Guinness Global Equity Income Fund

INVESTMENT COMMENTARY – October 2017

About the Fund

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

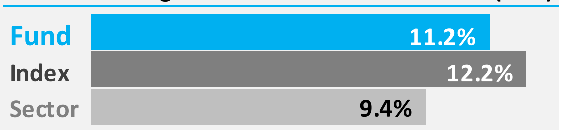
The Fund is managed for income and capital growth and invests in profitable companies that have generated persistently high return on capital over the last decade, and that are well placed to pay a sustainable dividend into the future.

Fund size	£336m
Launch date	31.12.10
Managers	Dr. Ian Mortimer, CFA Matthew Page, CFA
Analysts	Joshua Cole Sagar Thanki

Performance 30.09.17

	1 year	3 years	From launch
Fund	7.2	41.4	104.7
Index	15.1	53.5	118.1
Sector	12.3	36.2	83.8

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 September the fund was down -1.81% (in GBP), versus the MSCI World Index benchmark, which was down -1.76% (in GBP). The fund therefore underperformed the index by 0.05% over the month.

In the third quarter of 2017 the fund was down -1.07%, versus the MSCI World Index benchmark, which was up 1.62%. The fund therefore underperformed the index by 2.69% over the quarter.

Despite recent underperformance versus the benchmark, the longer-term performance of the strategy is strong with the fund being top quartile versus the IA Global Equity Income sector peers since launch (end of 2010).

Quarter in review

Despite all the political noise in the third quarter of 2017, markets continued to focus on the improving economic data and healthy global economy. While the world worried about North Korea, markets cheered rising company earnings. While headlines focused on the rise of the far right in Germany, markets focused instead on the return of Chancellor Merkel and the strong health of the German economy. Even with the recent violence on the streets of Catalonia, global market reaction has so far been muted. As we have alluded to in previous updates, politics matters, but markets have been able to tune out the noise and maintain a focus on economics and company fundamentals.

In the US, the number of jobs available hit the highest level since 2000. In the UK, the unemployment rate is the lowest since 1975, and Eurozone consumer confidence is at its highest since 2001. Against this positive economic backdrop, central bankers have continued to indicate that they want to gradually reduce the level of monetary policy stimulus in place. The US Federal Reserve (Fed) announced that it will start the process of 'quantitative tightening' and continues to suggest that another rate rise is on the cards for December. Meanwhile, the European Central Bank (ECB) looks set to announce a further slowdown in the pace of its own QE programme, and even the Bank of England (BoE) has strongly suggested that it will raise interest rates before the year is out.

US equity markets have had a remarkably smooth, volatility-free journey in 2017, with quarter three proving to be no exception. During the year's relentless climb, the largest pullback has been a mere 3%. Healthy US stock market gains are being driven by decent earnings growth from corporates, and towards the end of last month markets drew strength from renewed talk of tax reform from Washington. The Republicans unveiled a sweeping tax reform proposal aimed at lowering the corporate tax rate from 35% to 20%. Investors are hopeful that if Congress passes such a cut it would feed through to companies' bottom lines. However, the unpredictability of President Trump, coupled with his fragmented relationship with Congress, kept expectations at bay and markets seemed cautious of déjà vu after tax reform hopes were dashed earlier in the year.

During September, the US equity market was led by Energy and Financials stocks. The month saw a resurgence in the Energy sector, helped by a sharp rise in the oil price. Brent crude has continued to rise since hitting its low for 2017 on 21st June and has been buoyed by expectations that OPEC members will cap supply. As an interest-rate sensitive sector, Financials rallied on expectations around the Fed's forecast for another rate rise this year. Conversely, the Utilities sector was the weakest performer in September for the same reason. Year-to-date, however, the growth story focuses on Tech stocks. The sector has seen strong secular growth regardless of the underlying economic conditions and has driven the market higher. Though there have been growing concerns regarding valuations, the sector has benefitted from investors' willingness to pay up for companies with robust earnings and revenue growth.

In Europe, GDP growth has continued to improve. While many predicated more moderate activity levels, Purchasing Managers Indices (PMIs) signalled a renewed impetus to already impressive rates of growth in output, order books and employment during September. Particularly impressive was the level of job creation, which rose to the highest level since 1997. Eurozone GDP is now forecast to rise 2.1% in 2017, up from a market consensus of 1.4% at the start of the year, and in response, ECB President Mario Draghi has led markets to expect an announcement in October of a further reduction in the pace of QE purchases.

From a sector perspective, the Basic Materials sector was the strongest performer as commodity prices continued their rally, helped by Chinese demand. This was followed by the Industrials sector, which benefited from good global manufacturing growth indicators. The Utilities sector led detractors this month, followed by the Telecommunications sector, amid a rise in government bond yields.

In the UK, the news continues to be dominated by Brexit negotiations. Theresa May signalled in Florence that she wants a transitional deal, but provided no further clarity on what the outcome would be after a transitional period. The economic outlook mirrors the political, and with both being somewhat uncertain. Very low unemployment is a clear positive, but there has also been low real wage growth. Consumer confidence remains weak, though despite all this, the Bank of England have made clear that they think an interest rate rise is warranted this year, with possibly more to come next year. Economic data continued to provide mixed signals about UK economic growth; the Office for

National Statistics (ONS) revised down growth figures for the second quarter of the year. The Purchasing Managers Index, which tracks sentiment in the services sector, indicated a slowdown in services growth during August, most evident in consumer-facing services.

Asian equity markets were mixed over September after strong gains year-to-date. This was against a backdrop of geopolitical tensions particularly relating to North Korea's weapon tests. China's equity market ended the month higher, despite a sell-off towards the end of the month following a ratings downgrade from S&P due to high debt and property measures aimed at curbing rising house prices. However, Chinese economic activity data in August continued to suggest economic expansion, with industrial profits showing robust growth. In Japan, equities had a strong quarter as the acceleration in global growth helped lift exports. Shinzo Abe's decision to call an election poses a relatively limited risk to the highly supportive monetary policy backdrop in Japan, explaining its failure to rock local equity markets.

Performance Drivers

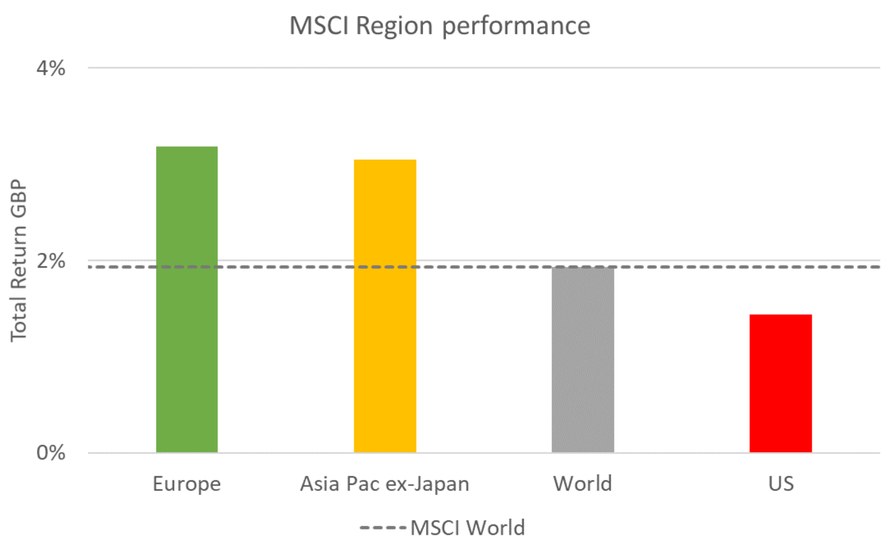


Chart 1: MSCI World Index geographic performance breakdown for Q3 2017. Source: Bloomberg

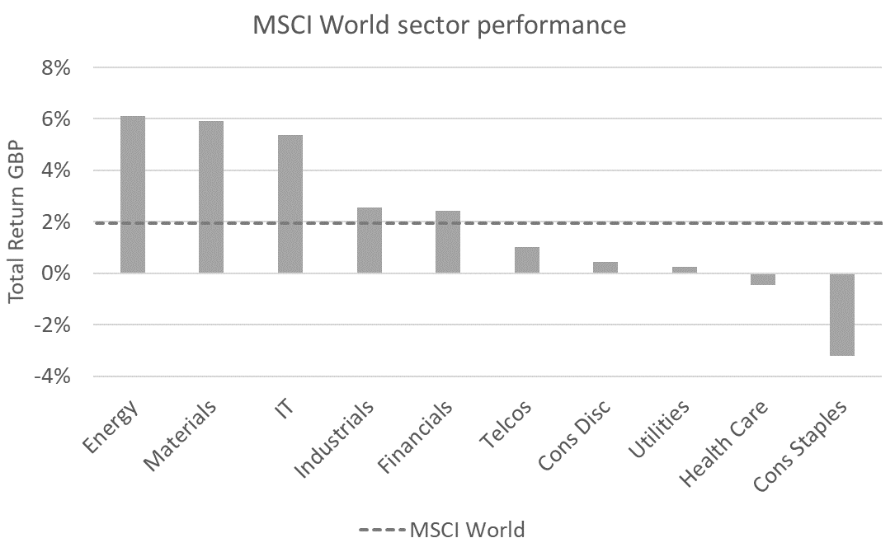


Chart 2: MSCI World Index sector performance breakdown for Q3 2017. Source: Bloomberg

As the above charts illustrate, over the quarter, we have seen Europe and Asia lead the US in terms of regional performance, and we have seen Energy, Materials and IT as the better performing sectors, whereas Consumer Staples have been the worst performing.

In terms of geographic exposure, the largest difference between the fund and the benchmark is our exposure to the US (as measured by country of domicile). Over the quarter the fund had on average a c.50% weighting to North America which compares to the index at c.60%. This was beneficial to the portfolio since the US market lagged the others. The largest geographic overweight remains Western Europe (including the UK) which was a c.10% larger position than the benchmark over the quarter and contributed the most to the portfolio's active return.

The good IT performance continues a trend that has characterised the year to date, whereas Energy and Material stocks have reversed their recent trend and recovered relative underperformance. As can be seen in the chart below, our over and underweights did not benefit the portfolio, as we would expect given the fund's quality and value bias. This differed to the second quarter, when we saw Healthcare and Consumer Staples leading the bounce back in defensive stocks as bond yields moved sideways rather than downwards – breaking a long-term trend – and there were hints of value coming back into favour with a rising rate and yield environment. It is worth noting at this stage that the fund is benchmark aware, not benchmark driven, and weightings are based on high-conviction, bottom-up stock selection.

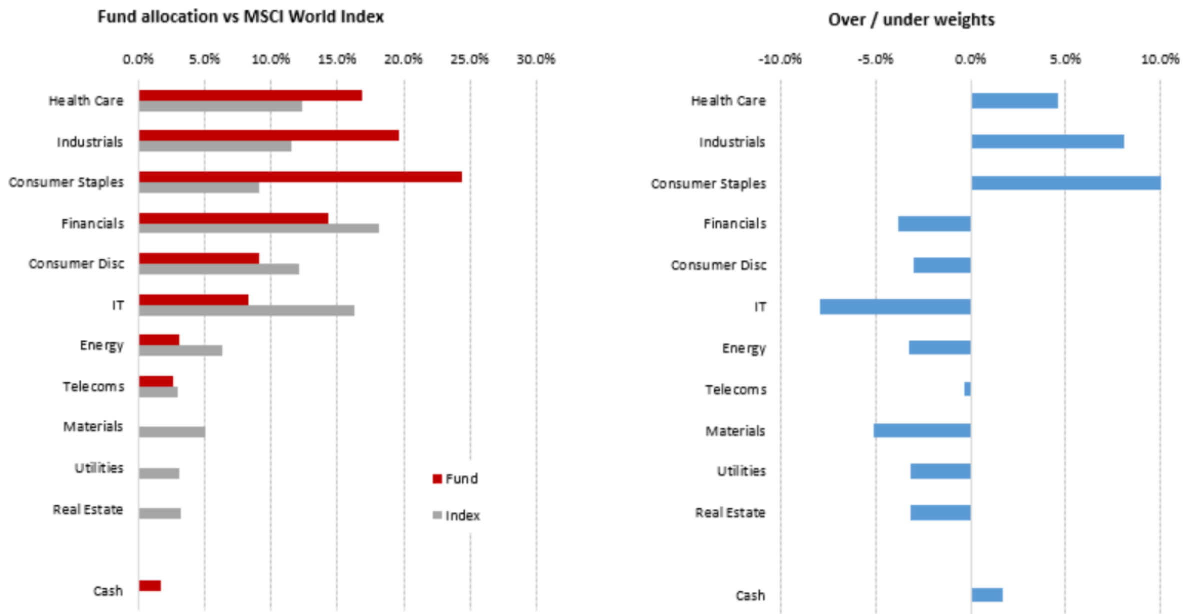


Chart 3: Sector breakdown of the fund versus MSCI World Index. Guinness Asset Management, Bloomberg (data as at 30.09.2017)

We have seen small-caps outperform large-caps, which has been a drag for the fund since it only invests in mid to large-cap companies. This was due to the renewed hope of a corporation tax cut in the US, which would potentially help smaller, domestically focused stocks more than more globally diverse businesses. There was no differentiation between growth and value stocks. Growth companies have significantly outperformed value so far this year, but most of this came in the first half of the year. The two charts below illustrate this point.

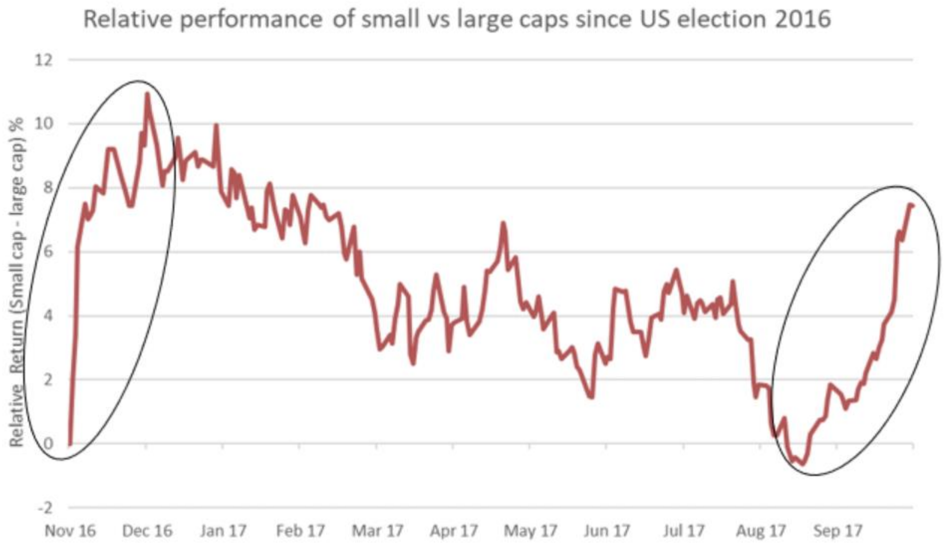


Chart 4: Source: Guinness Asset Management, MSCI, Bloomberg

Chart 5: Source: Guinness Asset Management, MSCI, Bloomberg

Individual companies that performed well over Q3 were ANTA Sports, AbbVie and Royal Dutch Shell. Companies that had weaker performance over Q3 were Teva Pharmaceutical, Mattel, and WPP.

ANTA Sports is one of our newest positions from last quarter, so it was encouraging to see its stellar performance in Q3 (+29.0% in USD). ANTA Sports is based in China and has had strong cashflow return on investment over the last 10 years. The company generates revenue through the manufacture and trading of sporting goods, including footwear, apparel and accessories. Its brand portfolio includes ANTA, ANTA KIDS, FILA, FILA KIDS and NBA, and the company is looking to new brands such as South Korea's Kolon. Looking at the financials, ANTA Sports has very solid margins alongside a surge in sales in recent years. The company is well positioned to benefit from the growing wealth in China and improving economy, and has maintained a very strong balance sheet with a debt-to-equity ratio of less than 10%. It beat on EPS and revenue in August, reaffirming our conviction in the stock.

WPP has been held in the portfolio since mid-2015 and was down 11.4% in Q3, in USD. The quarterly results were disappointing as recent guidance was downgraded. The company operates in a cyclical industry and end clients have cut costs, which have subsequently flowed down to lower revenues for advertising companies such as WPP. The FMCG companies (Unilever, etc) have indeed lowered advertising spend in order to boost EPS growth as revenues struggle to grow, but this trend could reverse if consumer confidence grows and the economy picks up. The company also noted it will bring on new clients towards the end of 2017, enabling it to grow by taking market share. Further, the CFROI is high and stable, operating margins are around 20%, the company has had positive sales growth every year since 2002 (including 2009), the dividend is well covered and growing, and the balance sheet is strong. We are therefore minded to maintain our holding in the company at this stage.

Changes to Portfolio

In the quarter we made two changes to the portfolio, whereby we bought British American Tobacco and Hengan International. Following our one-in-one-out policy, we sold positions in Teva Pharmaceuticals and Mattel to make room for the new positions.

British American Tobacco – the global tobacco leader – was on our radar due to its excellent cashflow returns on invested capital and strong dividend profile. Its increasing market share, sales and earnings and its successful integration of the mega $65.4bn acquisition of Reynolds American position the company well for future price and dividend growth. Despite a rising debt, the company has a large cash pile and good interest cover. We believe that the US Food & Drug Administration’s proposal to reduce nicotine in cigarettes has been overly discounted, and coupled with a sell-off following bribery allegations, this has provided us an attractive valuation to buy a new position. Integrating the Reynolds American deal and developing the ‘global drive brands’ strategy is the company’s focus for the next few years, as synergies from the acquisition are expected to be $400 million, adding 12% to Reynolds’ 2016 net income. ‘Global drive brands’ continue to boost BAT's market share at higher price points and increased investment in new-generation products will allow longer-term growth.

Hengan International is one of the largest producers of sanitary napkins, diapers and tissue paper in China. Historically the company has captured significant market share in established distribution channels (maternity stores, hypermarkets) and it is currently seeing growth from online exposure. Management has built up an e-commerce team to take advantage of the channel shift in China whereby consumers are increasingly purchasing everyday items online. Alongside this there are new brand launches and a revitalised sales strategy to maintain its offline market share. Growing revenues, high stable margins, year-on-year earnings growth and a well-covered high dividend are some of the highlights making this a compelling addition to the fund.

We bought Teva Pharmaceuticals in 2013 when the stock was trading at historic low multiples and the market was overly focused on 'patent cliffs' – an issue which was associated with healthcare companies in general. Over the following two years, the stock price recovered significantly as the expected pessimistic scenarios did not come about. Into 2016, however, the share price weakened as worries mounted regarding drug pricing in the US and the company announced a significant M&A transaction, buying the generic drug business of Allergan for around $40bn. This was an exceptionally large figure for the company and raised questions as to whether Teva had both over paid and overstretched. In the second half of 2016, the share price continued to fall, although we felt this was more sentiment-driven. However, the latest earnings release came as a shock to the market due to the severity of the announcement, which entailed significant write-downs associated with the Allergan business acquisition and a large cut to the dividend, in part to preserve cash to pay down debt and prevent certain covenants being breached. As a consequence of these poor results, and especially in light of the dividend cut, we were quick to sell our full position in TEVA.

Mattel is another company that has been a long term holding in the portfolio, though over the last two years it has had mixed results. Ultimately sales have declined due to strong competition and lack of innovation from the company and the Cost of Goods Sold has not declined in parallel – meaning earnings have been hit. With such an operationally leveraged company it has been particularly disappointing that the management has not been able to tackle costs and arrest the decline in margins. Throughout this period the company did maintain its commitment to the dividend, even as payout ratios increased from what were relatively low levels. In February, after only two years, another new CEO was announced with a background from Google and Groupon and a focus on modernising their product offering. Through 2017 the company continued to disappoint but the dividend cut announced by the new CEO on the latest earnings call further added to market worries, and as a consequence we sold our position in the company.

Positioning

The below chart shows the geographic weighting of the portfolio both in terms of where companies are domiciled (as you will see listed in our Factsheets, for example) and where their revenues come from – which can often be more illuminating.

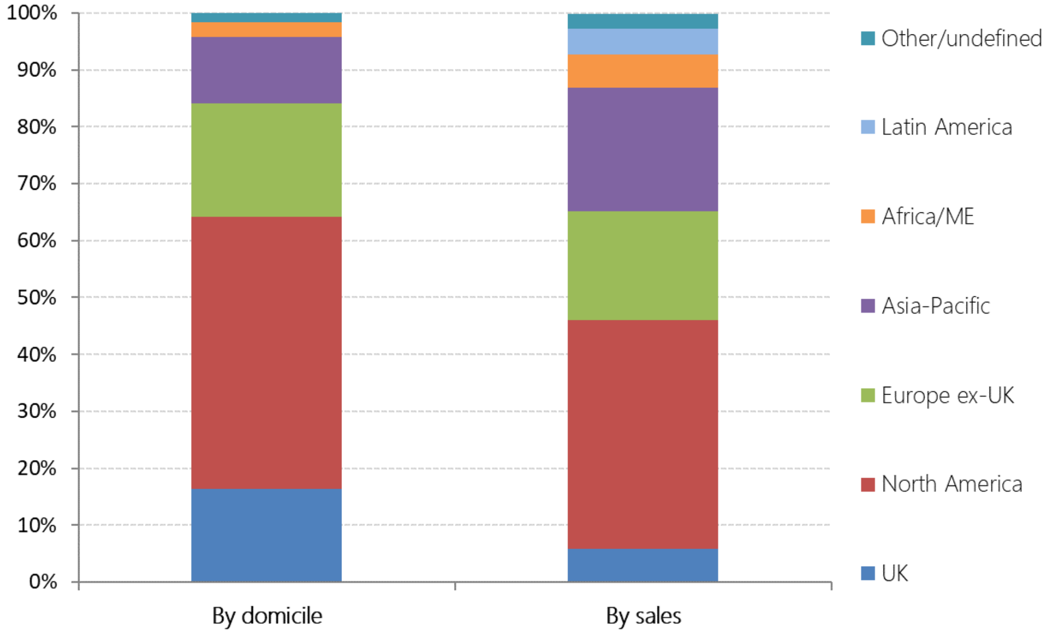


Chart 4: Geographic breakdown of the fund. Guinness Asset Management, Bloomberg (data as at 30.06.2017)

We would note two main points: (i) the fund has a lower exposure to the UK when considered in revenues (c.6%) versus by domicile (c.18%), which is because we have favoured UK domiciled companies with a more global exposure (such as Unilever and Imperial Brands); (ii) there is a larger exposure to Asia and emerging markets by revenues (c.22%) than by domicile (c.12%).

In terms of sector weightings, the fund continues to have a zero weighting to Utilities, Materials, and Real Estate. The largest overweight positions are to Consumer Staples, Industrials and Healthcare.

The below two charts show how the exposure of the fund has evolved since we launched the strategy back in 2010.

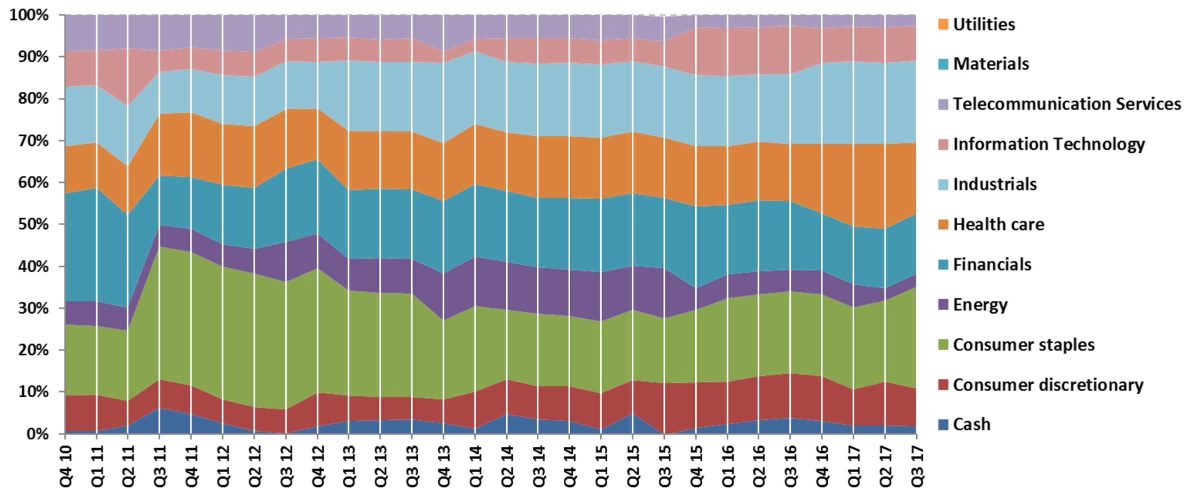


Chart 5: Sector breakdown of the fund since launch. Guinness Asset Management, Bloomberg (data as at 30.09.2017)

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From a geographic point of view, we have reduced our US exposure slightly, with the sale of Teva pharmaceuticals and Mattel, and added to our Asia Pacific exposure with the purchase of Hengan and our UK exposure with British American Tobacco. Overall, our US exposure remains the largest, albeit we are still c.11% underweight versus the benchmark.

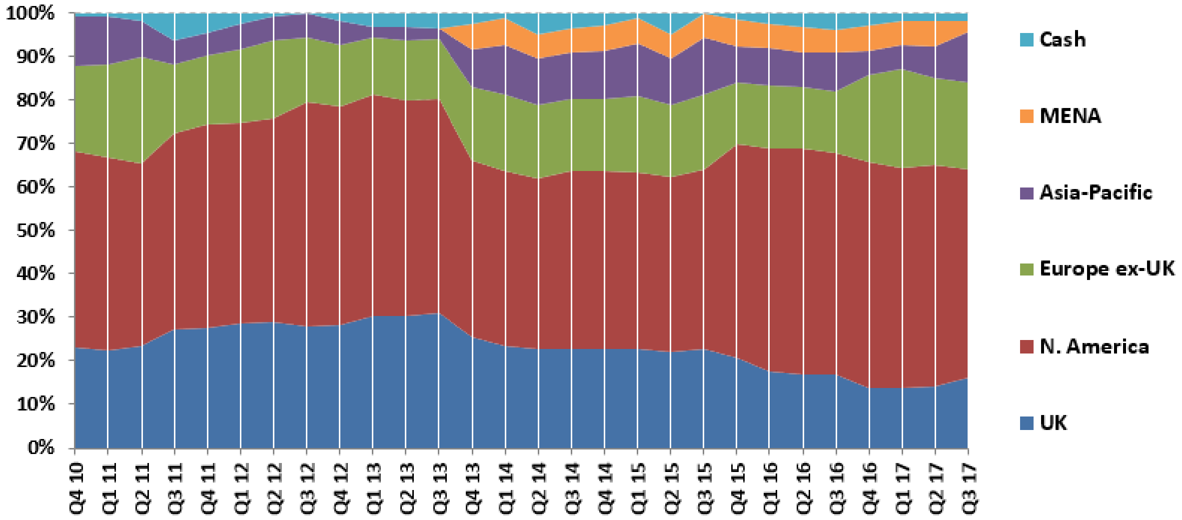


Chart 6: Geographic breakdown of the fund since launch. Guinness Asset Management, Bloomberg (data as at 30.09.2017)

Key Fund Metrics Today

The four key tenets to our approach are: quality, value, dividend, and conviction. We follow these metrics at the portfolio level to make sure we are providing what we say we will. Based on the measures, our high-conviction fund has companies which are on average better quality at similar value versus the index.

At the quarter end, we are pleased to report that the portfolio continues to deliver on all four of these measures relative to the benchmark MSCI World Index.

		Fund	MSCI World Index
Quality	Average 10 year CFROI	19%	10%
	Weighted average debt / equity	59%	137%
Value	PE (2017e)	17.8	17.7
	FCF Yield (LTM)	6.8	4.8
Dividend	Dividend Yield (LTM)	2.8%	2.4%
	Weighted average payout ratio	63%	53%
Conviction	Number of stocks	35	1650
	Active share	92%	-

Chart 7: Portfolio metrics versus index. Guinness Asset Management, Credit Suisse HOLT, Bloomberg (data as at 30.09.2017)

Outlook

The fund at the end of the quarter was trading on 17.8x 2017 expected price to earnings, and 16.5x 2018 expected price to earnings; a premium of 0.6% and 1.9% respectively to the broad market. We therefore see the portfolio as still providing reasonable value to our investors on these simple metrics, given the quality and growth characteristics of our holdings. With interest rates set to rise and continuous geopolitical uncertainty around the globe, our perpetual approach of focusing on the quality of the underlying companies we own should stand us in good stead in our search for rising income streams and long-term capital growth.

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*

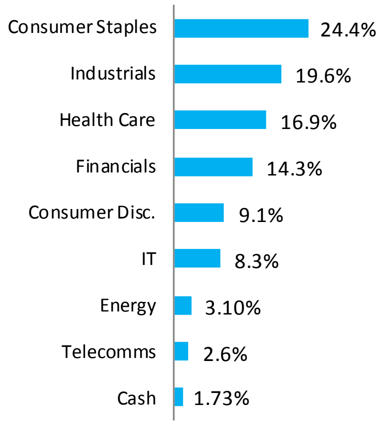
PORTFOLIO

30/09/2017

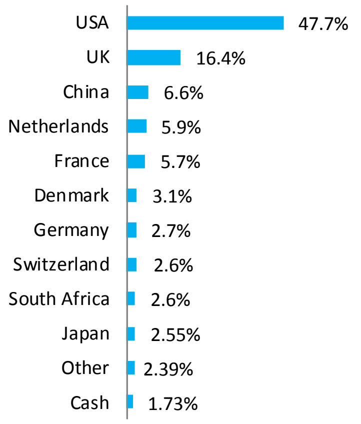
Fund top 10 holdings

Anta Sports Products	3.7%
Abbvie	3.5%
Novo Nordisk	3.1%
Royal Dutch Shell	3.1%
VF Corp	3.1%
CME Group	3.1%
Nex Group Plc	3.0%
BAE Systems	3.0%
Schneider Electric	2.9%
HENGAN INTL GROUP CO LTD	2.9%
% of Fund in top 10	31.3%
Total number of stocks in Fund	35

Sector analysis



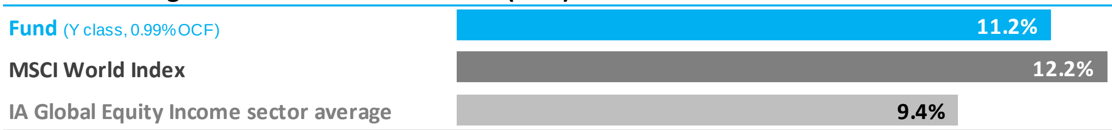
Geographic allocation



PERFORMANCE

30/09/2017

Annualised % gross total return from launch (GBP)



Discrete years % gross total return (GBP)	Sep '13	Sep '14	Sep '15	Sep '16	Sep '17
Fund (Y class, 0.99% OCF)	21.0	10.5	-0.9	33.1	7.2
MSCI World Index	20.6	12.7	2.1	30.6	15.1
IA Global Equity Income sector average	17.3	8.8	-2.7	24.7	12.3

Cumulative % gross total return (GBP)	1 month	Year-to-date	1 year	3 years	5 years	From launch
Fund (Y class, 0.99% OCF)	-1.8	4.7	7.2	41.4	88.9	104.7
MSCI World Index	-1.8	7.3	15.1	53.5	108.5	118.1
IA Global Equity Income sector average	-1.3	6.4	12.3	36.2	73.8	83.8

RISK ANALYSIS

30/09/2017

Annualised, weekly, from launch on 31.12.10, in GBP	Index	Sector	Fund
Alpha	0	0.58	1.04
Beta	1	0.77	0.87
Information ratio	0	-0.31	-0.08
Maximum drawdown	-18.26	-15.50	-16.34
R squared	1	0.80	0.89
Sharpe ratio	1	0.51	0.61
Tracking error	0	6.06	4.44
Volatility	13.83	11.59	12.39

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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