Guinness Global Equity Income Fund

INVESTMENT COMMENTARY – July 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	£326m
Launch date	31.12.10
Managers	Dr. Ian Mortimer, CFA Matthew Page, CFA
Analysts	Joshua Cole Sagar Thanki

Performance 30.06.17

	1 year	3 years	From launch
Fund	16.1	46.0	108.9
Index	22.3	56.0	114.6
Sector	19.2	36.3	82.5

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 June the fund was up 0.1% (in GBP), versus the MSCI World Index which was down -0.2% (in GBP). The fund therefore outperformed the Index by 0.3% over the month.

In the second quarter of 2017 the fund was up 1.5%, versus the MSCI World Index, up 0.1%. The fund therefore outperformed the Index by 1.3% over the quarter.

Alongside recent outperformance versus the benchmark, the longer-term performance of the strategy is strong, with the fund in the top quartile of the IA Global Equity Income sector over 5 years and since launch (December 2010).

Fund Y-class, GTR in GBP to 30.06.17	YTD	1yr	3yr	5yr	Since launch*
Fund	5.8%	16.1%	46.0%	96.7%	108.9%
MSCI World	5.6%	22.3%	56.0%	112.9%	114.6%
IA sector average	5.6%	19.2%	36.3%	80.9%	82.5%
Rank vs peers	16 / 47	31 / 46	12 / 39	9 / 31	4 / 22

**from 31/12/2016*

Quarter in review

Global equity markets posted their eighth straight monthly gain in June and their best first half since 2007. June also marked the 100-month anniversary for the current bull market, defined as a period where there have been no price declines greater than 20% over any two consecutive months. The year so far has seen a growing optimism for the world economy amidst a political climate that has turned out to be less fractious than initially feared. Equity markets have been described as ‘climbing a wall of worry’ with a backdrop of surprisingly low volatility.

In the US during the quarter we saw further attempts to disengage from the strictures of unconventional monetary policy, namely zero interest rates and quantitative easing which were introduced in many economies in the aftermath of the Financial Crisis. Although it is widely accepted that eventually interest rates will rise, the huge increase of dollar-denominated debts in recent years makes it less certain that the Federal Reserve Bank can engineer a successful exit from its ‘emergency’ monetary policy stimulus which has helped to support markets since 2008. Growing signs of a global recovery led the Fed to raise interest rates by 0.25% in June, having already raised rates in December 2016 and March of this year. Whilst a cumulative rise of 0.75% in 7 months may not seem significant from a historical perspective, previous to those 7 months there were no rate rises in a decade. The S&P 500 recorded a total return of 3.1% (in USD) over the quarter and the US economy looks healthy, with unemployment lower than it has been 96% of the time since 1970. Compared to the first quarter, however, the US market was less buoyant; after markets seemed to price in all the possible benefits of President Trump’s stimulus plans in the first quarter, they priced most of them out again in the second as he struggled to pass legislation through Congress.

In Europe, at the beginning of the second quarter markets were still processing Article 50, which triggered the start of two years of negotiations on a deal for Britain’s exit from the European Union. Alongside this, the EU was faced with existential worries arising from the French presidential election. By the end of the quarter, Marine Le Pen’s anti-euro campaign in France had been rejected, with pro-euro and pro-reform candidate Emmanuel Macron elected as president and with a majority in parliament. As a result, Mario Draghi noted recently that ‘political winds are becoming tailwinds’ in Europe; positive economic news, reduced political uncertainty and robust corporate earnings all led to the MSCI Europe ex UK index posting gains of 2.0% (in EUR). This was, however, hampered slightly in the last week of the quarter after Draghi’s speech at the ECB Forum was interpreted to mean that the central bank’s monetary stimulus measures could soon be withdrawn. Interest rates were kept unchanged and warnings were given regarding subdued inflation.

In the UK, Theresa May called a snap general election which, in the event, delivered a hung parliament, weakening both the strength and stability of her government at a crucial time as it embarks on Brexit negotiations. Prime Minister May had gambled on securing a landslide majority, but instead was left nursing a fragile minority government with the support of Northern Ireland’s Democratic Unionist Party. She also faced pressure for a ‘softer’ form of Brexit. Despite the uncertainty, the FTSE 100 Index posted gains of 1.0% (in GBP). With around three quarters of their combined revenues generated overseas, companies in the FTSE 100 remain largely subject to influences beyond the UK. This means, however, that the level of the pound sterling is important. The large capitalisation FTSE 100 tends to do better when sterling is weak, so sterling’s recovery this year has represented a headwind. Smaller, more domestically-oriented companies have fared better, although they now face some pressure from the slowing of the UK economy.

Asia ex Japan equities continued their strong run in 2017 to record another period of gains in the second quarter. Amidst a broader risk-on approach from global investors, Chinese stocks saw robust gains as better economic data and a landmark decision in mid-June, by index provider MSCI, to include Chinese A-shares in a range of its benchmark indices were greeted positively.

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Performance Drivers

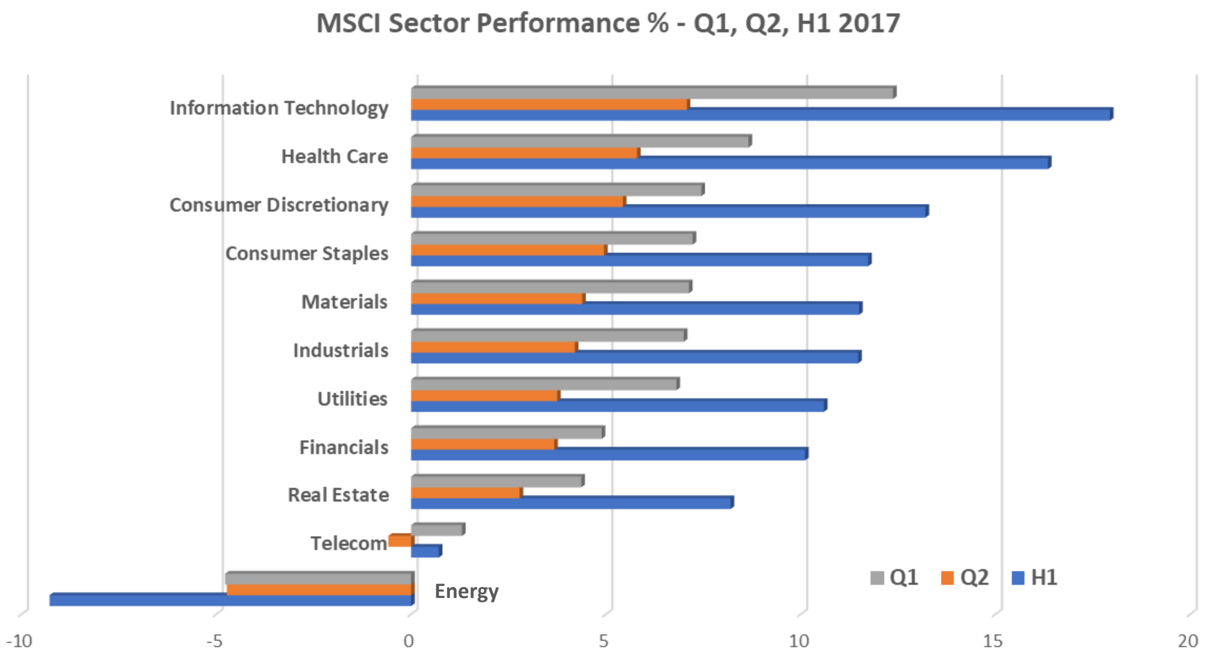

Chart 1: MSCI World Index sector performance breakdown for Q1, Q2 and H1 2017. Source: Bloomberg

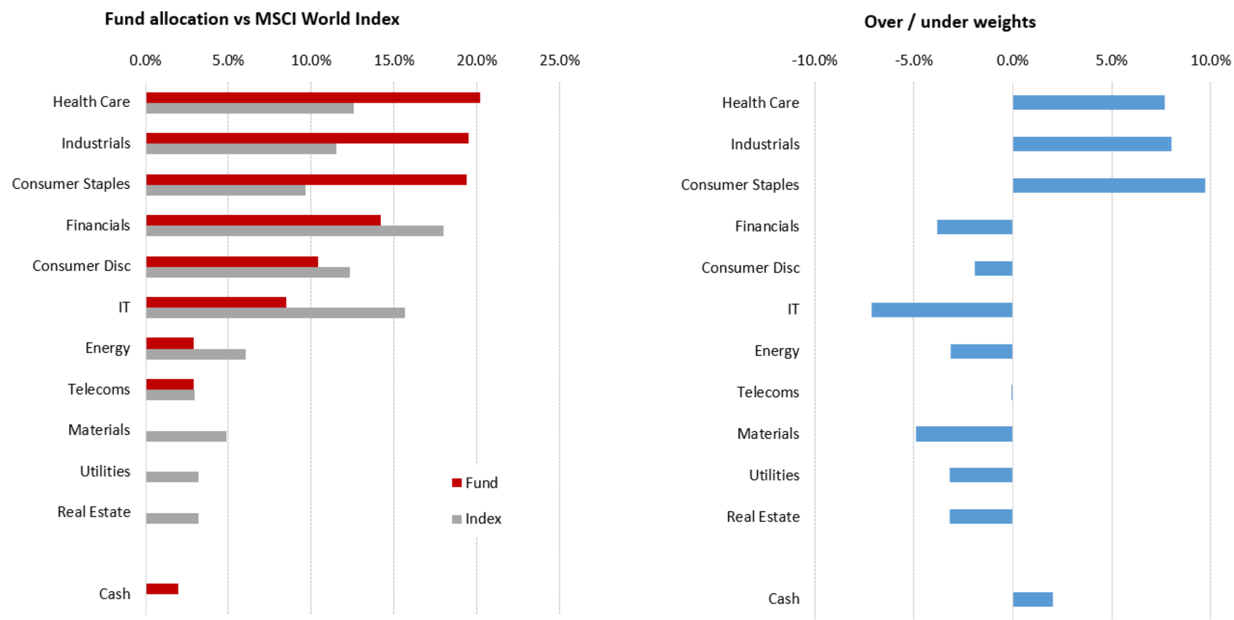

Chart 2: Sector breakdown of the fund versus MSCI World Index. Guinness Asset Management, Bloomberg (data as at 30.06.2017)

At the sector level, Information Technology was one of the strongest performers in the second quarter. In June, however, the sector fell more than any other amid concerns about valuations and suggestions that the sector was ‘over-owned’. At one point, more than $250bn had been erased from equity values in the sector. Despite this, IT stocks have been strong overall and our underweight position did not help the portfolio.

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The quarter saw the price of crude oil tumble. This dragged down the share price of energy stocks amid the perception that continuing production from US shale oil fields was overwhelming OPEC's efforts to ease the global supply glut. We have one holding in the Energy sector, Royal Dutch Shell, which has fared relatively well this year compared to its peers; it has not cut its dividend since the Second World War and has one of the highest free cash flows of all energy stocks. Its divestiture programme, acquisition of BG Group last year, and continuation of downstream operations have given the company a boost at a time when core oil exploration and production revenues have seen losses throughout the industry.

In June, while the share prices of Technology and Energy stocks remained under pressure, Financials, and banks in particular, found support from higher interest rates to become the strongest performing sector. Financial stocks also got a boost after all 34 of the largest banks in the US passed the stress tests set by the Federal Reserve. The news that most banks are both able and planning to return billions in cash to investors by raising dividends or buying back shares pushed their stock prices higher. However, for the quarter overall, our underweight in Financials – and the fact that we hold no banks – did not hold back fund performance. We also benefitted from overweight positions in Healthcare and Consumer Staples, possibly as a result of defensive sectors bouncing back as bond yields began to move sideways rather than downwards, as has been the case for much of early 2017. Value stocks could also stand to benefit further from a rising interest rate and yield environment.

The so-called 'reflation rally', as illustrated by the yield on US 10-year Treasuries in the chart below, started when Donald Trump won the US presidential election. It was based on optimism surrounding his pledges on deregulation, tax cuts and increases in infrastructure spending. As investors' hopes about Trump's policies have faded, so too has the surge in bond yields.

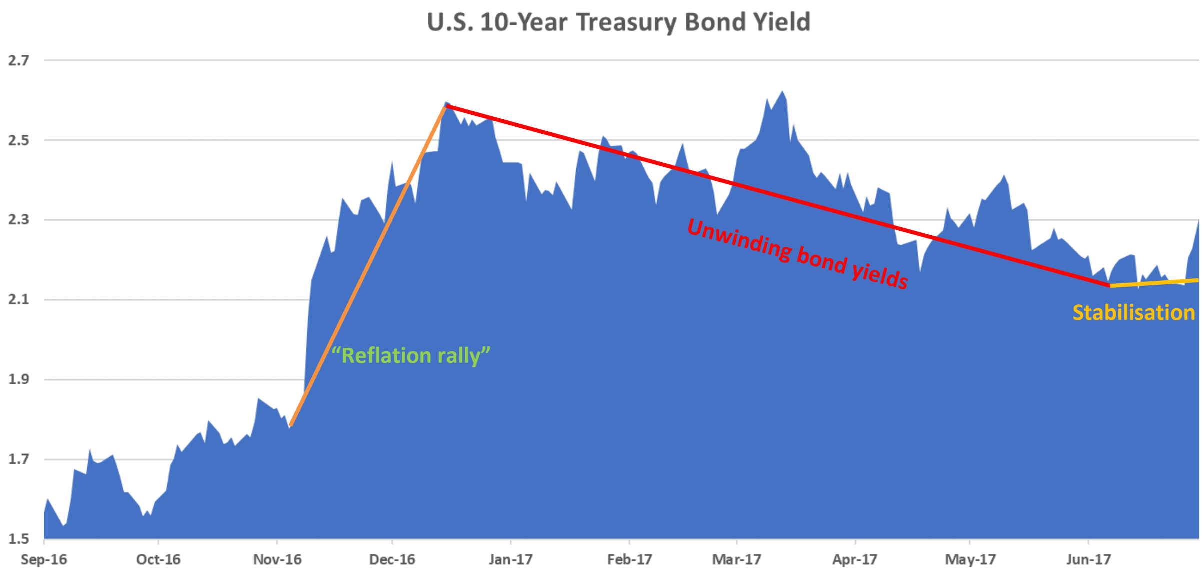

Chart 3: U.S. 10-year treasury bond yields. Source: Bloomberg

In terms of geographic exposure, the largest difference between the fund and the benchmark is our exposure to the US (as measured by country of domicile). Over the quarter the fund had on average a c.50% weighting to North America which compares to the index at c.60%. This was beneficial to the portfolio in the second quarter when the US market lagged. The largest geographic overweight remains Western Europe (including the UK) which was a c.10% larger position than the benchmark over the quarter and contributed the most to the portfolio's active return.

Small-caps outperformed large-caps, which was a drag for the fund since it only invests in mid to large-cap companies. There was also no differentiation between growth and value stocks.

Individual companies that performed well over Q2 were Novo Nordisk (up 24.4% in USD), NEX Group (up 19.1%), and Deutsche Boerse (up 16.4% in USD). Companies that had weaker performance over Q2 were Mattel (down 14.5%), Imperial Brands (down 6.7%), and Cisco Systems (down 6.6%).

Novo Nordisk is one of our newest positions (initiated in Q1), so it was encouraging to see its stellar performance in Q2. The Danish pharmaceutical company is a leader in the global insulin market and has maintained a concentrated yet market-leading portfolio of drugs targeting diabetes – a growing disease, especially in less developed countries. We like the fact that CFROI has been consistently growing over the last 10 years and currently stands at 25%, with a small growth projection for 2017. Dividends per share have also been growing very quickly with a five-year dividend growth rate of over 20% per annum. The company has a very strong balance sheet, with very little debt compared to its peers, and considerably more cash than debt.

Changes to Portfolio

In the quarter we made one change to the portfolio, replacing TOTAL with ANTA Sports.

TOTAL, the global oil and gas company, was one of our two Energy sector holdings. We became increasingly worried by the company's falling cashflow return on investment, which was accompanied by stagnant dividend growth and capital growth. The company's inability to sustain healthy margins have put the stock out of favour, especially at a time when energy stocks are hampered by industry-wide factors. We believe that TOTAL's stock is currently overvalued versus its history, based on its P/E multiple, and with an increasing amount of long-term debt maturing in the next few years, we concluded it was a good time to sell our entire position.

We bought ANTA Sports to replace TOTAL, sticking to our 'one in, one out' policy. ANTA Sports is based in China and has an outstanding cashflow return on investment of more than 10% for the last 15 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, to which it is seeking to add others such as South Korea's Kolon. On the financial side, ANTA Sports has very solid margin growth, which it has achieved alongside a surge in sales in recent years. The company has kept its debt low and is well positioned to benefit from China's growing economy and consumer wealth. We have conviction that the stock has potential to maintain its significant earnings growth.

Positioning

The below chart highlights the geographic weighting of the portfolio both in terms of where the companies held in the portfolio are domiciled (as you will see listed in our Factsheets, for example) and where their revenues come from, which can often be more illuminating.

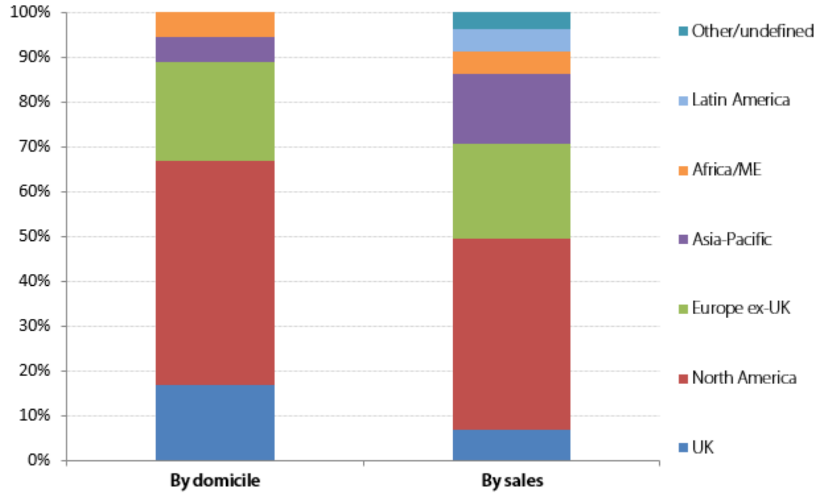

Chart 4: Geographic breakdown of the fund. Guinness Asset Management, Bloomberg (data as at 30.06.2017)

We would note two main points: (i) the fund has a lower exposure to the UK when considered in revenues (c.6%) versus by domicile (c.17%). This is because we have favoured UK-domiciled companies with a more global exposure (such as Unilever and Imperial Brands); and (ii) there is a larger exposure to Asia and emerging markets by revenues (c.28%) than by domicile (c.10%).

The fund continues to have a zero weighting to Utilities, Materials, and Real Estate. The largest overweight positions are to Consumer Staples, Industrials and Healthcare.

The two charts below show how the exposure of the fund has evolved since we launched the strategy back in 2010.

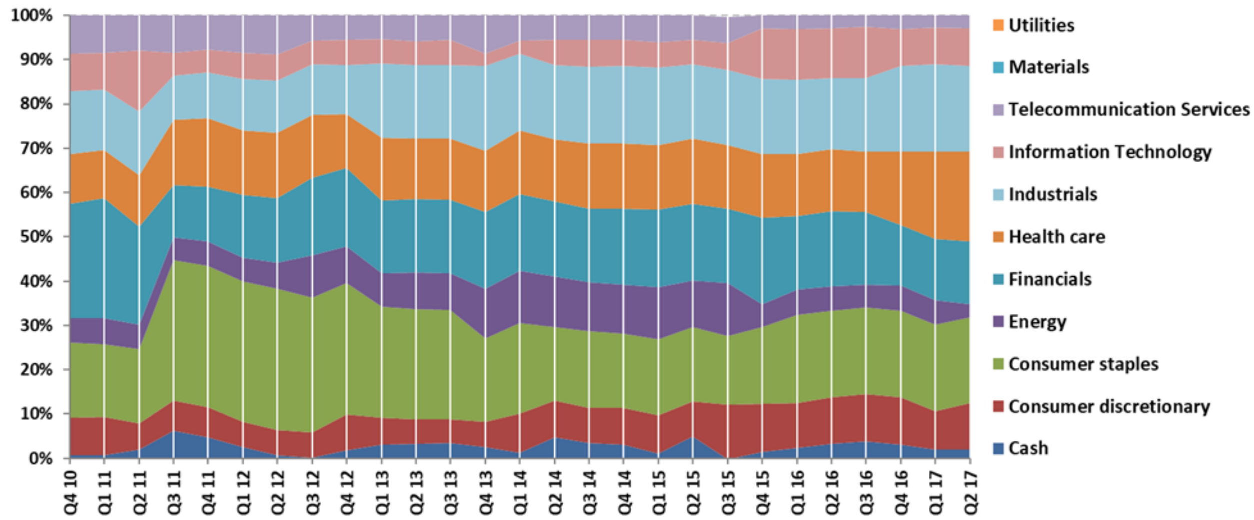

Chart 5: Sector breakdown of the fund since launch. Guinness Asset Management, Bloomberg (data as at 30.06.2017)

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By geography (of domicile), we have reduced our European exposure slightly with the sale of TOTAL and added to our Asia Pacific exposure with the purchase of ANTA Sports. Overall, our US exposure remains the largest, albeit still 11% underweight versus the benchmark.

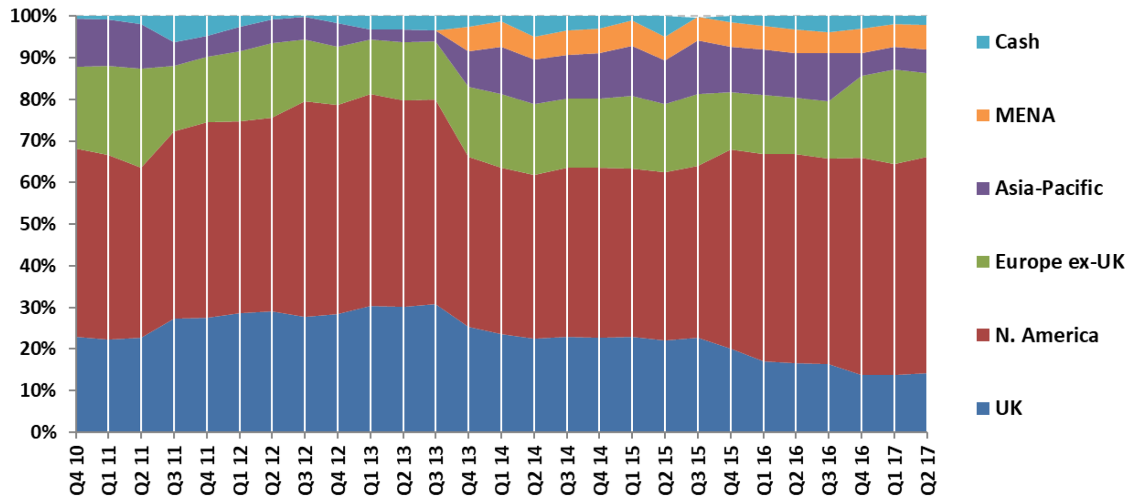

Chart 6: Geographic breakdown of the fund since launch. Guinness Asset Management, Bloomberg (data as at 30.06.2017)

Key Fund Metrics Today

The four key tenets to our approach are: quality, value, dividend, and conviction. We follow these metrics at the portfolio level to make sure we are providing what we say we will.

We are pleased to report that the fund continues to deliver on all four of these measures relative to the benchmark MSCI World Index, with a concentrated portfolio of companies, all better quality than the Index average yet better valued, and a higher income.

		Fund	MSCI World Index
Quality	Average 10 year CFROI	19%	10%
	Weighted average debt / equity	59%	140%
Value	PE (2017e)	16.7	17.3
Dividend	Yield (LTM)	2.8%	2.4%
	Weighted average payout ratio	69%	56%
Conviction	Number of stocks	35	1650
	Active share	94%	-

Chart 7: Portfolio metrics versus index. Guinness Asset Management, Credit Suisse HOLT, Bloomberg (data as at 30.06.2017)

At the end of the quarter the fund was trading on 16.7x 2017 expected price to earnings, and 15.4x 2018 expected price to earnings; a discount of 3.7% and 1.9% respectively to the broad market. We therefore believe the portfolio offers good value to investors on these simple metrics. With interest rates set to rise and heightened geopolitical uncertainty expected around the globe, our unchanging focus 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.

We thank you for your continued support.

Data sources

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

Index and stock data: *Bloomberg*

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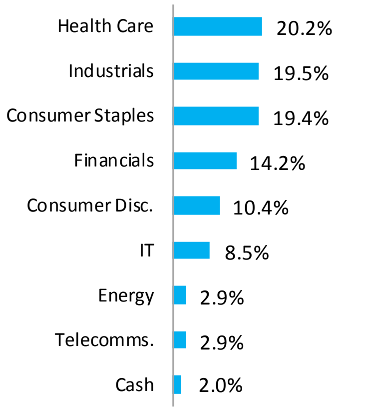
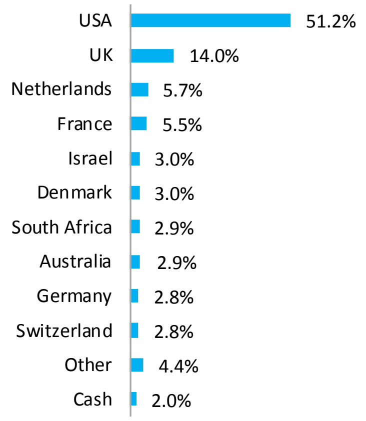
Fund top 10 holdings

Mattel	3.1%
Abbvie	3.0%
Teva Pharmaceutical	3.0%
CME Group	3.0%
CA Inc	3.0%
Novo Nordisk	3.0%
VF Corp	3.0%
Royal Dutch Shell	2.9%
Eaton	2.9%
Vodacom	2.9%
% of Fund in top 10	29.6%
Total number of stocks in Fund	35

Sector analysis



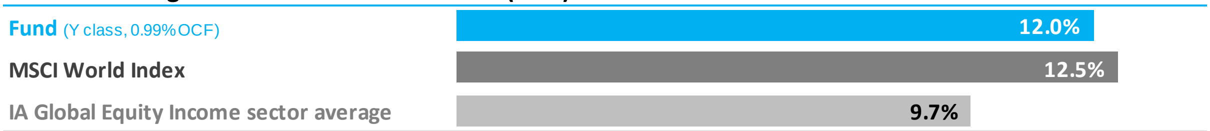
Geographic allocation



PERFORMANCE

30/06/2017

Annualised % gross total return from launch (GBP)



Discrete years % gross total return (GBP)	Jun '13	Jun '14	Jun '15	Jun '16	Jun '17
Fund (Y class, 0.99% OCF)	24.2	8.5	5.7	18.9	16.1
MSCI World Index	23.3	10.6	10.9	15.1	22.3
IA Global Equity Income sector average	21.1	9.6	4.3	9.6	19.2

Cumulative % gross total return (GBP)	1 month	Year-to-date	1 year	3 years	5 years	From launch
Fund (Y class, 0.99% OCF)	0.1	5.8	16.1	46.0	96.7	108.9
MSCI World Index	-0.2	5.6	22.3	56.0	112.9	114.6
IA Global Equity Income sector average	-0.7	5.6	19.2	36.3	80.9	82.5

RISK ANALYSIS

30/06/2017

Annualised, weekly, from launch on 31.12.10, in GBP	Index	Sector	Fund
Alpha	0	0.66	1.60
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	0.52	0.67
Tracking error	0	6.13	4.46
Volatility	13.83	11.75	12.54

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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 monitored