Guinness Global Equity Income Fund

INVESTMENT COMMENTARY – September 2016

About the Fund

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

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

Fund size	£180m
Launch date	31.12.10
Managers	Dr. Ian Mortimer, CFA Matthew Page, CFA

Performance — 31.08.16

	1 year	3 years	From launch
Fund	29.7	44.7	91.1
Index	25.3	46.3	81.0
Sector	20.6	32.7	63.3

Annualised % total return from launch (GBP)

Fund	12.1%
Index	11.0%
Sector	9.0%

Benchmark index	MSCI World Index
IA sector	Global Equity Income

Past performance should not be taken as an indicator of future performance. The value of this investment and any income arising from it can fall as well as rise as a result of market and currency fluctuations.
Source: Financial Express, bid to bid, total return.

Guinness Global Equity Income Fund passed its fifth anniversary on 31st December 2015. For our full review of the Fund's history, visit **guinnessfunds.com**

Performance

In August the Guinness Global Equity Income Fund produced a total return of +1.64% (in GBP), compared to the MSCI World Index which returned +1.46%. The fund therefore outperformed the index by 0.18% in the month.

Year to date the fund is now up 22.84% (in GBP) and the MSCI World Index 18.16%, an outperformance of 4.68%.

Update

During the summer markets have been somewhat subdued, at least on the surface. In August we saw range-bound equity markets and the VIX (a standard measure of 'fear' in US equities) stayed around historic lows. Investors were once again focussed on the potential path of US interest rates at the month end as the Fed met in Jackson Hole. Expectations of a rate rise by the end of the year appeared to rise, but enough was said to support the idea that if any rate increase were to occur then any subsequent rises would be at a slow pace.

However, despite the range-bound markets there were relatively large divergences between sectors. In fact you could broadly describe the inter-sector performances as suggesting a 'risk-on rally' with leadership from the financials, IT, materials, and industrials sectors, whereas utilities, healthcare, telcos, and consumer staples lagged over the period. We also saw the Brent oil price rally over 10% in the month and a continued rally in emerging market equites and corporate bonds.

The divergence between the top and bottom performing sectors in the MSCI World was over 8% (in USD) in August; financials were up 3.3% versus utilities down 5.0%.

Perhaps this was a sign of investor sentiment turning away from some of the so-called crowded

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trades of looking for low volatility and high dividend yield companies that have been talked about a lot in the press over recent months, both positively and negatively. Ultimately the aim of screening for these factors and constructing portfolios of companies with these characteristics is to provide low risk (that is, low price volatility) income. And certainly this approach has worked well over the recent past.

However, we fundamentally disagree with the conflation of backward-looking price movement analysis with the idea of risk control. Just look how poorly VaR analysis worked out in the financial crisis for a recent, if spectacular, example. Ultimately we should seek to minimise *future* risk, but it is very difficult to determine what the risk in the market will be in the future. Should we hedge currency, increase cash, rotate sectors? Which region should we allocate to? – etcetera.

To lower risk in difficult markets you should own companies that continue to operate profitably, maintain their margins, pay their dividends, and avoid being forced to adjust their capital structure. Looking simply at how volatile a company's share price has been in the past does not, in our opinion, give much, if any, insight into the above. The fact that some companies with these characteristics also have low price volatility does not mean the reverse is also true.

Indeed, we think the single best way to minimise future risk for all market conditions is to invest in companies that will be profitable in the future, which, as much as anything, involves trying to avoid investing in companies that will lose earnings power. Our analysis shows that a good way to find companies that can generate an economic profit in the future (that is, generate a return on capital above their cost of capital) is to look for companies that have done so the past, and further, that the longer a company has achieved this, the more likely it will be able to do so in the future.

Specifically, to create our investible universe of companies we might consider for investment in the portfolio we only look for those that have achieved a return on capital (in real terms) of greater than 10% in each and every one of the last ten years. And what is striking is that these companies have a 95% chance of clearing this high hurdle in the following year and moreover an 80% chance of still doing so four years later – odds we see as being well in our favour.

But aren't these companies expensive? In our last monthly brief we showed that there remain plenty of companies around the globe that have the characteristics we seek and still offer a discount to the broad market. Time and time again we see market participants trying to capture the outsized gains of high growth businesses or those generously described as 'turnaround stories'. Just consider how much money is raised for companies that have negative earnings despite good evidence that negative net income is a strong indicator of future underperformance.

The issue we see with this approach is that such investors don't have the balance of probability on their side; the successful investments in these types of business are few and far between and can often entail the difficulty of accurate timing as well. Making poor investments in these types of businesses is far easier, but because of the large rewards for success in a small number of such endeavours it appears the market is happy to keep trying.

When we launched the fund back in 2010 we were quite clear which market anomaly we would aim to capture: the mispriced persistency of high return on capital businesses. We said at the time the best way to capture this would be to look from the bottom up so as not to get caught out by trying to second guess future events, and to give ourselves the benefit of patience by holding these companies for long periods.

Equity markets have clearly rerated significantly over the past five years, but on our most recent analysis we can still construct a portfolio of businesses that have a return on capital double that of the market, that are approximately 5% cheaper than the index on a forward P/E basis, and have stronger balance sheets and higher dividend payouts. As ever, we do not pretend to know what the future holds and we are well aware of the risks in the market - particularly the overall lack of

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earnings growth seen over the past few years. But we still believe our approach gives us a good chance of avoiding some of those risks while still generating a stable dividend and potentially some respectable earnings growth as well.

In summary, we think our approach gives us a good chance of avoiding some of the 'real risks' in the market, which should then manifest in lower 'price risk' too. Buying shares the other way around has historically been shown to be folly.

Thank you for your continued support.

Dr. Ian Mortimer & Matthew Page
Co-managers, Guinness Global Equity Income Fund
September 2016

Data sources

Fund performance: *Financial Express, total return in GBP*

Index and stock data: *Bloomberg*

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Fund top 10 holdings

Holding	%
CME Group	2.9%
ICAP	2.9%
BAE Systems	2.9%
Largan Precision	2.9%
Merck & Co	2.9%
Aflac	2.9%
Gallagher, Arthur J	2.8%
Cisco Systems	2.8%
Procter & Gamble	2.8%
Schneider Electric	2.8%
% of Fund in top 10	28.7%
Total number of stocks in Fund	35

Sector analysis

Sector	%
Consumer Sta.	19.3%
Financials	16.8%
Industrials	16.8%
Health Care	13.6%
IT	11.3%
Consumer Disc.	10.8%
Energy	5.4%
Telecomms	2.5%
Cash	3.4%

Geographic allocation

Country	%
USA	50.0%
UK	16.6%
France	8.3%
Taiwan	2.9%
Hong Kong	2.8%
Germany	2.8%
Japan	2.7%
Netherlands	2.7%
Australia	2.7%
Israel	2.6%
Other	2.5%
Cash	3.4%

PERFORMANCE

31/08/2016

Annualised % total return from launch (GBP)

Fund (Y class, 0.99% OCF)	12.1%
MSCI World Index	11.0%
IA Global Equity Income sector average	9.0%

Discrete years % total return (GBP)	Aug '12	Aug '13	Aug '14	Aug '15	Aug '16
Fund (Y class, 0.99% OCF)	12.3	21.0	11.0	0.6	29.7
MSCI World Index	10.8	20.8	12.8	3.5	25.3
IA Global Equity Income sector average	11.3	17.3	10.6	-0.6	20.6

Cumulative % total return (GBP)	1 month	Year-to-date	1 year	3 years	5 years	From launch
Fund (Y class, 0.99% OCF)	1.6	22.8	29.7	44.7	96.6	91.1
MSCI World Index	1.5	18.2	25.3	46.3	95.8	81.0
IA Global Equity Income sector average	1.2	16.5	20.6	32.7	73.1	63.3

RISK ANALYSIS

31/08/2016

Annualised, weekly, from launch on 31.12.10, in GBP	Index	Sector	Fund
Alpha	0	0.60	2.44
Beta	1	0.77	0.87
Information ratio	0	-0.27	0.24
Maximum drawdown	-18.26	-15.50	-16.19
R squared	1	0.80	0.89
Sharpe ratio	1	0.46	0.67
Tracking error	0	6.20	4.52
Volatility	13.86	11.95	12.74

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Source: Financial Express, bid to bid, total return. Fund launch date: 31.12.10. **Fund Y class**: Composite simulated performance based on actual returns of E share class (available from Fund launch), calculated in GBP.

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Performance data notes

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

Important information

Issued by Guinness Asset Management Limited, authorised and regulated by the Financial Conduct Authority.

This report is primarily designed to inform you about Guinness Global Equity Income Fund. It may provide information about the Fund's portfolio, including recent activity and performance. It contains facts relating to the equity markets and our own interpretation. Any investment decision should take account of the subjectivity of the comments contained in the report.

This document is provided for information only and all the information contained in it is believed to be reliable but may be inaccurate or incomplete; any opinions stated are honestly held at the time of writing, but are not guaranteed. The contents of the document should not therefore be relied upon. It should not be taken as a recommendation to make an investment in the Fund or to buy or sell individual securities, nor does it constitute an offer for sale.

Risk

The Guinness Global Equity Income Fund is an equity fund. Investors should be willing and able to assume the risks of equity investing. The value of an investment and the income from it can fall as well as rise as a result of market and currency movement, and you may not get back the amount originally invested. Details on the risk factors are included in the Fund's documentation, available on our website. Shareholders should note that all or part of the fees and expenses will be charged to the capital of the Fund. This will have the effect of lowering the capital value of your investment.

Documentation

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

- the Manager: 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.

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