Guinness Global Equity Income Fund

INVESTMENT COMMENTARY – June 2016

About the Fund

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

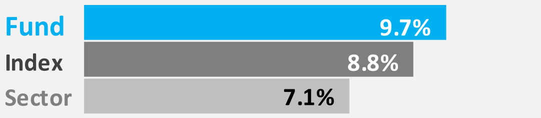
The Fund is managed for income and capital growth and invests in profitable companies that have generated persistently high return on capital over the last decade, and that are well placed to pay a sustainable dividend into the future.

Fund size	£131m
Launch date	31.12.10
Managers	Dr. Ian Mortimer, CFA Matthew Page, CFA

Performance 31.05.16

	1 year	3 years	From launch
Fund	2.7	23.4	64.8
Index	0.7	25.7	57.9
Sector	-2.2	14.9	44.9

Annualised % 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.

Guinness Global Equity Income Fund passed its fifth anniversary on 31st December 2015. For our full review of the Fund's history, visit **guinnessfunds.com**

Fund review

In May the Guinness Global Equity Income Fund produced a total return of +1.70% (in GBP) compared to the MSCI World Index +1.21%. The fund therefore outperformed the benchmark by +0.49% over the month. Year to date the fund has produced a total return of 5.94% compared to the benchmark of 3.08%. This means the fund is 2.86% ahead of its benchmark year to date.

Whilst in April we saw strong performance from the Energy and Commodity sectors and weak performance from the IT sector, in May we saw the reverse. IT was the strongest performing sector, led by semiconductors, while Commodities and Energy were the worst. Despite the fact we saw the spot oil price continue to rise, the market discounted this rise as only temporary in nature, due to the wildfire in Alberta affecting Canadian oil sands production. Other commodities such as gold, aluminium and copper all saw their price fall over the course of May.

It seems that once again it was the US dollar that was driving returns. A combination of stronger US economic data points, and hawkish comments from Janet Yellen, raised the probability of another interest rate rise in the US, and saw the US Dollar Index (USDX) rally by 3.5%. Emerging market and Asian equities lagged in sympathy with the stronger dollar.

May is always a busy month for quarterly earnings results and it was pleasing to see, within a day of each other, two of our more contrarian positions report good results.

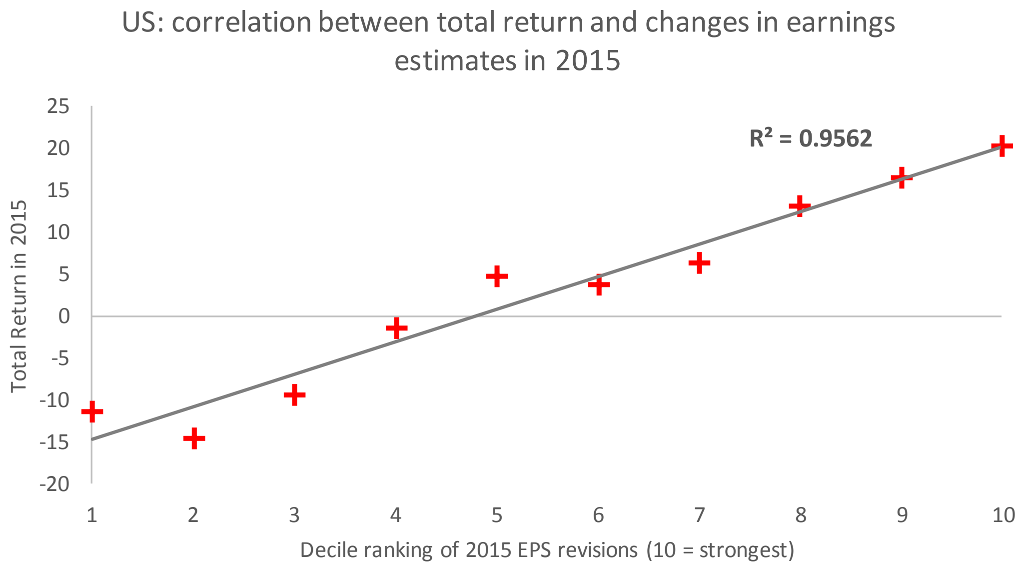
First, Cisco reported better than expected earnings showing particularly strong growth in revenues from the Asia Pacific region. Cisco has grown its dividend at around 10% per year for the last two years having only initiated its dividend in 2011. However, this year it has announced a 24% increase in the dividend.

The next day, Wal-Mart reported and saw its share price jump almost 10% on the day. We had bought Wal-Mart for the portfolio at the beginning of this year, and while we believed challenges still lay ahead for the company, we felt the valuation was compelling, particularly when we considered the company against other opportunities in the Consumer Staples sector.

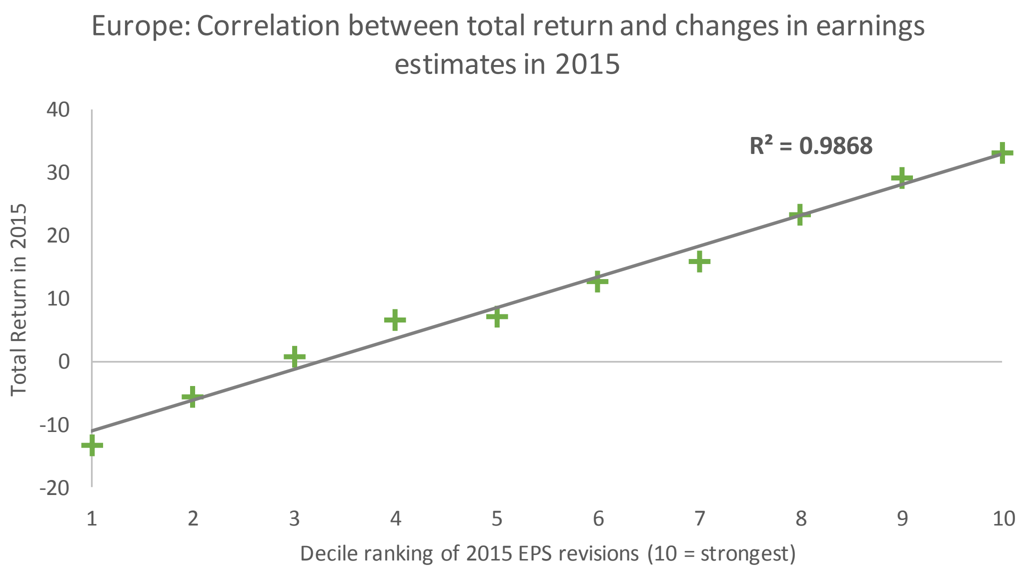
Both companies offer well covered dividends and a yield of around 3%, which is not easy to find in the US. They also have very strong balance sheets, in contrast to many US mid-cap stocks, as we highlighted last month.

In May we also discussed how sensitive share prices of large-cap US companies were to EPS revisions in 2015 and compared to the previous 20 years.

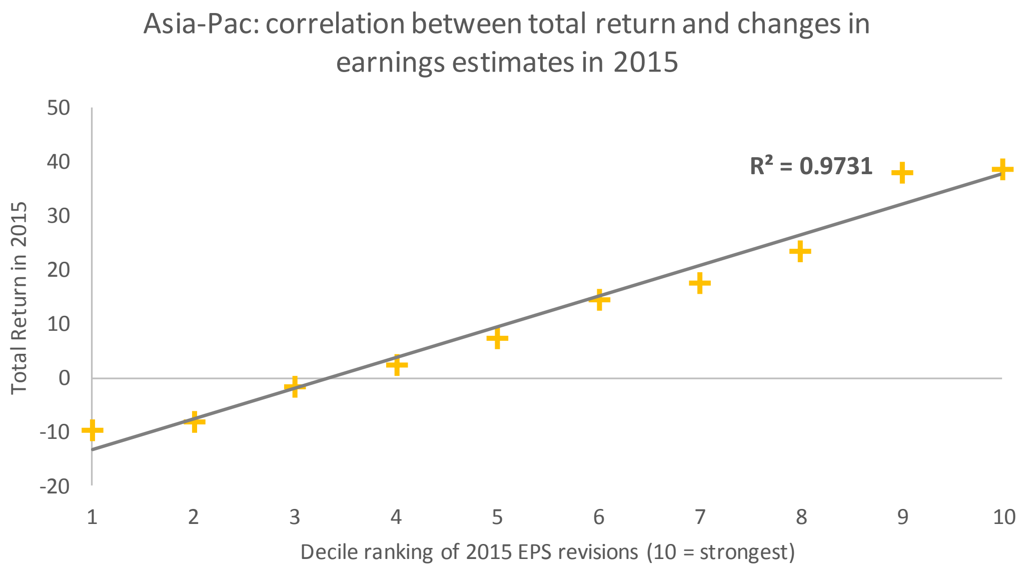
We have performed the same analysis for Europe and Asia and for 2015 we find a very similar picture to the US.



Source: Guinness Asset Management, Bloomberg



Source: Guinness Asset Management, Bloomberg



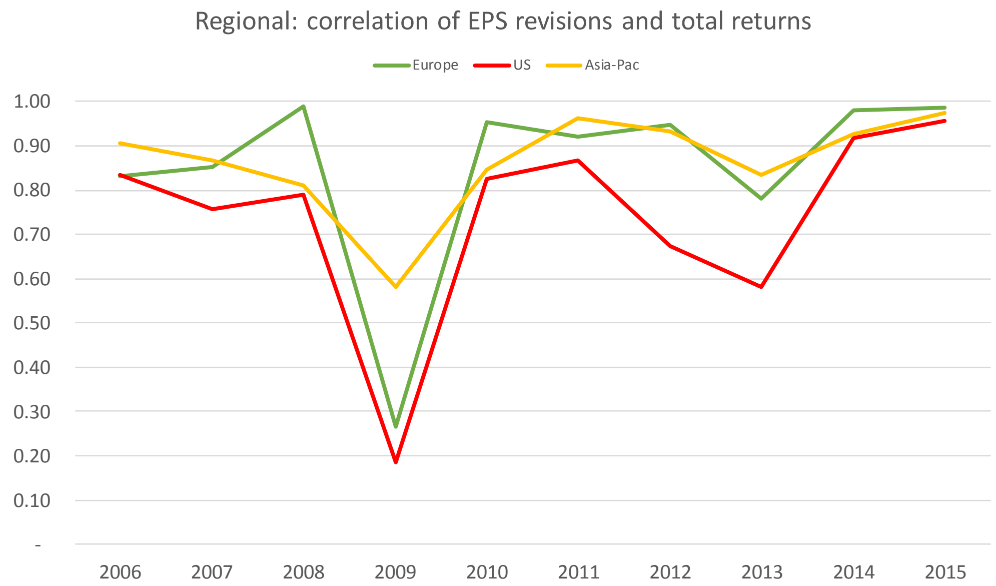
Source: Guinness Asset Management, Bloomberg

Looking at Europe and Asia we see a similarly very strong relationship between total return and short term earnings revisions for 2015. What is also interesting however is the difference in performance between decile 1 and decile 10 for each region. There was a significantly wider spread between the performance of decile 1 and decile 10 in Europe and Asia than there was in the US.

Source: Guinness Asset Management, Bloomberg

We also looked at how the high level of correlation in 2015 compared to the last ten years for each region. We would have liked to go back further but we could only get 10 years of data for Europe and Asia.

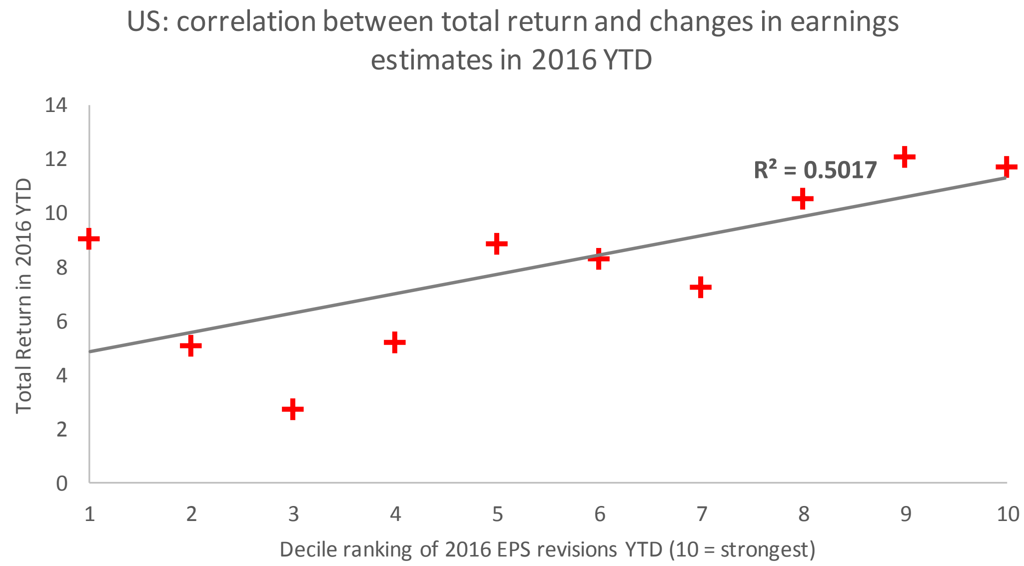
As you can see from the chart below over the last ten years short-term changes in earnings expectations have been an important driver of short-term returns in all regions, other than in periods of distressed markets like 2009. It is also interesting to note that on average over the last ten years Asia-Pac and Europe have demonstrated a higher level of sensitivity than the US.



Source: Guinness Asset Management, Bloomberg

However, given we are now five months into 2016 it is interesting to look at the degree of correlation between earnings and total return so far this year in the US, and then to look at where Wal-Mart and Cisco sit within this.

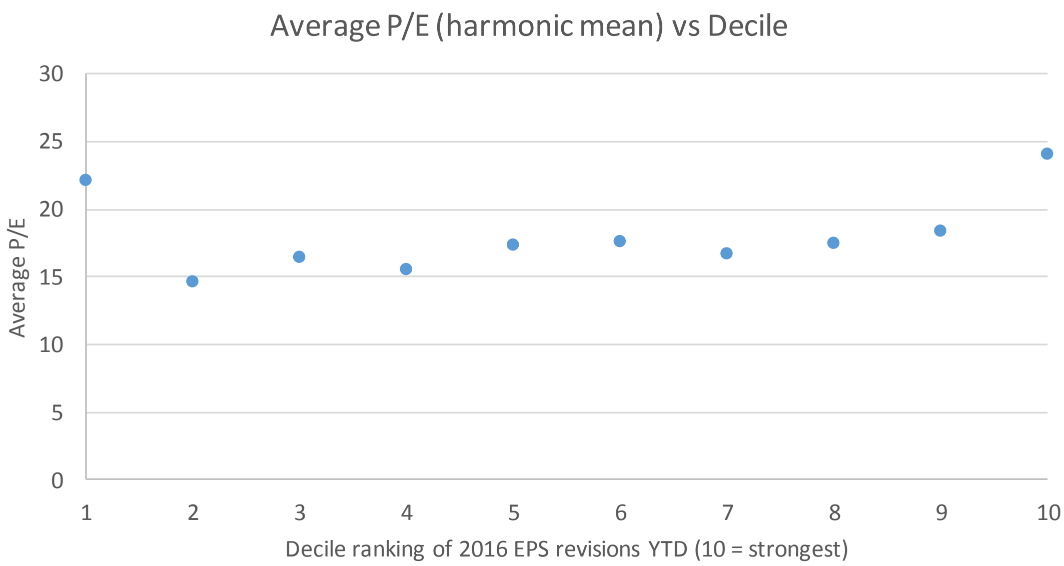
The strong correlation we saw last year between earnings revision deciles and their corresponding average share price performance seems to have broken down so far this year, as you can see from the chart below.



Source: Guinness Asset Management, Bloomberg

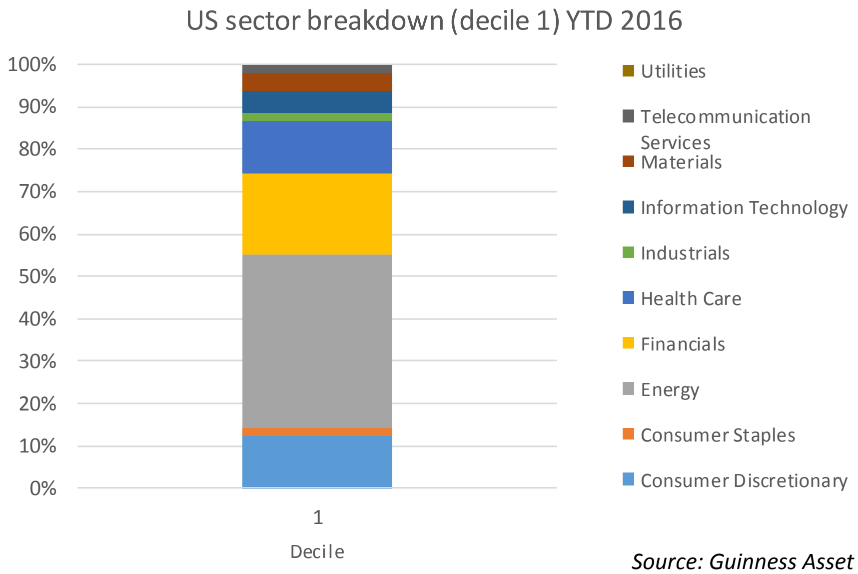
Indeed, decile 1 with the poorest earnings revisions has generated a relatively strong total return so far this year, with decile 3 having performed the worst.

If we look at the average P/E multiple (as calculated by the harmonic mean) vs each decile then we see an interesting picture. Decile 1 and 10 have very high multiples and are clearly outliers. However deciles 2 to 9 are all within a fairly narrow range with a general trend of a higher decile corresponding with a slightly higher P/E multiple.



Source: Guinness Asset Management, Bloomberg

Looking at the sector breakdown of decile 1 shows that nearly half of this decile is in fact made up of energy and commodity companies (mainly energy companies). The rally in commodity prices we have seen this year has done little to improve the short-term earnings outlook for these companies and indeed many of them will suffer continued losses this year. Many of these companies continue to implement cost-cutting measures which will take time to implement, and they will require a higher commodity price to break even or, in the most distressed cases, to avoid bankruptcy.



Source: Guinness Asset Management, Bloomberg

The pattern we have seen so far this year is this: the low correlation and strong performance from decile 1 is similar but not as stark as 2009. In 2009 the sector breakdown of decile 1 was more diversified across all cyclical sectors as the global financial crisis and credit crunch affected companies with weak balance sheets. However, in 2016 it is more sector-specific, driven by the dramatic decline and rebound we have seen in commodity prices.

The companies that we own in this Fund are unlikely to ever be in decile 1 or decile 10, since we don't tend to own the most cyclical or growth-oriented opportunities. While we have always had a significant proportion of the portfolio in cyclical companies we have tended to avoid investing at the most cyclical end of the spectrum. We have generally decided to steer clear of those companies whose fortunes are outside of their control, either due to dependence on commodity prices to set their profitability, or those where changes in regulation can have a meaningful impact on profits.

Cisco and Wal-Mart, which we discussed earlier, both rank in the 8th decile so far this year. Looking back over the period in which we have held Cisco in the Fund, we see it ranked 7th decile in both 2014 and 2015. A company like Cisco, with persistently high return on capital and with steady upgrades in earnings estimates, is attractive in itself. With its dividend yield is well above that of the market, dividend growth of more than 20% this year, \$60b of cash and a P/E of 12x, we think it is very attractive.

Dr. Ian Mortimer & Matthew Page
Co-managers, Guinness Global Equity Income Fund
June 2016

Data sources

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

Index and stock data: *Bloomberg*

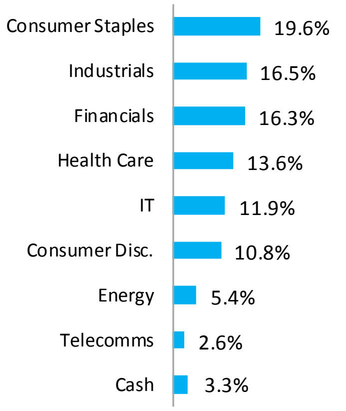
PORTFOLIO

31/05/2016

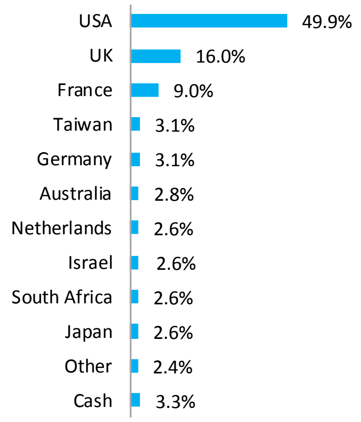
Fund top 10 holdings

Danone	3.4%
Largan Precision	3.1%
Deutsche Boerse	3.1%
Cisco Systems	3.0%
CA Inc	3.0%
Schneider Electric	2.9%
H & R Block	2.9%
Microsoft	2.9%
CME Group	2.8%
Wal-Mart Stores	2.8%
% of Fund in top 10	29.8%
Total number of stocks in Fund	35

Sector analysis



Geographic allocation



PERFORMANCE

31/05/2016

Annualised % total return from launch (GBP)

Discrete years % total return (GBP)	May '12	May '13	May '14	May '15	May '16
Fund (Y class, 0.50% AMC)	-1.4	29.8	6.9	12.4	2.7
MSCI World Index	-4.8	29.7	7.4	16.2	0.7
IA Global Equity Income sector average	-4.4	28.8	6.6	10.3	-2.2

Cumulative % total return (GBP)	1 month	Year-to-date	1 year	3 years	5 years	From launch
Fund (Y class, 0.50% AMC)	1.7	5.9	2.7	23.4	57.9	64.8
MSCI World Index	1.2	3.1	0.7	25.7	55.1	57.9
IA Global Equity Income sector average	0.4	3.3	-2.2	14.9	41.4	44.9

RISK ANALYSIS

31/05/2016

Annualised, weekly, from launch on 31.12.10, in GBP	Index	Sector	Fund
Alpha	0	0.40	1.97
Beta	1	0.76	0.86
Information ratio	0	-0.24	0.17
Maximum drawdown	-18.26	-15.50	-16.19
R squared	1	0.80	0.89
Sharpe ratio	0	0.29	0.48
Tracking error	0	6.24	4.59
Volatility	13.75	11.76	12.47

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. 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. **IA sector** performance based on highest fee share classes for each fund (C Class (1.5% AMC) for Guinness Global Equity Income). **See Notes overleaf.**

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.
2) The performance of the IA Global Equity Income sector is based on the average of the highest fee share class of each constituent fund, e.g. C class for the Guinness Global Equity Income Fund, with an annual management fee of 1.5%.

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.

Telephone calls may be recorded and monitored.