Guinness Global Equity Income Fund

INVESTMENT COMMENTARY – June 2018

About the Fund

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

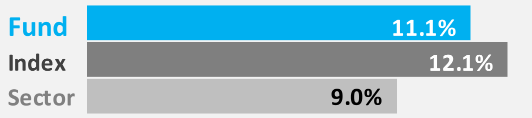
The Fund is managed for income and capital growth and invests in profitable companies that have generated persistently high return on capital over the last decade, and that are well placed to pay a sustainable dividend into the future.

Fund size	£375m
Launch date	31.12.10
Managers	Dr. Ian Mortimer, CFA Matthew Page, CFA
Analysts	Joshua Cole Sagar Thanki

Performance 31.05.18

	1 year	3 years	From launch
Fund	5.4	37.2	118.0
Index	8.8	45.5	134.0
Sector	2.9	27.6	89.0

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. Y Class 0.99% OCF. Please refer to 'Performance data notes' for full details

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Summary performance

In May, the Guinness Global Equity Income Fund produced a total return of 2.73% (in GBP) versus the MSCI World Index return of 4.27% (in GBP). The fund therefore underperformed the index by 1.54% in the month.

Year-to-date, the fund has produced a total return of 1.70% (in GBP) versus the MSCI World Index return of 2.77% (in GBP). The fund has underperformed the index by 1.07%.

Underperformance in May came largely from our underweight positions in IT and Energy. A revitalised IT sector – compared to the previous month – was the best performing sector in May, while the Energy sector continued its upward trend with help from oil supply concerns. Being overweight in Consumer Staples also dragged on performance as this sector lagged. As we have seen so far in 2018, 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 have weighed on Consumer Staples.

In general, dividend-paying stocks were generally weaker over the month, highlighted by the fact that the MSCI High Dividend Yield Index underperformed the MSCI World Index by 1.87% (in GBP). However, the upside for the Guinness Global Equity Income Fund came from good stock selection (from within the IT and Consumer Staples sectors), and we give further detail on a few of these stocks towards the end of this commentary.

At the month's end, the Guinness Global Equity Income Fund had assets under management totalling £375m GBP (c.$500m USD).

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May in review

Global equity markets advanced in May (MSCI World +0.7% in USD) despite increasing trade tensions and geopolitical instability. The prospect of a snap election in Italy and mixed signals from the Trump administration on talks with North Korea overshadowed strong first-quarter corporate earnings, which showed 24% year-on-year growth and far exceeded analyst expectations. Close to 80% of companies in the S&P 500 Index reported better earnings per share than expected, and US companies appear well on track to meet the 20% earnings growth expectations for the current calendar year. Looking to next year, it is unclear to what extent rising wage growth and interest costs will eat into corporate margins, though analysts expect 10% earnings growth.

Interestingly, companies that have missed earnings estimates continue to get punished by the market, whereas those who positively surprised are seeing less reward than in the past:

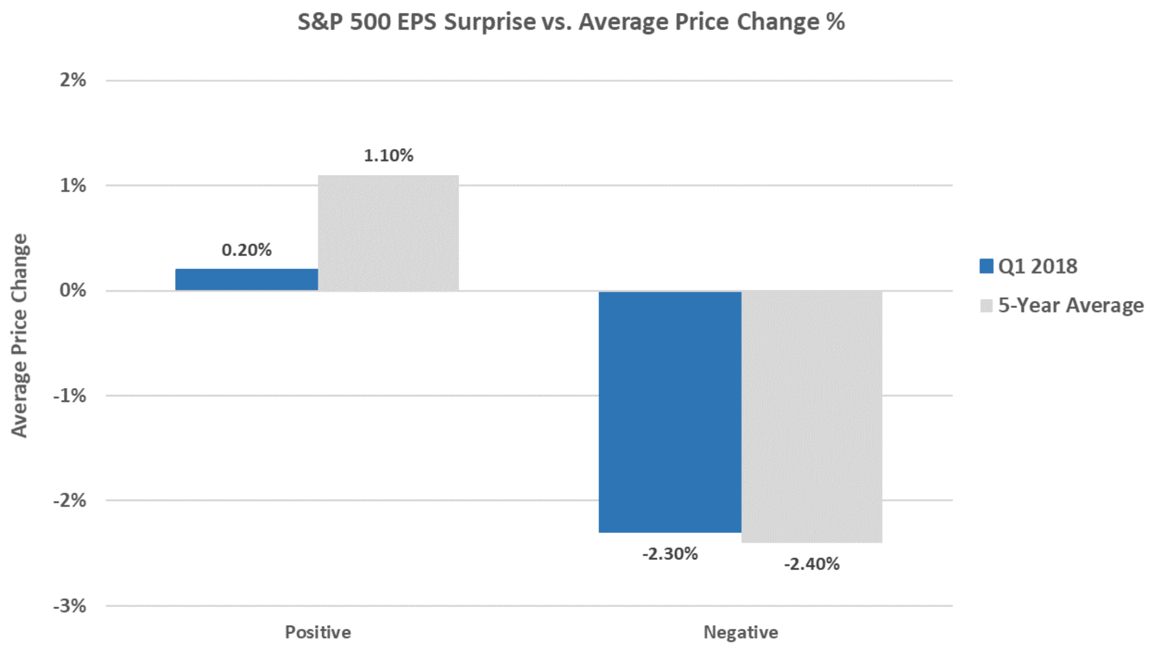


Chart 1: Source: Bloomberg. As of 31st May 2018

Much of this is due to uncertainty over where in the cycle the economy is positioned. According to the National Bureau of Economic Research (NBER), the current economic expansion is now 107 months old – making it the second longest in the past 100 years – and well above the average of 58 months. Most economists agree that expansions don't die of old age, but that the odds of fatal missteps increase the older they get.

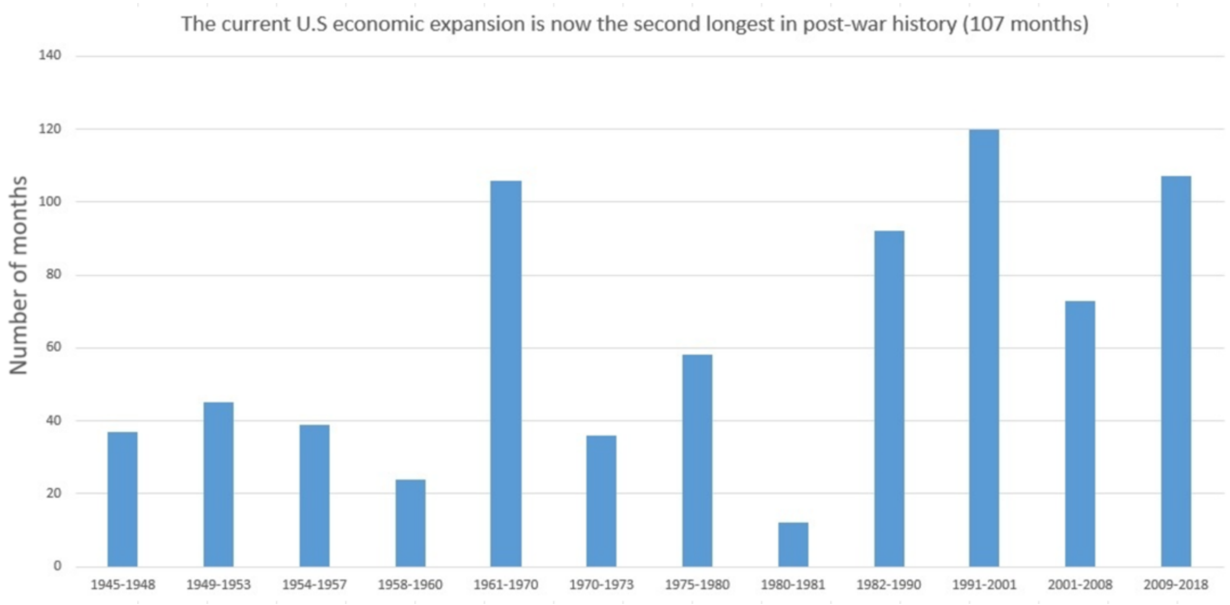


Chart 2: Source: Bloomberg. As of 31st May 2018

Additionally, the current expansion has not shown the robust magnitude that its age suggests. As shown in the chart below, real US GDP growth in the current expansion lags the other three longest expansions quite significantly. As of the first quarter of 2018, real GDP has expanded by 21% since 2009; this is far lower than the 36% compound growth seen between 1991-2001.

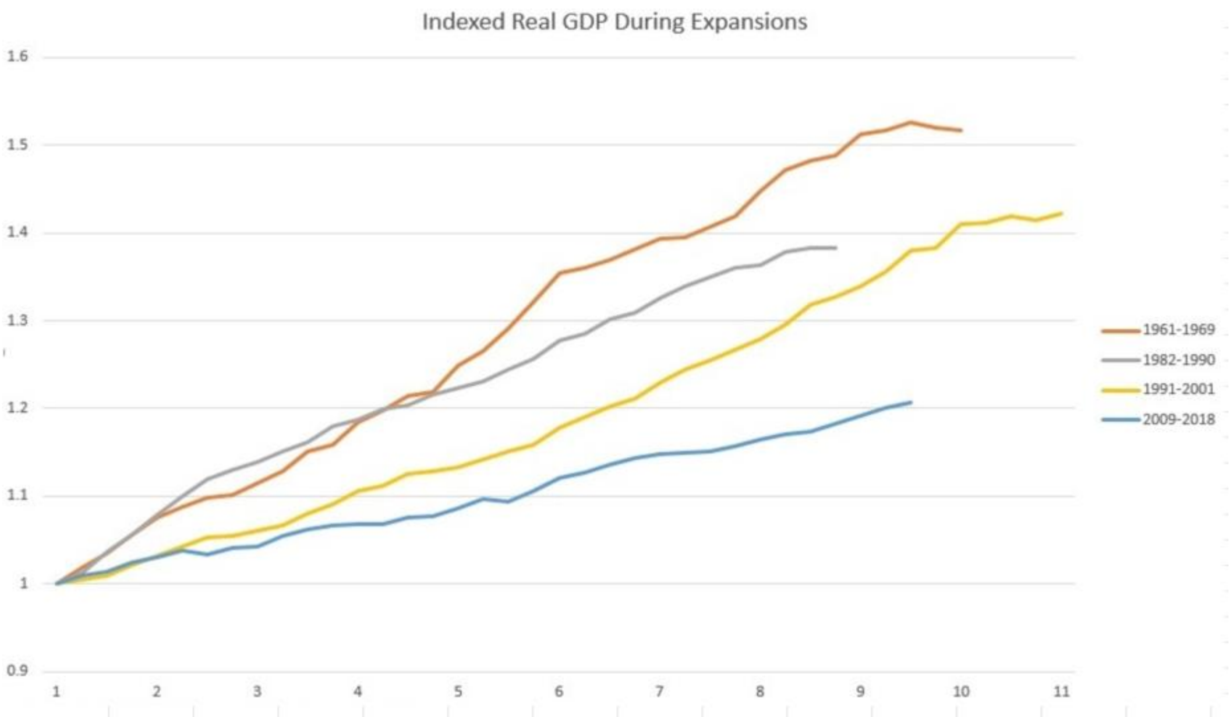


Chart 3: Source: Bloomberg. As of 31st May 2018

May revealed that for the first quarter of 2018, US GDP growth was marginally revised down from 2.3% to 2.2%. This is a slower growth rate versus Q4 2017, when the US economy grew at 2.9%. The deceleration was driven by a slowdown in consumer spending, which expanded at 1% in Q1 2018 compared to 4% in the last quarter of 2017. Nonetheless, broader indicators suggest the US economy remains on a firm footing in 2018 and the data are not expected to deter the Federal Reserve (Fed) from raising interest rates by another 0.25% in June.

European data was more mixed. Eurozone unemployment fell to 8.5% in April, from 8.6% in March; higher oil prices helped lift headline consumer price inflation to 1.9%, from 1.2% in the previous month, and consumer confidence remains close to a 17-year high. However, corporate sentiment was affected by global trade concerns and higher oil prices, and the manufacturing PMI for May declined for a fifth consecutive month from a peak of 60.6 in December. Nevertheless, the recent level of 55.5 still corresponds to more than 2% growth.

On the political front, events in Italy and Spain produced high volatility in financial markets towards the end of May. In Italy, the Five Star Movement and the League, both populist parties, appeared close to forming a coalition government before President Sergio Mattarella blocked the appointment of a Eurosceptic finance minister proposed by the two parties. Concerns arose over the intended policies of lower taxes for individuals and corporations, which would lead to higher government debt (already around 130% of GDP) and likely risk violation of the EU's Stability and Growth Pact. Although the formation of a coalition government consisting of a less Eurosceptic finance minister did eventually obtain the President's approval, investors are cautious of the fractious economic backdrop in Italy. Meanwhile in Spain, the socialist opposition party PSOE filed a motion for a vote of no confidence in Prime Minister Rajoy, eventually ousting him and replacing him with the PSOE leader Pedro Sanchez at the helm of a new government. Eurozone equities ended May in the red with the MSCI Europe ex UK Index returning -1.5% (in EUR).

UK equity markets continued their positive run over May as a whole, despite a sell-off towards the month end on concerns over contagion from the political situation in Italy. The FTSE 100's positive returns were driven by a spike in the price of Brent crude oil, which climbed to around US$80 per barrel during the month – its highest level in three years. Performance was also supported by Sterling's continued weakness against the US dollar, which bolstered the returns of the Index's many international constituents. The Bank of England's Monetary Policy Committee (MPC) voted 7-2 to keep the central bank base rate at 0.5%, citing weaker-than-expected domestic growth for first quarter 2018 (+0.1%).

Most Asian and Emerging Market equity indices ended the month lower as sentiment was dampened by concerns surrounding the US-North Korea summit and US-China trade negotiations. The month saw examples of the unpredictability of the Trump administration, which first cancelled and then sought to re-instate the President's proposed meeting with Kim Jong-un of North Korea (although he did manage to meet Kim Kardashian instead). It also decided after all to impose tariffs on the imports of aluminium and steel from the EU, Canada and Mexico, which responded with tariffs of their own. Alongside the US withdrawal from the Iran nuclear deal, geopolitical concerns heightened and unsettled markets overall. A stronger US Dollar also undermined sentiment towards emerging equity markets during May.

Market Update

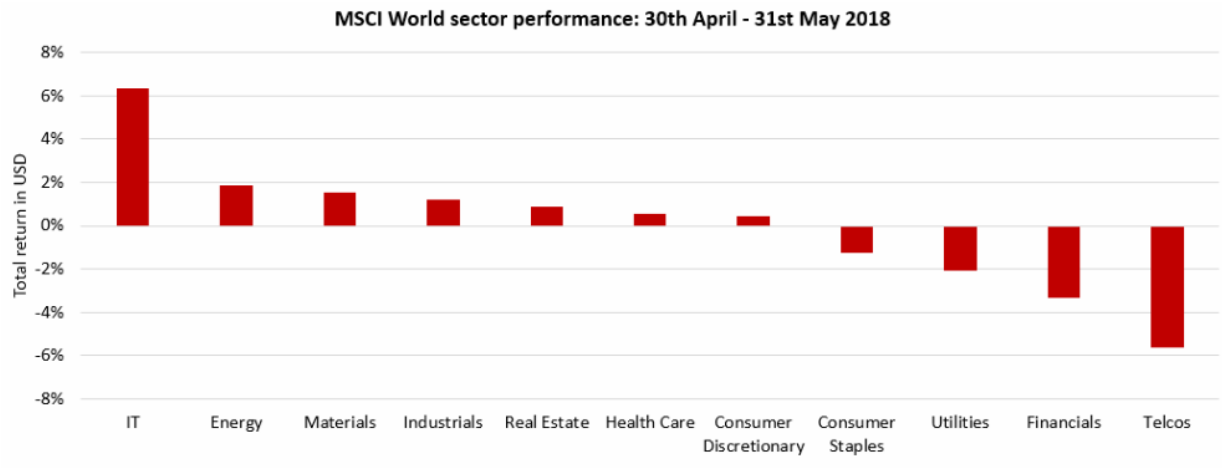


Chart 4: Source: Bloomberg. As of 31st May 2018

The strongest sector in May was Information Technology, driven by strong corporate earnings releases. Out of the three industry groups which make up the IT sector, Semiconductors (+9.5%, all total returns in USD) led both Technology Hardware and Equipment (+6.1%), and Software and Services (+5.6%). The Guinness Global Equity Income Fund's under-exposure to the sector was a drag on performance.

Energy, to which the fund is also underweight, was the second-best performing sector in May. Energy stocks have continued to benefit from higher oil prices – which pushed through $80 USD/barrel for the first time in 3.5 years – as well as supply constraints. Production cuts by OPEC (Organization of Petroleum Exporting Countries) and Russia over the past 16 months initiated the crude oil price rally, and this has been aided by the US's refusal to recertify the nuclear accord with Iran. This prohibits Iran selling oil to US entities, further restricting global supply. Furthermore, the political crisis in Venezuela has worsened, reducing oil production even further.

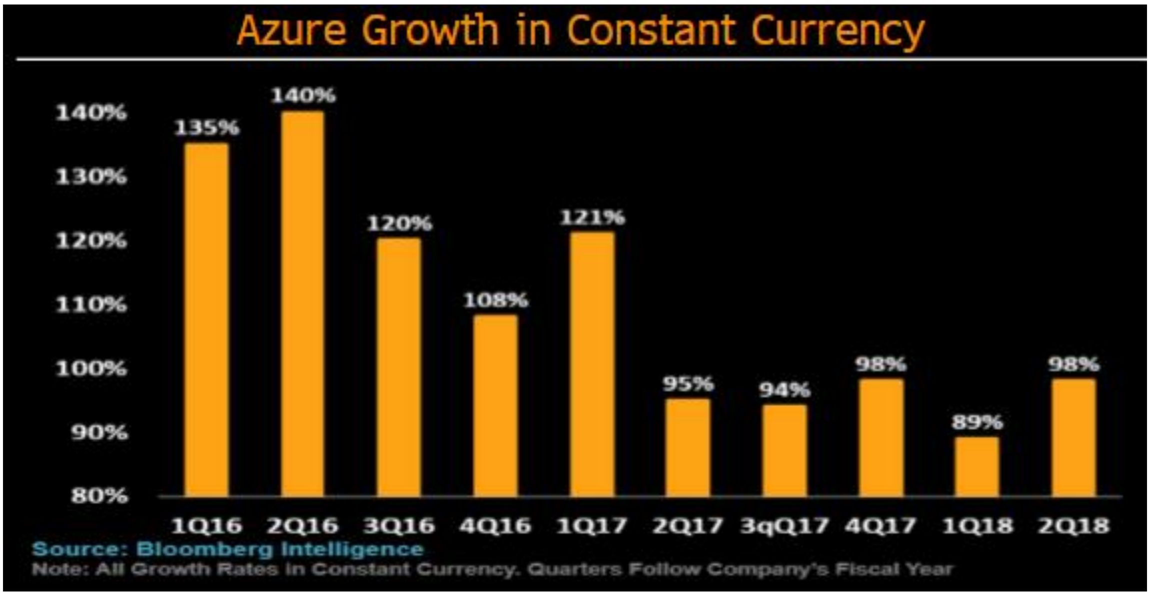
Telecoms was the worst performing sector this month. Although there is rising demand for wireless services, competition in the sector is also intensifying. The Telecoms sector has the highest debt-to-equity ratio of any non-financial sector, declining net profit margins and rising expenses, creating further headwinds for the industry. The European Union agreed a major regulatory overhaul of the Telecom sector, which, while supported by politicians and consumer groups, was not supported by the region's top carriers, who complained that the Electronic Communications Code is an added burden and will not spur the necessary spending on networks. The Guinness Global Equity Income Fund currently holds one company in the sector, Vodacom, which was its worst performing stock in May.

The underperformance of Financials in the month was driven particularly by European bank weakness, stemming from the political uncertainty in Italy. Bond yields also came down, with the US 10-year yield decreasing from 3.2% to 2.9%, which caused many US banks to sell off. The Guinness Global Equity Income Fund has no exposure to banks and this was a positive last month when compared to the MSCI World Index benchmark.

Portfolio Update

In terms of individual holdings in April, the strongest performer in the fund was **Hengan International** (+8.9% 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 its 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 strong performance comes after it became the largest shareholder (36.5%) in Finnpulp, a new Finnish company preparing a €1.4 billion pulp mill in central Finland.

Microsoft (+6.2% in USD) also performed very well. The software maker’s cloud transformation has seen buoyant demand. Azure cloud services, used to store and run customers’ applications in Microsoft’s data centres, is number two in the cloud sector behind Amazon Web Services, though the market is growing fast enough to lift both companies’ revenue. Windows and Office subscribers are likely to give Microsoft an edge, as corporate users shift newer workloads to the cloud for greater agility. Margins should also continue to improve – as they did in the last quarter – as cloud-based applications and infrastructure products gain scale. Azure is the company’s main revenue growth driver.



We have held a position in Microsoft since the launch of the fund in 2010.

The worst performing stock in May was **Vodacom** (-9.3% 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 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. Its recent sell-off points to new regulation which prohibits service providers instilling out-of-bundle charges on mobile phone contracts and ensures that customers must be notified when their internet data is running low. Vodacom CEO Shameel Joosub claimed that average revenue per user declined 4% in the past year "as a result of higher roll over of unused data bundles as we continue to migrate customers to 'more value' contracts, with 43.4% of the base now signed up for these contracts". This highlights the importance of the regulation, though it is likely a one-off event that the company has been preparing for.

We made no changes to the portfolio in May.

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*

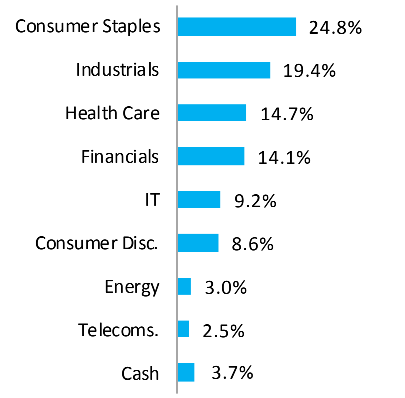
PORTFOLIO

31/05/2018

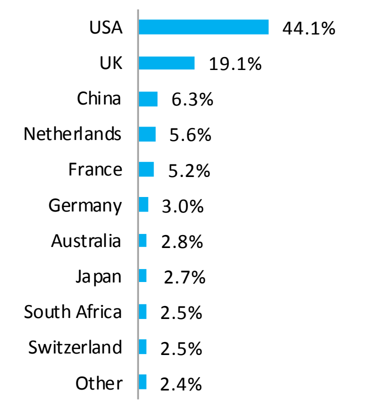
Fund top 10 holdings

Microsoft	3.4%
Anta Sports Products	3.3%
Cisco Systems	3.2%
Hengan International Group	3.0%
Deutsche Boerse	3.0%
BAE Systems	3.0%
Royal Dutch Shell	3.0%
VF Corp	2.9%
Unilever	2.9%
CME Group	2.8%
% of Fund in top 10	30.5%
Total number of stocks held	35

Sector analysis



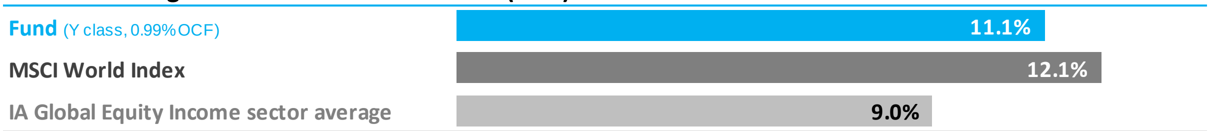
Geographic allocation



PERFORMANCE

31/05/2018

Annualised % gross total return from launch (GBP)



Discrete years % gross total return (GBP)	May '14	May '15	May '16	May '17	May '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)	2.7	1.7	5.4	37.2	63.9	118.0
MSCI World Index	4.3	2.4	8.8	45.5	83.6	134.0
IA Global Equity Income sector average	1.9	-0.8	2.9	27.6	49.9	89.0

RISK ANALYSIS

31/05/2018

Annualised, weekly, from launch on 31.12.10, in GBP	Index	Sector	Fund
Alpha	0	0.30	1.10
Beta	1	0.76	0.87
Information ratio	0	-0.37	-0.08
Maximum drawdown	-18.26	-15.50	-16.34
R squared	1	0.79	0.89
Sharpe ratio	1	0.48	0.62
Tracking error	0	6.18	4.41
Volatility	13.83	11.49	12.33

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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