Guinness Global Equity Income Fund

INVESTMENT COMMENTARY – March 2018

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	£349m
Launch date	31.12.10
Managers	Dr. Ian Mortimer, CFA Matthew Page, CFA
Analysts	Joshua Cole Sagar Thanki

Performance — 28.02.18

	1 year	3 years	From launch
Fund	5.3	34.5	113.3
Index	6.6	44.5	126.5
Sector	4.5	29.2	86.4

Annualised % gross total return from launch (GBP)

Fund	11.1%
Index	12.1%
Sector	9.1%

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. 0.99% OCF

Summary performance

In February, the Guinness Global Equity Income Fund produced a total return of -0.39% (in GBP) versus the MSCI World Index return of -1.02%. The fund therefore outperformed the index by 0.63% in the month.

Year-to-date, the fund has produced a total return of -0.48% (in GBP) versus the MSCI World Index return of -0.86%. The fund has outperformed the index by 0.38%.

February in review

After saying goodbye in August 2015, volatility returned to equity markets this month. The CBOE Volatility Index spiked to 116%, after a period of laying low, and this was the index's largest ever one-day jump.

First, concerns arose after the January U.S. jobs report indicated wages were rising faster than expected. A tightening labour market was viewed as a sign that the synchronized global growth would finally feed into higher inflation levels. Jerome Powell's inauguration as Chair of the Federal Reserve thus came alongside an increasing probability of four interest rate hikes in 2018, versus the initial market expectation of only three. This prompted investors to consider the implications for bond markets, and 10-year U.S. Treasury yields rose sharply to 2.7%, raising speculation that the long-term downward trend in yields had been broken. This has caused a sell-off in equity markets, hitting the so-called 'bond-proxy' sectors (Utilities, Materials, Telecoms, Real Estate, Consumer Staples) the hardest.

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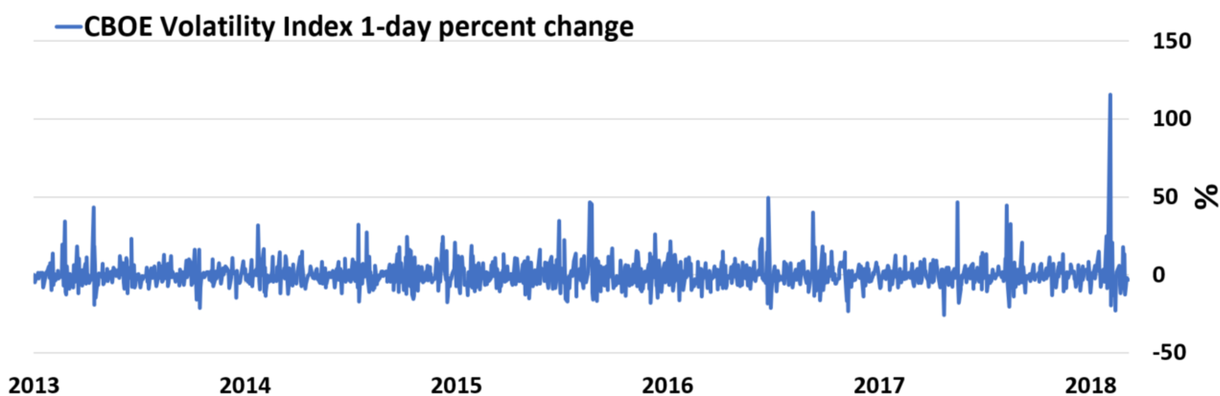
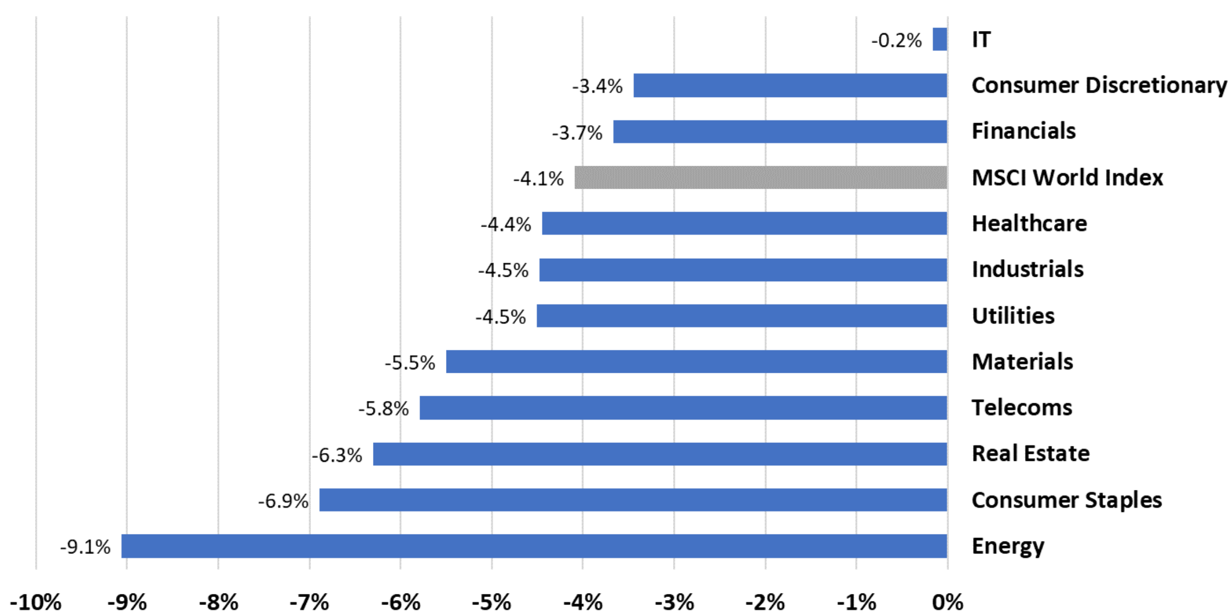


Data: Bloomberg

Performance of MSCI World Sectors during February (% total return in USD):



Data: Bloomberg

Secondly, Keynesian economics warns against a major fiscal stimulus (such as tax cuts) to an economy close to full employment (such as the US economy); it brings with it a concern of inflation, which in turn could lead a central bank (such as the Fed) to hike interest rates faster than it would otherwise, raising the possibility of an economic slowdown. In February, we saw this very concern spread amongst investors and the S&P500 Index closed 3.7% lower (in USD) over the month, ending a 15-month streak of gains, tying the record from 1959.

It's important to stress that while markets can be volatile and "correct" in the near term, over the long term, they reflect the underlying fundamentals of companies. At the corporate level, earnings and revenues are rising at rates above analyst expectations. The first U.S. earnings season of 2018 saw 78% of companies beat on earnings, and 76% beat on sales (out of the 460 that have reported till end of February). Looking at the trailing and expected earnings per share (EPS) both pre and post the tax cut announcement, we note that they have contributed 33% to overall EPS growth (trailing 12m EPS for

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2017, for the S&P500, was $124; 2018 expected EPS was $146, and rose to $156 after the tax cut announcement).

In Europe and Asia, equity markets took their lead from the U.S. and also delivered negative returns over the month, albeit with some recovery during the second half of the period. Macroeconomic fundamentals in Europe remain strong with unemployment trending downwards, and wage and price pressures feeding through to inflation expectations. The European Commission revised up its economic growth forecasts and now expects GDP increases of 2.3% in 2018 and 2.0% in 2019. In Asia, India, China and Korea were the worst performing regions, whilst the ASEAN countries relatively outperformed. Chinese GDP growth was however stronger than expected, at 6.8% year-on-year for the fourth quarter, and trade data also showed a notable surge in imports and solid export growth. The fact that China has maintained rapid growth despite a renewed push by the authorities to rein in loan growth has eased some concerns about the country's ability to grow out of the debt it has accumulated in recent years.

In the UK, the Monetary Policy Committee (MPC) voted unanimously to maintain the main interest rate at 0.5%, but noted that, should the economy evolve in line with its projections, there would need to be an earlier and greater increase than previously anticipated to return inflation to the 2% target. UK mid-cap equities outperformed large-caps with the FTSE 250 ex Investment Trusts Index falling 2.8% over the month (in GBP) versus a 3.4% retreat in the FTSE 100. Much of this is attributable to the fact that around 70% of the FTSE 100's earnings are derived overseas, making the recent strength of Sterling verses the US Dollar unfavourable.

Market Update

At a sector level IT proved to be the strongest performer, which surprised many analysts who expected it to be a casualty in any correction given relatively high valuations and strong recent relative performance. Instead, amid the prospect of higher interest rates and rising debt costs, the technology firms were relatively favoured given their strong cash positions. By contrast, the Energy sector was the weakest performer. Rising shale oil production in the U.S. continues to concern investors who worry about the outlook for the oil price. Brent crude oil fell towards US$65 a barrel; natural gas and precious metals also retreated as the US dollar gained ground against a basket of emerging market currencies. In general: Telecoms, Materials, Real Estate and Consumer Staples underperformed IT, Consumer Discretionary and Financials, given the former group's long duration (high sensitivity to a change in interest rates) and bond-like characteristics.

The Guinness Global Equity Income Fund holds no companies in the Materials, Real Estate and Utilities sectors, and only one Energy (Royal Dutch Shell) and Telecoms company (Vodacom), so it has fared relatively well compared to its peers and the market. Our screening process involves looking for companies with high and consistent cashflow returns on investment, which the more regulated nature of such companies often precludes. Although many of these sectors tend to pay the highest dividends, the recent correction demonstrated that chasing the largest dividend yielders entails greater interest rate risk, as well as the fact that these companies can often be distressed and prone to large drawdowns. Instead, we focus first on business quality and then look for companies that are persistent, long-term dividend growers. This, we believe, is a more sustainable approach to generating risk-adjusted returns.

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In terms of individual holdings in February, the strongest performer in the fund was **NEX Group** (+10.0% in USD). The financial technology firm provides electronic trading platforms and has recently benefitted from increased market activity and greater trading volumes. The company's CEO Michael Spencer explicitly mentioned foreign exchange transactions as a key driver for NEX Markets and a more upbeat earnings guidance for 2018. Revenues in NEX's optimisation business, which streamlines company processes, rose by 10% amid cost-cutting, while its new regulatory reporting product, initiated in response to MiFID II, has signed up 380 new contracts and is expected to bring in £10m in revenues per year. Share prices also jumped as the firm is set to receive a boost from U.S. tax cuts – the effective tax rate for 2018 is set to be 22-24%, compared to 35% for 2017.

CME Group (+8.3% in USD) also performed very well. The return of volatility has been key for the world's leading derivatives exchange and it reached an all-time high monthly average daily volume (ADV) of 27.3 million contracts during February 2018, up 48% from February 2017. This came from a diverse set of products as volumes for equity indices, options, interest rate products, foreign exchange derivatives and metal derivatives all spiked. CME is particularly well placed to benefit from increased interest rate hedging around Fed rate hikes and rising U.S. oil exports thanks to its dominant Fed Funds and WTI futures contracts. The company has largely opted to pursue an organic growth strategy, and this has meant low debt-to-equity at 10% with cashflow returns on investment increasing every year for the last five. CME is also a major beneficiary of U.S. tax reform, with its effective tax rate likely to drop to 24.5% in 2018 vs. just over 35% in previous years.

The worst performing stock in February was **Reckitt Benckiser** (-17.7% in USD). The British producer of health, hygiene and home products, with 'Powerbrands' – as it likes to call them – such as Nurofen painkillers, Durex condoms and Dettol disinfectant has sold off due to concerns regarding sales growth after guidance for 2018 was only 2-3%. The company has sought to transform itself in 2017 via the $18 billion acquisition of Mead Johnson Nutrition and the $4.2 billion disposal of its French's food business, with both transactions moving management toward a goal to become a global leader in consumer health. The company is now one of two potential bidders for Pfizer's Consumer Healthcare (PCH) business. Though still integrating its previous acquisitions, Reckitt Benckiser announced it is ready for another deal, and management has said it is prepared to lose the company's single-A credit rating for a "spectacular" acquisition.

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*

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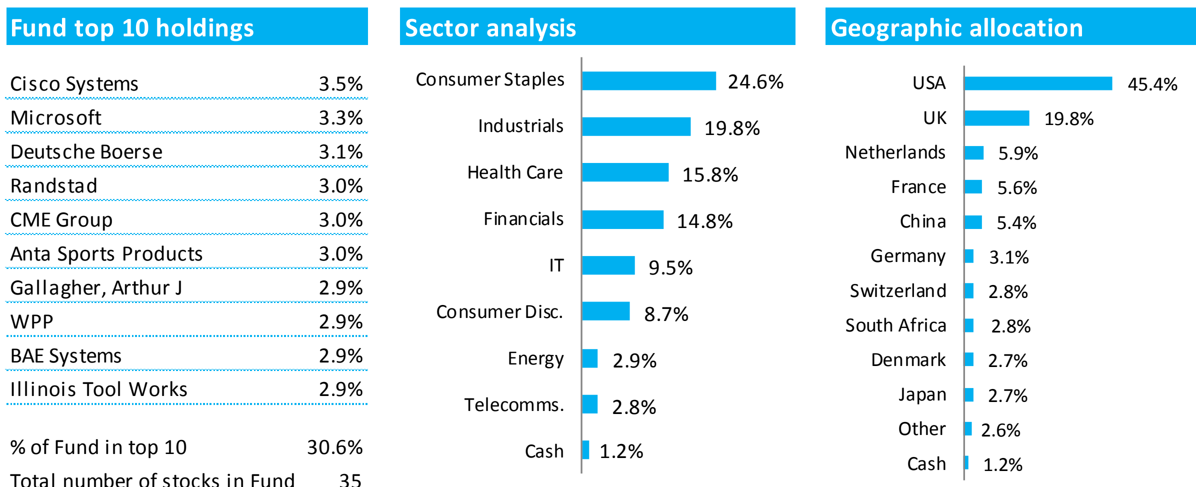
PORTFOLIO

28/02/2018



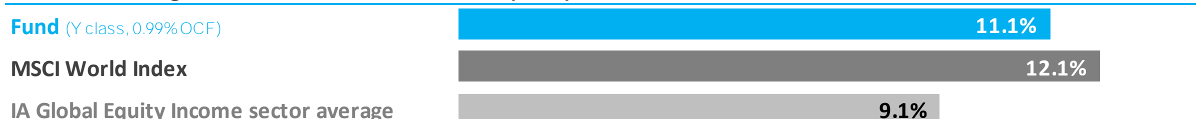
Fund top 10 holdings

Holding	%
Cisco Systems	3.5%
Microsoft	3.3%
Deutsche Boerse	3.1%
Randstad	3.0%
CME Group	3.0%
Anta Sports Products	3.0%
Gallagher, Arthur J	2.9%
WPP	2.9%
BAE Systems	2.9%
Illinois Tool Works	2.9%
% of Fund in top 10	30.6%
Total number of stocks in Fund	35

PERFORMANCE

28/02/2018

Annualised % gross total return from launch (GBP)



Discrete years % gross total return (GBP)	Feb '14	Feb '15	Feb '16	Feb '17	Feb '18
Fund (Y class, 0.99% OCF)	12.6	18.6	0.0	25.6	9.9
MSCI World Index	12.6	17.7	1.1	32.8	11.9
IA Global Equity Income sector average	7.9	14.0	-4.5	28.0	9.4

Cumulative % gross total return (GBP)	1 month	Year-to-date	1 year	3 years	5 years	From launch
Fund (Y class, 0.99% OCF)	-0.4	-0.5	5.3	34.5	75.1	113.3
MSCI World Index	-1.0	-0.9	6.6	44.5	88.3	126.5
IA Global Equity Income sector average	-2.1	-2.3	4.5	29.2	56.0	86.4

RISK ANALYSIS

28/02/2018

Annualised, weekly, from launch on 31.12.10, in GBP	Index	Sector	Fund
Alpha	0	0.21	1.15
Beta	1	0.77	0.87
Information ratio	0	-0.36	-0.06
Maximum drawdown	-18.26	-15.50	-16.34
R squared	1	0.80	0.89
Sharpe ratio	1	0.47	0.61
Tracking error	0	6.04	4.43
Volatility	13.83	11.54	12.27

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Source: Financial Express, bid to bid, gross total return. Fund launch date: 31.12.10. Fund Y class (0.99% OCF): 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: Link Fund Administrators (Ireland) Ltd, 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 will be recorded and monitor