Guinness Global Equity Income Fund

INVESTMENT COMMENTARY – July 2018

About the Fund

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

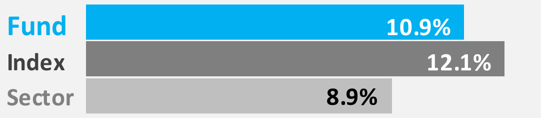
The Fund is managed for income and capital growth and invests in profitable companies that have generated persistently high return on capital over the last decade, and that are well placed to pay a sustainable dividend into the future.

Fund size	£395m
Launch date	31.12.10
Managers	Dr. Ian Mortimer, CFA Matthew Page, CFA
Analysts	Joshua Cole Sagar Thanki

Performance — 30.06.18

	1 year	3 years	From launch
Fund	5.3	45.4	117.8
Index	9.9	54.7	135.8
Sector	3.6	35.3	89.0

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. Y Class 0.99% OCF. Please refer to 'Performance data notes' for full details

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Summary performance

In June the Guinness Global Equity Income Fund was down -0.11% (in GBP), while the MSCI World Index was up 0.74% (in GBP). The fund therefore underperformed the index by 0.85% over the month.

Year-to-date the fund is up 1.65% (in GBP) and the MSCI World Index benchmark is up 3.24% (in GBP). The fund has therefore underperformed the index by 1.59% over the first half of the year.

With weaker markets and a return of volatility seen over the first half of 2018 – in stark contrast to the conditions of 2017 – it is pleasing to see that both the short and long-term performance of the fund remains very strong versus IA Global Equity Income sector peers:

Fund Y-class, GTR in GBP to 30.06.18	YTD	1yr	3yr	5yr	Since Launch*
Fund	1.65	5.28	45.41	65.98	117.83
IA sector average	-0.86	3.58	35.31	54.69	88.99
Rank vs peers	10/54	20/54	9/46	16/38	6/22

Source: Financial Express. Cumulative Total Return in GBP, as of 30th June 2018. *31.12.2010

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Quarter in review

"We're not in a trade war with China, it's a trade dispute." – US Treasury Secretary Steve Mnuchin on Fox Business, 29th June 2018

This 'trade dispute' has driven much of the narrative explaining second quarter volatility and caution. President Trump's decision to impose tariffs on US$50bn of Chinese imports was followed by new signals that the US would target an additional US$200bn in goods if China retaliated. Based on regional equity markets and currency performance, the US appears to be 'winning' the dispute so far, with the MSCI US Index gaining 3.6% for the quarter (in USD) versus a loss for MSCI Europe ex-UK, Asia Pac ex-Japan, and Emerging Markets (as seen in chart 1 below). Emerging markets felt most of the brunt of the trade war rhetoric, although early second quarter weakness could also be attributed to local issues in each of Turkey, Argentina, South Africa, and Brazil.

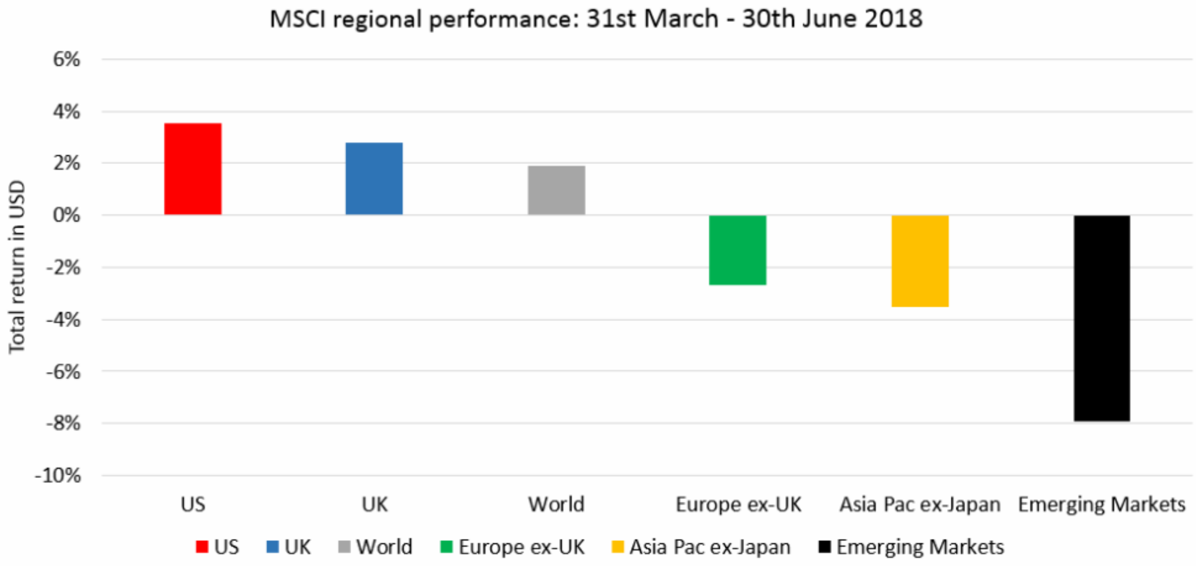


Chart 1: MSCI World Index geographic total return breakdown for Q2 2018, in USD. Source: Bloomberg

Looking at currency performance, the trade-weighted Dollar has gained 5.0% for the quarter and is now up 6.6% from its lows reached towards the start of the year (chart 2). The Dollar rally has important implications for equity markets: strength against Sterling has helped the FTSE 100 as foreign revenues are repatriated, whereas in Asia and Emerging Markets, a stronger Dollar has proved to be a forceful headwind. Looking forward, the direction of the Dollar remains important for relative regional equity performance. In the short term, the outperformance of US growth and interest rates may support the currency, though at some point rising levels of government debt and a large current account deficit will likely weigh in.

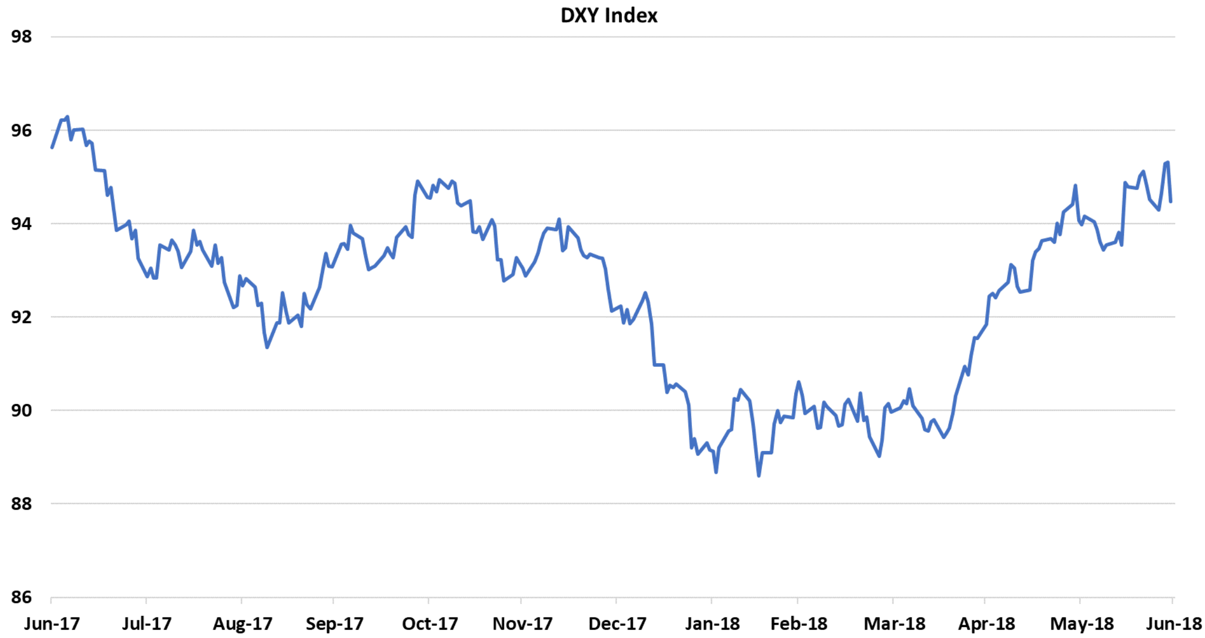


Chart 2: DXY Index. Date range: 30th June 2017 – 30th June 2018. Source: Bloomberg

DXY Index – US Dollar Index measuring the value of USD relative to a basket of foreign trade-partner currencies.

For the US economy, data confirmed that first-quarter weakness in consumption was temporary. A stronger showing in Q2 saw the unemployment rate reach 3.8% – the lowest since 2000 – and gave the Federal Reserve (Fed) the confidence to raise interest rates in June (by 0.25%) and give signals of two further hikes to come this year. The current base rate now stands at a level of 1.75-2%. In contrast, after disappointing economic data releases and still low core inflation, the European Central Bank (ECB) announced that interest rates will not be going up until at least the summer of next year, although they did confirm that eurozone quantitative easing would come to an end in late 2018.

In Europe, political issues have been prominent. There were concerns that Italy could need fresh elections following the inconclusive outcome of the March vote. Markets feared that this would turn into an effective referendum on Italy's membership of the EU. However, a governing coalition was eventually formed between populist parties, the League and the Five Star Movement. Spain also saw a change of government, although this was largely greeted with calm by markets. Late in the quarter, German Chancellor Angela Merkel clashed with sister party, the CSU, over immigration policy. The European Union meeting at the end of June struggled to find an agreement over immigration, and there are decisions still to be made regarding retaliatory tariffs against the US. These tensions provide a tense backdrop to markets, which ended June broadly flat. Looking at the Purchasing Managers' Index (PMI) for the Eurozone, June saw a rise to 54.8, from 54.1 in May. This was better than the small reduction expected and provided some reassurance that the softness recorded so far in 2018 is not the start of a sustained downturn.

In the UK, the efforts to leave the European Union appear to have made little progress. The cabinet is divided, and the continued uncertainty has had an impact on business confidence. At the end of last quarter, markets were convinced that the Bank of England would raise rates in May. This never happened, though the combination of record low unemployment and rising wage pressures suggest that rates will rise this year unless Brexit negotiations prove disruptive. The Monetary Policy Committee (MPC) voted 6-3 in favour of maintaining the current interest rate at its June meeting; the result suggests that momentum is building for a hike in the near future. Positive news for the UK, in the quarter, included a 3.9% increase in UK retail sales for June, boosted by the Royal Wedding, unusually warm weather, and on-going optimism brought about by the coming home of football (hypothetically referring to England winning the World Cup!).

Most Asian and Emerging Market equities ended the month lower as several global factors negatively impacted investor sentiment. These included concerns over an increase in trade war tensions, a US interest rate hike and weaker Chinese economic data.

Performance Drivers

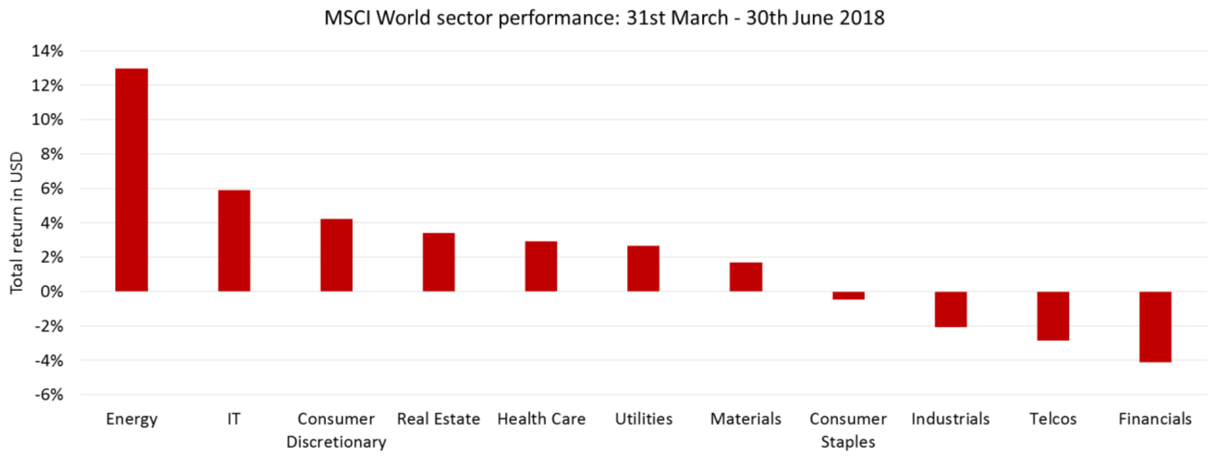


Chart 3: MSCI World Index sector total return breakdown for Q2 2018, in USD. Source: Bloomberg

Over the quarter, Energy, IT and Consumer Discretionary stocks performed well, while a rotation into more traditionally defensive areas supported Real Estate and Utilities. Industrial stocks were weaker due to the discussions surrounding trade sanctions and the direct impact of tariffs on the aerospace, industrial machinery, raw materials, and automobiles industries.

Financials were weaker due to a flattening of the yield curve, which led to underperformance from both European and US banks. The Guinness Global Equity Income Fund currently has no exposure to banks in the portfolio and this was a positive last quarter compared to the MSCI World Index benchmark.

Within Telecoms, although there is rising demand for wireless services, competition is intensifying. The sector has the highest debt-to-equity ratio of any non-financial sector, declining net profit margins, and rising expenses creating further headwinds for the industry. The European Union agreed a major regulatory overhaul of the Telecoms sector which, while supported by politicians and consumer groups, was not supported by the region's top carriers, who complained that the Electronic

Communications Code is an added burden and will not spur the necessary spending on networks. The Guinness Global Equity Income Fund currently holds one company in the sector (Vodacom) which was the worst performing stock in the quarter.

Energy was the strongest-performing sector as the price of crude oil climbed to its highest level since 2014, rising above US$80 a barrel mainly as declines in US stockpiles of oil, gasoline, diesel and jet fuel signalled increasing scarcity in supplies. Production cuts by OPEC (Organization of Petroleum Exporting Countries) and Russia over the past 16 months initiated the crude oil price rally, which has been aided by the US's refusal to recertify the nuclear accord with Iran. This prohibits Iran selling oil to US entities, further constricting global supply. Furthermore, the political crisis in Venezuela has worsened, reducing oil production even further. The Guinness Global Equity Income Fund is underweight Energy (relative to the MSCI World Index) and currently only has one position in the sector (Royal Dutch Shell). The oil and gas 'super major' performed well in the quarter as earnings grew more than expected.

The Information Technology sector continued its stellar ascent, driven by strong corporate earnings releases. Out of the three industry groups which make up the IT sector, Software (+8.5% total return in USD) led both Technology Hardware and Equipment (+4.9%) and Semiconductors (-1.2%) over the quarter. The Guinness Global Equity Income Fund's underweight to the sector was a drag on performance in the quarter.

Positioning

In terms of geographic exposure (chart 4), the largest difference between the fund and the benchmark is our exposure to the US (as measured by country of domicile). The fund over the quarter had on average c.40% weighting to North America which compares to the index at c.63%. The largest geographic overweight remains the UK, which had a c.15% larger position than the benchmark over the quarter.

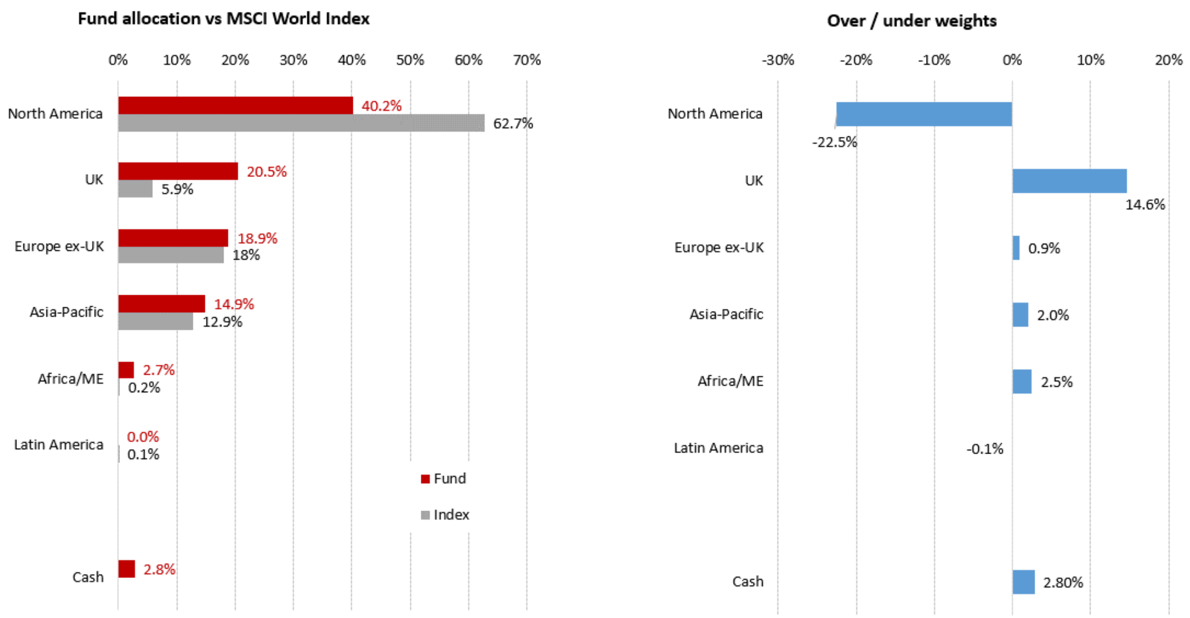


Chart 4: Regional breakdown of the fund versus MSCI World Index. Guinness Asset Management, Bloomberg (data as at 30.06.2018)

We would however note two main points, referring to chart 5; (i) the fund has a lower exposure to the UK when considered in revenues (c.6%) than by domicile (c.20%) 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-Pacific by revenues (c.22%) than by domicile (c.15%).

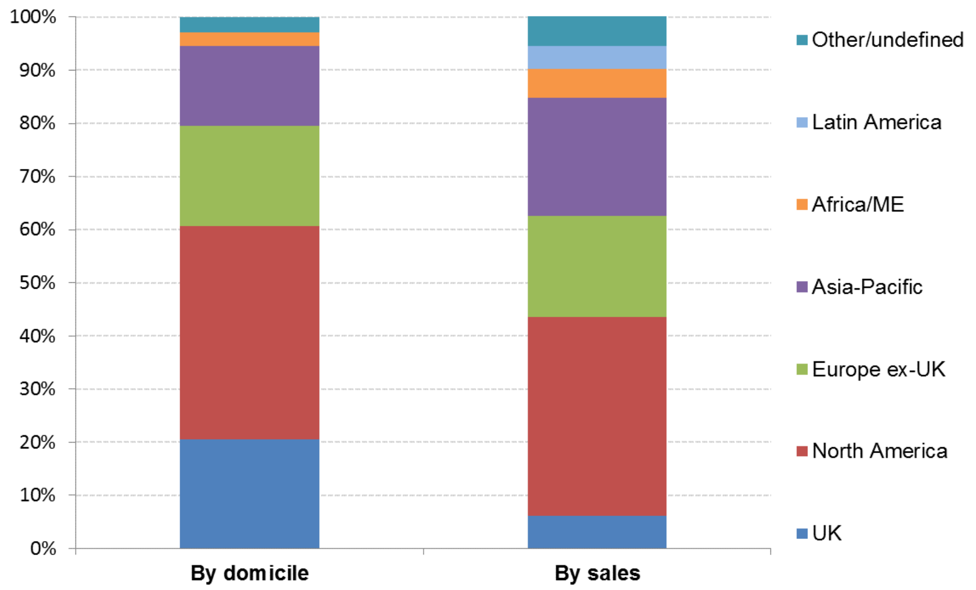


Chart 5: Geographic breakdown of the fund. Guinness Asset Management, Bloomberg (data as at 30.06.2018)

In terms of sectors, the fund continues to have a zero weighting to Utilities, Materials and Real Estate, which in the last quarter proved to be a drag on performance. Underweight IT and Energy also did not benefit the fund, but was partially offset by good stock selection.

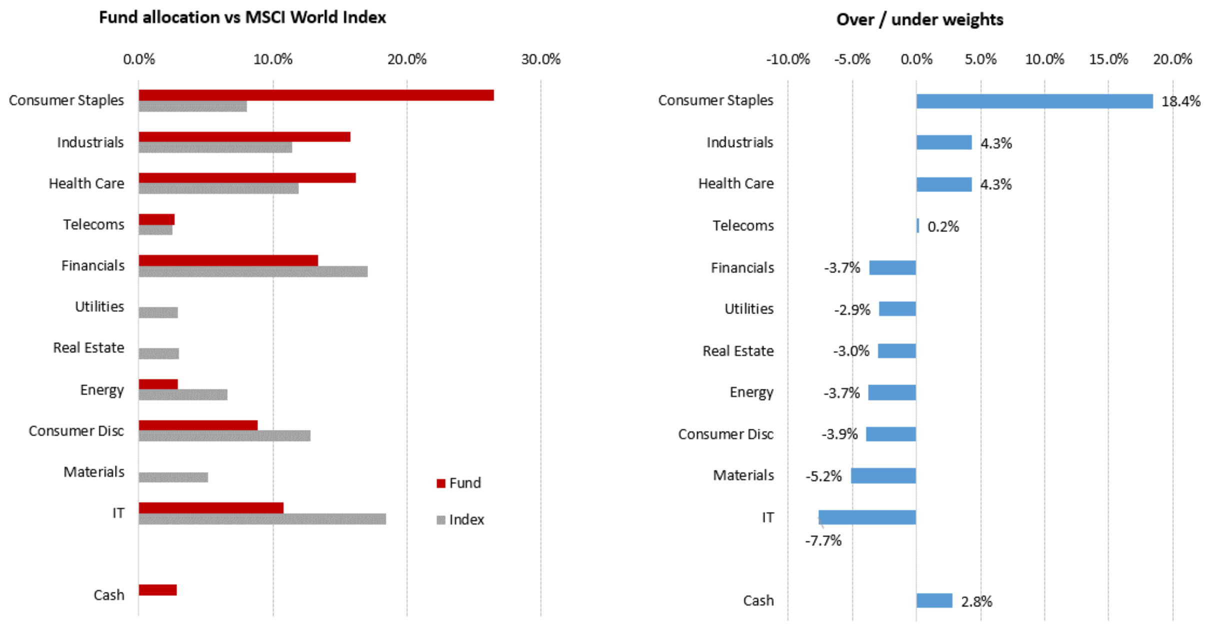


Chart 6: Sector breakdown of the fund versus MSCI World Index. Guinness Asset Management, Bloomberg (data as at 30.06.2018)

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

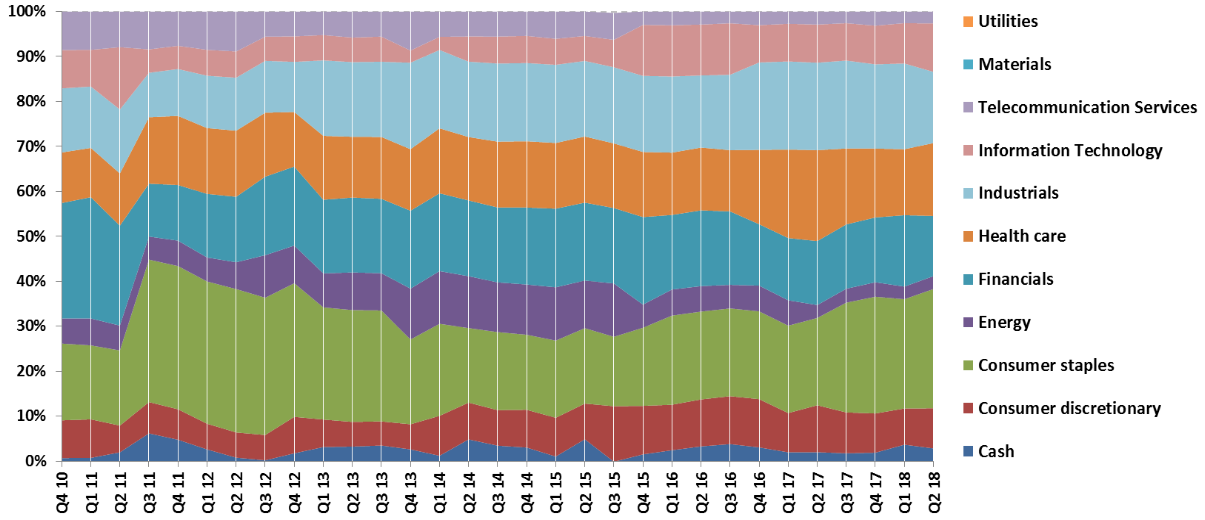


Chart 7: Sector breakdown of the fund since launch. Guinness Asset Management, Bloomberg (data as at 30.06.2018)

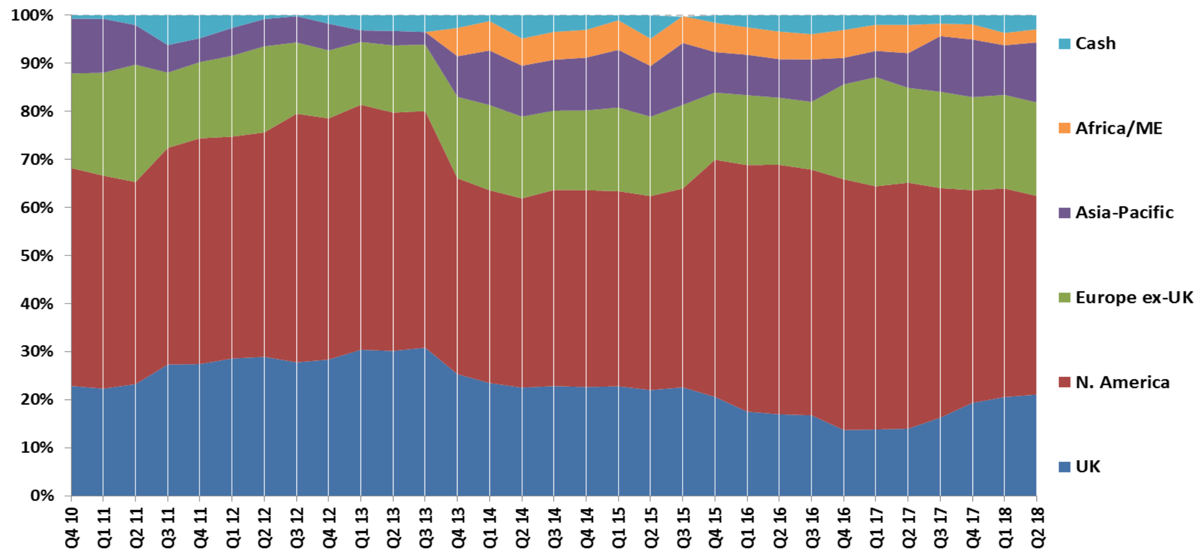


Chart 8: Geographic breakdown of the fund since launch. Guinness Asset Management, Bloomberg (data as at 30.06.2018)

Individual companies that performed well over Q2 were Merck, Royal Dutch Shell and Imperial Brands. Companies that had weaker performance over Q2 were Vodacom and General Dynamics.

Merck (+12.3% in USD), the global healthcare company, was the best performer in the quarter. Best-selling drugs in the pharmaceutical segment include type 2 diabetes drug Januvia, which brings in about $4 billion in revenues annually. Other products earning more than $2 billion include diabetes drug Janumet, HPV vaccine Gardasil, and cholesterol medication Zetia. Meanwhile, $1 billion top-sellers include cholesterol medication Vytorin, skin antibiotic treatment Cubicin, HIV therapy Isentress, inflammatory treatment Remicade, cancer drug Keytruda, and chickenpox vaccine ProQuad. Strong performance in the quarter came after Merck's lung cancer drug Keytruda won a string of clinical trials to place it in the top spot for treating lung cancer. Estimates suggest that Keytruda could bring in $12.5 billion by 2022, and in the quarter the drug beat earnings estimates after seeing 142% year-on-year growth. The clinical trials proved a huge positive for Merck as it continues to expand its drug portfolio with R&D efforts.

Royal Dutch Shell (+11.1% in USD) also performed very well as the price of crude oil climbed. Earnings climbed to $5.3bn in the first quarter of this year, 42% higher than the same period last year and exceeding analyst expectations. Shell's 2018 financial framework shows an encouraging scenario; in addition to rising oil price optimism, Shell's upstream business has seen steady growth, its cost base has been reduced and disciplined capital spending has led to significant free cash flow growth. Q1 2018 was the sixth consecutive quarter of free cash flow more than covering cash dividends. This suggests significant capacity for debt reduction and the possibility of share buybacks.

Imperial Brands (+10.7% in USD) is a global tobacco manufacturer. Share prices recovered after Q1 weakness, which came about due to falling cigarette volumes and the increasing regulatory pressure on tobacco companies. However, the company's fundamentals remained strong and there is an active effort from management to refocus business on key brand franchises. Although this initially lead to a fall in cigarette volumes as a range of tobacco products were disposed, the goal to maximise profitability and cash generation now seems to be coming through. This is to be reinvested in faster-growing next-generation products, which would form the basis of future growth. The company's cash flow return on investment trends upwards and, attractively, the dividend has been grown nine consecutive times by 10%. Currently trading at a one-year forward P/E multiple of 10.5 and a dividend yield of 6.9%, we believe the company offers an attractive valuation and income, with further growth opportunities still to be recognised.

Vodacom (-28.5% in USD) was the worst performer in the quarter. Based in South Africa, the company provides a cellular telephone network with operations also in Tanzania, Mozambique, Lesotho and the Democratic Republic of Congo. Vodacom has been able to take advantage of its large market share (of c.60% in South Africa) and expand its active subscriber base by 13% over the year to 73.6 million. Initiatives to cut the cost of mobile data increased smartphone penetration and led to both customer growth and increased mobile usage. Gross margins have remarkably been increasing year-on-year for a decade and the company has been able to generate a consistent cash flow return on investment of over 14.6% for the past 18 years. The group has a strong balance sheet and attractive dividend yield of 5.1%. Capital expenditure has been directed to improve the company's network, which has reached 78% 4G population coverage and 99% 3G population coverage. Its recent sell-off points to new regulation which prohibits service providers from instilling out-of-bundle charges on mobile phone contracts and ensures that customers must be notified when their internet data is running low. Vodacom CEO Shameel Joosub claimed that average revenue per user declined 4% in the past year "as a result of higher roll over of unused data bundles as we continue to migrate customers to 'more value' contracts, with 43.4% of the base now signed up for these contracts". This highlights the importance of the regulation, though it is likely a one-off event that the company has been preparing for.

In the quarter we made one change to the portfolio whereby we replaced General Dynamics Corporation with Taiwan Semiconductor Manufacturing Company (TSMC).

GD (-14.2% in USD in the quarter), the diversified military defence company, has been held in the fund since launch and been a stand-out performer with a holding period return of 217% (in USD). General Dynamics is a prime military contractor to the Pentagon (the US government accounts for about 60% of sales). The company's military operations include information systems, marine systems, combat equipment and an aerospace unit. Recently, GD acquired CRSA, a provider of information technology services to the US government, for about $9.7 billion in cash and the assumption of debt. We have decided to take profits on GD now that strong performance has led to a 1-year forward P/E Ratio of 16.7 (much higher than its historical 10-year average) and the dividend yield has fallen to 1.9%.

TSMC is a pure-play foundry business which manufactures integrated circuits used in computers, communication equipment, consumer electronics, automotives and industrial equipment. The company has a very low debt to equity ratio of 12% and attractive dividend yield of 3% with double-digit earnings and profit growth estimates. With its two-year forward P/E Ratio of 14.5, we see the company as attractively valued given its above-market-average growth forecasts. Revenues and gross margins have increased every year for the last eight years, and cash flow returns on investment have been maintained above 10% for the last 10 years.

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. On these measures, our high-conviction fund has companies which are on average better quality at better value versus the index.

At the quarter end, we are pleased to report that the portfolio continues to deliver on all four of these measures relative to the benchmark MSCI World Index.

		Fund	MSCI World Index
Quality	Average 10 year CFROI	18%	8%
	Weighted average debt / equity	56%	66%
Value	PE (2018e)	15.7	15.8
	FCF Yield (LTM)	5.6	4.3
Dividend	Dividend Yield (LTM)	2.7%	2.4%
	Weighted average payout ratio	49%	49%
Conviction	Number of stocks	35	1650
	Active share	93%	-

Chart 7: Portfolio metrics versus index. Guinness Asset Management, Credit Suisse HOLT, Bloomberg (data as at 30.06.2018)

Outlook

With the increasing influence of geopolitics on market returns and volatility, we believe that our approach to finding quality companies at attractive valuations is more important than ever. The Guinness Global Equity Income Fund currently trades at an attractive valuation relative to the MSCI World on both a price-to-earnings and free-cash-flow-yield basis. We believe this provides good value to our investors and puts us in good stead in our search for long-term capital growth and a steady, growing income stream.

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*

Guinness Global Equity Income Fund

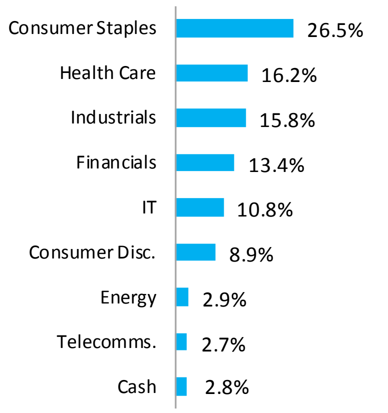
PORTFOLIO

30/06/2018

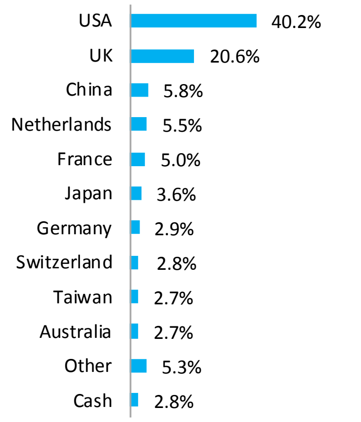
Fund top 10 holdings

Japan Tobacco	3.6%
British American Tobacco	3.4%
WPP	3.2%
Reckitt Benckiser	2.9%
Hengan International Group	2.9%
Anta Sports Products	2.9%
Deutsche Boerse	2.9%
BAE Systems	2.9%
Royal Dutch Shell	2.9%
Procter & Gamble	2.9%
% of Fund in top 10	30.5%
Total number of stocks in Fund	35

Sector analysis



Geographic allocation



PERFORMANCE

30/06/2018

Annualised % gross total return from launch (GBP)

Discrete years % gross total return (GBP)	Jun '14	Jun '15	Jun '16	Jun '17	Jun '18
Fund (Y class, 0.99% OCF)	8.3	5.4	18.9	16.1	5.3
MSCI World Index	10.6	10.9	15.1	22.3	9.9
IA Global Equity Income sector average	9.6	4.3	9.6	19.2	3.6

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	1.7	5.3	45.4	65.9	117.8
MSCI World Index	0.8	3.2	9.9	54.7	89.7	135.8
IA Global Equity Income sector average	0.0	-0.9	3.6	35.3	54.7	89.0

RISK ANALYSIS

30/06/2018

Annualised, weekly, from launch on 31.12.10, in GBP	Index	Sector	Fund
Alpha	0	0.24	0.95
Beta	1	0.76	0.86
Information ratio	0	-0.37	-0.11
Maximum drawdown	-18.26	-15.50	-16.34
R squared	1	0.79	0.89
Sharpe ratio	1	0.47	0.60
Tracking error	0	6.15	4.41
Volatility	13.83	11.43	12.26

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 (0.99% OCF): Composite simulated performance based on actual returns of E share class (available from Fund launch), calculated in GBP.

Performance data notes

Past performance should not be taken as an indicator of future performance. The value of investments and any income arising from them can fall as well as rise as a result of market and currency fluctuations.

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