Guinness Global Equity Income Fund

INVESTMENT COMMENTARY – May 2018

About the Fund

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

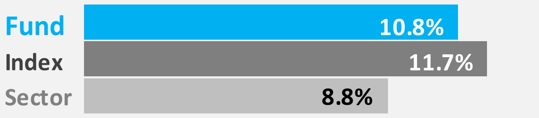
The Fund is managed for income and capital growth and invests in profitable companies that have generated persistently high return on capital over the last decade, and that are well placed to pay a sustainable dividend into the future.

Fund size	£350m
Launch date	31.12.10
Managers	Dr. Ian Mortimer, CFA Matthew Page, CFA
Analysts	Joshua Cole Sagar Thanki

Performance — 30.04.18

	1 year	3 years	From launch
Fund	5.9	32.0	112.2
Index	6.9	41.2	124.4
Sector	4.0	26.2	85.4

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

Summary performance

In April, the Guinness Global Equity Income Fund produced a total return of 2.0% (in GBP) versus the MSCI World Index return of 3.1% (in GBP). The fund therefore underperformed the index by 1.1% in the month.

Over the first four months of the year the fund has produced a total return of -1.0% (in GBP) versus the MSCI World Index return of -1.7% (in GBP). The fund has therefore outperformed the index by 0.7%.

Underperformance in the month can be attributed to strong performance from the Energy sector as supply concerns helped the price of crude oil reach its highest since 2014, moving above US$75 a barrel. The Guinness Global Equity Income Fund is underweight Energy (relative to the MSCI World Index) and currently only has one position in the sector – Royal Dutch Shell. The oil and gas "supermajor" performed very well in April as earnings grew more than expected.

Being overweight in Consumer Staples also dragged on performance in the month as this sector lagged. The prospect of higher interest rates, the impact of a rising Dollar on the global nature of businesses in the sector, and individual industry issues weighed on performance. These factors have been affecting the sector for much of the year so far and have brought about an attractive entry opportunity now that valuations are depressed.

The upside in the fund during April came from good stock selection particularly within the IT and Consumer Discretionary sectors. Versus the peer group of IA Global Equity Income sector funds, the

Guinness Global Equity Income Fund

Guinness Global Equity Income Fund continues to rank very strongly and outperformed the average across every timeframe below:

Fund Y-class, GTR in GBP to 30.04.18	YTD	1yr	3yr	5yr	Launch
Fund	**-0.98%**	**5.89%**	**31.98%**	**65.98%**	**112.19%**
IA sector average	**-2.73%**	**4.04%**	**26.15%**	**49.99%**	**85.44%**
Rank vs peers	**8 / 57**	**18 / 57**	**19 / 45**	**9 / 39**	**5 / 23**
Quartile	**1**	**2**	**2**	**1**	**1**

Source: Financial Express. Cumulative Total Return in GBP, as of 30th April 2018

April in review

Global equity markets made a modest gain in April, bringing the year's return for the MSCI World into positive territory (+0.05% in USD). The protectionist rhetoric that dominated headlines in March seemed to soften last month, though there were numerous other tailwinds for markets: broadly encouraging economic news, strong company earnings releases, elevated levels of corporate activity, continued central bank support, and lessening political risk in the Korean peninsula. As well as expressing optimism on a trade deal with China, President Trump also hinted that the US may re-join the Trans-Pacific Partnership free-trade deal that he pulled out of shortly after taking office.

Most corporate headlines in April concerned earnings releases and M&A activity. 85% of the S&P 500 companies (by market cap) reported their first quarter earnings, of which 80% beat analysts' consensus EPS expectations – a better beat rate than the historical trend of 67%. Average beat margin stood at 7.7%, which (for comparison) is above the historical median of 4.2%. On the revenue front, 74% of companies surprised positively, beating expectations by 1.1%. The releases highlighted that corporate profitability remains robust, driven still by tax benefits and economic growth. However, despite the figures illustrating a strong showing, companies notably needed to positively surprise on the top and bottom line to outperform the S&P 500. Even then, the market reaction was relatively muted – 242 companies that beat on earnings and sales outperformed the market by 0.7% on earnings day. Meanwhile, those companies that missed EPS and only beat on sales were punished and underperformed by -4.0% on average (in USD).

We wrote in our October 2017 manager's update: "markets have been able to tune out the noise and maintain a focus on economics and company fundamentals". The current market paints a somewhat different picture. Investors seem to be treading with caution amid geopolitical concerns, interest rate expectations, and a lingering trade war threat.

Turning to economics, US GDP growth in Q1 was confirmed at 2.3%, which was slower than growth in Q4 but ahead of expectations. Inflation – both with and without fuel costs – was also confirmed as higher in March and close to the target range. The March unemployment rate was steady at 4.1% but is still expected by the Federal Reserve (Fed) to drop below 4% by the end of the year. These factors led to renewed speculation over the pace of Fed rate hikes this year, in turn increasing bond yields and souring market sentiment. 10-year US Treasuries rose above 3% for the first time in four years, and rising oil prices and increasing wages continue to add inflationary pressure.

In Europe, April saw equity markets post their best monthly return of 2018 (MSCI Europe ex UK Index rose 4.0% in EUR terms). Purchasing Manager Indices (PMIs) stabilised and beat expectations, with readings remaining firmly in expansionary territory (mid-50s). On the monetary policy front, the European Central Bank (ECB) did not announce any changes to its existing policies – it remained committed to the bond-buying programme at a pace of €30bn per month until September 2018, with Mario Draghi reiterating that interest rates are to be kept on hold “well past” the end of quantitative easing.

The UK was the best-performing region in April; the FTSE 100 rose 7.2% over the month (in GBP). M&A activity remained an important theme and the market was further supported by renewed weakness in Sterling against a resurgent US Dollar. This plays a particularly significant role due to the international nature of the companies within the FTSE 100 Index – c.70% of its constituents’ sales come from abroad. Nonetheless, economic data releases sent mixed messages regarding the overall health of the economy. Unemployment fell to 4.2% in March, with wage growth accelerating slightly to 2.8%. UK headline and core inflation fell by more than expected (to 2.5% and 2.3% respectively). Rising wages and falling inflation led market expectations for a May interest rate hike to fall from 100% at the end of March to 20% at the end of April.

In Asia, equity markets were positive (MSCI Asia rose 1.3% in USD), supported by an easing in global trade concerns after China’s somewhat appeasing announcements. These included greater openness in the financial sector, intellectual property protection, a relaxation of requirements for joint ventures and a reduction in imports duty on certain products. The inter-Korea summit towards the end of the month gave markets a little boost too, as Moon Jae-in (South Korea) and Kim Jong-un (North Korea) announced that they plan to sign a peace treaty in 2018 and formally bring about an end to military conflict. This precedes President Trump’s meeting with Kim Jong-un next month, but the latter’s interest in pursuing prosperity and economic development raised the prospect of a controlled opening-up of North Korea’s economy. This led to a strong rally in the share prices of Korean construction, cement, steel and rail companies.

Elsewhere, Taiwan was dragged lower by the Technology sector, with weaker-than-expected 2018 second quarter guidance from Taiwan Semiconductor Manufacturing impacting sentiment towards other companies in the Apple supply chain. Emerging Market equities also posted a negative return in April, largely due to a strengthening Dollar. In contrast, Japan’s equity market benefited from the Yen weakening relative to the Dollar and ended the month higher.

Market Update

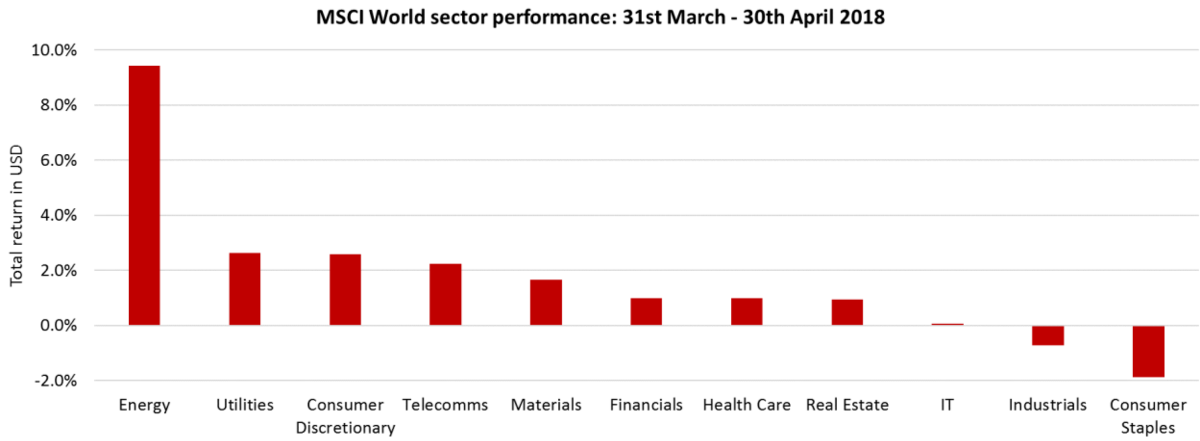


Chart 1: MSCI World sector performance: 31st March – 30th April 2018. Source: Bloomberg

The strongest sector in April was Energy. The price of crude oil climbed to its highest since 2014 – moving above US$75 a barrel – after declines in US stockpiles of oil, gasoline, diesel and jet fuel signalled increasing scarcity in supplies. Production cuts by OPEC (Organization of Petroleum Exporting Countries) and Russia over the past 16 months have also helped crude oil prices rally.

Geopolitics may sustain this oil price rally if OPEC decides to extend the deal to cut oil output or if concerns escalate that the U.S. might pull out of the 2015 Iran nuclear deal. On the other hand, potential headwinds for the oil market could be a strengthening US dollar and increased oil supply from other countries, including the U.S. In the Guinness Global Equity Income Fund, we are underweight Energy and have only one position in this space (Royal Dutch Shell). Other underweight sectors (in which we have never in fact had any positions) include Materials, Utilities and Real Estate. These tend to be more regulated areas of the market, and we see less persistence of high cashflow returns on investment.

In April, we also saw Utilities and Consumer Discretionary sectors perform well, driven respectively by commodity prices and robust results from major online consumer firms, Netflix and Amazon. Consumer Staples performed the worst over the month. The prospect of higher interest rates, the impact of a rising Dollar on the global nature of businesses in the sector, and individual industry issues weighed on performance. Disappointing earnings reports over the month from industry giants such as Philip Morris, Procter & Gamble, and Kimberly-Clark negatively impacted the sector. Of these companies we only hold Proctor & Gamble, although its results, alongside those of Kimberly-Clark, affected peer companies that we do hold, Unilever and Johnson & Johnson. Philip Morris' results indicated that the alternative tobacco products may take more time than expected to be embraced by consumers, and this also impacted some of our tobacco names: British American Tobacco, Imperial Brands and Japan Tobacco.

Finally, the Technology sector also showed lacklustre performance even as big tech companies largely reported better earnings than expected, and Industrials – particularly airlines – were hindered by the oil price rally and associated fuel price pressure. Investors had a small preference towards small cap stocks and were generally indifferent over style during the month, though this had negligible impact on the fund's performance.

Portfolio Update

The fund's the strongest performer in April was ANTA Sports (+15.4% in USD). The company, which is based in China, generates revenue through the manufacture and trading of sporting goods, including footwear, apparel and accessories. Its impressive cash flow return on investment has exceeded 10% over the last 10 years. Its brand portfolio includes ANTA, ANTA KIDS, FILA, FILA KIDS and NBA. ANTA Sports' share price rallied mid-month after Q1 retail sales of Anta branded products increased by almost 25% from a year ago.

Royal Dutch Shell (+10.5% in USD) also performed very well as the price of crude oil rose. Earnings climbed to $5.3bn in the first quarter of this year, 42% higher than the same period last year, and exceeded analyst expectations. In addition to rising oil price optimism, Shell's upstream business has seen steady growth, its cost base has been reduced and disciplined capital spending has led to significant free-cash-flow growth.

The worst-performing stock in April was **Illinois Tool Works** (-9.4% in USD). Towards the end of the month the company released its Q1 earnings and forecast earnings per share for the full year. With regards to the forecast earnings, the guidance midpoint matched the average analyst estimate. They also reported a Q1 2018 EPS of $1.90 which was at the high end of their guidance range and above consensus analyst estimates. However, Q1 organic revenue growth was lower than expected. The market reacted negatively to the earnings release and guidance and the share price fell over the month, despite some positive news in the results.

We made no changes to the portfolio in April.

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*

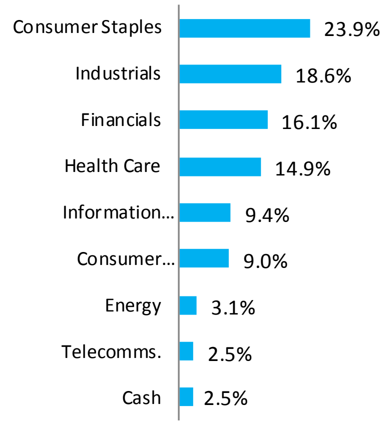
PORTFOLIO

30/04/2018

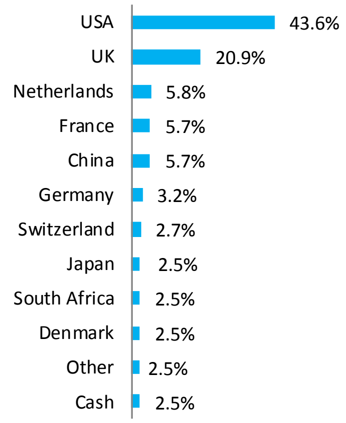
Fund top 10 holdings

NEX Group	4.2%
Anta Sports Products	3.4%
Cisco Systems	3.4%
Microsoft	3.3%
Deutsche Boerse	3.2%
Royal Dutch Shell	3.1%
BAE Systems	3.1%
Unilever	3.0%
VF Corp	3.0%
Gallagher, Arthur J	3.0%
% of Fund in top 10	32.7%
Total number of stocks in Fund	35

Sector analysis



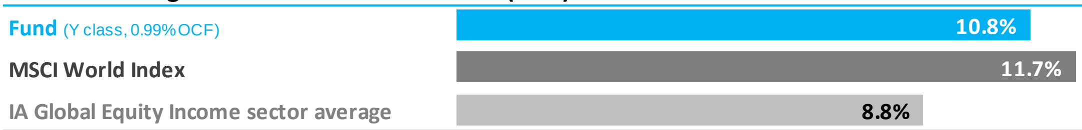
Geographic allocation



PERFORMANCE

30/04/2018

Annualised % gross total return from launch (GBP)



Discrete years % gross total return (GBP)	Apr '14	Apr '15	Apr '16	Apr '17	Apr '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)	2.1	-1.0	5.9	32.0	66.0	112.2
MSCI World Index	3.1	-1.7	6.9	41.2	81.0	124.4
IA Global Equity Income sector average	3.8	-2.7	4.0	26.2	50.0	85.4

RISK ANALYSIS

30/04/2018

Annualised, weekly, from launch on 31.12.10, in GBP	Index	Sector	Fund
Alpha	0	0.34	1.12
Beta	1	0.76	0.87
Information ratio	0	-0.34	-0.06
Maximum drawdown	-18.26	-15.50	-16.34
R squared	1	0.79	0.89
Sharpe ratio	1	0.45	0.58
Tracking error	0	6.20	4.43
Volatility	13.83	11.53	12.38

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