

Guinness Global Equity Income Fund

INVESTMENT COMMENTARY – September 2019

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 | £783m |
| Launch date | 31.12.10 |
| Historic OCF (Y Class) | 0.98% |
| Current OCF (at fund size) | 0.88% |
| Managers | Dr. Ian Mortimer, CFA Matthew Page, CFA |
| Analysts | Sagar Thanki Joseph Stephens |

Performance 31.08.19

| | 1 year | 3 years | From launch |
|--------|--------|---------|-------------|
| Fund | 10.4 | 35.6 | 156.7 |
| Index | 7.0 | 41.7 | 156.4 |
| Sector | 5.4 | 27.2 | 107.7 |

Annualised % gross total return from launch (GBP)

| | |
|--------|-------|
| Fund | 11.5% |
| Index | 11.5% |
| Sector | 8.8% |

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. Y Class 0.98% OCF. Please refer to 'Performance data notes' for full details



Summary performance

In August, the Guinness Global Equity Income Fund produced a total return of -0.61% (in GBP) versus the MSCI World Index return of -1.51%. The Fund therefore outperformed by 0.90%.

The Fund's outperformance came as investors focused their attention on higher-quality companies in the more defensive sectors as a result of the increased trade uncertainty and greater recession fears.

It is pleasing to see that both the short and long-term performance of the Fund's strategy remains strong versus IA Global Equity Income sector peers.

| | YTD | 1yr | 3yr | 5yr | Since Launch* |
|-------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Fund | 18.9% | 10.4% | 35.6% | 76.8% | 156.7% |
| Index | 20.4% | 7.0% | 41.7% | 83.8% | 156.4% |
| IA sector average | 15.7% | 5.4% | 27.2% | 52.6% | 107.7% |
| Rank vs peers | 19/54 | 17/52 | 10/47 | 11/40 | 2/17 |
| Quartile | 2 nd | 2 nd | 1 st | 2 nd | 1 st |

Source: Financial Express. Cumulative Total Return in GBP as of 31st August 2019

August in Review

Game theory is the economic discipline that attempts to logically determine the possible outcomes of a given situation. Each competing party seeks the course of action that most benefits them *given* the simultaneous actions of the opposing party. In July, game theorists held the belief that both the US and China had an overarching interest in coming to a face-saving deal, and markets were priced on the assumption

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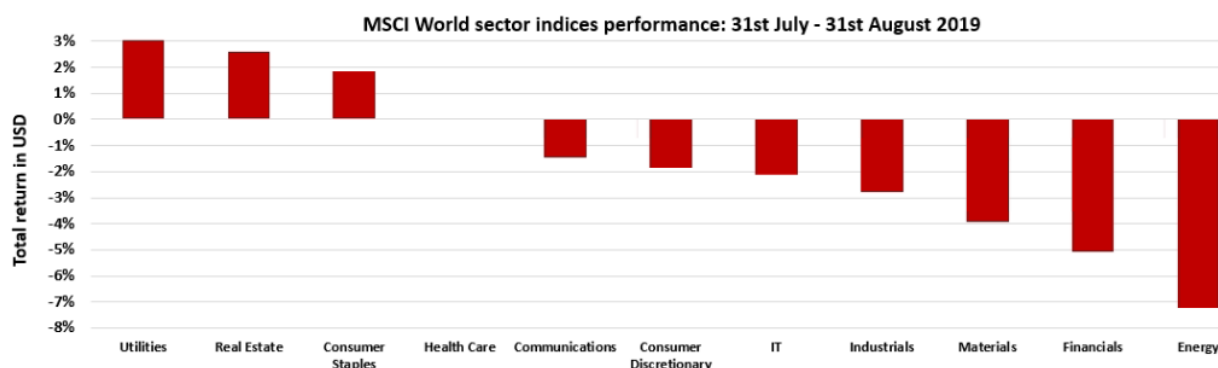
that both nations had simply too much to lose by escalating tensions.

It therefore came as a shock when President Trump, at the start of August, announced via tweet that he would impose 10% tariffs on a new set of Chinese imports worth \$300bn at the beginning of September. That was swiftly followed by China allowing its currency to depreciate below seven Renminbi to the Dollar – a key historical threshold – and the US declaring that China was a currency manipulator.

The tit-for-tat continued with the White House deferring the tariffs on a range of consumer goods until 15th December to avoid higher US prices before Christmas; China increasing tariffs on roughly \$75bn of US imports; and President Trump then tweeting that all existing and planned US tariff rates would rise by 5%.

With both sides far more committed, and anxious not to lose face, theoreticians were left puzzled and investors became increasingly nervous. By the end of August, markets closed the month in negative territory as the escalating trade war raised concerns about the outlook for economic growth. August also proved to be the most volatile month for equities in the year so far, with a flight to safety as investors preferred developed markets and stocks with greater defensive qualities.

This was particularly beneficial to the Fund's performance due to our overweight positioning in Consumer Staples and Healthcare and our underweight exposure to Energy, Banks and Materials. Regional allocations did not meaningfully add or subtract from active performance.



Source: Bloomberg, as of 31st August 2019

Utilities and Real Estate were the best-performing sectors, and though we hold no positions in these sectors, their relatively small weight in the MSCI World Index meant that this did not have any meaningful impact on our active performance. Our investible universe is characterised by high-quality companies as defined by persistently high returns on capital and strong balance sheets; these are scarce in the commodity-based and regulated sectors, where a company's 'destiny' is often influenced by exogenous factors.

We also hold no banks in the Fund as most are screened out by our 'persistency' criteria. Though there are many banks which have a return on capital greater than the cost of capital, hardly any have been able to achieve this feat for 10 or more years, i.e. through both the Global Financial Crisis and the European Sovereign Debt Crisis.

Recent underperformance of banks comes as investors are increasingly wary of the global economic outlook. The 0.25% cut in US interest rates on 31st July and expectations that the Fed will cut further in

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September has supported a rally in bond prices, subsequently depressing bond yields. In fact, on 14th August, the yield spread between two-year and 10-year US Treasury bonds moved below zero for the first time since February 2006. Though it has since widened back to positive territory, the move was significant because such inversions of the yield curve – in which short-maturity yields exceed those for longer-maturity bonds – have preceded nearly all recessions dating back to the 1950s.

Mindful of using the phrase “it’s different this time”, various pundits have dismissed the yield curves’ inversions this time around, citing unique circumstances. The phenomenon of \$17 trillion of negative-yielding global debt (Wall Street Journal) is certainly novel and has undoubtedly led to significant safe-haven/higher-yielding purchases of longer-term Treasury securities. As a result, unlike most past episodes, the curve inverted this time because long-term yields fell below shorter-term yields (rather than the Fed raising short-term rates above long-term yields). That said, an inverted yield curve, when persistent (and regardless of why or how it inverted), does curb the spread banks can earn by borrowing short and lending long – typically constraining credit availability, a common precursor to recessions.

Our Financials exposure comes from insurance (Aflac, Arthur J Gallagher), exchanges (CME Group, Deutsche Boerse) and asset management (Blackrock); these did well in August.

CME Group was the best performer in the month (+11.8% in USD), which coincided with a return of higher volatility arising from global political instability. Longer-term, the exchange is well positioned to integrate the NEX acquisition and offer clients a more holistic solution given its futures, options and data products. The NEX deal should also support CME's international expansion plans, as 50% of NEX's revenue is generated outside of the US. Data and analytics are key areas of focus for the company in 2019, with an outlook to expand recurring revenue. CME is also particularly well placed to benefit from increased hedging around Fed rate hikes and rising US oil exports thanks to its dominant Fed Funds and WTI futures contracts. The company has opted largely to pursue an organic growth strategy, which has meant low debt-to-equity at 17% with returns on capital increasing every year for the last five.



We made one change in the portfolio during the month, whereby we sold our position in **Vodacom** and bought a new position in **Henkel**.

Vodacom has had a poor year in terms of share price performance (-14.7% in USD and 9.9% in ZAR). Sub-Saharan Africa’s largest telecom carrier has been battling headwinds facing the entire industry, specifically in the form of price reductions driven by competition and regulation. With around 60% market share in South Africa, the company is highly exposed to any regulatory changes. Revenues have started to suffer from government initiatives to make mobile data more accessible via lower and more transparent pricing.

Our decision to sell also arises from the greater risks the company faces from confirmed plans to introduce a Wholesale Open Access Network (WOAN), which reduces Vodacom’s access to spectrum and increase costs for the company. Spectrum refers to the radio frequencies available for wireless communication signals to travel over the air. The WOAN would reduce the spectrum available to the private sector and thus bid up prices at auction. Though gross margins have remarkably been increasing year on year for a decade, we see recent events as threats to the company’s margins and believe this an opportune time to sell our holding.



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Henkel manufactures chemical products of various types: laundry and homecare (Persil, All, Pril); cosmetics and toiletries (Schwarzkopf, Dial, Syoss); and adhesives (Loctite, Pritt, UniBond). Henkel's business is centred in Europe, with a growing presence in developing economies. The company has a diversified revenue stream with Adhesive Technologies accounting for around 45% of sales, Laundry and Homecare making up around 35%, and Beauty Care accounting for about 20%. Dividends have grown at an annualised rate of 9% over the last five years; yield at purchase was 2% and the one-year forward price-to-earnings sat below the 10-year average. Given that the company has low debt and persistently high cashflow returns on investment, and is seeking both organic and acquisitive growth, we believe Henkel to be an attractive addition to the portfolio.



Henkel's recent M&A activity has involved buying up companies to build out its presence in certain markets and boost its product portfolio. Henkel made three acquisitions in 2018. Early in the year it acquired Unión Técnico Comercial, based in Lima, Peru, strengthening its presence in the maintenance, repair and overhaul adhesives market in Latin America. Later in 2018, Henkel acquired Canada-based JemPak Corporation, strengthening the existing Laundry & Home Care portfolio in North America. Towards the end of the year Henkel acquired Chile-based Aislantes Nacionales, strengthening its presence in the Chilean tile adhesives and building materials market.

With more sensitive markets and many uncertainties, any risks should be considered in the context that global equities continue to yield higher than their fixed income counterparts. Also, we believe that our perpetual approach of focusing on the quality of the underlying companies we own should stand us in good stead in our search for rising income streams and long-term capital growth, despite the direction of any macro or political winds.

We thank you for your continued support.

Portfolio Managers

Matthew Page, CFA

Dr Ian Mortimer, CFA

Analysts

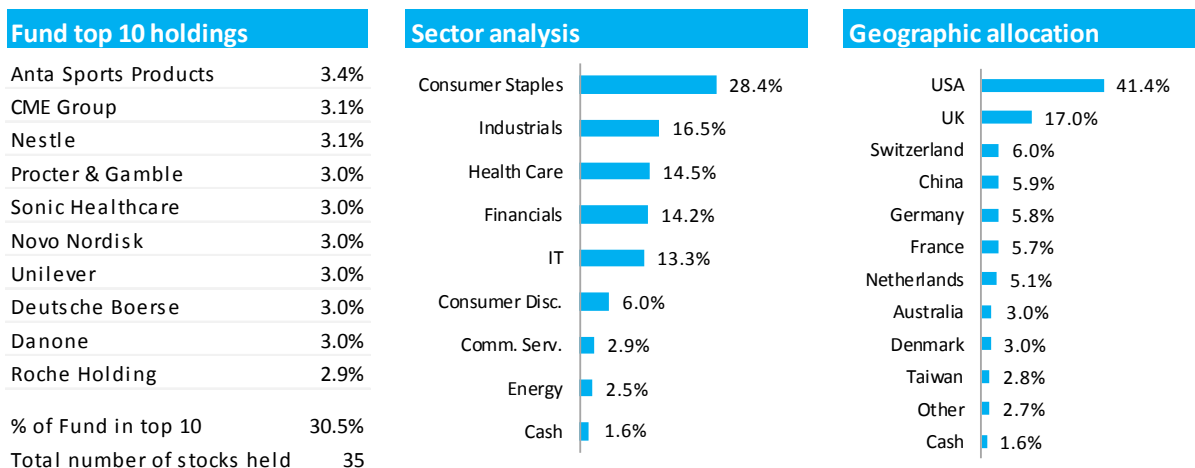
Joseph Stephens

Sagar Thanki

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PORTFOLIO

31/08/2019



PERFORMANCE

31/08/2019

Annualised % total return from launch (GBP)



Discrete years % total return (GBP)

| | Aug '15 | Aug '16 | Aug '17 | Aug '18 | Aug '19 |
|--|---------|---------|---------|---------|---------|
| Fund (Y class, 0.98%OCF) | 0.5 | 29.7 | 10.1 | 11.6 | 10.4 |
| MSCI World Index | 3.5 | 25.3 | 18.1 | 12.1 | 7.0 |
| IA Global Equity Income sector average | -0.6 | 20.6 | 14.1 | 5.8 | 5.4 |

Cumulative % total return (GBP)

| | 1 month | Year-to-date | 1 year | 3 years | 5 years | From launch |
|--|---------|--------------|--------|---------|---------|-------------|
| Fund (Y class, 0.98%OCF) | -0.6 | 18.9 | 10.4 | 35.6 | 76.8 | 156.7 |
| MSCI World Index | -1.5 | 20.4 | 7.0 | 41.7 | 83.8 | 156.4 |
| IA Global Equity Income sector average | -2.5 | 15.7 | 5.4 | 27.2 | 52.6 | 107.7 |

RISK ANALYSIS

31/08/2019

| Annualised, weekly, from launch on 31.12.10, in GBP | Index | Sector | Fund |
|---|--------|--------|--------|
| Alpha | 0 | 0.26 | 1.54 |
| Beta | 1 | 0.75 | 0.86 |
| Information ratio | 0 | -0.38 | 0.00 |
| Maximum drawdown | -18.26 | -15.50 | -16.34 |
| R squared | 1 | 0.79 | 0.89 |
| Sharpe ratio | 1 | 0.47 | 0.65 |
| Tracking error | 0 | 6.13 | 4.50 |
| Volatility | 13.83 | 11.29 | 12.18 |

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Source: Financial Express, bid to bid, total return. Fund launch date: 31.12.10. Fund Y class (0.98% OCF): Composite simulated performance based on actual returns of E share class (available from Fund launch), calculated in GBP.

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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'Île, 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 monitored.

GUINNESS

ASSET MANAGEMENT

Guinness Asset Management Ltd is authorised and regulated by the Financial Conduct Authority

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