor emerging markets equity performance and significant redemptions. A proportion of these redemptions are likely a result of sovereign wealth funds in the Middle East redeeming on the back of a significantly lower oil revenues. The other main secondary effect was the drag on earnings growth of globally diversified businesses. However, the market did not tend to punish these companies particularly harshly.

The interest rate rise that we had all been waiting for came in December, without much drama in markets.

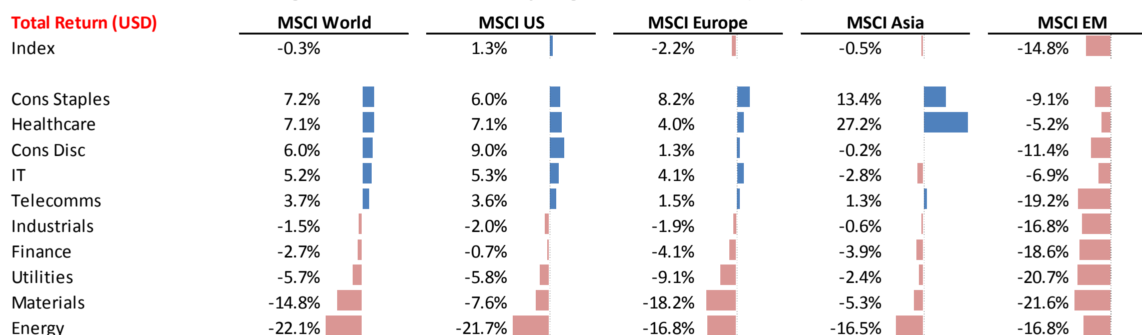
Equities experienced a sharp and rapid decline in August, followed by a fairly rapid recovery. The market became spooked when the Chinese unexpectedly devalued their currency on August 11th. Whilst it was a small devaluation relative to historic levels, it led to considerable uncertainty. Was this the first of a number of devaluations? What would the effect be on China's trading partners in Asia and beyond? Why were they devaluing their currency? The Chinese eventually communicated the fact that this was part of a process of currency liberalisation rather than to make their exports more competitive. However, some remain sceptical and expect further devaluation.

The Shanghai domestic A-share market had a very turbulent year, but we do not have any exposure to this market. However, we did own three Hong Kong-listed companies: China Mobile, CNOOC and Li & Fung. China Mobile held up well but CNOOC and Li & Fung were a drag.

Europe managed to muddy through another threat of Grexit, but has still not addressed its structural issues. The Eurozone remains dependent on continued central bank support. The civil war in Syria has led to a very large number of refugees coming to Europe, which has in turn brought in to question many of the fundamental principles on which the European dream was founded, such as the free passage within the Schengen area. Combined with the continued sovereign debt issues of Greece and other peripheral European countries, European leaders are likely to continue to struggle to find effective compromises.

Given all the global uncertainty in 2015, it was not surprising that the market favoured defensive industries, with healthcare and consumer staples performing well across regions (see Figure 5).

Figure 7: Total return by region and sector (USD) in 2015



Total Return (USD)	MSCI World	MSCI US	MSCI Europe	MSCI Asia	MSCI EM
Index	-0.3%	1.3%	-2.2%	-0.5%	-14.8%
Cons Staples	7.2%	6.0%	8.2%	13.4%	-9.1%
Healthcare	7.1%	7.1%	4.0%	27.2%	-5.2%
Cons Disc	6.0%	9.0%	1.3%	-0.2%	-11.4%
IT	5.2%	5.3%	4.1%	-2.8%	-6.9%
Telecomms	3.7%	3.6%	1.5%	1.3%	-19.2%
Industrials	-1.5%	-2.0%	-1.9%	-0.6%	-16.8%
Finance	-2.7%	-0.7%	-4.1%	-3.9%	-18.6%
Utilities	-5.7%	-5.8%	-9.1%	-2.4%	-20.7%
Materials	-14.8%	-7.6%	-18.2%	-5.3%	-21.6%
Energy	-22.1%	-21.7%	-16.8%	-16.5%	-16.8%

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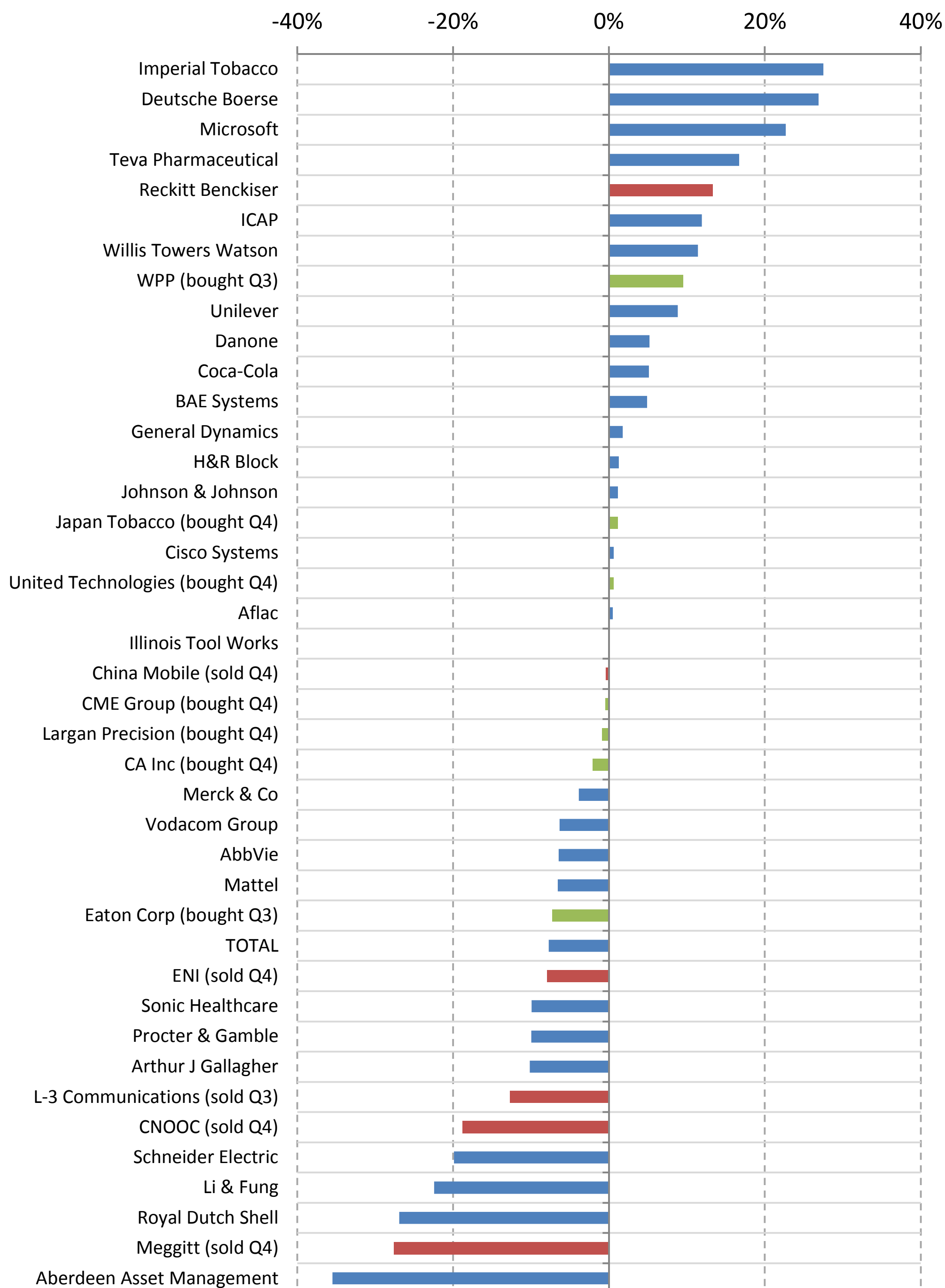
There are numerous healthcare and consumer staples companies that meet our criteria of consistently high return-on-capital, but valuations for many of these companies have been at historical highs. Naturally some of the holdings we have had in these sectors have been hitting historical high valuations as well, and we have been reducing our exposure to these sectors for the last few years. However, we remain overweight the consumer staples sector and are in line with the healthcare sector. Imperial Tobacco, which we believe still offers a compelling valuation within the consumer staples sector, was our top performing stock in the portfolio for 2015.

In summary, while 2015 was a year where the economic storm has been fairly fierce, pleasingly the portfolio has demonstrated the ability to weather it well.

Figure 8: Individual stock performance over 2015 *(total return USD)*



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Changes to the portfolio

The number of changes we made to the portfolio in 2015 was more than we made in 2014 but well within the bounds of the previous four years. Our turnover remains low compared to most managers. In 2015 we bought seven new positions and exited six, which meant we ended the year with 35 holdings.

Figure 9: Number of changes to the portfolio

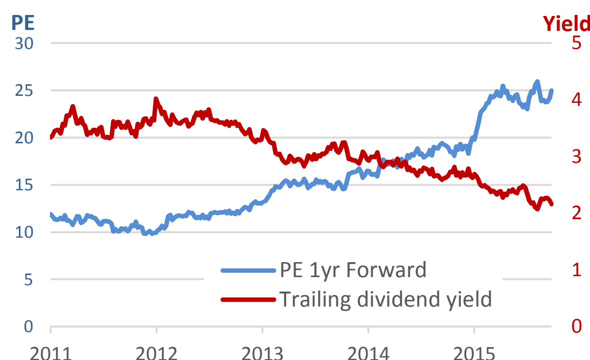
	2011	2012	2013	2014	2015
Buys	8	4	7	2	7
Sales	9	3	8	3	6
Total holdings	35	36	35	34	35

In the **first** and **second quarter** of the year we made no changes to the portfolio.

In the **third quarter** we made two changes to the portfolio. We sold our positions in Reckitt Benckiser and L-3 Communications.

We decided to exit **Reckitt Benckiser** on valuation and dividend yield grounds. The company, in our view, remains very well run, but we began to question whether the current valuation could justify us continuing to hold the stock. We owned Reckitt since August 2011, and it was a strong performer for the Fund; it rose 103% over our holding period versus the Fund's return of 47%. However, as the chart below shows, the majority of this total return has come from a re-rating of the multiple the stock trades on – it rose from around 11x forward earnings to 25x when we sold. As the dividend paid by the company has only grown by about 8% over our entire holding period (which is somewhat disappointing) the dividend yield compressed from about 4% to 2%. The market rewarded the company for focussing on household and personal care, cost cutting, and selling off the pharma division. We just wonder whether the market has now baked-in too high estimates for what the company is likely to achieve. If we were to see the stock underperform the market in the future and move towards a more reasonable valuation, then it is certainly something we would consider owning again.

Figure 10: Reckitt Benckiser PE ratio and dividend yield

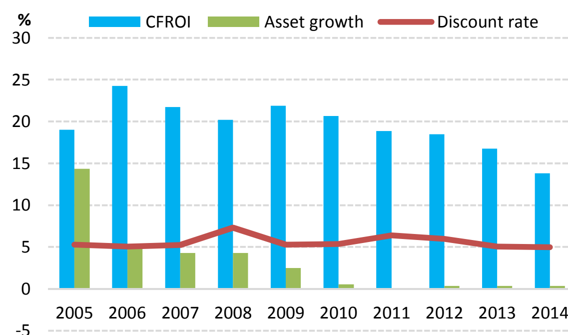


We'd held **L-3 Communications** from the launch of the Fund on 31st December 2010. Over that time it rose 72% versus the Fund's return of 38%, so we were taking profits. L-3 also experienced a significant re-rating, rising from approximately 9x forward earnings when we bought it to just under 16x when we sold. This is broadly in line with other defence companies, all of which were deeply out of favour post the financial crisis as investors worried about government spending cuts. L-3 never had a very large dividend yield, averaging

around 2.5-3% over the last five years. The dividend has grown significantly over time, however, averaging around 9% growth per annum over the almost five years we held the company. This strong dividend growth has helped to support and 'drag up' the share price over time.

From a valuation point of view, the company appeared to be trading at stretched multiples – certainly in respect to where the company had traded historically – and this was a concern. What really drove us to sell the company, however, was the deterioration in the underlying quality of the business.

Figure 11: L-3 Communications CFROI, asset growth and discount rate



As the chart above shows the cash flow return on investment has declined quite significantly over 2014, and expectations were for this decline to continue into the future. Sales growth had been negative for a number of years and we had just started to see a decline in operating margins coming through. With little or no asset growth expected, it appears unlikely the company can reverse the decline in economic profits it is generating – and that the market is anticipating.

To replace these two sales we bought new positions in **WPP** and **Eaton**.

For the new buys we identified the three things we look for in any new investment: persistence of return on capital, reasonable valuation, and a sustainable and growing dividend. In the case of **WPP** we perceive a greater proportion of our expected total return to come from earnings and dividend growth, and only a moderate return from a multiple re-rating (as the company is trading only slightly below its medium-term multiple). **Eaton**, an industrial power management company based in the US, on the other hand has a higher dividend yield (just over 4%) but slower dividend growth, and we expect a greater re-rating in terms of its multiple as the stock was more out of favour and has been de-rated versus the broader market since the end of 2013.

In the **fourth quarter** we made a number of changes to the portfolio, selling four positions and replacing them with an additional five positions – bringing the total number of companies held in the Fund to 35 at the year end.

The four companies we sold were CNOOC, ENI, Meggitt, and China Mobile.

CNOOC and ENI were two energy companies held in the Fund (from a total of four), but with quite different exposures to the oil price. **CNOOC** is essentially a large cap. exploration and production company and is thus

highly levered to the oil price. **ENI,** on the other hand, is the Italian national oil company which is an integrated oil major with interests throughout the oil and gas supply chain, and thus less exposed, but by no means immune, to the changing oil price.

The reasons for sale were different, but the over-supplied nature of the oil markets in general and the uncertainty surrounding the timing and mechanism of how this over-supply would be used up – whether from increasing demand trends or a reduction in supply from within or outside OPEC – gave us cause for concern. We do not profess to be able to 'call' the oil price, but we increasingly felt there were better opportunities available in other sectors that could offer better risk/reward characteristics. By maintaining a c.6% exposure to the sector through two of the higher quality, more diversified companies, we feel the Fund can still benefit from any re-rating in the sector that may occur over the coming months.

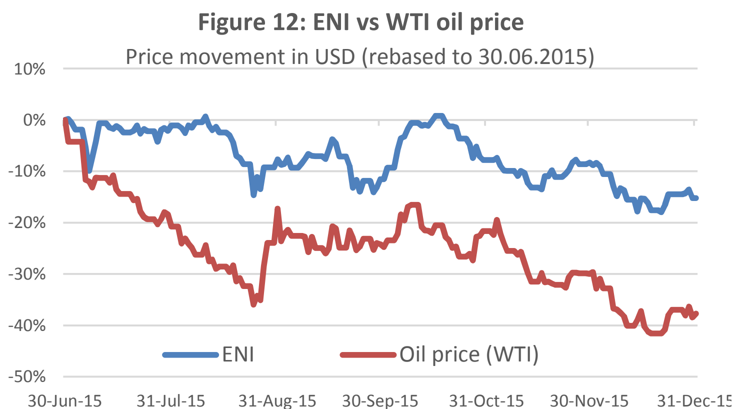
When we purchased **CNOOC** for the Fund in late 2013, we perceived that the company was well placed to grow production and also to improve margins on that new revenue – as the company increased efficiencies and lowered operating costs. At the time the oil price was trading around $100 per barrel, and had been in a trading range of around $95 (+/-$10) for the previous three years. We did not buy the company based on a particularly bullish oil price thesis, but were happy that any downside was somewhat mitigated by the cheap multiples the company was trading on (9x forward PE) and that any oil price upside would likely be an additional benefit. In hindsight, our thesis that we had some 'protection' from a lower oil price was misplaced – as the scale of the oil price decline was much greater than anything we had envisaged. The company did post good operating results through 2014 and 2015, growing production in the double-digits and also maintaining its dividend. However, the dividend payout ratio increased from around 35% to over 60% for the interim dividend payment in September 2015. Based on the current low oil prices that payout ratio would jump to over 100%. We therefore felt there was a real risk to a significant dividend cut in the short term, and any 'lower for longer' oil price scenario could adversely affect the potential for a recovery in the stock price over the medium term.

ENI has actually held up very well considering the macro environment for energy companies, as its integrated model helped cushion earnings from the steep oil price decline combined with a simplification of its holdings that had been long anticipated by the market. In Euro terms the company actually posted a positive return for the calendar year 2015, albeit only +0.5%. Over our holding period (August 2012 to December 2015) the total return was -15% (in GBP), which is rather disappointing compared to the Fund (which was up 40% in the same period). Much of this underperformance occurred in the early stages of the drop in the oil price (from July 2014 to December 2014).

Through the second half of 2015 there has been a growing disconnect between the share price of ENI and the prevailing oil price. Figure 12 shows how this has evolved over the last six months.

This probably shows that the stock is discounting a higher oil price in the future – which is indeed reflected in oil futures curves.

Figure 12: ENI vs WTI oil price



If these future oil prices are not as high as the market expects, then there is a risk that the stock price closes this 'gap' that has opened up, which could be a significant drag on future returns.

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The final reason we sold ENI was that the company cut its interim dividend from €0.56 in 2014 to €0.40 in 2015, a reduction of almost 30%. This was taken well by the market as it helped the company to protect its balance sheet by conserving cash. Although this may well be a sensible decision by management in such uncertain times, we prefer to concentrate on companies that can grow their dividends. Even with this 30% dividend cut and a stock price that has held up relatively well, the company trades on a projected dividend yield for 2016 of a lofty 6%, which could be seen as an indication by the market that even this level is unlikely to continue in the near term.

By selling these two companies in the Fund, we reduced our energy sector allocation from around 11% to approximately 6% (we continue to hold Royal Dutch Shell and Total).

We had held **Meggitt** since the Fund's launch in 2010, and in that time it had provided a positive 15% total return. That compares to the Fund return of just over 50% over the same period. The dividend grew from 9.55p in 2011 to 14.10p in 2015 – averaging a healthy dividend growth of 10% per annum over the almost five years we held it. The company surprised the market at the end of October 2015 by releasing a profit warning – despite having issued reasonably positive guidance for the full year in their August earnings call a couple of months previously. The stock fell over 20% on the day of the profit warning, a dramatic response.

In the August update the company had reiterated the guidance they had given at the start of the year of mid-single digit organic revenue growth for the full year. Alongside this the company announced an increase in their interim dividend of 8%. However, in its late October trading update the company reported that trading during the third quarter was below expectations due to a marked deterioration in September, and reported that these factors were expected to persist through the fourth quarter. We concluded that this trend was likely to persist beyond the fourth quarter too. We decided there was therefore a threat to both the dividend growth and the share price over the medium term, and we thus decided to sell the company. We will continue to monitor the company closely in the future and keep an eye on how their revenue stream evolves.

China Mobile had been a long-term and successful holding in the portfolio. We initiated a position at the launch of the Fund, and over the almost five years we held the company it has returned just under 40% in USD terms. The performance has been quite volatile, a reflection of both the overall Chinese market and some stock-specific issues. The company remains on what appear to be reasonable multiples, especially in relation to developed markets, of around 12x 2016 expected earnings. The underlying business has been in decline over the last few years, however, with the cash flow return on investment (CFROI, our preferred measure) declining from over 10% to just 6% in 2014, which is only marginally above its real cost of capital. This type of return on capital profile, alongside the company's good stock price performance and decreasing dividend payments, prompted us to sell the position.

The five companies we bought for the Fund in the fourth quarter were CME Group, Japan Tobacco, Largan Precision, United Technologies and CA Technologies.

The below table highlights some simple metrics that aim to show the characteristics we considered when making these purchases, namely quality (average 10 year CFROI), valuation (P/E this year and next), and dividend (both current yield and historic growth over three and five years). For comparison, we have added the same data points for the wider MSCI World Index to place these companies in context.

Figure 13: Key metrics of new purchases

Company name	Sector	Av. CFROI	P/E		Dividend yield	Annualised div. growth	
		10 years	2016	2017	Trailing 12m (ex special dividends)	3 years	5 years
CME Group	IT	35%	20.6	19.3	2.3%	9.9%	39.7%
Japan Tobacco	Consumer Staples	17%	17.1	15.6	2.7%	25.3%	32.4%
Largan Precision	IT	25%	11.0	9.4	2.3%	44.2%	38.5%
United Technologies	Industrials	16%	14.5	13.3	2.7%	8.0%	8.5%
CA Technologies	IT	25%	11.7	11.2	3.6%	0.0%	44.3%
MSCI World	-	10%	16.0	14.2	2.6%	4.1%	6.9%

CME group owns and operates a derivatives marketplace across multiple asset classes and offers both trade execution and clearing and settlement services. The company is not stand-out cheap, but is trading below its longer-term multiple. Considering the extremely high return-on-capital the company has achieved (and that we think it can continue to achieve), we are comfortable with the valuation. The current dividend yield of 2.3% at first glance appears modest, but the company has paid a large special dividend in each of the last five years. The regular cash dividends paid in 2015 totalled $2.00 per share, but this was supplemented by a special cash dividend of $2.60. Combining these regular and special dividends, the company had a dividend yield (12 month trailing) of 5.1% at the year end.

Japan Tobacco represents the first Japanese-listed company we have owned in the Fund, and therefore reduces our underweight in that region versus the benchmark. Tobacco companies have a bad name generally, and specifically as regards investment potential due to long-term regulatory issues. Our experience has been that these businesses have shown the ability to maintain (and actually grow) margins in the face of such issues as they successfully pass on price increases to customers. Return-on-capital has been high and stable at Japan Tobacco, which has translated into growing economic profit through increased sales, offsetting any declines seen in asset growth. Dividend growth has been positive over the past five years and appears to be picking up – the company increased its final dividend by 28% to 64JPY in 2015 (from 50JPY in 2014).

Largan Precision is a Taiwan-based company that manufactures and sells optical lens modules and opto-electronics for various devices, most notably smart phones. The $9bn market cap. company has seen considerable growth and has doubled its revenues over the last two years whilst improving operating margins from the mid-30s to mid-40s. Unsurprisingly this translated into a steep rise in its share price: it rallied from TWD 1230 at the end of 2013 to a high of TWD 3710 in mid-2015. Since then, however, the stock has de-rated, and its share price is around the TWD 2100 mark with a PE multiple of 11x 2016 expected earnings. The company sold off with the wider emerging markets in the summer of 2015, but has also significantly underperformed the broader Taiwanese market as investors weigh the risk of a slowdown in smart phone growth. We felt this weak sentiment provided a useful entry point for a good business providing exceptional dividend growth. We recognise that returns may be more volatile in the short term, but feel the combination of other factors, most important of which is the compelling valuation, should provide good returns over the long term.

United Technologies and CA Technologies are two companies currently out of favour. United Technologies is a diversified industrial business and CA is a technology software company which focusses mainly on mainframe computing. United is also much larger, with a market cap. of $85bn versus CA at $12bn. However, they both have globally diversified revenues whilst still maintaining a decent exposure to the US (each at approximately 60% of sales) and have both been shown to be run successfully through good returns-on-capital over time. Neither is richly valued, but both provide a good dividend stream, if modest dividend growth. I would be surprised if either company became a '5-bagger' for the Fund, but finding companies such as these with these

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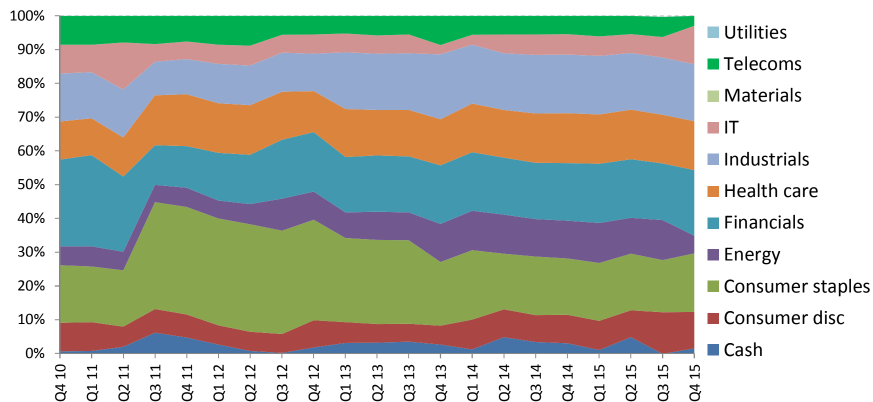
characteristics is increasingly difficult and we are confident that both will provide good returns over the next three to five years, or however long we hold them. We have had good success focussing on the more unloved end of the market, and we see these two companies as exemplifying this.

To summarise, the overall theme (as ever) has been to sell over-valued companies, or those where we feel there is a real risk to the dividend, and to replace them with higher quality businesses and specifically those where we feel there is a good opportunity for divided growth in the future. In today's market environment we think this is a particularly relevant and important metric for investors to consider.

Portfolio today and outlook

The charts below show the sector, market cap. and geographic breakdown of the portfolio over the last five years. The effect of our 2015 changes are subtle but significant. On a sector basis we have increased our exposure to the IT sector by 5.3%, while we have reduced our exposure to the energy sector by 6.0%. Having been reducing our exposure to the consumer staples sector over the previous three years we have added one position back in this sector. We have still never owned a company in the utility or materials sectors.

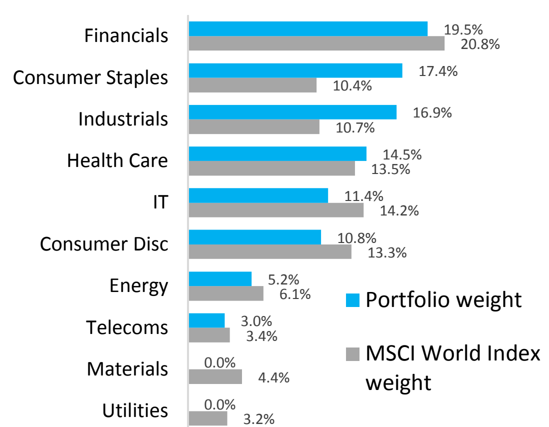
Figure 14: Portfolio sector breakdown (31.12.15)



We do not run the Fund with reference to its benchmark, but it is illuminating to see how the sector weightings of the Fund compare to the MSCI World. The financial sector makes up the largest weighting in the portfolio today at just under 20%. We do not own any banks within this allocation – it is made up of insurance brokers, asset managers, exchanges, and brokers. The next highest weighting in the portfolio is consumer staples, which we have increased slightly with the addition of Japan Tobacco to the portfolio in Q4. Consumer staples is now the largest overweight versus the benchmark at 7.0%, just ahead of our overweight in industrials of 6.3%.

The portfolio remains underweight versus both IT and consumer discretionary stocks. However, as we have written about in the past, it is interesting to see the increased number of more mature information technology companies that have begun to pay healthy dividends. This has meant more opportunities for us to buy such companies for the Fund, and as many of them have good balance sheets, and often significant cash on those balance sheets, we feel they have a good ability to maintain these newly initiated dividend policies and indeed to continue to grow their dividend payments quite significantly in the future.

Figure 15: Portfolio weights vs benchmark (31.12.15)



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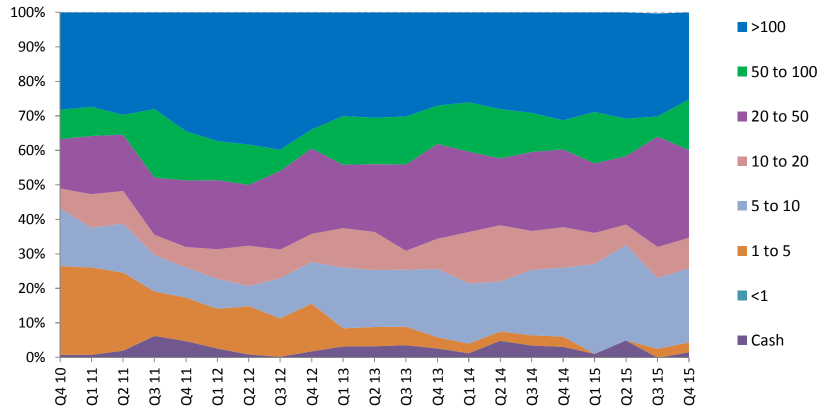
The Fund continues to hold no materials or utilities companies.

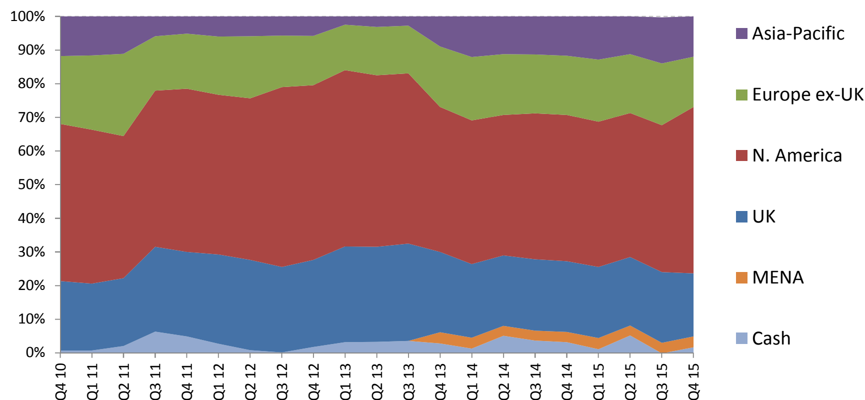
The changes made over the year did not alter the market cap. distribution of the portfolio in any significant way.

Figure 16: Portfolio market cap. breakdown (31.12.15)



In 2015 we increased our exposure to the US from 40.9% to 48.0%, while reducing our exposure to the UK by 2.6% and Europe ex-UK by 3.0%. Our exposure to Asia-Pacific remains the same at 10.9%, but this now includes the first Japanese stock purchased for the portfolio.

Figure 17: Portfolio geographic breakdown (31.12.15)



As we look forward in 2016, many of the uncertainties that existed in 2015 are still with us: the trajectory of US interest rates, the divergence of central bank policies, emerging market currency risks, weaker growth in China, and Europe grappling with various social and economic problems, to mention the most widely discussed topics.

Over the last five years of running the Fund, markets have had many periods of weakness – and plenty of positive surprises too. But, as we wrote in our first annual review at the end of 2011:

"We do not spend too much time worrying about how the global economic environment will fare in the near future but instead will continue to focus our time and thoughts on our process and on identifying high quality companies and including the best value opportunities in the portfolio."

A quick glance at valuations across the globe and within different sectors of the market highlight that there remains a wide divergence in investor expectations. We hope we can exploit these divergences by continuing to focus on those companies with the characteristics we seek and by looking to the long term, rather than reacting to short-term price movements or just following market momentum.

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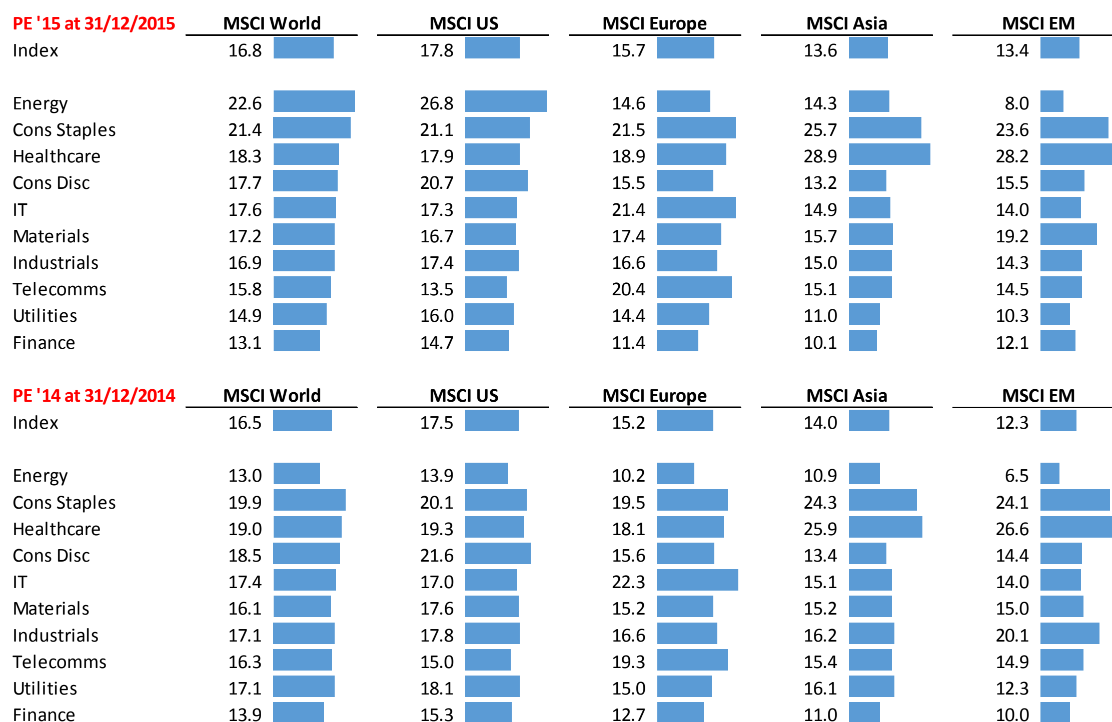
Figure 18: PE ratios – 2015 & 2014



PE '15 at 31/12/2015	MSCI World	MSCI US	MSCI Europe	MSCI Asia	MSCI EM
Index	16.8	17.8	15.7	13.6	13.4
Energy	22.6	26.8	14.6	14.3	8.0
Cons Staples	21.4	21.1	21.5	25.7	23.6
Healthcare	18.3	17.9	18.9	28.9	28.2
Cons Disc	17.7	20.7	15.5	13.2	15.5
IT	17.6	17.3	21.4	14.9	14.0
Materials	17.2	16.7	17.4	15.7	19.2
Industrials	16.9	17.4	16.6	15.0	14.3
Telecomms	15.8	13.5	20.4	15.1	14.5
Utilities	14.9	16.0	14.4	11.0	10.3
Finance	13.1	14.7	11.4	10.1	12.1

PE '14 at 31/12/2014	MSCI World	MSCI US	MSCI Europe	MSCI Asia	MSCI EM
Index	16.5	17.5	15.2	14.0	12.3
Energy	13.0	13.9	10.2	10.9	6.5
Cons Staples	19.9	20.1	19.5	24.3	24.1
Healthcare	19.0	19.3	18.1	25.9	26.6
Cons Disc	18.5	21.6	15.6	13.4	14.4
IT	17.4	17.0	22.3	15.1	14.0
Materials	16.1	17.6	15.2	15.2	15.0
Industrials	17.1	17.8	16.6	16.2	20.1
Telecomms	16.3	15.0	19.3	15.4	14.9
Utilities	17.1	18.1	15.0	16.1	12.3
Finance	13.9	15.3	12.7	11.0	10.0

May we both wish you a happy New Year, and we look forward to updating you on the progress of the Fund over the course of 2016.

Matthew Page, CFA
Dr Ian Mortimer, CFA
Portfolio managers, Guinness Global Equity Income Fund

January 2016

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

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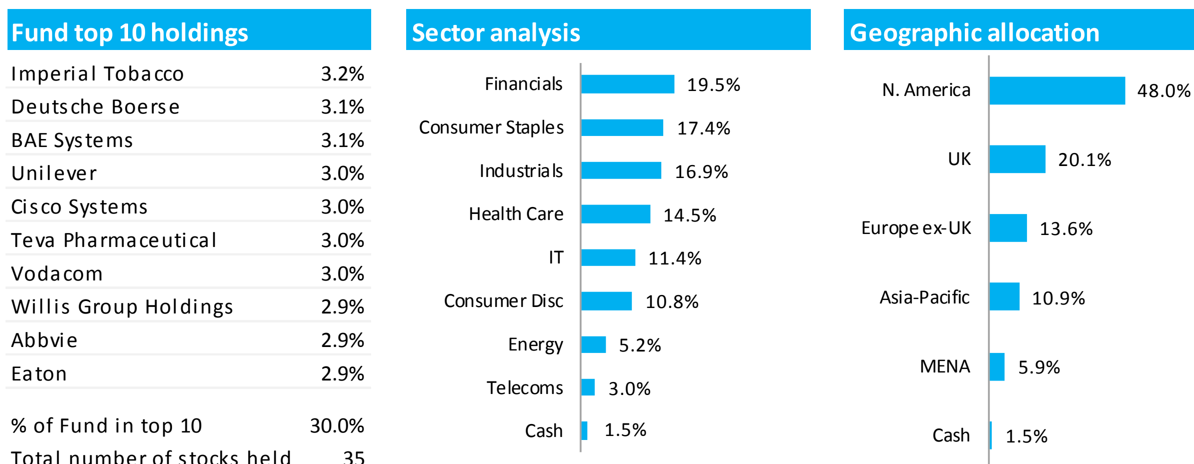
PORTFOLIO

31/12/2015

Fund top 10 holdings

Holding	%
Imperial Tobacco	3.2%
Deutsche Boerse	3.1%
BAE Systems	3.1%
Unilever	3.0%
Cisco Systems	3.0%
Teva Pharmaceutical	3.0%
Vodacom	3.0%
Willis Group Holdings	2.9%
Abbvie	2.9%
Eaton	2.9%
% of Fund in top 10	30.0%
Total number of stocks held	35



PERFORMANCE

31/12/2015

Annualised % total return from launch (GBP)

Fund (X class, 0.75% AMC)	8.98%
MSCI World Index	8.89%
IA Global Equity Income sector average	6.99%

Discrete years % total return (GBP)	Dec '11	Dec '12	Dec '13	Dec '14	Dec '15
Fund (X class, 0.75% AMC)	2.7	5.5	26.3	10.1	2.0
MSCI World Index	-4.8	10.7	24.3	11.5	4.9
IA Global Equity Income sector average	-2.1	9.7	20.4	6.7	1.5

Cumulative % total return (GBP)	1 month	3 months	Year-to-date	1 year	3 years	From launch
Fund (X class, 0.75% AMC)	-0.66	7.29	-	2.0	41.9	53.8
MSCI World Index	0.34	8.42	-	4.9	45.3	53.2
IA Global Equity Income sector average	-0.09	6.78	-	1.5	30.4	40.2

RISK ANALYSIS

31/12/2015

Annualised, weekly, from launch on 31.12.10, in GBP	Index	Sector	Fund
Alpha	0	0.28	1.32
Beta	1	0.76	0.85
Information ratio	0	-0.27	0.02
Maximum drawdown	-18.26	-15.50	-16.34
R squared	1	0.80	0.90
Sharpe ratio	0	0.29	0.43
Tracking error	0	6.04	4.40
Volatility	13.50	11.45	12.10

Past performance should not be taken as an indicator of future performance. The value of this investment and any income arising from it can fall as well as rise as a result of market and currency fluctuations. Source: Financial Express, bid to bid, total return. Fund launch date: 31.12.10. **Fund X class**: Simulated performance based on actual returns of E share class (available from Fund launch), calculated in GBP. **IMA sector** performance based on highest fee share classes for each fund (C Class (1.5% AMC) for Guinness Global Equity Income). **See Notes overleaf.**

Performance data notes

1) The performance numbers displayed on the previous page are calculated in GBP (Sterling). Please note: The Fund's X class was launched on 15/02/2012. The performance shown is a simulation for X class performance being based on the actual performance of the Fund's E class, which has the same annual management charge as the X class, 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. Hence the Fund's E Share class is used here to illustrate the performance of a GBP-based clean-fee (RDR-compliant) share class since the Fund's launch on 31.12.10.

2) The performance of the IMA Global Equity Income sector is based on the average of the highest fee share class of each constituent fund, e.g. C class for the Guinness Global Equity Income Fund, with an annual management fee of 1.5%.

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: Capita Financial Managers (Ireland) Limited, 2 Grand Canal Square, Grand Canal Harbour, Dublin 2, Ireland; or,
- the Promoter and Investment Manager: Guinness Asset Management Ltd, 14 Queen Anne's Gate, London SW1H 9AA.

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

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.

Telephone calls may be recorded and monitored.