GUINNESS

Global Equity Income Fund

Annual review

2016

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Portfolio managers

GUINNESS
ASSET MANAGEMENT LTD

Annual review

Fund size (31.12.16)	**£248m**
Launch date	**31.12.10**

Aim

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.

Performance

31.12.16

Fund	Guinness Global Equity Income (Y Cls)
Index	MSCI World Index
Sector	IMA Global Equity Income

	1 year	3 years	From launch
Fund	26.9	43.4	97.4
Index	28.2	49.9	96.4
Sector	23.2	33.5	72.7

Annualised % total return from launch (GBP)

Fund	12.0%
Index	11.9%
Sector	9.5%

Risk analysis (annualised, weekly, from launch)

	Index	Sector	Fund
Alpha	0	0.5	1.6
Beta	1	0.8	0.9
Info ratio	0	-0.3	0.0
Max drwdn	-18.3	-15.5	-16.2
Tracking err	0	6.3	4.6
Volatility	13.9	12.0	12.8
Sharpe ratio	0.6	0.5	0.7

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 Y class: Simulated performance based on actual returns of E share class (available from Fund launch), calculated in GBP.

Performance

While 2016 was a dramatic year for politics and financial markets, it was another good year for the Guinness Global Equity Income Fund, which outperformed the IA Global Equity Income sector for the fourth year in a row. The fund has now outperformed the IA sector in five of the six years it has been in existence, and we are pleased to have provided positive returns in each of the last six years.

Figure 1: Calendar year performance

vs IA Global Equity Income sector & MSCI World Index

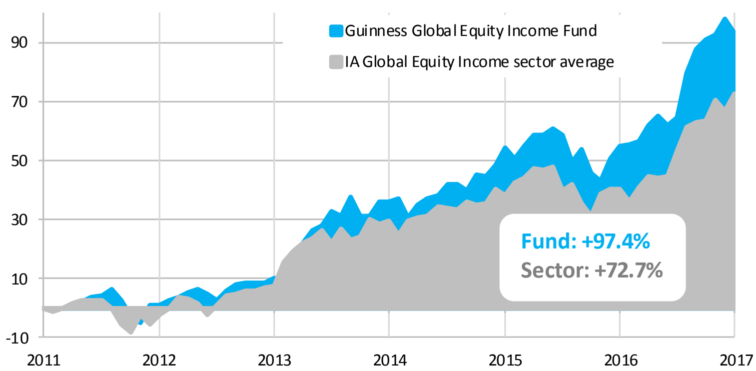
Fund Y-class TR in GBP	2011	2012	2013	2014	2015	2016
Quartile rank	1st	4th	1st	1st	2nd	2nd
Fund	**2.9%**	**5.7%**	**26.6%**	**10.5%**	**2.2%**	**26.9%**
Sector	-2.1%	9.7%	20.4%	6.7%	1.5%	23.2%
Index	-4.8%	10.7%	24.3%	11.5%	4.9%	28.2%

In 2016 the Fund produced a total return of 26.9%, compared to the IA Global Equity Income sector of 23.2% and the MSCI World Index return of 28.2%. The fund therefore outperformed the sector by 3.7% and underperformed the Index by 1.3%.

Over the long-term the fund ranks in the top quartile of the IA Global Equity Income sector over five years and since its launch in 2010.

Figure 2: Cumulative performance

Fund Y-class, TR in GBP to 31.12.16	1 year	3 years	5 years	From launch (31.12.10)
Quartile rank	2nd	2nd	1st	1st
Fund	**26.9%**	**43.4%**	**91.8%**	**97.4%**
Sector	23.2%	33.5%	76.4%	72.7%
Index	28.2%	49.9%	106.4%	96.4%



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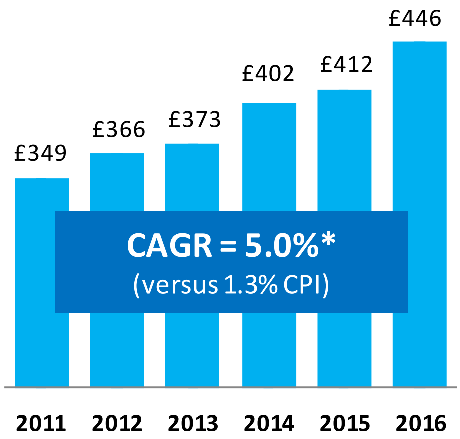
Dividend

Importantly, our focus on companies that offer the potential for dividend growth, rather than simply a high dividend yield, means we have managed to grow the dividend distributed by the Fund every year. This year the Fund grew the dividend by 8.3% (Y-class), whilst the annualised growth rate over the last six years has been 5.0%*. This annualised growth rate of the dividend looks particularly compelling when compared to the consumer price index inflation rate which has averaged 1.3% over this period.

Figure 3: Dividend growth



*Imputed income generated by investing £10,000 at launch (31/12/2010) and switching into lower OCF share class when introduced on first ex-dividend date.

Based on the price at year end, the Fund has a historic 12 month dividend yield of 2.8% (Y-class).

Review of 2016

At the beginning of 2016 we wrote in our Annual review of 2015:

"As we look forward in 2016, many of the uncertainties that existed in 2015 are still with us: the trajectory of US interest rates, the divergence of central bank policies, emerging market currency risks, weaker growth in China, and Europe grappling with various social and economic problems, to mention the most widely discussed topics."

2016 turned out to be a year of surprises. At the beginning of the year many were expecting the Fed to vote to raise interest rates four times over the course of 2016. There was also a consensus view that the UK would vote to remain in the European Union, while Hilary Clinton looked set to become the first female President of the United Stated. Clearly this all turned out to be wrong.

We have never seen much value to our investment process of attempting to predict macroeconomic events. Last year, we reminded investors what we said in our review of 2011, and it is worth reiterating it again here:

"We do not spend too much time worrying about how the global economic environment will fare in the near future but instead will continue to focus our time and thoughts on our process and on identifying high quality companies and including the best value opportunities in the portfolio."

Our approach has always been to try to build a portfolio of consistently high return on capital companies, which can weather whatever the macro environment might throw at it. Last year the macro events surprised investors, and it also turned out to be an environment where chasing trends would have been a dangerous strategy.

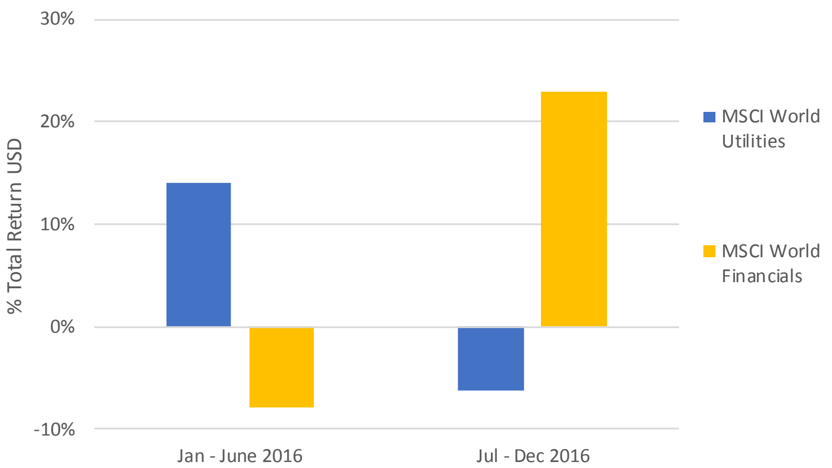
In the end we had one interest rate rise in the US, which came in December, the UK did vote to leave the EU and Donald Trump became President-elect of the United States.

The fact we only had one interest rate rise in the US in 2016 was largely a consequence of global economic uncertainty, which began in the first quarter with concerns surrounding a slowdown of growth in China, and a surprise devaluation in the Renminbi. Global equity markets fell 10% (USD) in the first six weeks of the year only to rebound and regain much of this ground by the end of the quarter.

Investors then turned their focus to the UK referendum. The initial reaction to the referendum result saw some large moves in equity prices with the MSCI World index falling around 7% (USD) in the two days after the election. However, the index had recovered all of these losses by the 12th July. It was the Pound that suffered in response to the UK referendum falling 17% between the date of the UK referendum and the end of the year.

Whilst the politics of 2016 was unexpected the most interesting change that occurred in 2016 was a sector rotation that really began at the end of June. The first half of the year was characterised by strong performance from defensive sectors while the second half of the year saw a sector rotation that favoured more cyclical sectors. If we take the utilities sector as the measure of a defensive sector and the Financials sector as a measure of a cyclical sector then the chart below shows this in stark relief.

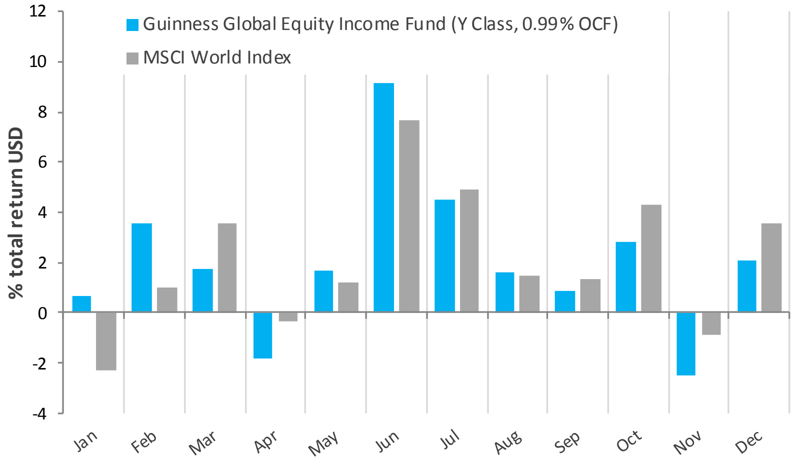
Figure 4: MSCI World Utilities vs MSCI World Financials



The Trump election victory in November only added further stimulus to this sector rotation.

Looking at the performance of the fund over 2016, it was particularly pleasing to the see the fund performing well in the first quarter, which began with US equities recording their worst start to a year on record. Similarly, the fund held up well through the second quarter, a period which included the aftermath of the UK referendum vote. The third quarter was largely uneventful. The fund underperformed in the fourth quarter, which was mainly a result of the strong performance from US banks on expectations that Trump's policies would lead to higher interest rates. This is an industry the fund has historically had a low exposure to.

Figure 5: Monthly total return of Fund v benchmark in 2016



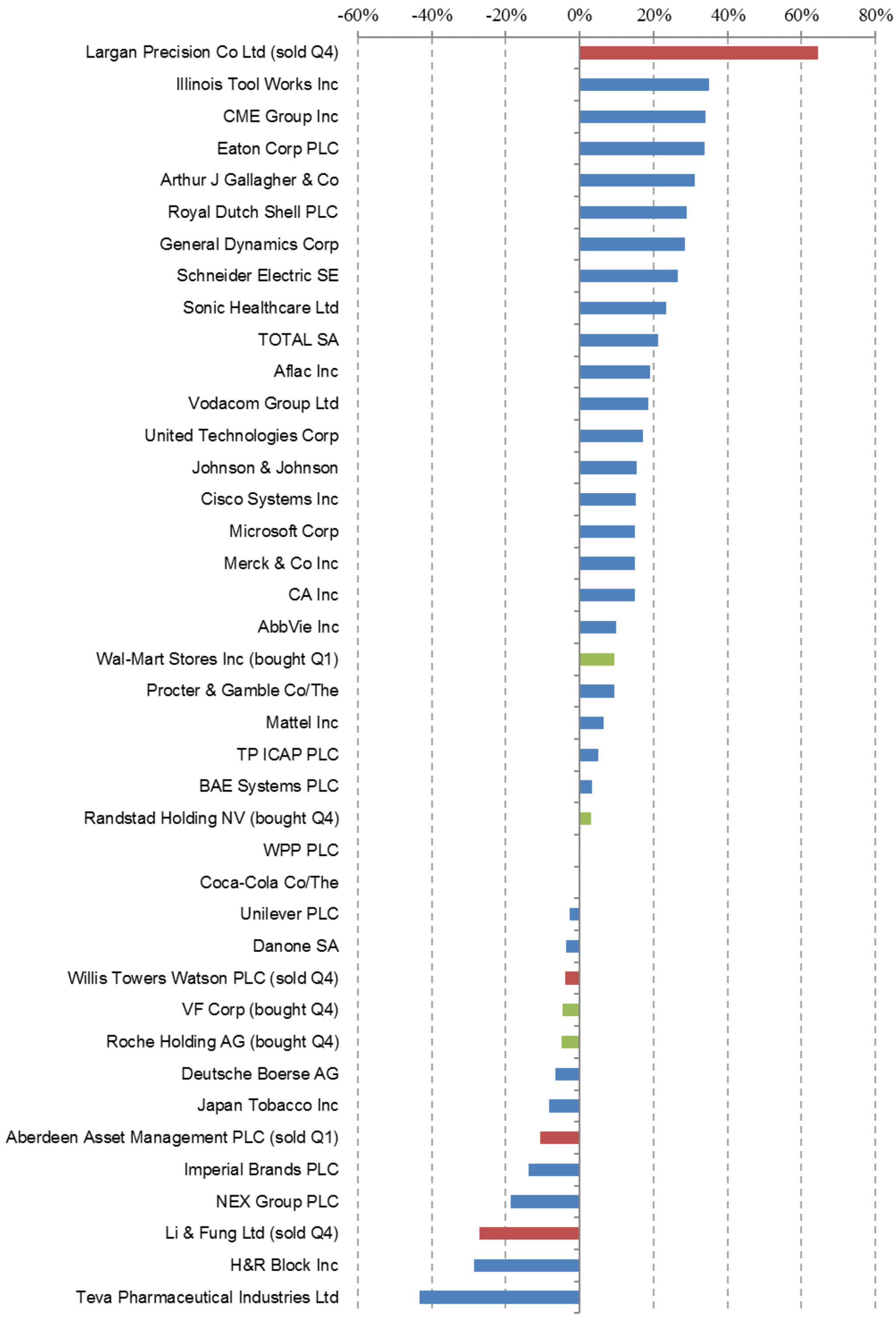
When we look at the performance of global equities by region and by sector as per the table below we see that it was the US that lead global equities higher, followed by Emerging Markets. The recovery in global commodity prices that eventually occurred in 2016 lead to strong performance for the relatively small energy and materials sectors. Healthcare on the other hand was the only sector to post negative performance, much of this was due to negative sentiment driven by Hilary Clinton's desire to clamp down on drug pricing. Notably the top five performing sectors: energy, materials, industrials, financials and IT were all cyclical sectors indicating that the market has bet on an improving outlook for these company's earnings.

Figure 6: Total return by region and sector (USD) in 2016

Total Return (USD)	MSCI World	MSCI US	MSCI Europe	MSCI Asia	MSCI EM
Index	8.2%	11.6%	0.2%	4.1%	11.3%
Energy	27.6%	25.8%	30.1%	18.6%	36.8%
Materials	23.0%	16.2%	25.3%	14.1%	31.5%
Industrials	13.5%	18.9%	8.1%	3.3%	-2.0%
Financials	13.3%	22.7%	-2.6%	3.5%	13.2%
IT	12.0%	13.3%	1.7%	13.8%	16.8%
Utilities	7.1%	16.3%	-6.9%	-4.6%	2.7%
Telecomms	6.8%	23.9%	-15.0%	5.3%	2.3%
Cons Disc	3.6%	6.2%	-2.8%	-0.1%	0.8%
Cons Staples	2.3%	5.7%	-2.8%	-3.0%	0.4%
Healthcare	-6.3%	-2.9%	-11.4%	-7.0%	-7.4%

When we look at how individual companies within the portfolio performed in 2016 we see a similar picture. Our top five performing positions included one IT company, two industrials and two financials. Our holdings in industrials and IT were the largest contributors to performance relative to the benchmark. Pleasingly our positions in the healthcare sector were net positive contributors to performance, despite the sector as a whole being the weakest performing sector, and having poor performance from our position in Teva Pharmaceuticals. Our positions in the consumer discretionary sector were the main detractors from performance.

Figure 7: Individual holdings price performance over holding period during 2016 (total return USD)



Changes to the portfolio

In 2016 we sold four positions and bought four new positions, leaving the portfolio with 35 positions at the end of the year. This was fewer changes than we made in 2015, but more than we made in 2014.

Figure 8: Number of changes to the portfolio

	2011	2012	2013	2014	2015	2016
Buys	8	4	7	2	7	4
Sales	9	3	8	3	6	4
Total holdings	35	36	35	34	35	35

In the **first quarter** we sold our position in **Aberdeen Asset Management** and bought a position in **Walmart**.

We had owned **Aberdeen Asset Management** since we launched the Fund in 2010, but we decided to sell due to a combination of three factors; a poor outlook for emerging markets, large outflows from sovereign wealth funds of oil producing countries, and declining performance of their funds. We will continue to monitor the company and look for a change in fortunes, but we decided it made more sense to sell, and replaced it with a company that we had owned previously and had continued to monitor in the form of **Walmart**.

We had held Walmart from December 2010 to March 2013, and decided to take a profit after we saw a significant valuation rerating and compression in the dividend yield we were receiving. Since then Walmart has been facing significant challenges, including the increasing threat of Amazon, wage inflation and FX headwinds. We have seen margins decline over the last few years as the company has been investing to catch up in e-commerce and expanding its online grocery pickup offering, which should start to have an impact this year. Last year we saw a significant decline in the valuation the market has been willing to pay. At the beginning of 2015 the company was trading towards the peak of its 10 year historical multiple, and by the beginning of 2016 it was trading around one standard deviation below its 10 year average multiple.

By January this year the dividend yield was the highest it has been for the last 10 years. We also note that Walmart has grown its dividend every year that we have been alive! Dividend growth over the last five years has been particularly impressive at an average rate of 10% per year. Whether this level of dividend growth is achievable in the next five years is hard to predict but the dividend certainly looks very safe; the company is generating a high return on capital (well above its cost of capital), its dividend represents a modest payout ratio of 40%, it has a Debt to EBITDA ratio of 1.5x and a AA credit rating.

We did not make any changes to the portfolio in the **second** and **third quarter**.

We made a small number of changes to the portfolio in the **fourth quarter**. We sold our positions in **Largan Precision**, **Li & Fung** and **Willis Towers Watson.** and replaced them with new positions in **Roche**, **Randstad** and **VF**.

We bought Largan Precision, (a Taiwanese manufacturer of optical lenses for smartphones), around this time last year and it went on to perform very well for the fund. The company had demonstrated impressive growth along with margin expansion which is a combination we always like to see. The stock price fell quite significantly over the second half of 2015 in an environment of general emerging market weakness, allowing us to find an attractive entry point towards the end of the year. Indeed, we managed to purchase the company on a P/E multiple of 11x 2016 expected earnings. Given the strong share price performance we have seen this year, the P/E multiple has since expanded to 21x 2016 expected earnings which we felt was too rich. We continue to like the company and it will remain on our watchlist as a potential candidate to re-enter the portfolio if we see a similarly attractive entry point in the future.

We bought Willis Group, (as it was called back in 2010), when we launched this fund. We always like insurance brokers' scalable and capital-light business models. However, the company merged with Towers Watson at the beginning of this year which led to a change in the capital structure of the business and, importantly for us, a lower dividend yield. The company has performed well in the portfolio, but its dividend yield now of around 1.5%, down from 3.5% when we bought the stock, made us feel there are better opportunities elsewhere.

Li & Fung was a position where we got it wrong and decided to cut our losses and move on. We bought the company back in 2014 as we liked the company's asset-light business model as we could see how growth would translate into significant operational leverage. Growth had been weak for some time but we thought there was a reasonable chance that it would turn around. Unfortunately that did not occur, and with the election of Donald Trump we felt the company's model of a global outsourcing business has become more vulnerable. We also came to the conclusion that there is now a real risk of a dividend cut.

In the run-up to the US election there had been a meaningful sell-off in the healthcare sector and we felt this provided an opportune time to purchase **Roche** for the portfolio. The one year forward P/E multiple for Roche peaked at about 20x in the middle of 2015. We managed to pick it up on a multiple of 15x, a very reasonable discount not only to its historic level, but also relative to the market given the company's high quality characteristics.

We also purchased **VF**, which we had owned when we launched the fund in 2010, but later sold after some particularly strong performance. The company owns clothing brands such as North Face, Timberland and Wrangler Jeans. We had sold the company in 2013 as the company's dividend growth, while impressive at over 10% per year, had failed to keep up with share price performance, meaning the yield had fallen below 2%. Since then, the dividend growth has remained as impressive but the share price has been weak over the last 18 months, meaning we were able to buy the company on a dividend yield of around 3%.

Finally, we added a position in the Dutch recruitment firm **Randstad**. We are always looking for companies that meet our quality criteria but trade on valuations towards the lows of their historic ranges. Randstad certainly met these criteria after the company's share price reacted negatively to the Brexit referendum. The market valued this high quality company on a forward P/E of 20x in the middle of 2015, yet we were able to pick it up on a forward P/E of 13x in November.

Portfolio today and outlook

The charts below show the sector and geographic breakdown of the portfolio over the last six years. The overall effects of the changes we made to the portfolio in 2016 were to increase our exposure to consumer staples, health care and industrials, while reducing our exposure to financials and IT. These were relatively modest changes in allocation given we only made four sales and four buys during the year.

Figure 9: Portfolio sector breakdown (31.12.16)

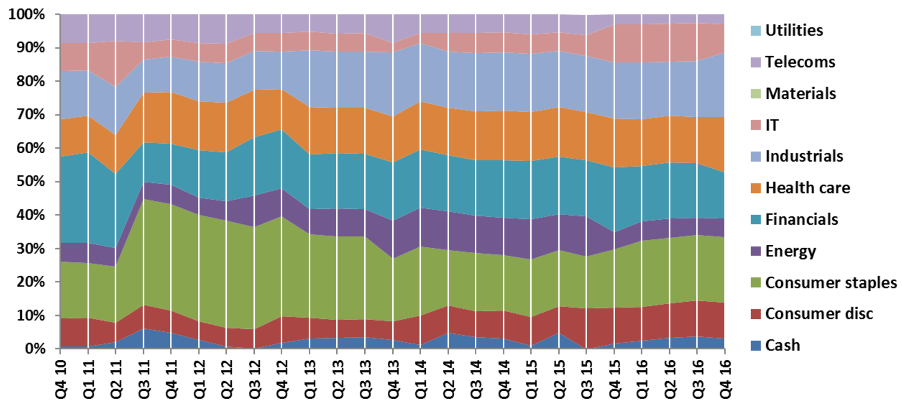
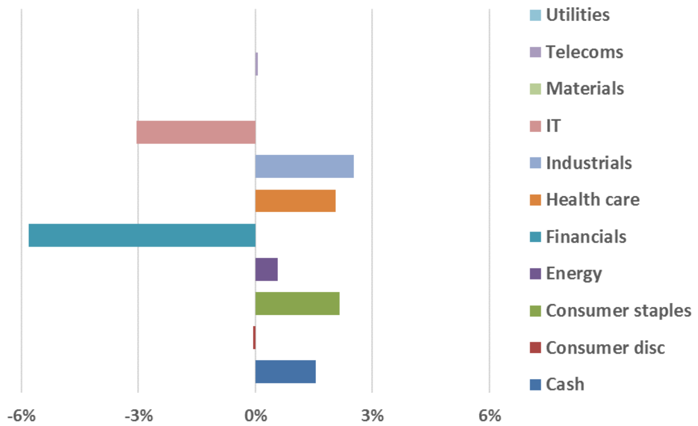


Figure 10: Year on year change in sector breakdown (31.12.16 vs 31.12.15)



In terms of geographic allocation we reduced our exposure to the UK and Asia-Pacific while increasing our exposure to Europe ex-UK and the US.

Figure 11: Portfolio geographic breakdown (31.12.16)

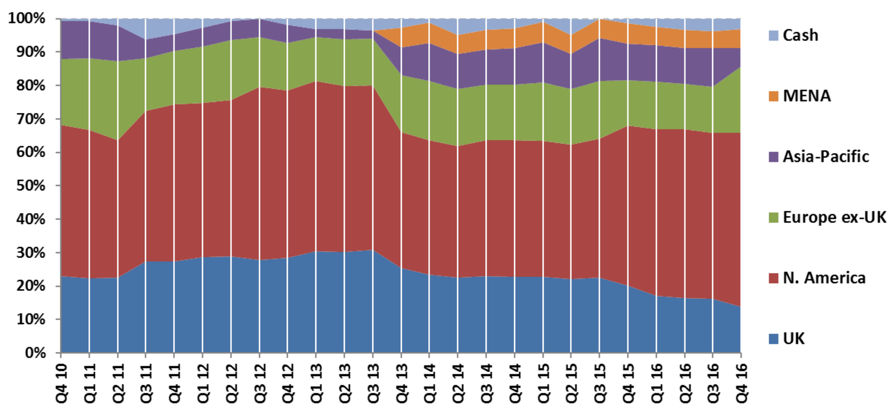


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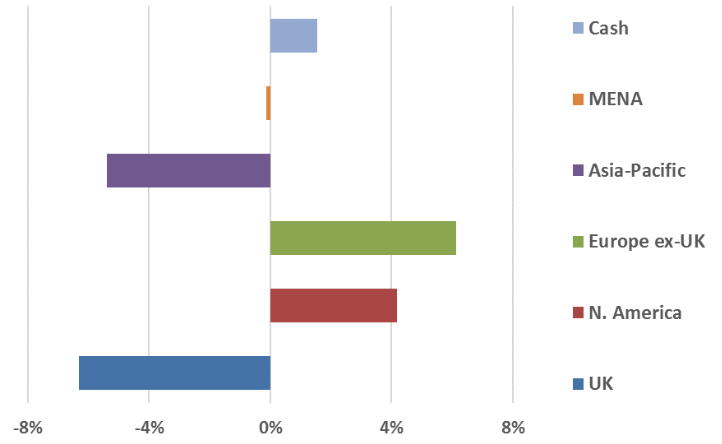
Figure 12: Year on year change in geographic breakdown (31.12.16 vs 31.12.15)



As we reflect on 2016 and look forward to 2017, there is considerable uncertainty in markets.

In contrast, at the start of 2016 there was a strong consensus view that Britain would vote to remain in the EU and that Hilary Clinton would be elected President of the United States of America. There was also a widely held view that the US would increase interest rates four times over the course of the year. Latching on to these forecasts, and building your portfolio in anticipation of these outcomes, would have made for a painful 2016.

Today there is uncertainty surrounding the direction of Donald Trump's policies, the threat of trade wars, tariffs and broader protectionist measures. In Europe we have a French Presidential election, a German Presidential election, and the triggering of Article 50 to look forward to. These are all events that could move markets and this uncertainty leaves us feeling a little apprehensive. However, we have never sought to build our investment process to rely on making big decisions on macro events, let alone on binary events such as elections. We have always preferred high return on capital and strong balance sheets to a macro crystal ball, and if this uncertainty persists through 2017 then the chances are these types of companies should be a more pleasant place to be invested.

So we will refrain from making any big predictions for 2017, as your inbox will almost certainly be overloaded with them already, and instead leave you a few words from Voltaire:

"Doubt is not a pleasant condition but certainty is an absurd one"

As ever we would like to thank you for your continued support, and we wish you all a prosperous 2017.

Matthew Page, CFA
Dr Ian Mortimer, CFA
Portfolio managers, Guinness Global Equity Income Fund

January 2017

All Index and performance data source: Bloomberg, except Fund performance data, which is sourced from Financial Express and Guinness Asset Management.

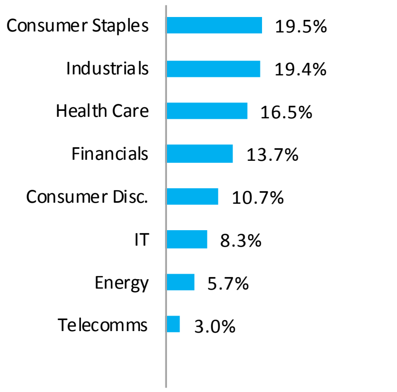
PORTFOLIO

31/12/2016

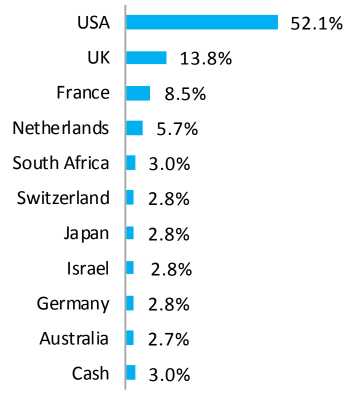
Fund top 10 holdings

Vodacom	3.0%
Unilever	2.9%
Total	2.9%
Royal Dutch Shell	2.9%
Schneider Electric	2.8%
Gallagher, Arthur J	2.8%
Imperial Brands	2.8%
United Technologies	2.8%
Roche Holding	2.8%
Abbvie	2.8%
% of Fund in top 10	28.6%
Total number of stocks held	36

Sector analysis



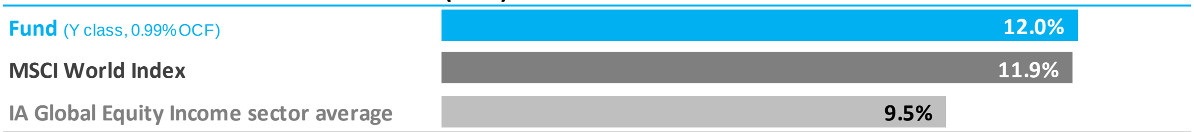
Geographic allocation



PERFORMANCE

31/12/2016

Annualised % total return from launch (GBP)



Discrete years % total return (GBP)	Dec '11	Dec '12	Dec '13	Dec '14	Dec '15	Dec '16
Fund (Y class, 0.99% OCF)	2.9	5.7	26.6	10.5	2.2	26.9
MSCI World Index	-4.8	10.7	24.3	11.5	4.9	28.2
IA Global Equity Income sector average	-2.1	9.7	20.4	6.7	1.5	23.2

Cumulative % total return (GBP)	1 month	Year-to-date	1 year	3 years	5 years	From launch
Fund (Y class, 0.99% OCF)	2.1	26.9	26.9	43.4	91.8	97.4
MSCI World Index	3.5	28.2	28.2	49.9	106.4	96.4
IA Global Equity Income sector average	3.6	23.2	23.2	33.5	76.4	72.7

RISK ANALYSIS

31/12/2016

Annualised, weekly, from launch on 31.12.10, in GBP	Index	Sector	Fund
Alpha	0	0.47	1.56
Beta	1	0.77	0.87
Information ratio	0	-0.33	0.02
Maximum drawdown	-18.26	-15.50	-16.19
R squared	1	0.80	0.89
Sharpe ratio	1	0.50	0.66
Tracking error	0	6.29	4.57
Volatility	13.94	12.00	12.78

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**: 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 X class was launched on 15/02/2012. The performance shown is a simulation for X class performance being based on the actual performance of the Fund's E class, which has the same annual management charge as the X class, 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. Hence the Fund's E Share class is used here to illustrate the performance of a GBP-based clean-fee (RDR-compliant) share class since the Fund's launch on 31.12.10.

2) The performance of the IMA 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.

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