Guinness Global Equity Income Fund

INVESTMENT COMMENTARY – August 2017

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	£326m
Launch date	31.12.10
Managers	Dr. Ian Mortimer, CFA Matthew Page, CFA
Analysts	Joshua Cole Sagar Thanki

Performance 31.07.17

	1 year	3 years	From launch
Fund	9.9	46.6	106.5
Index	17.6	58.0	116.5
Sector	13.9	37.4	83.6

Annualised % gross total return from launch (GBP)

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, gross total return.

Summary performance

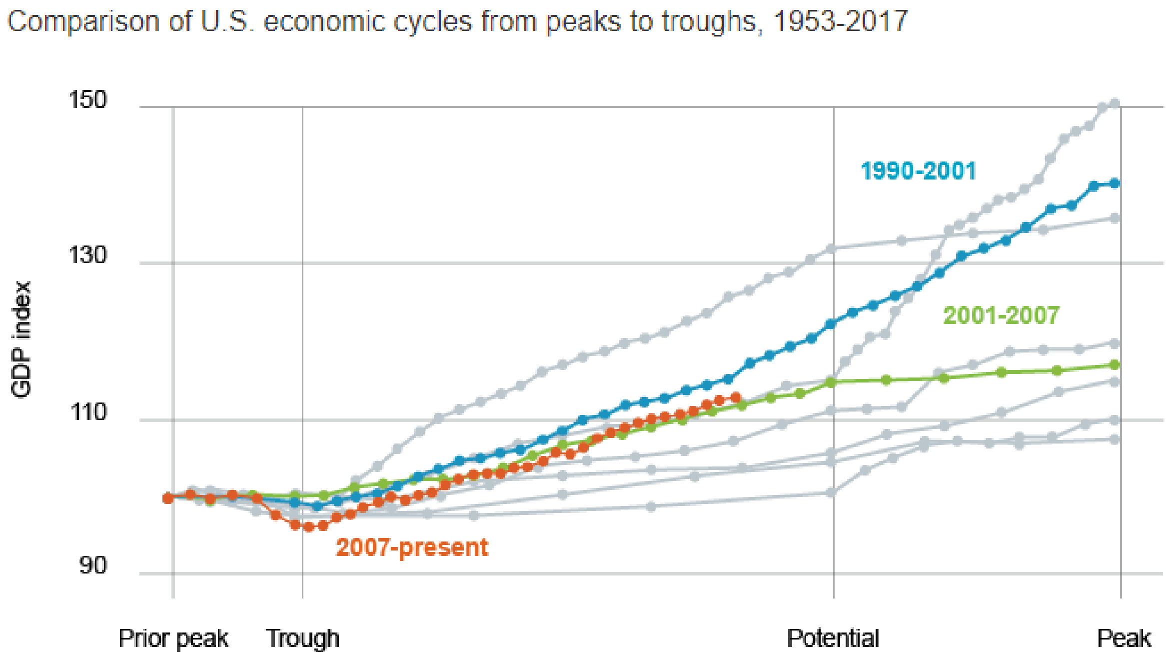
In July, the Guinness Global Equity Income Fund produced a total return of -1.13% (in GBP) versus the MSCI World Index return of 0.92% (in GBP). The fund therefore underperformed the index by 2.05% in the month.

Year-to-date the fund is up 4.63%, underperforming the MSCI World Index which is up 6.57%.

July in review

As we head into the summer months, market returns – like the weather – have been pleasant. The global economy is growing almost everywhere and attention is turning sharply to economic data; in particular, inflation, wage growth and unemployment. In July, the US Federal Reserve (Fed), the European Central Bank (ECB) and the Bank of Japan (BoJ) all kept interest rates on hold. Economists and investors alike will, no doubt, be paying close heed to central bank rhetoric for the rest of the year.

There was good news in the US as GDP figures showed 2.6% growth for the second quarter of 2017, up from 1.2% for the first quarter. US payroll figures for June showed 220,000 new jobs created, and unemployment remained low at 4.4%. Despite this, inflation fell to 1.6% leading many to speculate that a future rise in interest rates would be delayed. In equity markets, the S&P 500 reached another record high in July – over 2,400 – and returned over 2% (in USD) in the month. With many questioning how long the current economic recovery and stock market rally can last, it is interesting to look historically at the 'quantity of recovery' rather than the 'time of recovery'. The red line in the chart below suggests that there may be plenty more to come from the current cycle, based purely on absolute growth of GDP.



Sources: BlackRock Investment Institute, with data from U.S. BEA, Congressional Budget Office, National Bureau of Economic Research (NBER), July 2017.
Notes: This chart compares real U.S. GDP with other cycles. Each line begins with the previous cycle's peak, as determined by the NBER.

In Europe, the Eurozone unemployment rate has fallen to 9.1% – the lowest level since February 2009 – and inflation, at 1.3%, continues to fall short of the ECB's 2% target. Expectations of the first ECB interest rate rise have also shortened from 30 months at the beginning of the year to 17 months today, as shown by the chart below. Though this is still some time away, there is a growing sentiment that the central bank will announce its tapering plan for quantitative easing (QE) in the coming months.

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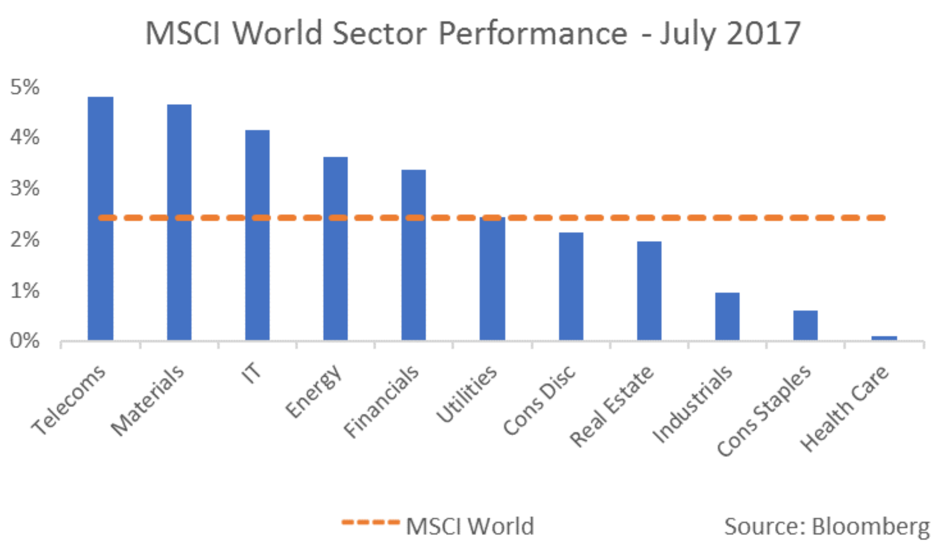
Company earnings season in both the US and Europe has had a strong start in the second quarter. Of the S&P 500 companies which have reported, 78% have beaten consensus earnings expectations, against a historic average of 63%. This is set to be the most positively surprising earnings season since the third quarter of 2009, when 79% of companies managed to surprise the Street amid the first rebound from the Financial Crisis.

During July, the MSCI Emerging Markets Index was the best performing equity index globally, returning 5.0% (in USD), closely followed by the MSCI Asia ex Japan Index, which returned 4.7%. Sentiment towards China was boosted by encouraging news that second quarter GDP grew by 6.9% year-on-year, which was above consensus estimates, and puts the economy on track for its first year-on-year acceleration since 2010. Commodities ended the month up 2.3% (in USD) and oil has been moving back above USD$50/barrel for the first time since May. Price fluctuations have very much been dependent on supply, with US shale production figures falling and inventories dropping by 10.2 million barrels. OPEC also reiterated its commitment to controlling supply by limiting its exports to the US.

In sector terms, Telcos, IT and Materials were the best performing in the month. While the IT sector experienced a steep and sudden sell-off towards the end of July – for example, Alphabet and Amazon share prices fell on disappointing corporate results – it did little to dent its upward trajectory, and the sector remains the strongest performing year-to-date. Amazon's market value hit the half-trillion dollar mark for the first time on 26 July, joining an elite group of companies valued over US$500bn. The other US members are Apple, Alphabet and Microsoft.

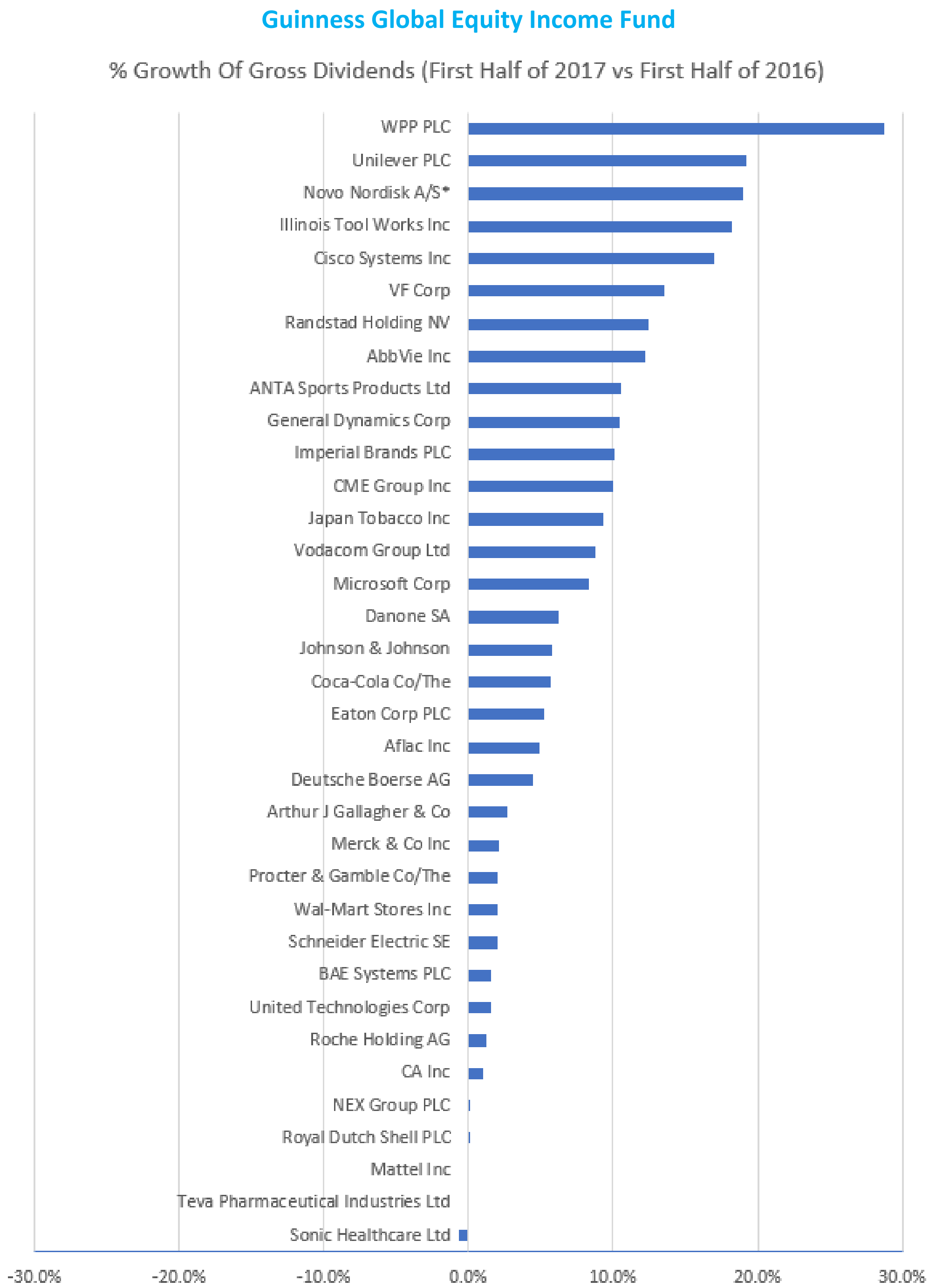
The Healthcare sector was among the weaker performers in July. Stocks slipped when President Trump's healthcare reform bill ended in failure. Furthermore, the White House's inability to enact healthcare legislation undermined faith in the Trump administration's capacity to pass plans for tax cuts and fiscal stimulus.



With regards to style, large-cap stocks outperformed small and mid-caps, benefitting the portfolio, although the continuation of growth outperforming value was a drag. With bond yields rising – as interest rate expectations rise – there is a shift towards the cyclical sectors. The fund's underweight positions in Materials, IT and Financials were a drag on performance, with overweight positions not adding significantly over the month.

The strongest individual performer in the fund was NEX Group (+8.38% in USD). The company provides electronic trading platforms and reported a positive sales surprise. This gave an indication that financial markets were starting to move towards more 'normalised' conditions despite the low volatility environment that characterised the start of the year. VF (+7.97% in USD) also performed well; the global apparel company beat earnings estimates, raised guidance and reported much-improved gross margins as a result of selling more directly to consumers and expanding in overseas markets. The fund's worst performing stock in July was CA (-9.95% in USD). The computer software company has seen falling revenues, and towards the end of July, a reported deal to go private with BMC fell through. CA's high free cash flow from the mainframe business made it an attractive target for private equity buyers. The company has about $1 billion in net cash and has relied mostly on inorganic sales growth in the past few years for growth. The secular shift to the cloud remains a headwind.

Looking further at the portfolio, we see from the graph below that almost every company we currently own has increased dividends in the first half of 2017 versus the first half of 2016. Our screening process begins by looking at companies that have maintained a Cashflow Return on Investment of 10% every year for 10 years. The fact that the companies we own are largely characterised by progressive dividend policies then gives us confidence that they are able to generate cash, use cash effectively and then return profits to shareholders.



**Novo Nordisk moved from paying dividends annually to semi-annually in 2016, so this growth represents the equivalent, based on our estimates. Source: Bloomberg*

We made no changes to the portfolio in July.

We thank you for your continued support.

Portfolio Managers
Matthew Page, CFA
Dr Ian Mortimer, CFA

Analysts
Joshua Cole
Sagar Thanki

Data sources

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

Index and stock data: *Bloomberg*

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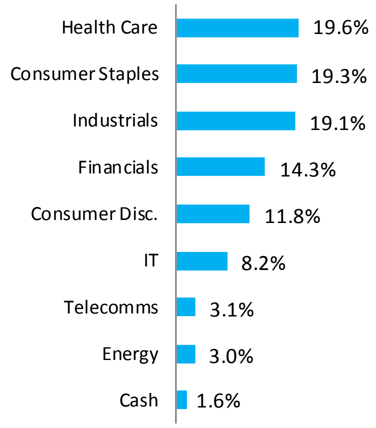
PORTFOLIO

31/07/2017

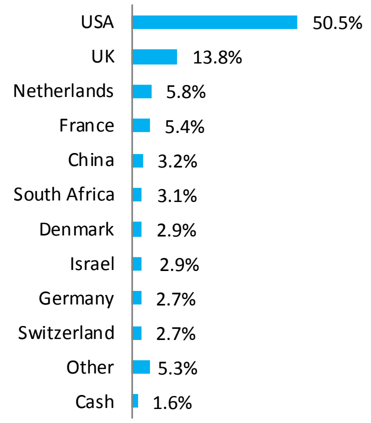
Fund top 10 holdings

Anta Sports Products	3.2%
VF Corp	3.1%
Nex Group Plc	3.1%
Vodacom	3.1%
Royal Dutch Shell	3.0%
Wal-Mart Stores	2.9%
Novo Nordisk	2.9%
Unilever	2.9%
CME Group	2.9%
Microsoft	2.9%
% of Fund in top 10	30.0%
Total number of stocks in Fund	35

Sector analysis



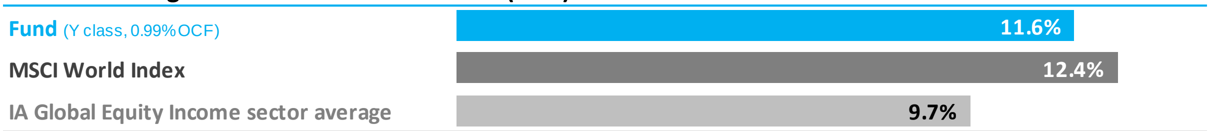
Geographic allocation



PERFORMANCE

31/07/2017

Annualised % gross total return from launch (GBP)



Discrete years % gross total return (GBP)	Jul '13	Jul '14	Jul '15	Jul '16	Jul '17
Fund (Y class, 0.99% OCF)	27.6	1.8	10.3	21.0	9.9
MSCI World Index	28.1	4.7	14.1	17.7	17.6
IA Global Equity Income sector average	22.1	5.1	6.3	13.6	13.9

Cumulative % gross total return (GBP)	1 month	Year-to-date	1 year	3 years	5 years	From launch
Fund (Y class, 0.99% OCF)	-1.1	4.6	9.9	46.6	90.5	106.5
MSCI World Index	0.9	6.6	17.6	58.0	111.9	116.5
IA Global Equity Income sector average	0.6	6.3	13.9	37.4	76.4	83.6

RISK ANALYSIS

31/07/2017

Annualised, weekly, from launch on 31.12.10, in GBP	Index	Sector	Fund
Alpha	0	0.64	1.31
Beta	1	0.77	0.87
Information ratio	0	-0.31	-0.03
Maximum drawdown	-18.26	-15.50	-16.19
R squared	1	0.80	0.89
Sharpe ratio	1	0.53	0.65
Tracking error	0	6.12	4.46
Volatility	13.83	11.69	12.50

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Source: Financial Express, bid to bid, gross 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.

Singapore

The Fund is not authorised or recognised by the Monetary Authority of Singapore ("MAS") and shares are not allowed to be offered to the retail public. The Fund is registered with the MAS as a Restricted Foreign Scheme. Shares of the Fund may only be offered to institutional and accredited investors (as defined in the Securities and Futures Act (Cap.289)) ('SFA') and this material is limited to the investors in those categories

Telephone calls may be recorded and monitor