Guinness Global Equity Income Fund

INVESTMENT COMMENTARY – September 2017

About the Fund

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

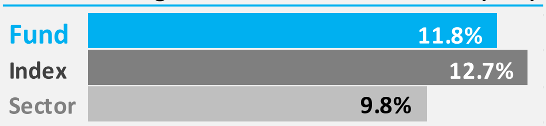
The Fund is managed for income and capital growth and invests in profitable companies that have generated persistently high return on capital over the last decade, and that are well placed to pay a sustainable dividend into the future.

Fund size	£336m
Launch date	31.12.10
Managers	Dr. Ian Mortimer, CFA Matthew Page, CFA
Analysts	Joshua Cole Sagar Thanki

Performance **31.08.17**

	1 year	3 years	From launch
Fund	10.1	43.7	106.5
Index	18.8	55.8	116.5
Sector	14.1	36.9	83.6

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.

Summary performance

In August, the Guinness Global Equity Income Fund produced a total return of 1.9% (in GBP) versus the MSCI World Index return of 2.5%. The fund therefore underperformed the index by 0.6% in the month.

Year-to-date the fund is up 4.6%, while the MSCI World Index is up 6.6%. This reflects what we have seen in equity markets this year with the market preferring growth companies to those with consistent high return on capital and strong dividends.

August in review

The traditionally quieter summer period was disturbed by flying ballistic missiles, increasing geopolitical tensions, the struggles of the Trump administration, another terror attack in Europe, and Tropical Storm Harvey devastating the US Gulf Coast. Despite all this, global equity markets continued upwards and the MSCI World Index grew by +2.5% (in GBP).

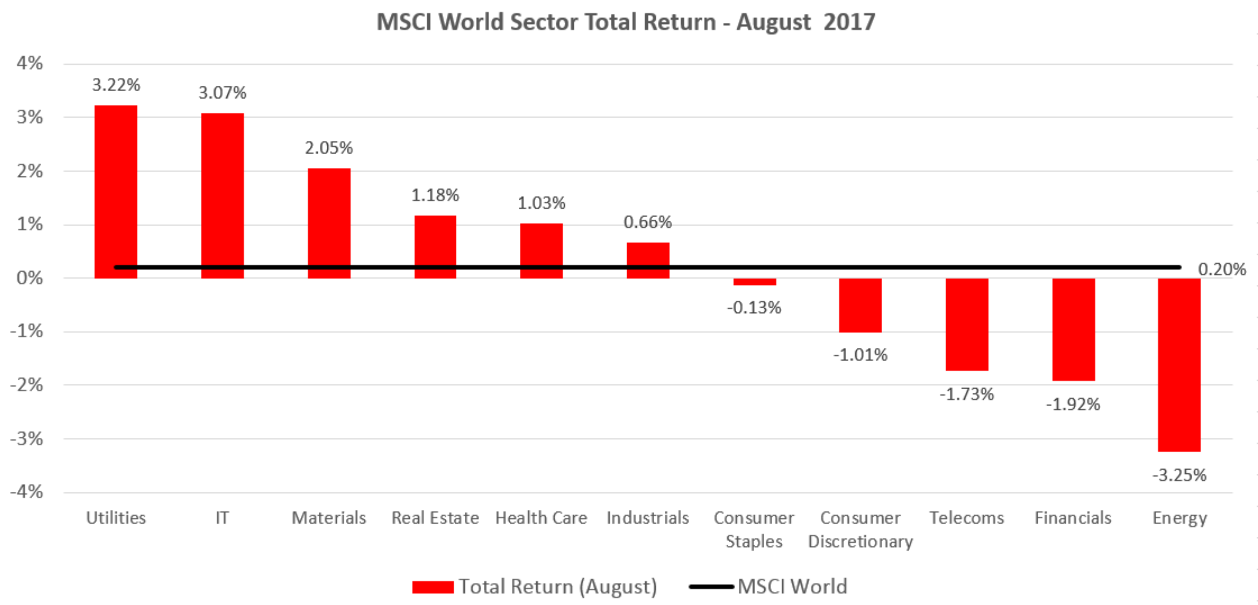
In the US, while equity markets started the month strongly, volatility increased as events unfolded. On 17th August, the S&P 500 recorded its biggest one-day fall since May as President Trump and Kim Jong Un were “locked and loaded” in a nuclear game of chicken. This also came amidst growing domestic tension in the US following the Charlottesville violence and disbanding of the Trump administration’s business councils. One might be forgiven for thinking that markets have become immune to political upheavals after the past year, and this view is partially supported by the fact that the US economy continued to demonstrate solid growth; second quarter GDP growth was revised up to 3.0% (the strongest advance in two years), while unemployment fell to 4.3%. It is worth noting that, perhaps surprisingly, these figures were reported despite the absence of the fiscal stimuli promised at the start of the year. To detract further from economic theory and the Phillips curve, CPI inflation in the US disappointed by remaining below consensus estimates at 1.7%, reducing the predicted likelihood of a Federal Reserve rate hike in December to around 34%. Nevertheless, a hike is still possible after the Federal Open Market Committee used its July meeting to state that a delay in reducing the Fed's balance sheet could cause an overshoot in inflation that "could be costly to reverse". The S&P 500 ended August with a return of +0.3% (in USD), making it the fifth positive month in a row.

In Europe, economic momentum improved, with Eurozone GDP growing at 2.2% year-on-year, for the second quarter. This is the highest level since 2011, though there is a concern that the economic recovery and declining unemployment is not translating into higher price growth. Inflation rose to 1.5% but is still below the European Central Bank (ECB) policy target of 2%. As a result, in its July meeting, the ECB indicated that current conditions do not warrant an end to quantitative easing in the near term, and stated that the strong Euro could represent a drag on inflation. The MSCI Europe ex-UK Index was also penalised by the strong Euro and closed with a negative return of -0.4% (in EUR).

In the UK, we saw the third round of Brexit negotiations begin and the global geopolitical disturbances contributed to increased volatility. The labour market report showed a fall in the unemployment rate to 4.4%, the lowest level since 1975, and the FTSE 100 was one of the few indices in Europe with positive returns in local currency (+1.6% in GBP), partly driven by a new record low for Sterling. Nevertheless, inflation remained at 2.6% – in line with the Bank of England's target range. This gives the central bank time to delay the interest rate hike, which is widely expected in 2018.

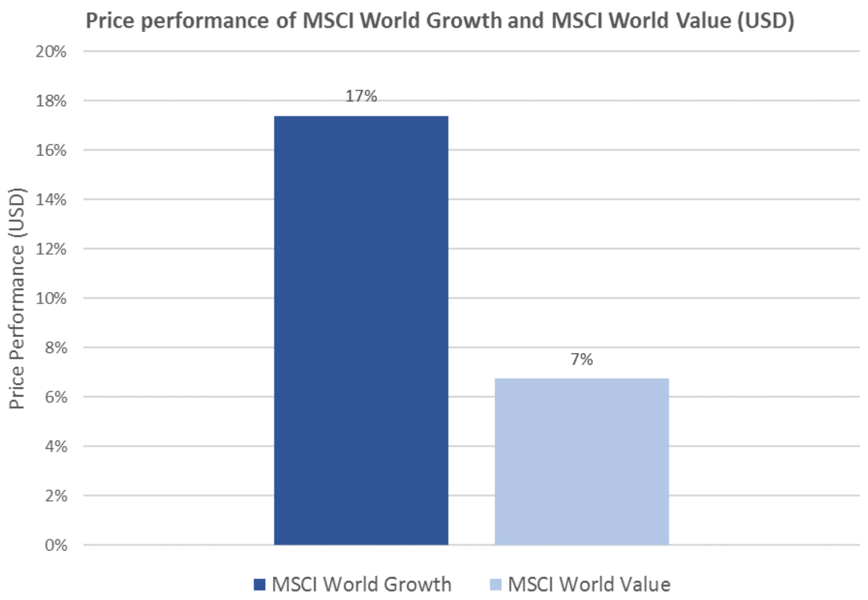
The MSCI Emerging Markets Index outperformed developed equity markets thanks to the weak US dollar. Despite the apparent risks involved, markets' reaction to North Korea's missile launches has been largely muted, and the emerging world was boosted by positive data from China, which posted higher second-quarter GDP growth of 6.9%. This was driven by improvements in industrial production and domestic consumption, signalling strength in the underlying economy.

Energy was the worst performing sector in the month as much of the drilling and refining activity on the US Gulf Coast came to a halt due to Tropical Storm Harvey. Financials were also negatively impacted, particularly insurance stocks, as concerns grew that flooding from Harvey would lead to large losses. In contrast, the IT sector continued to rally, helped by investor enthusiasm ahead of the launch of Apple's new iPhone. Utilities also gained from their perceived 'safe haven' status amidst geopolitical tensions. The fund's underweight positions in Utilities and IT were a drag on performance, whilst underweights in Energy and Financials were beneficial.



Source: Bloomberg. Data (in USD) from 31st July 2017 to 31st August 2017.

With regards to style, large cap stocks outperformed small and mid-caps, benefitting the portfolio, although the continuation of growth outperforming value was a drag. This has been the case for most of the year, and as the chart below highlights, there is a 10% differential in price performance between the MSCI World Growth and MSCI World Value.



Source: Bloomberg. Data (in USD) from 31st December 2016 to 31st August 2017.

We continue to seek attractively valued, quality companies that should stand us in good stead in our search for rising income streams and long-term capital growth. Among the fund's individual holdings, the strongest performer in the fund was ANTA Sports (+16.25% in USD), one of our latest additions. ANTA Sports is based in China and has had a strong cashflow return on investment of over 10% over the last 10 years. The company generates revenue through the manufacture and trading of sporting goods, including footwear, apparel and accessories. Its brand portfolio includes ANTA, ANTA KIDS, FILA, FILA KIDS and NBA, and the company is looking to add additional brands such as South Korea's Kolon. In financial terms, ANTA Sports has very solid margin growth alongside a surge in sales in recent years. The company is well positioned to benefit from the growing wealth and improving economy in China and has maintained a very strong balance sheet with a debt-to-equity ratio of less than 10%. It beat estimates of EPS and revenue in August, reaffirming our conviction in the stock.

Novo Nordisk (+13.23% in USD) also performed well; the Danish pharmaceutical company is a leader in the global insulin market and is another relatively recent addition to the portfolio. August saw management raise sales guidance as the company is optimistic regarding the sales of new diabetes and obesity medicines.

The worst performing stock in August was TEVA Pharmaceuticals, which we have now sold. We initiated a position in 2013, when the stock was trading at historic low multiples and the market was overly focused on 'patent cliffs', an issue which was associated with healthcare companies in general. Over the following two years the stock price recovered significantly as the expected pessimistic scenarios did not come about. Into 2016, however, the share price weakened as worries mounted regarding drug pricing in the US and the company announced a significant M&A transaction, buying the generic drug business of Allergan for around $40bn. This was an exceptionally large figure for the company and raised questions as to whether TEVA had both overpaid and overstretched. In the second half of 2016, the share price continued to fall, although we felt this was more sentiment-driven. However, the latest earnings release came as a shock to the market due to the severity of the announcement, which entailed significant write-downs associated with the Allergan business acquisition and a large cut to the dividend, in part to preserve cash to pay down debt and prevent certain covenants being breached. As a consequence of these poor results, and especially in light of the dividend cut, we were quick to sell our full position in TEVA.

In line with our one-in one-out policy, we replaced TEVA with British American Tobacco (BAT). The global tobacco leader was on our radar due to its stellar cashflow returns on invested capital, and strong dividend profile. Its increasing market share, sales and earnings, and its successful integration of the mega $65.4bn acquisition of Reynolds American, position the company well for future price and dividend growth. Despite a rising debt, the company has large piles of cash and interest cover. We believe that the US Food & Drug Administration's proposal to reduce nicotine in cigarettes has been overly discounted, and coupled with a sell-off following bribery allegations, this has provided us an attractive valuation to buy a new full position. Integrating the Reynolds American deal and developing the 'global drive brands' strategy is the company's focus for the next few years, as synergies from the acquisition are expected to be $400 million, adding 12% to Reynolds' 2016 net income. 'Global drive brands' continue to boost BAT's market share at higher price points and increased investment in new-generation products will allow longer-term growth. For the portfolio in the longer term, we believe this change will help to sustain greater quality, better value, and rising dividend income streams.

As ever, we 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*

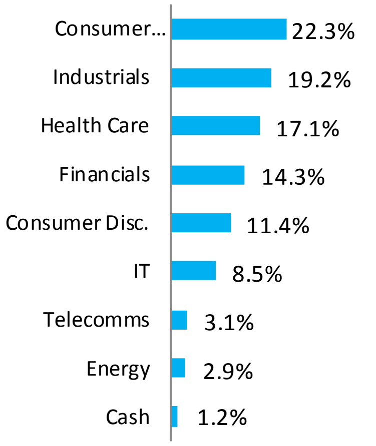
PORTFOLIO

31/08/2017

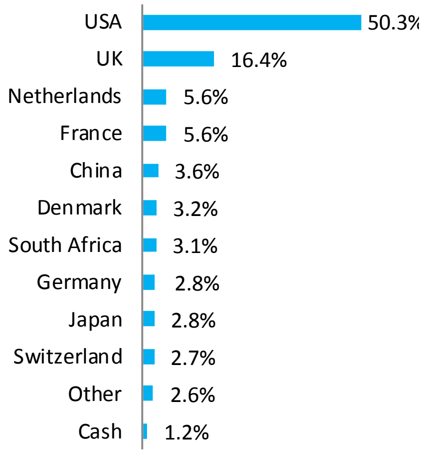
Fund top 10 holdings

Anta Sports Products	3.6%
Novo Nordisk	3.2%
VF Corp	3.2%
Vodacom	3.1%
Abbvie	3.0%
Nex Group Plc	3.0%
Unilever	2.9%
Microsoft	2.9%
CME Group	2.9%
Royal Dutch Shell	2.9%
% of Fund in top 10	30.8%
Total number of stocks	35

Sector analysis



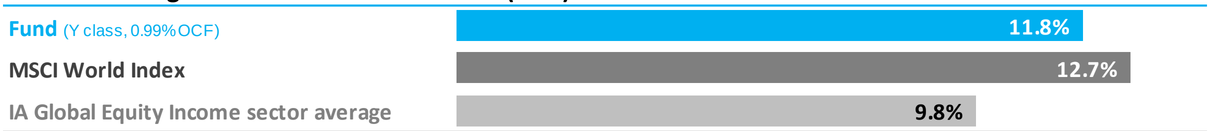
Geographic allocation



PERFORMANCE

31/08/2017

Annualised % gross total return from launch (GBP)



Discrete years % gross total return (GBP)	Aug '13	Aug '14	Aug '15	Aug '16	Aug '17
Fund (Y class, 0.99% OCF)	21.0	11.0	0.6	29.7	10.1
MSCI World Index	21.5	13.4	4.1	26.0	18.8
IA Global Equity Income sector average	17.3	10.6	-0.6	20.6	14.1

Cumulative % gross total return (GBP)	1 month	Year-to-date	1 year	3 years	5 years	From launch
Fund (Y class, 0.99% OCF)	1.9	4.6	10.1	43.7	92.9	106.5
MSCI World Index	2.5	6.6	18.8	55.8	114.6	116.5
IA Global Equity Income sector average	1.5	6.3	14.1	36.9	77.6	83.6

RISK ANALYSIS

31/08/2017

Annualised, weekly, from launch on 31.12.10, in GBP	Index	Sector	Fund
Alpha	0	0.72	1.27
Beta	1	0.77	0.87
Information ratio	0	-0.30	-0.04
Maximum drawdown	-18.26	-15.50	-16.19
R squared	1	0.80	0.89
Sharpe ratio	1	0.54	0.66
Tracking error	0	6.10	4.45
Volatility	13.83	11.63	12.44

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. 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.

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 may be recorded and monitor