Guinness Global Equity Income Fund

INVESTMENT COMMENTARY – September 2018

About the Fund

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

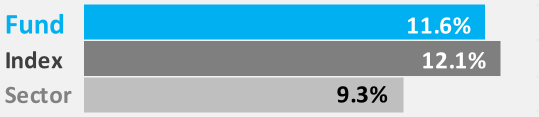
The Fund is managed for income and capital growth and invests in profitable companies that have generated persistently high return on capital over the last decade, and that are well placed to pay a sustainable dividend into the future.

Fund size	£430m
Launch date	31.12.10
Managers	Dr. Ian Mortimer, CFA Matthew Page, CFA
Analysts	Sagar Thanki Joseph Stephens

Performance 31.08.18

	1 year	3 years	From launch
Fund	11.6	59.3	132.5
Index	12.1	65.9	139.6
Sector	5.8	45.7	97.1

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

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Summary performance

In August, the Guinness Global Equity Income Fund produced a total return of 0.91% (in GBP) versus the MSCI World Net TR Index return of 2.17%. The fund therefore underperformed the index by 1.26% in the month.

Quarter-to-date, the fund has produced a total return of 6.75% (in GBP) versus the MSCI World Net TR Index return of 6.05%. The fund has therefore outperformed the index by 0.70%.

It is pleasing to see that both the short and long-term performance of the fund remain very strong versus IA Global Equity Income sector peers:

	YTD	1yr	3yr	5yr	Since Launch*
Fund	8.52%	11.55%	59.34%	77.05%	132.54%
Index	9.12%	12.13%	65.89%	93.71%	139.61%
IA sector average	3.39%	5.78%	45.66%	60.16%	97.10%
Rank vs peers	2/55	3/54	6/45	10/36	4/20

Source: Financial Express. Cumulative Total Return in GBP as of 31st August 2018

Underperformance in the month came largely from our underweight position in IT and exposure to some Tobacco companies which sold off. IT was the best-performing sector once again, buoyed by robust gains for Apple. Thanks to a combination of strong iPhone sales and a vast capital returns programme, the stock rose 20% (in USD) in the month, making the company the first to surpass a market capitalisation of $1 trillion. Given the weight attached to the stock in the MSCI World Index (c.2.5%), this contributed significantly to benchmark gains in the month and detracted from the fund's active return.

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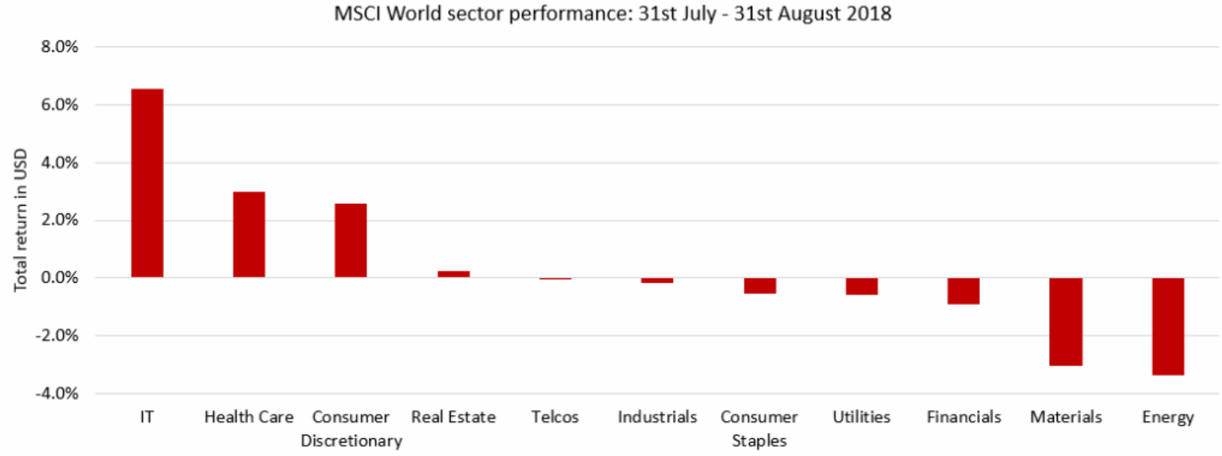


Source: Bloomberg; data as of 31st August 2018

Tobacco stocks sold off in August after an up-tick in industry-specific risks. Slower-than-expected adoption of Philip Morris's non-combustible IQOS in Japan caused concern over adoption of the product worldwide. If approved by regulators, Altria has exclusive distribution rights to IQOS in the US, although the expectation is that this will make a smaller contribution to revenues than initially thought. In addition, surging sales of the JUUL vapor device, which as of August 2018 accounts for over 70% of the US e-cigarette market, are pressuring sales of cigarettes. Using nicotine salts that exist in leaf-based tobacco and minimising combustion, the JUUL e-cigarette is a direct competitor to the large tobacco manufacturers.

Upside in the month came from good stock selection, particularly within the Financials sector. We hold no banks in the portfolio, which helped performance. Our exposure comes from security exchanges (CME Group, Deutsche Boerse) and institutional brokerage (NEX Group) stocks, which all performed well. Banks notably underperformed due to contagion: European lenders with exposure to Turkey came under pressure as the Turkish Lira weakened sharply, whilst Italian banks were impacted by rising domestic bond yields amid worries that the new Italian government’s 2019 budget may come close to breaching EU fiscal rules. The budget is due to be finalised in September and presented to the EU in October.

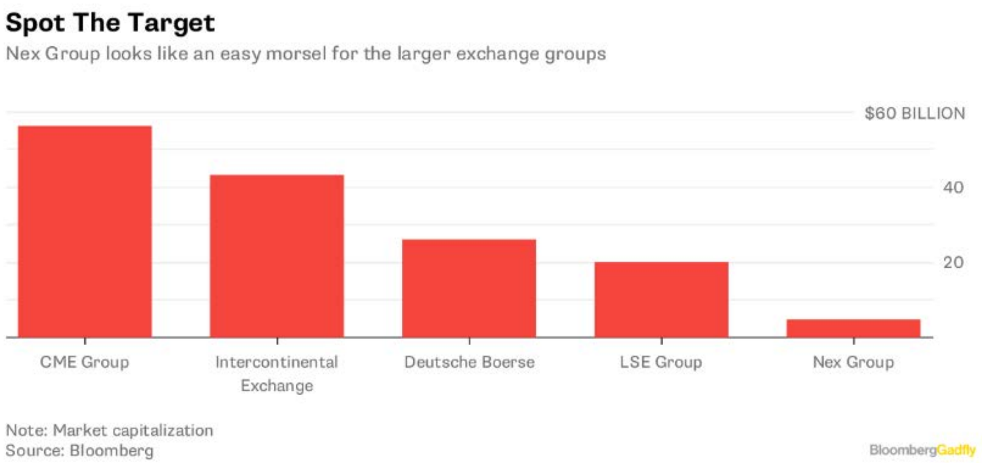
We continue to hold no positions in Materials or Utilities and only one position within the Energy sector, allocations which benefitted the fund’s performance. The Energy sector was weaker in August, particularly in the US, due to uncertainty stemming from China’s inclusion of US crude oil in its tariff-targeted products list.

After seeing value-oriented stocks outperform towards the end of July, the trend reversed in August and fitted the picture for most of the year, with growth-oriented stocks leading the market. This was driven mainly by the strong showing from IT and Consumer Discretionary stocks, led by gains in Apple and Amazon.

Portfolio Update

We made one change to the portfolio in August, whereby we sold NEX Group.

NEX Group, the financial technology firm which provides electronic trading platforms, will be CME Group's largest overseas acquisition and its largest overall since it bought Nymex for $11bn in 2008. CME Group, which owns and operates both the Chicago Board of Trade and the Chicago Mercantile Exchange, will pay 500 pence and 0.0444 in new CME shares for each NEX Group share. The market has seen the latest wave of consolidation in global exchange markets as positive for both companies, with the annual synergy of expenses expected to reach $200 million per year by 2021.



"At a time when market participants are seeking ways to lower trading costs and manage risk more effectively, this acquisition will create significant value and efficiencies for clients globally," said CME Group's CEO, Terry Duffy. "As one organization, we will be able to employ the complementary strengths of each company to serve a wider client base while diversifying our combined businesses across futures, cash and OTC products, and post-trade services."

After the CME bid was announced at the end of Q1 2018, the NEX share price initially increased by c.50%. The new price level has been sustained and with the probability of another bid having decreased over the last few months, we saw an opportunity to take profits from our position in NEX. The valuation at time of sale stood at c.30x on a 1-year forward price-to-earnings basis, compared to a 10-year average of 12x.

CME Group (+9.8% in USD) was one of the better performers in August. It was rewarded by the market for its NEX bid and an increase in average daily trading volumes in the month. The acquisition would allow the exchange to offer clients significant margin savings, as well as provide access to a large base of bank clients to whom it could market its core futures, options and

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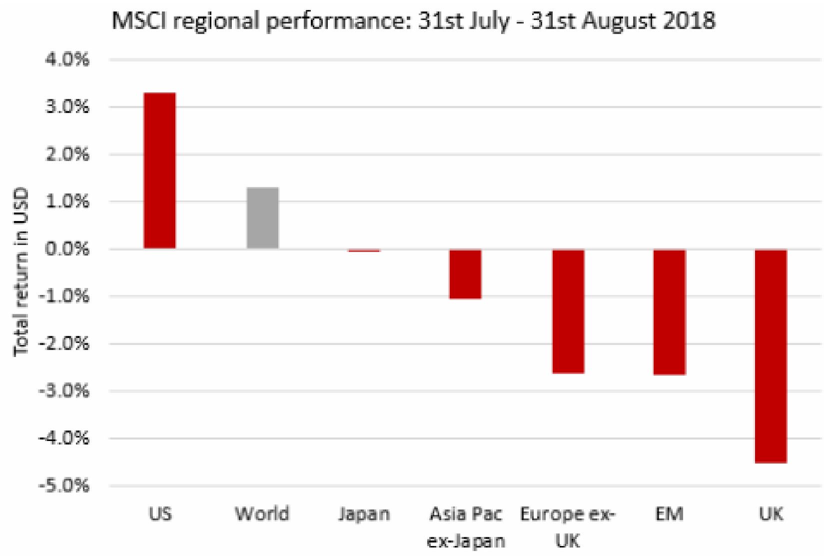
data products. The deal should also support CME's international expansion plans, as 50% of NEX's revenue is generated outside of the US. Data and analytics are a key focus area for the company in 2018, with an outlook to expand recurring revenue. CME is also particularly well placed to benefit from increased interest rate hedging around FED rate hikes and rising US oil exports thanks to its dominant FED Funds and WTI futures contracts. We remain a holder of CME Group in the fund.

Within the portfolio the best performer in August was **Cisco** (+13.0% in USD). The world-leading IT infrastructure equipment vendor has been making a transition to a balanced revenue mix of hardware and software, with a goal of deriving 50% of sales from software by 2020. The company reported a 5.9% increase in its fiscal 4Q revenue, making it three successive quarters with accelerating revenue growth (4.4% and 2.9% in the two preceding quarters). Its move to software is best measured by its recurring revenue, with 33% of fiscal 4Q18 sales coming from its subscription offering. For Q4 2018, Cisco guided for revenue growth of 4% to 6% and reported 5.9%. For Q1 2019, Cisco is guiding for even stronger revenue growth, now between 5% and 7%. The quarterly gains reflect rising strength in Cisco's new product sales, particularly its new line of programmable switches, the Catalyst 9000 series. These switches are selling well, with CEO Chuck Robbins citing the 9000 as the fastest-growing new product in Cisco's history. Looking at dividends, the company has demonstrated its willingness and ability to continually grow its dividend; the 3-year annualised dividend growth rate is 16% and current yield stands at 2.6%.

The weakest performer in the month was **Vodacom** (-19.4% in USD). The South African company provides a cellular telephone network and has further operations 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 6.4%. Capital expenditure has been directed to improve the company’s network, which has reached 78% 4G population coverage and 99% 3G population coverage. Vodacom’s sell-off in the month points to macro issues in South Africa, specifically concerning a weaker currency. The South African Rand fell over 10% in August (vs USD) as the economy was seen to slip closer towards recession, alongside continued weakness in emerging market currencies more generally.

August in Review

Global equity indices rose in August, pulled higher by a resilient US market. US stocks outperformed on the back of a robust corporate earnings season and strong economic data releases. Escalating US-China trade tensions, the currency crisis in Turkey, a reinstatement of US-Iran sanctions as well as on-going Brexit negotiations hurt sentiment in most major equity markets, with emerging market stocks seeing the largest declines.



Source: Bloomberg; data as of 31st August 2018

On 22nd August, the S&P 500 Index established its longest bull run at 3,453 days and hit a new all-time high, exceeding 2900. The phrase "all-time high" conjures up the image of a chart at its peak, and while that is an accurate description of the stock market relative to the past, to some it also implies that the market may be overvalued and primed for a fall. However, equity markets have in fact spent much of history at an "all-time high". Since March 1957 (when the S&P 500 Index in its current form was created), 178 months have ended in market highs – that is, approximately 24% of the time. When looking only at year-end, more than 50% of the years since 1957 have ended higher than any previous year.

Frequency	Day	Week	Month	Quarter	Year
Observations	16,233	3,364	738	246	61
All-time highs	1,153	466	178	89	31
%	7.1%	13.9%	24.1%	36.2%	50.8%

Source: Bloomberg; data as of 31st August 2018

While US stock valuations have fallen since the start of the year, they are still higher than in most other global markets. However, the premium seems to be justified by better risk-adjusted returns and shareholder yields compared with any other market. As of 31st August, 1-year forward estimates of Price-to-Earnings have fallen to a level close to the 20-year average.

Looking at the last month in particular, the US equity market was buoyed by many simultaneous factors:

- The Fed looks set to continue raising rates in a gradual fashion. The policy rate was held steady in August but the minutes of the meeting, along with Jerome Powell's speech at Jackson Hole, indicate that the Fed is likely to continue to raise rates at a pace of 25 basis points per quarter.
- The US and Mexico agreed to revamp the North American Free Trade Agreement (NAFTA), potentially also including Canada in the future. NAFTA covers more than $1tn in annual trade and the updated pact is to include provisions to govern intellectual property, digital trade and investor disputes, among other issues. In the preliminary agreement, the US and Mexico agreed that 75% of a product must be made in the two countries to receive tax-free treatment, which is higher than in the existing deal. On cars, the two sides also settled on rules that will require 40-45% of each vehicle to be made by workers earning at least $16 per hour to discourage firms from moving production to lower-wage Mexico.
- Corporate earnings for the second quarter were very impressive: S&P 500 Index earnings grew 25% year-over-year, nearly matching the 26% growth rate from the previous quarter. 80% of companies beat analysts' earnings estimates, with an average magnitude of +4%.
- US consumer confidence stands at an 18-year high as Americans remain upbeat regarding the labour market (low unemployment and modest wage growth).

In Europe, equity markets retracted in August due to concerns over the Italian budget combined with contagion fears over weakness in the Turkish Lira. Relations between Italy's populist government and the EU worried markets, with new government plans revealing pledges of expenditure estimated to be over €100bn. Adding to the tension, Deputy Prime Minister Luigi Di Maio said in a recent interview that Italy may breach the EU's deficit limit if that is what is needed to increase investment spending to boost the economy. The other Deputy Prime Minister, Matteo Salvini, also said that higher infrastructure spending is required in Italy and this should not be counted in the EU deficit rules.

Elsewhere, Turkey was in the spotlight amid a sharp depreciation in the Lira. The currency fell as geopolitical tensions with the US exacerbated ongoing concerns over its wide current account deficit (5.5% of GDP), above-target inflation (17.9%) and central bank reluctance to increase interest rates.

UK equity markets fell during August as Brexit uncertainty continues to loom. Comments from the Bank of England (BoE) on the "uncomfortably high" prospect of a no-deal outcome saw Sterling fall to a 13-month low against the US Dollar, before strengthening on supportive comments from the EU's Chief Negotiator Michel Barnier on the likelihood of a post-Brexit partnership.

The base rate was expectedly raised by 0.25% and consensus suggests that it offers the Monetary Policy Committee greater interest rate flexibility if deemed necessary following the final deal negotiated for the UK's exit from the EU.

In Asia, markets ended the month lower as escalating trade tensions between the US and China continued to dampen investor sentiment. President Trump raised tariffs from 10% to 25% on an additional $200bn-worth of Chinese imports and monthly economic data in China came out slightly weaker than expected, suggesting slower growth in industrial production. Performance of the region was however boosted by equity market gains in Korea, India, Indonesia and the Philippines. Korea staged a mild recovery following the decision to hold a third summit with North Korea. To combat local currency weakness versus the Dollar, interest rates were increased in the other three countries.

Thank you for your continued support.

Portfolio Managers

Matthew Page, CFA

Dr Ian Mortimer, CFA

Analysts

Joseph Stephens

Sagar Thanki

Data sources

Fund performance: *Financial Express, Total return in GBP*

Index and stock data: *Bloomberg*

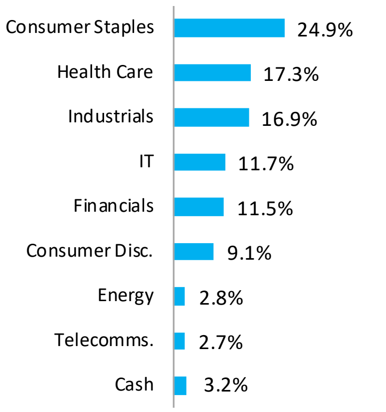
PORTFOLIO

31/08/2018

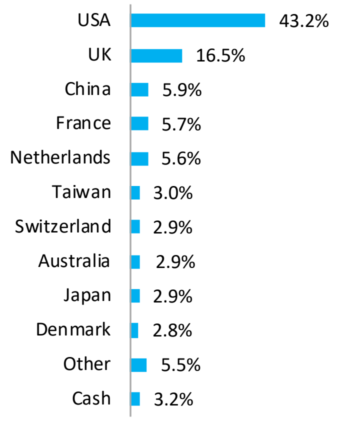
Fund top 10 holdings

WPP	3.2%
Taiwan Semiconductor	3.0%
Cisco Systems	3.0%
VF Corp	2.9%
Anta Sports Products	2.9%
Broadcom	2.9%
Hengan International Group	2.9%
Roche Holding	2.9%
Gallagher, Arthur J	2.9%
Wal-Mart Stores	2.9%
% of Fund in top 10	29.7%
Total number of stocks in Fund	34

Sector analysis



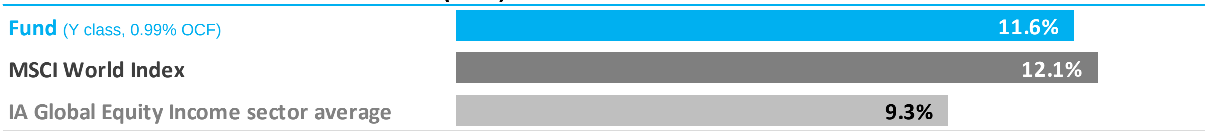
Geographic allocation



PERFORMANCE

31/08/2018

Annualised % total return from launch (GBP)



Discrete years % total return (GBP)	Aug '14	Aug '15	Aug '16	Aug '17	Aug '18
Fund (Y class, 0.99% OCF)	10.5	0.5	29.7	10.1	11.6
MSCI World Index	13.4	4.1	26.0	18.8	12.7
IA Global Equity Income sector average	10.6	-0.6	20.6	14.1	5.8

Cumulative % total return (GBP)	1 month	Year-to-date	1 year	3 years	5 years	From launch
Fund (Y class, 0.99% OCF)	0.9	8.5	11.6	59.3	77.1	132.5
MSCI World Index	2.2	9.1	12.1	65.9	93.7	139.6
IA Global Equity Income sector average	0.7	3.4	5.8	45.7	60.2	97.1

RISK ANALYSIS

31/08/2018

Annualised, weekly, from launch on 31.12.10, in GBP	Index	Sector	Fund
Alpha	0	0.19	1.11
Beta	1	0.76	0.87
Information ratio	0	-0.40	-0.09
Maximum drawdown	-18.26	-15.50	-16.34
R squared	1	0.79	0.89
Sharpe ratio	1	0.50	0.66
Tracking error	0	6.09	4.39
Volatility	13.83	11.33	12.17

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Source: Financial Express, bid to bid, 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 monitored