Guinness Global Equity Income Fund

INVESTMENT COMMENTARY – February 2018

About the Fund

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

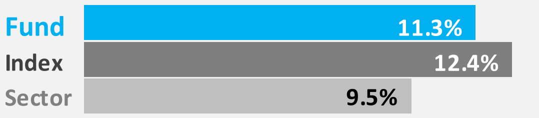
The Fund is managed for income and capital growth and invests in profitable companies that have generated persistently high return on capital over the last decade, and that are well placed to pay a sustainable dividend into the future.

Fund size	£344m
Launch date	31.12.10
Managers	Dr. Ian Mortimer, CFA Matthew Page, CFA
Analysts	Joshua Cole Sagar Thanki

Performance — 31.01.18

	1 year	3 years	From launch
Fund	9.9	38.1	114.1
Index	11.9	50.3	128.8
Sector	9.4	33.7	90.3

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. 0.99% OCF

ELITE RATED™ by FundCalibre.com

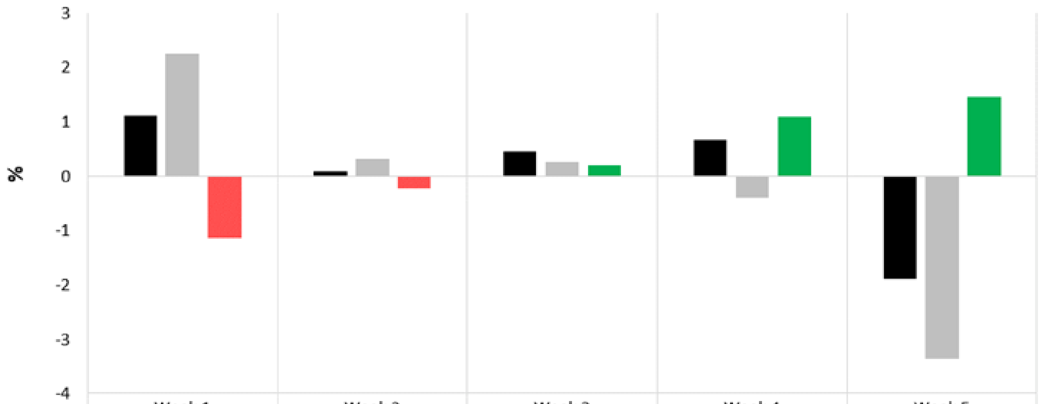
Summary performance

In January, the Guinness Global Equity Income Fund produced a total return of -0.09% (in GBP) versus the MSCI World Index return of 0.17% (in GBP). The fund therefore underperformed the index by 0.28% in the month.

The turn of the year saw equity markets surge ever higher on optimism over the strength of the world economy and amid upbeat corporate earnings releases. Despite the pullback towards the end of the month, the MSCI World and S&P Index enjoyed their best starts to the year since 1994 and 1987 respectively.

It was however a month of two halves. The first half saw equity markets continue their relentless ascent. Much like the story of 2017, this was driven by growth-orientated sectors. However, towards the end of the month, markets began to stutter with most of the major equity indices seeing a significant pullback. During both periods, the Guinness Global Equity Income Fund performed as we would expect. The fund is positioned to preserve capital during falling markets and keep up with growing markets. The figures overleaf summarises the performance over January in a more granular manner:

Guinness Global Equity Fund vs MSCI World Index - performance across January 2018



	Week 1 (29th Dec – 5th Jan)	Week 2 (8th Jan – 12th Jan)	Week 3 (15th Dec – 19th Jan)	Week 4 (22nd Jan – 26th Jan)	Week 5 (29th Jan – 2nd Feb)
Guinness Global Equity Income	1.10	0.09	0.45	0.67	-1.90
MSCI World	2.24	0.32	0.26	-0.41	-3.36
+/- Performance	-1.14	-0.23	0.19	1.08	1.46

Guinness Global Equity Income   MSCI World   +/- Performance

Source: Bloomberg. Fund ticker: GUGYGBA ID Equity (0.99 % OCF). Index ticker: MXWO Index. Figures are total return % in GBP.

January in review

The turn of the year saw equity markets surge ever higher on optimism over the strength of the world economy and amid upbeat corporate earnings releases. Despite the pullback towards the end of the month, the MSCI World and S&P Index enjoyed their best starts to the year since 1994 and 1987 respectively. The global macroeconomic environment remains supportive of asset prices, with the IMF revising 2017 global GDP growth to 3.7%, 0.1% higher than the last projection at the start of Q4 2017. Growth forecasts for 2018 and 2019 were also raised by 0.2% to 3.9% in both years. These revisions come in part due to the IMF's inflation expectations; figures published indicate that consumer price inflation was 1.7% among developed economies in 2017 and is expected to rise to 1.9% in 2018 and 2.1% in 2019. Low and stable inflation provides a supportive environment for GDP growth since it makes it less likely that central banks would need to abruptly raise interest rates.

In the U.S., the latest batch of economic data indicated that momentum remained strong going into 2018. In contrast to IMF expectations, retail sales were robust, inflation continued to climb, unemployment remained unaltered at 4.1%, and perhaps most significantly, there were signs that long-awaited improvements in wage growth were emerging. Average hourly earnings increased 2.5% year-on-year in December after a similarly strong November number; data released in early February confirmed an unexpected further pick-up in wage growth during January. The updates strengthened the prospect of more aggressive rate hikes and prompted investors to consider the implications for bond markets; 10-year U.S. treasury yields rose to 2.71%, raising speculation that the long-term downward trend in yields had been broken.

U.S. tax cuts also added to the heat in the economy and helped drive higher earnings expectations, and subsequently higher stock prices. The tax reform bill, approved in December 2017, was a major legislative victory for President Trump, and led to the corporate tax rate falling from 35% to 21%. The current earnings season has presented the first opportunity for analysts to factor in the tax impact, and the graph below shows that upward adjustments to earnings have been at their fastest since the rebound from the financial crisis in 2008-09.

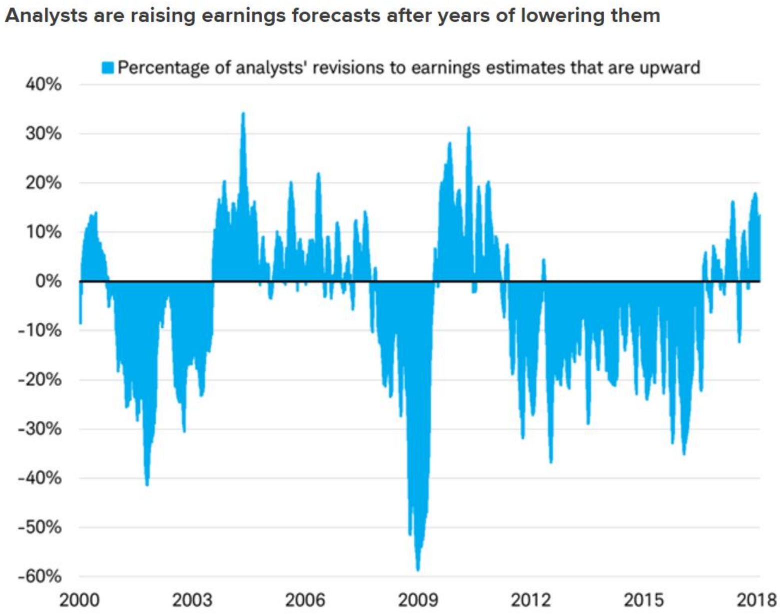


Chart depicts upward less downward earnings per share estimate revisions by analysts divided by the total number of revisions for companies in MSCI World Index.
Source: Charles Schwab, FactSet data as of 02/02/2018.

At the sector level, Health Care and Consumer Discretionary stocks led the gains on optimism that Republican tax cuts would result in higher corporate earnings. The expectation is that the Health Care sector, which has a high concentration of cash and investments overseas, would return part of those assets to shareholders in the form of stock buybacks and dividends. At the end of January, though, the Health Care sector did dip lower on news that Amazon, Berkshire Hathaway and JP Morgan Chase would create a non-profit healthcare company to help manage drug prices. Rate-sensitive sectors such as Utilities, Real Estate and Telecoms were the worst performing sectors on news of rising treasury yields and higher expectations of rate hikes.

In Europe, economic growth is at its strongest rate in a decade (2.5% year-on-year, in 2017 overall) and unemployment is on a downward trend, though inflation remains muted. This raises some uncertainty regarding the pace of ECB tapering in 2018, though it is still expected that the strong consumer demand figures will translate into higher prices and allow for a gradual normalisation in monetary policy. Positive rhetoric in the ECB's December minutes saw rate hike expectations and bond yields rise. Financials were the prime beneficiary from this and finished the month with the strongest performance. By contrast, bond proxies such as Consumer Staples and Utilities were the worst performing.

In the UK, equity market performance faltered in January as concerns around the economic outlook and the risk of a "hard Brexit" weighed on consumer-driven sectors. Data shows that inflation levels are moderating, unemployment is at a record low, and GDP growth for 2017 came in at 1.8% – the slowest annual rate since 2012. The FTSE 100 Index fell 2.0% (in GBP) over January, as currency pressures (strong Sterling against the U.S. dollar) weighed negatively on the overseas earnings of the UK market's many multinational corporations. This was aided by U.S. Treasury Secretary, Steve Mnuchin, who claimed that the U.S. welcomed a weaker dollar as it would benefit the country.

In Asia, equity markets ended January up 7.6% (in USD), driven by positive earnings revisions, increased confidence in the growth outlook, and a weak Dollar. The Chinese market led, as fourth quarter GDP growth (6.8% year-on-year) came in ahead of estimates. This was followed by Taiwanese equities, which were supported by the strength of the semiconductor manufacturers which benefited from robust demand for high-end computer chips.

Portfolio Update

In terms of individual holdings in January, the strongest performer in the fund was **Vodacom Group** (+17.0% in USD). The South African company provides a cellular telephone network with operations also in Tanzania, Mozambique, Lesotho and the Democratic Republic of Congo. The market rewarded the company after its third quarter revenue growth accelerated to 6.7%. That compared with 1.2% in the same quarter a year earlier. The company has been able to take advantage of its large market share (c.60% in South Africa) and expand its active subscriber base by 13% over the year to 73.6 million. Initiatives to cut the cost of mobile data increased smartphone penetration and led to both customer growth and increased mobile usage. Gross margins have remarkably been increasing year-on-year for a decade, and the company has been able to generate a consistent cashflow return on investment of above 14.6% for the past 18 years. The Group has a strong balance sheet and attractive dividend yield of 5.1%. Capital expenditure has been directed to better the company's network, which has reached 78% 4G population coverage and 99% 3G population coverage.

AbbVie (+16.9% in USD) also performed very well. The pharmaceutical giant focuses on producing drugs for specialty therapeutic areas such as immunology, chronic kidney disease, hepatitis C, oncology, and neurology. We have owned the company since the end of 2012 and over the holding period it has returned 283%. Its recent surge in price came after both earnings and sales beat consensus analyst estimates for 2017 and company guidance for 2018 was raised. A key driver of this growth has been the Humira drug, which makes up 60% of total revenue. It has been described as the "world's best-selling drug"; it is an injectable therapy used to treat several autoimmune diseases, predominantly related to arthritis. The company is also set to benefit hugely from tax reform, whereby its effective tax rate will fall from 18.9% to 9%, mainly due to the intended use of capital expensing.

The worst performing stock in January was **Hengan International** (-13.6% in USD). The company 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 more recently it has seen 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 "Amoeba" sales strategy to maintain its offline market share. Growing revenues, high and stable margins, year-on-year earnings growth and a well-covered, high dividend are some of the highlights making this a compelling stock. Its recent sell-off points to two reasons: first, a slowing momentum of sales growth in December, and secondly the increasing year-on-year price of wood pulp, a major input for Hengan's product. We believe the market has been overly pessimistic considering that slowing sales growth has been explained as voluntary curbing, after some regional offices had already hit their yearly sales targets by December. Furthermore, structurally the company is still undertaking a reform of its sales strategy that has shown early signs of success.

We made no changes to the portfolio in January.

Outlook

Given market volatility in the last week of January and first week of February, there are concerns that a market correction is imminent. Despite a very strong run through 2017, today's valuations are not nearly as stretched when compared to other times in history. Companies are showing solid sales and earnings coming through. If we take the dotcom boom as a comparator, the market is very different today. Some firms in the 1990s were trading on eye-watering valuations despite having never made a profit or, in some cases, realised any material revenue.

Nevertheless, with an increasingly volatile environment potentially on the horizon, we believe that our approach to finding quality companies at attractive valuations is more important than ever. The Guinness Global Equity Income Fund currently trades close to par with the MSCI World on a price to earnings basis and has a free cash flow yield 50% higher than the MSCI World (6.34% vs 4.21% respectively). We believe this provides good value to our investors and puts us in good stead in our search for long-term capital growth and a steady, growing income stream.

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*

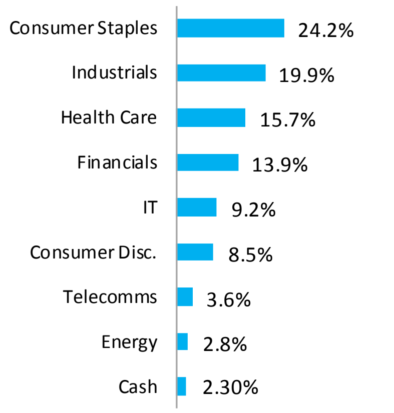
PORTFOLIO

31/01/2018

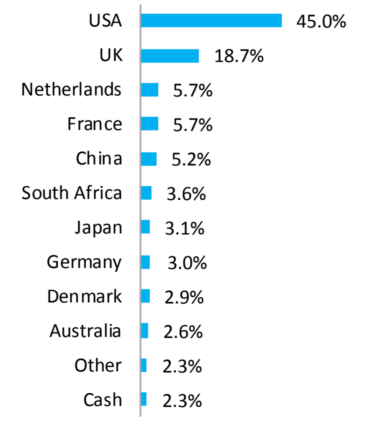
Fund top 10 holdings

Vodacom	3.6%
Microsoft	3.3%
Cisco Systems	3.1%
Abbvie	3.1%
Japan Tobacco	3.1%
Illinois Tool Works	3.1%
Reckitt Benckiser	3.0%
Deutsche Boerse	3.0%
VF Corp	3.0%
Randstad	2.9%
% of Fund in top 10	31.1%
Total number of stocks in Fund	35

Sector analysis



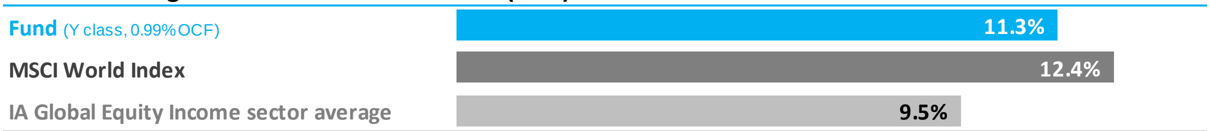
Geographic allocation



PERFORMANCE

31/01/2018

Annualised % gross total return from launch (GBP)



Discrete years % gross total return (GBP)	Jan '14	Jan '15	Jan '16	Jan '17	Jan '18
Fund (Y class, 0.99% OCF)	12.6	18.6	0.0	25.6	9.9
MSCI World Index	12.6	17.7	1.1	32.8	11.9
IA Global Equity Income sector average	7.9	14.0	-4.5	28.0	9.4

Cumulative % gross total return (GBP)	1 month	Year-to-date	1 year	3 years	5 years	From launch
Fund (Y class, 0.99% OCF)	-0.1	-0.1	9.9	38.1	84.3	114.1
MSCI World Index	0.2	0.2	11.9	50.3	99.1	128.8
IA Global Equity Income sector average	-0.2	-0.2	9.4	33.7	64.4	90.3

RISK ANALYSIS

31/01/2018

Annualised, weekly, from launch on 31.12.10, in GBP	Index	Sector	Fund
Alpha	0	0.37	1.09
Beta	1	0.77	0.87
Information ratio	0	-0.37	-0.09
Maximum drawdown	-18.26	-15.50	-16.34
R squared	1	0.80	0.89
Sharpe ratio	1	0.53	0.66
Tracking error	0	6.01	4.41
Volatility	13.83	11.41	12.20

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. Fund launch date: 31.12.10. Fund Y class (0.99% OCF): 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: Link Fund Administrators (Ireland) Ltd, 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 will be recorded and monitor