Guinness Global Equity Income Fund

INVESTMENT COMMENTARY – November 2016

About the Fund

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

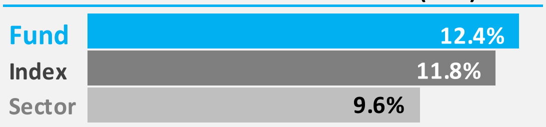
The Fund is managed for income and capital growth and invests in profitable companies that have generated persistently high return on capital over the last decade, and that are well placed to pay a sustainable dividend into the future.

Fund size	£203m
Launch date	31.12.10
Managers	Dr. Ian Mortimer, CFA Matthew Page, CFA

Performance **31.10.16**

	1 year	3 years	From launch
Fund	30.0	45.2	98.3
Index	28.0	47.3	91.4
Sector	22.8	31.1	70.6

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**

Summary performance

In the month of October the fund was up 2.83% (in GBP) versus the benchmark MSCI World Index up 4.34%. The fund therefore underperformed the index by 1.51% over the month.

Looking at the year-to-date to the end of October the fund is up 27.45% versus the MSCI World Index up 24.96%. The fund is therefore ahead of the index by 2.49% for the year.

October in review

The positive return of the fund and index in October was 'flattered' somewhat by the continued weakness in GBP over the month; with GBPUSD falling from 1.2977 at the end of September to 1.2244 at the end of October an approximately 6% move. Similarly if we consider the S&P500 over the month we see the US index was down 1.81% in USD terms - highlighting that the investor fears we had seen develop in September continued into October.

Markets once again were focussed on potential Fed rate rises, but as expected no decision was made to increase rates in November in light of the upcoming US election. However, broadly positive economic indicators released in the month - notably US Manufacturers Purchasing Manager's Index ('PMI') and US consumer spending – combined with a notable tick up in inflation expectations were perceived as presaging a further rate rise in December.

These new data points regarding interest rates and inflation expectations were quickly amalgamated into bonds prices with sovereign yields moving sharply higher over the month. These yield increases were potentially accelerated by the fact the market has started to question the efficacy of quantitative easing, a potential switch to fiscal policy in the future, and the fact yields had reached historic and potentially unsustainable lows.

Better than expected quarterly results from US banks combined with increased expectations of higher rates helped the financials sector to post the strongest performance in the month (MSCI World Financials up 2.3% in USD). In terms of the fund's underperformance versus the benchmark in the month approximately 1% (of the 1.5% lag) was due to the financials sector. We continue to have a zero weighting to the banks and all our exposure to this sector is through diversified financials such as exchanges and the insurance sector.

Emerging markets continued their outperformance versus developed markets, but were somewhat mixed with Taiwan leading the group on the back of strong quarterly results from companies in the technology sector. Oil prices (WTI) broke $50 per barrel in October as investors looked towards various OPEC discussions and meetings that held the prospect of the cartel (alongside Russia, potentially) agreeing to limit production increases.

Post-election update

We generally wait until the month end to update you on how the fund performed, but decided it may be useful to have a more up-to-date assessment of the portfolio, its positioning, and its performance during the tumultuous week post the surprise (to most, ourselves included) election result announced in the US on November 9th.

We will not dwell too much here on our thoughts on the election result and its consequences, as we covered this in some depth in the snappily (misleadingly?) named 'Insight' we sent out on the morning of the result; *see 'Implications of the US election result'*.

In terms of performance we have been pleased that the fund has again navigated a period of market uncertainty relatively unscathed. From the close on 8th November to the close on 14th November the fund returned +0.06% (in GBP) versus the MSCI World benchmark down -0.04%, and the average fund in the IA Global Equity Income sector down -1.88%.

In the month to date (end October to 14th November) the fund returned -1.51% (in GBP) versus the MSCI World Index down -1.80%, and the average fund in the IA Global Equity Income sector down -3.83%.

The reaction of markets to a Trump presidency was swift and in many cases an abrupt turn-around from prevailing sentiment. Most notable was the rally in healthcare stocks that had been under considerable pressure from the prospect of drug price reform under a Clinton-led administration. The fund benefitted from this change in sentiment with approximately 13% of the fund allocated to the healthcare sector.

On a wider scale the greatest impact was felt through a strengthening dollar and the prospect for trade restrictions and/or tariffs for imports to the United States. Emerging market equities that had been performing well in 2016 sold off as markets reacted to the prospect of weaker EM currencies more generally – the Mexican Peso being the most obvious example. Ironically this makes labour costs in Mexico dramatically more competitive for a US company outsourcing such work, so the penalties needed to curb this may have to be especially harsh. The funds direct EM exposure (to companies domiciled in these regions) is relatively small; Vodacom in South Africa, and Largan Precision in Taiwan. The sell-off in emerging markets did not therefore have a large drag on the portfolio. More broadly, however, the fund has exposure to these regions through the revenue streams of the businesses we invest in; for example, Unilever and Procter & Gamble.

US small caps performed very strongly as they are more domestically focussed and have a greater leverage in terms of earnings growth to the proposed corporation tax cuts. The fund does not typically invest in small cap companies, and we have been wary of US mid-cap leverage and stretched valuations for a while, so the fund did not benefit from this small cap rally.

Banks also performed strongly post-election as a steepening yield curve provided a route to greater profitability as did the prospect of a lighter regulatory burden. The fund continues to hold no banks so did not benefit from this. The wider financials sector also performed well, and all five companies we held in the fund in this sector posted positive performance, on average up just under 7% (in USD). The fund is approximately market weight in this sector at around 16%.

Larger US companies with a less domestically-focussed revenue base were held back as the headwind of a stronger dollar could weigh on their overseas earnings. This was somewhat abated, however, by the prospect for a 'tax holiday' for cash held outside of the US - which is typically more relevant to larger companies such as Apple (not held in the portfolio) or Cisco (held) or Microsoft (held). Interestingly the information technology sector as a whole underperformed post-election as investors worried about potential staffing issues due to stricter immigration vetting and Trump's generally negative rhetoric towards some of the larger tech businesses, with Amazon the prime (excuse the pun) candidate.

Energy and materials companies were broadly flat over the period, with energy appearing to get a small benefit from the potential for lower regulation. However, this appeared to be offset by the prevailing low oil price which is being driven in the most part by oversupply (rather than being demand-led) – a situation that would not necessarily be helped by increased exploration and production in the US. The fund continues to hold no companies in the materials sector and a benchmark weight (approximately 6%) in energy through our holdings in Royal Dutch Shell and Total.

Bond yields jumped higher and the yield curve steepened on the prospect of heightened inflation expectations on the back of the planned infrastructure spending plan from a Trump administration. The so-called 'bond proxies' such as utilities, telcos, and consumer staples therefore sold off quite dramatically. Our zero weighting to utilities (the worst performing sector over the period) and underweight to telcos therefore aided overall fund performance. We were not immune to the 'bond proxy' sell-off, however, with our holdings in the consumer staples sector making up just under 19% of the portfolio, an approximately 9% overweight, albeit down from a 30% weight three years ago.

The sector which benefited the fund most was industrials, where we have built up an approximately 18% position, representing an overweight versus the benchmark of just over 6%. We have noted for some time that this section of the market appeared to offer good value, and particularly relative to its history, and that there were many companies committed to progressive dividend policies. The market rewarded these businesses post-election on the back of the large infrastructure plans and the potential for increased defense spending (a large part of the industrials sector) both in the US and Europe – as Nato allies are 'forced' to meet their 2% of GDP spending targets. In the fund companies such as BAE Systems, General Dynamics, United Technologies, and Eaton Corp all benefited.

So overall we might sum up the good performance of the fund as being due to not being overly focussed on the 'classic' high dividend parts of the market, having a reasonable exposure to more economically sensitive parts of the market, and gaining more of our emerging market exposure through diversified global businesses. And that we did not manage to provide stellar performance as some of the best performing companies were in industries we do not look at such as banks, or with markets caps we do not consider.

Changes to the portfolio

In October we made no changes to the portfolio. Through November we have made three changes to the portfolio; two of which we might classify as 'business as usual' and one we might classify as 'opportunistic', in the sense that the market movements post the US election caused us to act by providing both a change in sentiment and advantageous price movements.

We will be able to discuss these changes in more detail in the December update, but you can be assured the new positions all adhere to the three tenets we always apply; persistently high return on capital businesses, at reasonable valuations, with decent and growing dividends.

Outlook

On the day of the election result we wrote;

"Over the last 6 years we have seen numerous events that have caused shockwaves through equity markets: from the European sovereign debt crisis, the rise of ISIS, slowing growth in China, the oil price collapse, Russia's invasion of the Ukraine, the "Taper tantrum", etc. Much of Trump's social policy is extremely divisive, his lack of experience of holding elected office should be a concern, and his maverick attitude increases uncertainty. However, the emergence of a new US president that wants to provide a shot in the arm to the US economy through fiscal stimulus could well turn out to be a fairly benign, if not positive outcome for equities overall."

We do not know if the short term trends we have witnessed over the last week or so since the world woke up to President-elect Trump will continue or whether results in European elections, for example, might cause the market to move in a different direction. What we do know is that the quality businesses we try and invest in have shown considerable resilience through a multitude of issues we have seen over the past six years since we launched the fund. That our moderate and growing dividend yield target has shielded us somewhat from the spectre of sharply rising rates or inflation. And that our value discipline has to a large extent prevented us chasing trends for too long. Our aim, as ever, during periods of market turmoil is to remember to stick to these principals and not get too caught up in trying to predict the future.

We thank you for your continued support.

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

Data sources

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

Index and stock data: *Bloomberg*

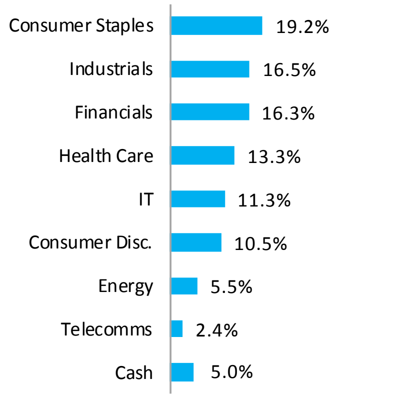
PORTFOLIO

31/10/2016

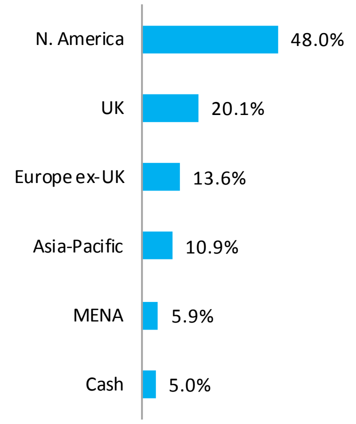
Fund top 10 holdings

ICAP	2.9%
Microsoft	2.9%
Largan Precision	2.9%
Mattel	2.9%
Wal-Mart Stores	2.8%
Imperial Brands	2.8%
United Technologies	2.8%
Cisco Systems	2.8%
Coca-Cola	2.8%
BAE Systems	2.8%
% of Fund in top 10	28.5%
Total number of stocks held	35

Sector analysis



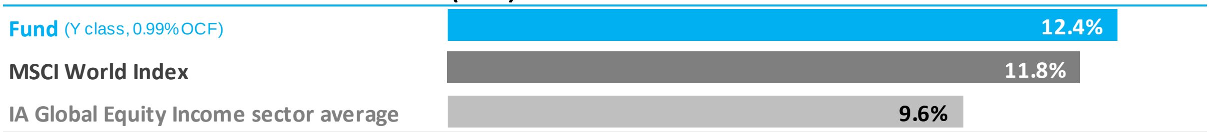
Geographic allocation



PERFORMANCE

31/10/2016

Annualised % total return from launch (GBP)



Discrete years % total return (GBP)	Oct '12	Oct '13	Oct '14	Oct '15	Oct '16
Fund (Y class, 0.99% OCF)	7.7	25.2	9.9	1.7	30.0
MSCI World Index	9.7	26.1	9.1	5.4	28.0
IA Global Equity Income sector average	8.3	22.7	4.3	2.4	22.8

Cumulative % total return (GBP)	1 month	Year-to-date	1 year	3 years	5 years	From launch
Fund (Y class, 0.99% OCF)	2.8	27.5	30.0	45.2	95.8	98.3
MSCI World Index	4.3	25.0	28.0	47.3	103.7	91.4
IA Global Equity Income sector average	4.2	21.7	22.8	31.1	74.2	70.6

RISK ANALYSIS

31/10/2016

Annualised, weekly, from launch on 31.12.10, in GBP	Index	Sector	Fund
Alpha	0	0.53	1.97
Beta	1	0.77	0.87
Information ratio	0	-0.31	0.12
Maximum drawdown	-18.26	-15.50	-16.19
R squared	1	0.80	0.89
Sharpe ratio	1	0.51	0.70
Tracking error	0	6.24	4.49
Volatility	13.79	11.96	12.68

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.

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: 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.