Guinness Global Equity Income Fund

INVESTMENT COMMENTARY – December 2016

About the Fund

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

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

Fund size	£226m
Launch date	31.12.10
Managers	Dr. Ian Mortimer, CFA Matthew Page, CFA

Performance — 30.11.16

	1 year	3 years	From launch
Fund	23.5	41.4	93.3
Index	24.3	46.2	89.7
Sector	18.8	29.6	66.7

Annualised % total return from launch (GBP)

Fund	11.8%
Index	11.4%
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**

Monthly update

In November the Guinness Global Equity Income Fund was down 2.55% and the MSCI World Index was down 1.36% (in GBP). The fund therefore underperformed the benchmark by 1.19%.

In our last update we wrote about our thoughts on the aftermath of the US election result. This month we will focus on the recent changes to the portfolio.

We made a small number of changes to the portfolio in November. We sold our positions in Largan Precision, Li & Fung and Willis Towers Watson and replaced them with new positions in Roche, Randstad and VF.

We bought Largan Precision, a Taiwanese manufacturer of optical lenses for smartphones, around this time last year and it went on to perform very well for the fund. The company had demonstrated impressive growth along with margin expansion which is a combination we always like to see. The stock price fell quite significantly over the second half of 2015 in an environment of general emerging market weakness, allowing us to find an attractive entry point towards the end of the year. Indeed, we managed to purchase the company on a P/E multiple of 11x 2016 expected earnings. Given the strong share price performance we have seen this year, the P/E multiple has since expanded to 21x 2016 expected earnings which we felt was too rich. We continue to like the company and it will remain on our watchlist as a potential candidate to re-enter the portfolio if we see a similarly attractive entry point in the future.

We bought Willis Group, as it was called back in 2010, when we launched this fund. We

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always like insurance brokers' scalable and capital-light business models. However, the company merged with Towers Watson at the beginning of this year which led to a change in the capital structure of the business and, importantly for us, a lower dividend yield. The company has performed well in the portfolio but its dividend yield now of around 1.5%, down from 3.5% when we bought the stock, made us feel there are better opportunities elsewhere.

Li & Fung was a position where we got it wrong and decided to cut our losses and move on. We bought the company back in 2014 and we liked the company's asset-light business model as we could see how growth would translate into significant operational leverage. Growth had been weak for some time but we thought there was a reasonable chance that it would turn around. Unfortunately that did not occur and with the election of Donald Trump we felt the company's model of a global outsourcing business became more vulnerable. We also came to the conclusion that there is now a real risk of a dividend cut.

In the run-up to the US election there had been a meaningful sell-off in the healthcare sector and we felt this provided an opportune time to purchase Roche for the portfolio. The one year forward P/E multiple for Roche peaked at about 20x in the middle of 2015. We managed to pick it up on a multiple of 15x, a very reasonable discount not only to its historic level but also relative to the market given the company's high quality characteristics.

We also purchased VF, which we had owned when we launched the fund in 2010 but later sold after some particularly strong performance. The company owns clothing brands such as North Face, Timberland and Wrangler Jeans. We had sold the company in 2013 as the company's dividend growth, while impressive at over 10% per year, had failed to keep up with share price performance, meaning the yield had fallen below 2%. Since then, the dividend growth has remained as impressive but the share price has been weak over the last 18 months, meaning we were able to buy the company on a dividend yield of around 3%.

Finally, we added a position in the Dutch recruitment firm Randstad. We are always looking for companies that meet our quality criteria but trade on valuations towards the lows of their historic ranges. Randstad certainly met these criteria after the company's share price reacted negatively to the Brexit referendum. The market valued this high quality company on a forward P/E of 20x in the middle of 2015, yet we were able to pick it up on a forward P/E of 13x in November.

This discipline of looking for consistently high return on capital companies at historic low valuations is one that has served us well over the last six years. It doesn't work every time, as we saw with Li & Fung, but buying a high quality company at a historic low valuation will always be preferable to us to buying a low quality company at a 'cheap' valuation.

Since September we have seen a significant sector rotation out of defensive industries such as consumer staples and utilities into cyclical industries such as industrials and commodities, and this has been accelerated by the surprise election of Donald Trump. Some have characterised this rotation as a shift from 'quality' into 'value'. We do not see it in these terms.

First, we do not see utilities as quality companies. They earn a low return on capital, with high leverage, and without much opportunity for growth. Consequently we have never owned one in our portfolio.

Instead, 'quality' for us means three things:

1. Consistently high return on capital

2. A strong balance sheet
3. Ability to reinvest for growth at a high return on capital

These three elements are an incredibly powerful combination of characteristics, yet they are still insufficient for us to add a company into our portfolio. We also want to see value. It is therefore this combination of quality characteristics and value that we look for.

By our definition of quality we are not limited to defensive industries such as consumer staples, healthcare and utilities. We find plenty of companies in more cyclical sectors that have generated consistently high returns on capital (so-called 'best of breed' companies), and this has been where we have found value in the last few years. Over the last three years we have reduced our exposure to expensive quality in consumer staples and have been increasing our exposure to quality cyclicals in industrials and IT. In our August update, Going Global, going granular – where is the value?, we discussed in some detail where we were seeing value. As a result of this process our portfolio has weathered the sharp sector rotation relatively well.

How this will play out in 2017 is very hard to predict. Political risk certainly appears to have increased, with various European elections next year opening up the possibility for more sharp shocks to equity markets. It remains to be seen what the long-term impact of President Trump will be on equity markets: will a domestic stimulus offset the threat of trade wars with China? Will higher bond yields drive flows out of bonds and into equities or will an unexpected shock drive bond yields lower in a search for a safe haven? What will be the impact of the 'unknown unknowns' in 2017?

We do not attempt to predict the future, but we feel safe in the knowledge that a focus on our definition of quality equities should provide some downside protection during periods of fear. At the same time, ensuring we buy these quality companies when their valuations are cheap should allow us to participate in most of the upside when greed takes over. This approach has served us well over the last six years, and should provide some stability to portfolios in what could turn out to be a bumpy 2017.

We thank you for your continued support.

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

Data sources

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

Index and stock data: *Bloomberg*

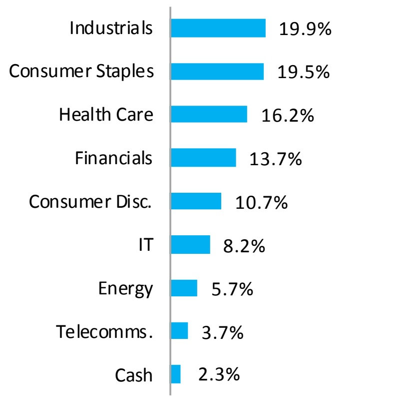
PORTFOLIO

30/11/2016

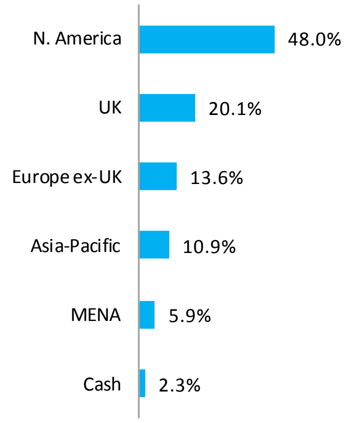
Fund top 10 holdings

Vodacom	3.7%
General Dynamics	3.0%
BAE Systems	3.0%
CME Group	2.9%
Total	2.9%
Unilever	2.9%
Royal Dutch Shell	2.9%
Illinois Tool Works	2.9%
Japan Tobacco	2.8%
CA Inc	2.8%
% of Fund in top 10	29.7%
Total number of stocks held	35

Sector analysis



Geographic allocation



PERFORMANCE

30/11/2016

Annualised % total return from launch (GBP)

Fund (Y class, 0.99% OCF)	11.8%
MSCI World Index	11.4%
IA Global Equity Income sector average	9.0%

Discrete years % total return (GBP)	Nov '12	Nov '13	Nov '14	Nov '15	Nov '16
Fund (Y class, 0.99% OCF)	9.0	23.8	14.0	0.4	23.5
MSCI World Index	11.5	23.7	13.9	3.3	24.3
IA Global Equity Income sector average	13.5	20.2	8.9	0.1	18.8

Cumulative % total return (GBP)	1 month	Year-to-date	1 year	3 years	5 years	From launch
Fund (Y class, 0.99% OCF)	-2.5	24.3	23.5	41.4	90.9	93.3
MSCI World Index	-1.4	23.9	24.3	46.2	101.6	89.7
IA Global Equity Income sector average	-2.3	18.9	18.8	29.6	76.8	66.7

RISK ANALYSIS

30/11/2016

Annualised, weekly, from launch on 31.12.10, in GBP	Index	Sector	Fund
Alpha	0	0.14	1.79
Beta	1	0.77	0.87
Information ratio	0	-0.36	0.08
Maximum drawdown	-18.26	-15.50	-16.19
R squared	1	0.80	0.89
Sharpe ratio	1	0.45	0.66
Tracking error	0	6.29	4.55
Volatility	13.91	12.00	12.77

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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.

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.

Telephone calls may be recorded and monitored.