Guinness Global Equity Income Fund

INVESTMENT COMMENTARY – November 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	£342m
Launch date	31.12.10
Managers	Dr. Ian Mortimer, CFA Matthew Page, CFA
Analysts	Joshua Cole Sagar Thanki

Performance 31.10.17

	1 year	3 years	From launch
Fund	6.3	40.5	108.8
Index	13.5	54.9	124.5
Sector	10.3	38.6	88.1

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, gross total return.

ELITE RATED™ by FundCalibre.com

Summary performance

In October, the Guinness Global Equity Income Fund produced a total return of 2.0% (in GBP) versus the MSCI World Index return of 3.0% (in GBP). The fund therefore underperformed the index by 1.0% in the month. This reflects what we have seen in equity markets this year with the market preferring growth companies to value and quality companies and defensive sectors not capturing the very strong equity market rally.

October in review

I've never been certain whether the moral of the Icarus story should only be, as is generally accepted, 'don't try to fly too high,' or whether it might also be thought of as 'forget the wax and feathers, and do a better job on the wings'. - Stanley Kubrick

In recent months, equity indices across the world have repeatedly reached new highs and October was no different. Prolonged high flying and soaring valuations inevitably bring with them forecasts of imminent doom, and this was heightened this month with the 30-year anniversary of "Black Monday". 19th October 1987 saw the Dow Jones plunge 22.6%, ousting the previous record one-day fall of 12.8% set during the Wall Street Crash on 28th October 1929. Most stock markets in developed countries had been growing at more than 30% a year in the five years up to "Black Monday" – gains that have not been repeated since. This led to worries about a slowing global economy and high stock valuations which led to the biggest crash in living memory. Exacerbated by widespread panic and an electronic-trading glitch, stock markets tumbled across the world, forcing central bank intervention. Interest rates were cut, and the

Federal Reserve encouraged banks to continue lending. The policies worked, and stock markets had recovered five years after the crash.

While high stock valuations can contribute to a fall, they are not necessarily the catalyst. As Table 1 illustrates, valuations in the US, Europe and UK are higher now than they were in 1987, yet stock markets continue to hit record highs.

Region	P/E in 1987	P/E in 2017
World	24.9	21.6
US	20.0	23.6
Europe	16.7	21.2
UK	17.0	24.2
Japan	64.0	15.8

Table 1. Price to earnings ratio for MSCI indices. Source: Bloomberg.

"This time is different". Perhaps a dangerous phrase, more so because perhaps every time it is different and the future remains unknowable. However, looking at the world now and 30 years ago, the main disparity stands in the form of government bond yields (Table 2). Back then investors could protect their money and find a healthy return with high bond yields; today, that option is less desirable.

Region	10-year Govt. bond yields in 1987	10-year Govt. bond yields in 2017
US	9.89	2.92
German	7.04	0.48
UK	10.12	1.28
Japan	6.35	0.08

Table 2. 10-year government bond yields. Source: Bloomberg.

Today, we are also seeing a synchronised global recovery, driven higher by positive economic data and strong corporate earnings releases. Developed market equities gained 2.6% in October, making the year-to-date return 15.9%. Emerging market equities gained 3.9%, giving a year-to-date return of 28.7%.

In Europe, October saw the unemployment rate fall to an eight-year low of 8.9% and the first estimate for Q3 GDP came in at 0.6% quarter-on-quarter. The big monetary policy event of the month was the European Central Bank's (ECB's) meeting, when Mario Draghi announced an extension of the bank's quantitative easing (QE) programme for nine months with monthly purchases of EUR 30 billion from January to September 2018. This was an acknowledgement of the solid growth apparent in the region, but also keeps the door open for a further extension to be announced. Inflation readings in the eurozone will be crucial for the QE outlook, given that it remains low: 1.4% for September's year-on-year figure.

In the U.S. – like Europe – October also saw unemployment fall further, with September's reading dropping to 4.2% – a 16-year low. Industrial production and consumer sentiment statistics were both encouraging, though non-farm payrolls dipped off the back of hurricane season. The generally positive macroeconomic outlook has allowed companies to deliver quarter-on-quarter earnings growth, with Q3 earnings season proving no different. With two-thirds of the S&P 500 Index having reported by the end of the month, year-on-year EPS growth was around 7%. S&P 500 price levels responded to positive earnings surprises, gaining 2.3% (in USD) over the month, taking the year-to-date rally to 16.9% (in USD). The strong showing increased the expectations of a December interest rate hike and there is also more confident talk from the Republicans in their efforts to push through ambitious tax plans. The White House claims that robust growth would pay for US$1.5 trillion of planned cuts to corporate and personal taxes.

In Asia, equity markets performed strongly in October, with new record highs for several markets. South Korea was the region's best performing market, supported by news that an agreement with China had been reached to normalise relations following the recent fallout over the installation of THAAD (the U.S. anti-missile system). The move could provide a significant boost to Korea's economy, bringing an end to China's boycott of Korean goods as well as the clampdown on Chinese visitors to the country. The most notable development in China was that President Xi Jinping secured his political primacy for the foreseeable future. China's third-quarter GDP growth of 6.8% year-on-year was in line with expectations.

In Japan, the elections were a focus for markets. Voters handed a majority to incumbent Japanese Prime Minister Shinzo Abe's Liberal Democratic Party in the snap election. During the campaign, Prime Minister Abe made several promises about fiscal policy to voters, including using part of the revenue from the upcoming consumption tax hike to increase labour force participation and to invest in improving Japan's human capital. Broadly speaking, the result means continuity for the Japanese economic and political landscape. Japan's TOPIX was the best performing equity index, posting gains of 5.4% in October alone, taking its year-to-date return to 18.6% (in USD).

Market Update

In terms of sectors, it has been the year driven by the Technology sector. In the U.S., not only is it the largest sector by far (23.2% of the S&P index with Financials next largest at 14.6%) but it has also performed the best (up 26% YTD in USD) by a large margin. According to Bloomberg, of the 14.2% return year to date (in USD) for the S&P 500 Index, Technology contributed 5.7% (over 40%). The next largest sector contributor was Healthcare at a mere 2.8%. Microsoft, Intel and Alphabet all reported stronger-than-expected earnings, helping the Technology sector reach an all-time high.

Telecommunication was the worst performing in the month, dragged lower by AT&T after the company said that it lost 90,000 video subscribers in the third quarter and that a string of natural disasters would reduce its revenue and earnings in the quarter. The company makes up close to a fifth of the sector. More cyclical sectors with greater sensitivity to the business cycle, such as Financials, Materials and Industrials, outperformed more defensive areas, and growth continued to outperform value. The Industrials sector reported strength in aerospace and construction, and though financial stocks were in positive territory, the rally is fading. Doubts have started to emerge whether the Republican party can pass meaningful tax cuts, and the hurricane season negatively impacted insurers' profits. The fund's underweight positions in IT and Materials were a drag on performance, whilst overweight Consumer Staples was beneficial. Given valuation is an important part of our investment process it has meant that the portfolio has slightly underperformed the MSCI World index.

Equity valuations have risen globally in the wake of the bull market, and are reaching dearer levels particularly in the U.S.. There is perhaps justification given the low interest rate environment and growing revenues and earnings, though we continue to believe that valuation plays a very important role in long-term investing. We can learn from “Black Monday” that asset markets are potentially vulnerable to sharp corrections when – as at present – valuations appear stretched, and that such corrections can occur without a clear “trigger event”. Holding good quality companies, those which have persistently generated high levels of cashflow return on investment, gives us confidence that the fund is well placed to weather different market conditions whilst providing a steady stream of income.

Portfolio Update

In October, the strongest performer in the fund was Wal-Mart (+11.74% in USD). The world’s largest retailer reaffirmed its upbeat 2018 guidance and said it expects U.S. e-commerce sales to surge 40% in the next fiscal year. The company has been seen making the right moves to further its online competitiveness against Amazon by expanding its web marketplace, acquiring several internet-based retailers, and expanding its online grocery business. Wal-Mart has been rewarded for recognizing the threat of e-commerce to its traditional retail operations and made an aggressive move to acquire Jet.com for $3.3 billion in August 2016. It quickly installed Jet CEO Marc Lore as head of its e-commerce division. Since then, Lore has spearheaded numerous initiatives that together have taken what was a struggling part of Wal-Mart's business and transformed it into its most exciting growth driver. Wal-Mart's U.S. online sales soared 60% year-over-year in the latest quarter. The company also announced it will buy back $20 billion in stock in fiscal 2019, when it expects to see 5% growth in EPS.

Microsoft (+11.67% in USD) also performed very well; the software maker’s cloud transformation has seen buoyant demand. Azure cloud services, used to store and run customers’ applications in Microsoft’s data centres, is number two in the cloud sector behind Amazon Web Services, though the market is growing fast enough to lift both companies’ revenue. Microsoft’s fiscal Q1 results show that the company surpassed its goal of $20 billion in annualised cloud revenue, set by CEO Satya Nadella in 2015, and the higher-margin cloud product sales do not seem to be slowing. Commercial-cloud gross margin improved 800 bps to 57%, driven by expansion across various cloud assets: Office 365, Dynamics 365 and Azure. This helped total gross margin by 200 bps, which was key to better-than-expected EPS growth (one-year EPS growth is 29.3%). Microsoft has beat consensus EPS estimates for six of the last eight quarters, and 35 of the last 43 quarters (over 10 years). We have held a position in Microsoft since the launch of the fund in 2010.

The worst performing stock in October was Merck (-13.96% in USD). The drug maker withdrew its European regulatory application for Keytruda, its leading lung cancer drug. The decision was made based on findings from its Keynote-021 trial, which has already demonstrated effectiveness in treating non-small cell lung cancer (NSCLC) based on two measures: overall response rate and progression-free survival. The company announced it was amending its trial of Keytruda with chemotherapy to include overall survival rate, which is a measure that takes longer to evaluate. The market responded negatively to this since Merck may be waiting a while to bolster its application with additional survival data. This gives competitors such Bristol Myers Squibb and AstraZeneca an opportunity to gather pace in gaining approval for their competing drugs. Keytruda is a highly successful drug that exceeded $1 billion in sales in the most recent quarter for the first time and has already been approved in the U.S. for use alongside chemotherapy to treat NSCLC. Although the delay in approval poses competitor risks, the cautious approach of Merck in the short run may well prove advantageous in the longer run.

We made no changes to the portfolio in October.

Thank you for your continued support.

Portfolio Managers
Matthew Page, CFA
Dr Ian Mortimer, CFA

Analysts
Joshua Cole
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Data sources

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

Index and stock data: *Bloomberg*

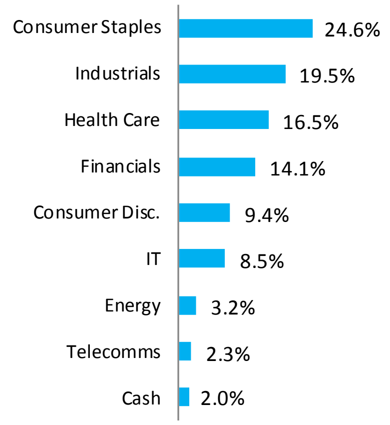
PORTFOLIO

31/10/2017

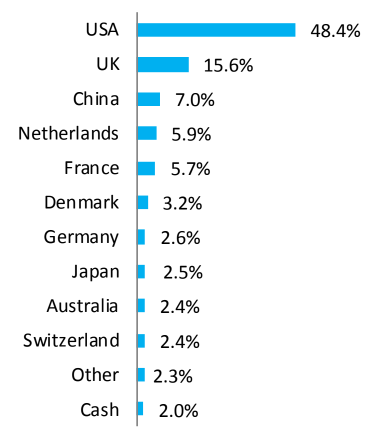
Fund top 10 holdings

Anta Sports Products	3.9%
Abbvie	3.5%
VF Corp	3.3%
Novo Nordisk	3.2%
Royal Dutch Shell	3.2%
Microsoft	3.1%
HENGAN INTL GROUP CO LTD	3.1%
CME Group	3.1%
Wal-Mart Stores	3.0%
Illinois Tool Works	3.0%
% of Fund in top 10	32.4%
Total number of stocks in Fund	35

Sector analysis



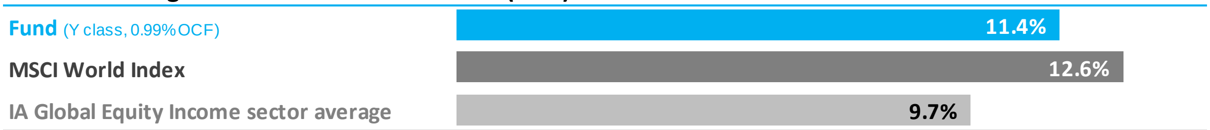
Geographic allocation



PERFORMANCE

31/10/2017

Annualised % gross total return from launch (GBP)



Discrete years % gross total return (GBP)	Oct '13	Oct '14	Oct '15	Oct '16	Oct '17
Fund (Y class, 0.99% OCF)	25.0	9.4	1.6	30.0	6.3
MSCI World Index	26.8	9.7	6.0	28.8	13.5
IA Global Equity Income sector average	22.7	4.3	2.4	22.8	10.3

Cumulative % gross total return (GBP)	1 month	Year-to-date	1 year	3 years	5 years	From launch
Fund (Y class, 0.99% OCF)	2.0	6.8	6.3	40.5	92.1	108.8
MSCI World Index	3.0	10.5	13.5	54.9	115.6	124.5
IA Global Equity Income sector average	2.3	8.9	10.3	38.6	77.4	88.1

RISK ANALYSIS

31/10/2017

Annualised, weekly, from launch on 31.12.10, in GBP	Index	Sector	Fund
Alpha	0	0.51	0.99
Beta	1	0.77	0.87
Information ratio	0	-0.34	-0.11
Maximum drawdown	-18.26	-15.50	-16.34
R squared	1	0.80	0.89
Sharpe ratio	1	0.54	0.64
Tracking error	0	6.06	4.43
Volatility	13.83	11.57	12.39

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