Guinness Global Equity Income Fund

INVESTMENT COMMENTARY – April 2019

About the Fund

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

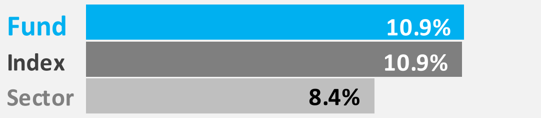
The Fund is managed for income and capital growth and invests in profitable companies that have generated persistently high return on capital over the last decade, and that are well placed to pay a sustainable dividend into the future.

Fund size	£564m
Launch date	31.12.10
Managers	Dr. Ian Mortimer, CFA Matthew Page, CFA
Analysts	Sagar Thanki Joseph Stephens

Performance **31.03.19**

	1 year	3 years	From launch
Fund	13.3	44.1	135.5
Index	12.0	49.6	134.1
Sector	8.5	34.2	93.9

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

Summary performance

In March, the Guinness Global Equity Income Fund produced a total return of 4.9% versus the MSCI World Index return of 3.4% and IA Global Equity Income sector average of 2.2% (all in GBP).

The Fund therefore outperformed the MSCI World Index by 1.5% and the IA sector average by 2.7%.

Year-to-date, the Fund trails the Index by 0.8%. Underperformance in January – attributable to the sharp market rally seen at the turn of the year and the defensive qualities of the Fund – was largely offset by outperformance in both February and March from good stock selection.

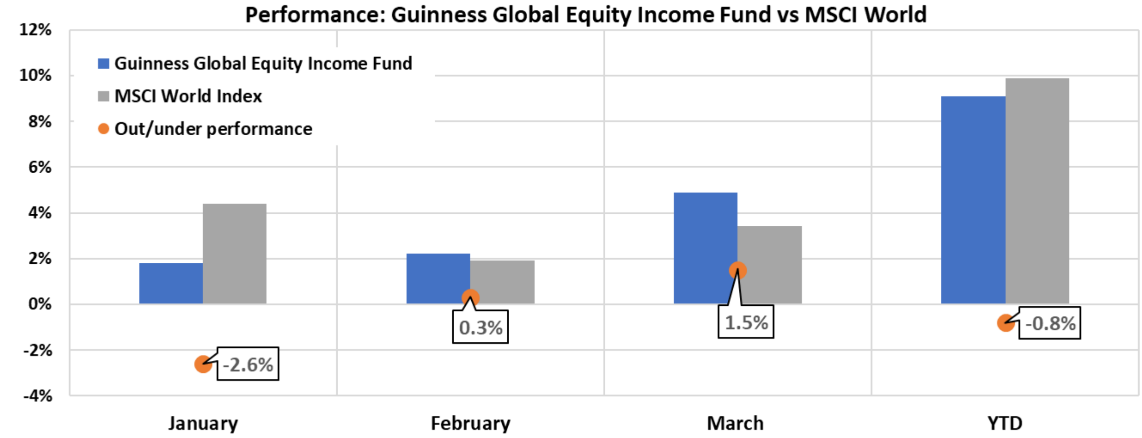
It is pleasing to see that both the short and long-term performance of the strategy remain very strong versus the MSCI World Index and IA Global Equity Income sector peers.

Since launch, the Guinness Global Equity Income Fund is the best-performing fund in the IA Global Equity Income sector.

	YTD	1yr	3yr	5yr	Since Launch*
Fund	9.1	13.3	44.1	71.6	135.5
Index	9.9	12.0	49.6	77.6	134.1
IA sector average	8.0	8.5	34.1	48.4	93.4
Rank vs peers	17/57	12/55	5/47	6/41	1/19
Quartile	2nd	1st	1st	1st	1st

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

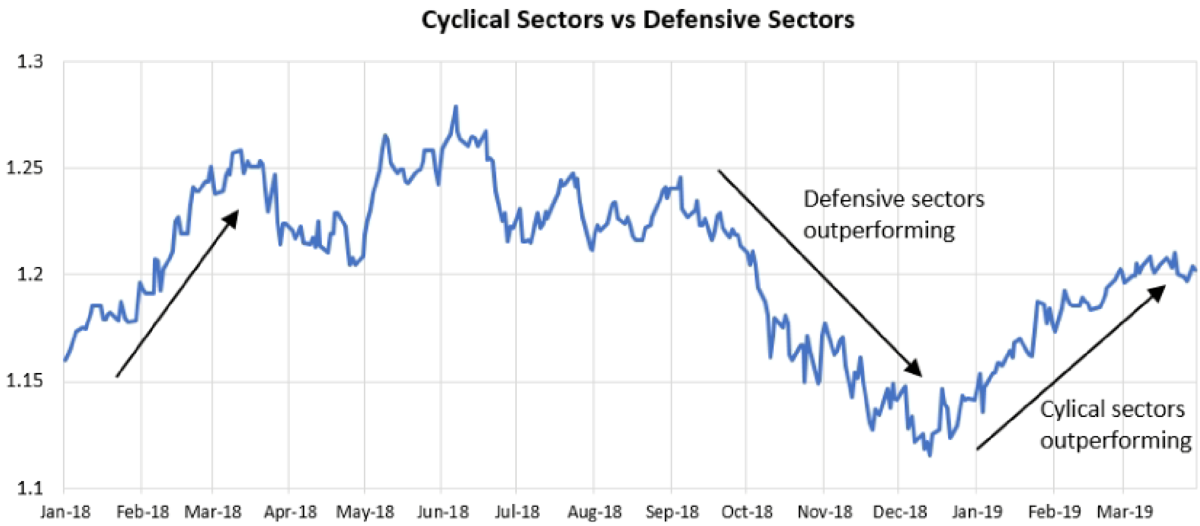
Quarter in Review



Source: Financial Express; as of 31st March 2019

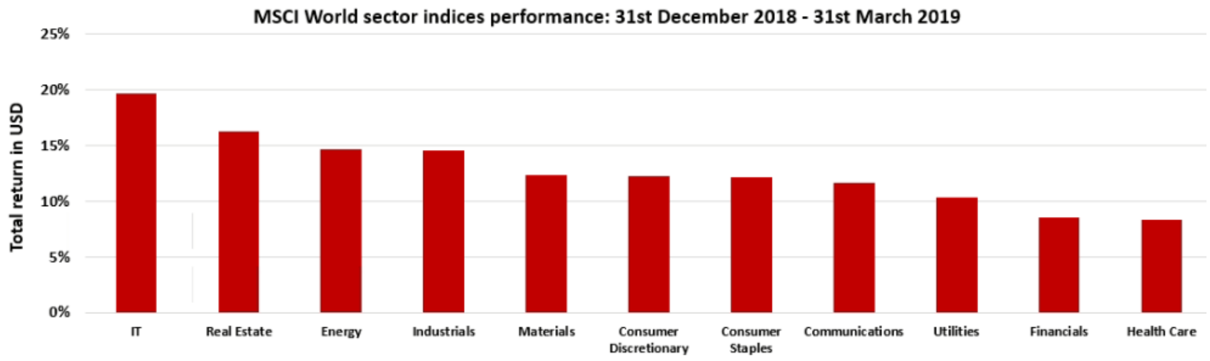
2019 started with equity markets posting positive returns in each of the first three months. In fact, the first quarter of the year marked the best quarter since 2010, and the best start to a year since 1998.

Rebounding from a weak end to 2018, global equities have been boosted by a combination of constructive US-China trade talks, a considerably more dovish stance from the US Federal Reserve and the implementation of Chinese stimulus measures. This led to the continued outperformance of the cyclical sectors.



MSCI USA Cyclical Sectors / MSCI USA Defensive Sectors. Source: Bloomberg. As of 31st March 2019

The MSCI Cyclical Sectors Index has been outperforming the MSCI Defensive Sectors Index since mid-December. This can also be seen in individual sector performance seen across the quarter.



Source: Bloomberg. As of 31st March 2019

IT was the stand-out performer in the quarter as earnings season brought with it a renewed interest in the sector. At the start of 2018, IT stocks were deemed to be expensive, and strong positive performance was narrowly driven by the FAANGs (Facebook, Amazon, Apple, Netflix, Google). The share prices of these stocks were humbled towards the end of last year, though the tech sell-off was much broader-based and many other IT stocks were also negatively affected. Since the turn of the year, market pessimism towards the sector has eased and performance has been relatively strong. Notably, however, the FAANGs no longer correlate so closely; Amazon, Apple and Google have lagged the broader market year-to-date, whereas Facebook and Netflix have both significantly outperformed.

In the Guinness Global Equity Income Fund we hold five stocks within the IT sector: Cisco, Paychex, Broadcom, Microsoft and Taiwan Semiconductor. As a group these have performed very pleasingly in 2019; good stock selection in this respect has offset the drag from being underweight the IT sector (versus the MSCI World benchmark).

Real Estate and Energy also performed well in March and limited exposure here was a small drag on performance relative to the Index. We have no holdings within Real Estate and one holding within Energy, Royal Dutch Shell, which reported robust earnings. Cashflows came in far ahead of expectations and the company indicated that both upstream (production) and downstream (refining) parts of the business were doing well. The Energy sector also performed well as the price of WTI Crude oil climbed past US$60 a barrel to its highest level since November last year. Lower supply from Siberia and the US shale fields, and squeezed production from Russia, Saudi Arabia and other top exporters – as well as sanctions against Venezuela – all contributed to the higher oil price.

After faring well throughout 2018, Healthcare was one of the underperformers in the first quarter. Profit-taking accelerated after the Trump administration proposed banning rebates paid by drug-makers to pharmacy benefit managers (PBMs) and health insurers. Rebates are paid in exchange for preferred status with the health plan's customers. Some of the rebate goes toward insurance premiums, while the middlemen keep some for themselves. The pharmaceutical industry has said PBMs prefer higher-priced drugs so they can negotiate bigger rebates and pocket more of the money. The Fund does not have exposure to any US PBMs or insurers, so was immune in this respect.

Over the course of the quarter, sector allocation neither added to nor dragged on performance. The Fund is overweight in the Consumer Staples and Industrials sectors, which together produced returns in line with the broader market. The Fund avoided significant exposure to the worst-performing sectors; we hold no positions within the Utilities sector and are underweight the Communications and

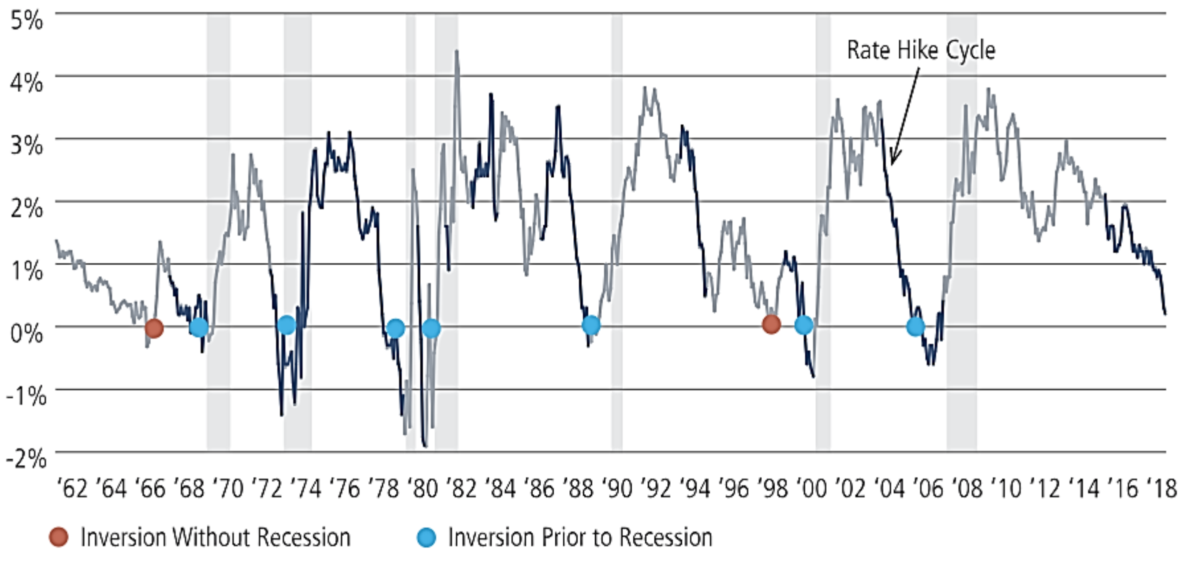
Financials sectors. This was beneficial to the Fund's active return. Financials, particularly banks, were weak on the Fed's decision not to raise interest rates this year.

Back in mid-2017, Janet Yellen compared the Fed's steady policy normalisation and balance sheet reduction to "watching paint dry" – low on drama and surprise. Policymaking is clearly much more eventful now, as are the market's responses. At the start of the year, comments from the Fed that it would be more "patient" in increasing interest rates, and more flexible in reducing its balance sheet provided a boost to US and global equity markets. The less aggressive statement – and sharp change in rhetoric from the previous quarter – helped to ease fears that policymakers would continue with plans to raise interest rates even as economic data pointed towards a 'cooler' economy. The Fed's comments were reinforced in March after it revised down its 2019 GDP growth forecast to 2.1% from 2.3% and announced that it was abandoning its 2017 decision to steadily raise interest rates (currently 2.5%) and reverse quantitative easing.

The change in the Fed's messaging has been interpreted contrastingly in the equity and fixed income spaces. With market expectations pointing to the next move being a rate cut, stock markets have been buoyed, whereas bond markets reflect caution.

This was evident on March 22nd, when we saw the US yield curve invert for the first time since 2007. This naturally grabbed headlines considering that an inversion has preceded the past seven US recessions dating back to 1960. The yield on the benchmark 10-year Treasury note fell to 2.42%, dropping below rates on three-month bills and reflecting bond market participants' expectations of slowing economic growth and tame inflationary pressures.

Spread between 3-month and 10-year US Treasury Yields



As of 31st December 2018. Source: Bloomberg

Every recession for the past 60 years has been preceded by an inverted yield curve. Every inverted yield curve has not, however, been followed by an imminent recession.

Although these inversions are widely seen as a recession signal, it should be noted that recessions have typically lagged an inverted yield curve by one year and equity markets have previously continued to perform well even after inversion.

Start of Recession	Curve Inversion	Number of months between inversion and start of recession	S&P 500 % return between inversion and recession
Dec-69	Dec-68	12	-8%
Nov-73	Jun-73	5	-7%
Jan-80	Nov-78	14	28%
Jul-81	Oct-80	9	7%
Jul-90	May-89	14	15%
Mar-01	Jul-00	8	-18%
Dec-07	Feb-06	22	19%
	Median	**12**	**7%**

Curve inversion refers to spread between 3-month and 10-year US treasury yields.
As of 31st March 2019. Source: Bloomberg

Furthermore, there is caution that the yield curve is artificially inverted due to the Fed's market-distorting quantitative easing programme, a jump in Treasury bill issuance, and low global interest rates seen over the last 10 years – potentially making it a less reliable leading indicator of a recession than in the past. In the years following the financial crisis, the Fed purchased longer-term bonds to drive down their yields. This encouraged a less restrictive lending market and stimulated economic growth while also improving liquidity and stability in the securities markets. As a result, the term-premium has been kept artificially low, increasing the odds of an inversion.

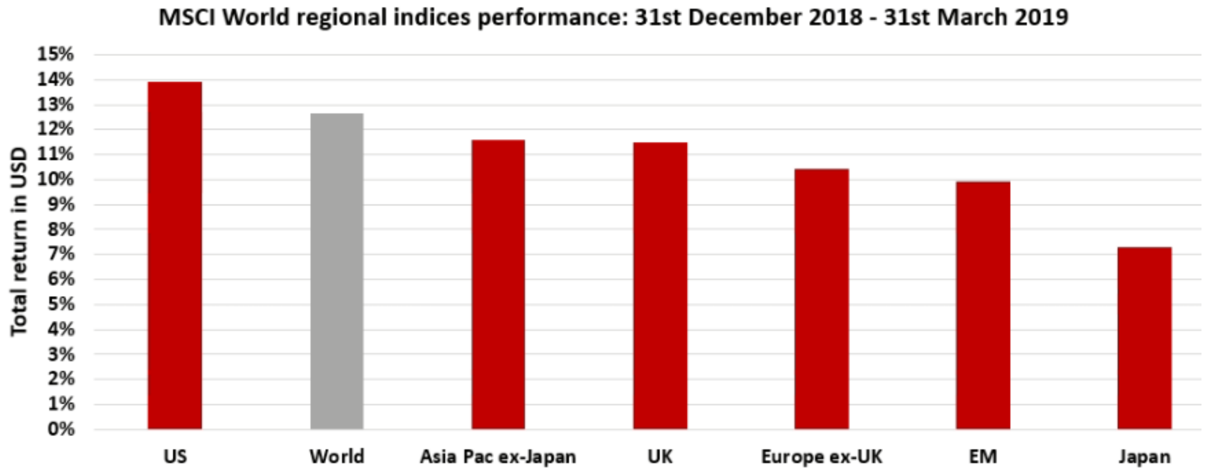
There is also a worry amongst some commentators that the yield curve inversion could become a self-fulfilling prophecy whereby lending may become less profitable for banks – since they tend to borrow at short-term rates and issue loans at longer-term rates – and tighter lending standards could lead to an economic slowdown. The extent of any such slowdown remains to be seen.

US fourth-quarter GDP growth, released later than usual due to the government shut-down, indicated quarter-on-quarter growth of 2.2%, bringing the overall growth figure for 2018 to 2.9%. This marks the strongest growth since 2005, though notably the quarter-on-quarter growth rate has fallen: the second quarter of 2018 grew 4.2% and third quarter 2018 came in at 3.4%. With major central banks seemingly on pause or turning less aggressive, investor attention now appears firmly focused on the outlook for global trade and the chances of progress at the next round of talks between the US and China.

In other regions, EM and Asia benefitted from easing trade tensions as well as the weakening of the US dollar which accompanied the lower interest rate expectations. China emerged as the best-performing market in Asia as the central government revealed plans to stimulate the slowing economy. Full-year 2018 GDP growth came in at 6.6%, versus 6.8% the previous year, and marks the slowest pace of growth since 1990. Expectations remain high that Chinese authorities will roll out targeted stimulus measures to bolster economic growth throughout 2019 and stabilise the short-term mixed outlook.

In Europe, economic data pointed to on-going weakness. GDP figures showed growth of 0.2% quarter-on-quarter in Q4, the same as in Q3. In terms of forward-looking indicators, the flash composite purchasing managers' index fell to 47.6 in March, compared to 49.3 in February, indicating contraction for two consecutive months. Stock markets were supported, however, by the European Central Bank (ECB) stating that rates would remain at current levels at least until the end of the year.

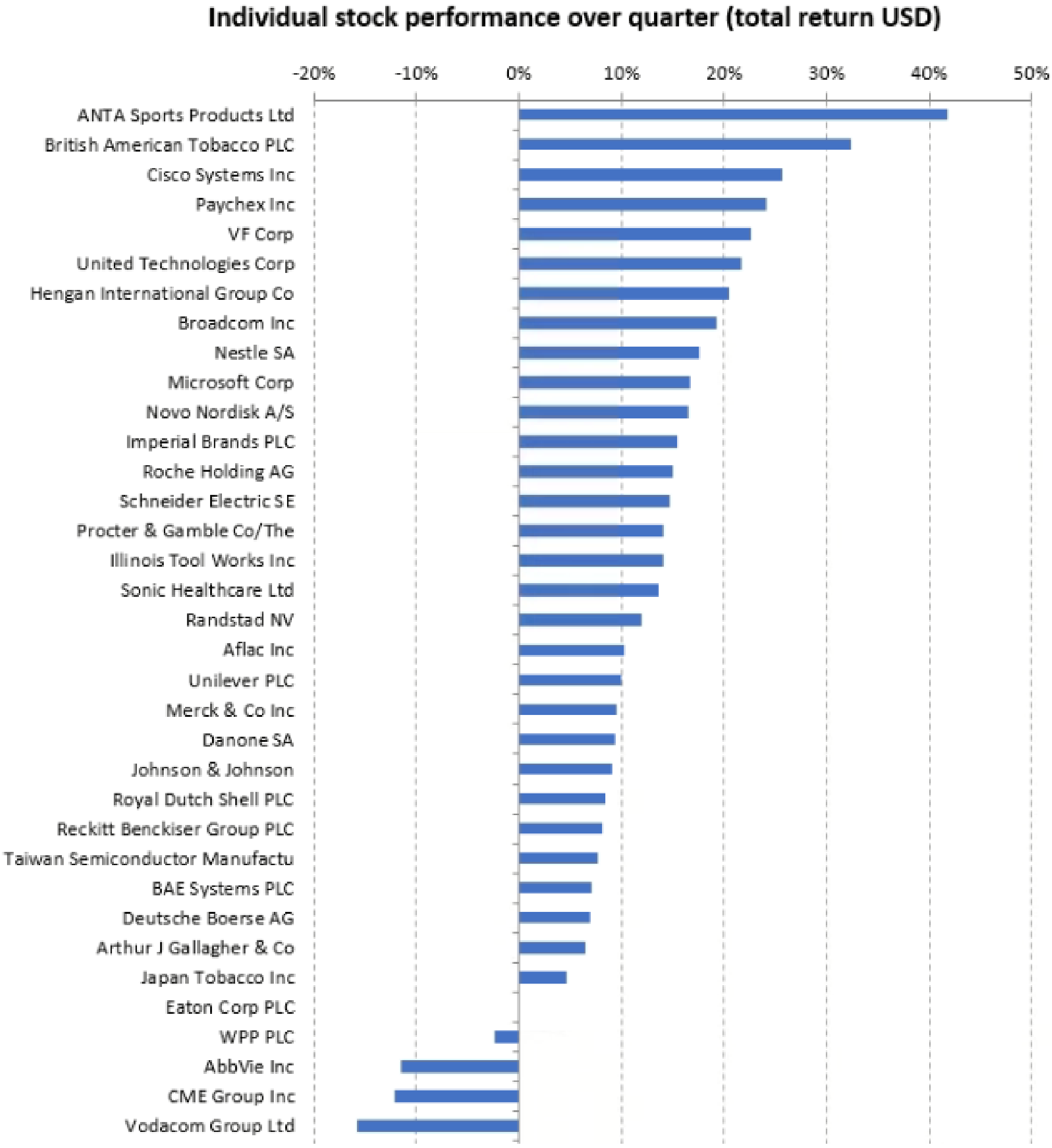
UK equity markets rose despite the heightened political tension that has characterised recent months. Brexit uncertainty remained top of the agenda for the quarter, and Sterling peaked at $1.33 in mid-March as the UK parliament voted to reject a no-deal Brexit scenario and seek an extension of Article 50. Subsequently, Parliament rejected all alternatives to Prime Minister May's deal (which it has also rejected), and the political impasse therefore continues. The UK Manufacturing Purchasing Manager's Index rose to 55.1, from 52.1 in February, showing an increase in activity during March. The increase in output was attributed to companies increasing stockpiles ahead of a potential no-deal Brexit at the end of the quarter.



Source: Bloomberg. As of 31st March 2019

All major regions posted gains, with the US leading the pack.

Stock selection



ANTA Sports was the best-performing stock in the Fund over the quarter (+41.8% in USD). The company generates revenue through the manufacture and trade of sporting goods, including footwear, apparel and accessories. ANTA is poised for greater market share in China as it seeks to woo affluent shoppers with pricier athletic gear. This includes popular brands such as Fila and Descente, as well as Salomon and Arc'teryx – both owned by Amer Sports, which ANTA is looking to acquire. Going premium should make up for less robust gains at its lower-priced namesake brand, which sells at half the price of Nike and Adidas products. ANTA's sales growth is likely to accelerate if it acquires Amer, yet a profitability boost may not be likely until two years after the deal is completed. On the upside, the move to acquire a European company gives ANTA Sports scale to expand geographically as well as launch new products in China. The company's growing product offering could well fuel earnings and revenue growth and the shrewd move into winter sports clothing and equipment comes well timed ahead of the next Winter Olympics in 2022 in Beijing.

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.

British American Tobacco also performed very well (+32.7% in USD). The largest tobacco company in the world differs from its competitors in that it is a truly global operation, rather than operating within geographic confines. This was enhanced with the acquisition of Reynolds American in 2017 which gave BATS greater scale in the US market. The company has been battling proposed increased regulation in the US as well as industry pessimism due to competitor threats, although recent events have helped investor confidence. First, the FDA commissioner pushing to ban menthol cigarettes resigned, creating doubt as to whether the ban would progress. Secondly, BATS reported that revenues rose 25%, or 3.5% after adjusting for recent acquisitions. Adjusted operating profit expanded at double that rate, in part because of success in marketing high-margin e-cigarettes. Further, BATS is hugely cash-generative, has a stellar return on capital profile, a market-leading dividend yield of 6.3%, and a price-to-earnings ratio two standard deviations below its 10-year average.

Cisco was another top performer (+25.6% in USD). The world-leading IT infrastructure equipment vendor has been making a transition to a balanced revenue mix of hardware and software, with a goal of deriving 50% of sales from software by 2020. The company reported a 2.7% increase in its fiscal 2Q revenue and a 5% gain in product orders, suggesting it may be on track to post sustained growth in coming quarters. Its move to software is best measured by its recurring revenue, with 33% of fiscal 2Q18 sales coming from recurring offers. The quarterly gains reflect rising strength in Cisco's new product sales, particularly its new line of programmable switches, the Catalyst 9000 series. These switches are selling well, and CEO Chuck Robbins cited the 9000 as the fastest-growing new product in Cisco's history.

Vodacom (-15.8% in USD) was the worst performer in the quarter. 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. Nonetheless, the company has been able to take advantage of its large market share (c.60% in South Africa) and expand its active subscriber base year over year. Initiatives to cut the cost of mobile data have 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 cashflow return on investment of above 14% for the past 18 years. The Group has a strong balance sheet and attractive dividend yield of 6.7%.

CME Group (-12.1% in USD) and **AbbVie** (-11.5% in USD) have also underperformed so far this year. CME has seen lower trading volumes in the first quarter, and this points to a potential moderation in revenue and margin in the short term. Longer-term, however, 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 a key focus area for the company in 2019, with an outlook to expand recurring revenue. CME is also particularly well placed to benefit from increased interest rate hedging around the Fed's rate changes and rising US 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 returns on capital increasing every year for the last five.

AbbVie, the pharmaceutical giant, focuses on producing drugs for specialty therapeutic areas such as immunology, chronic kidney disease, hepatitis C, oncology and neurology. We have owned the company since the end of 2012, and the stock performed very well due to the prominence of its Humira drug, which makes up 60% of total revenue and has been described as the "world's best-selling drug". Humira is an injectable therapy used to treat several autoimmune diseases, predominantly related to arthritis. Recent share price disappointment comes after the company missed earnings and revenue expectations and posted a loss due to a $4.1 billion impairment charge associated with the 2016 acquisition of Stemcentrx. AbbVie decided to write off this costly acquisition after Rova-T repeatedly failed to hit the mark as a later-line lung cancer treatment last year.

We made no changes to the portfolio in the quarter.

Portfolio Positioning

The main effect of the changes we made to the portfolio in 2018 was to increase our exposure to IT, after market sell-offs provided attractive entry opportunities. In terms of sector weightings, 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.

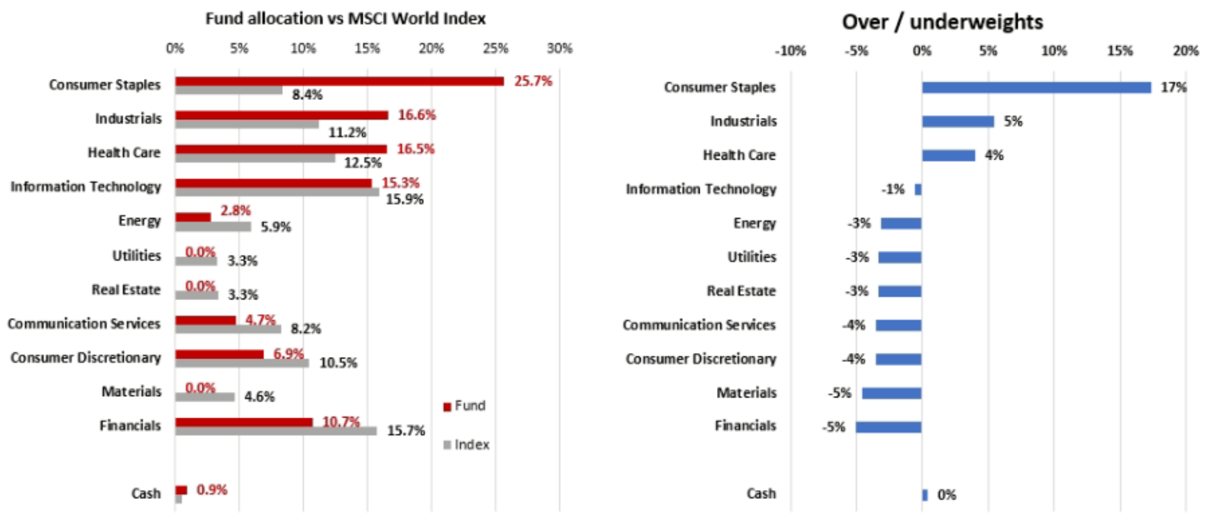


Figure 1 – Portfolio sector breakdown versus the MSCI World Index

Source: Guinness Asset Management, Bloomberg (data as at 31st March 2019)

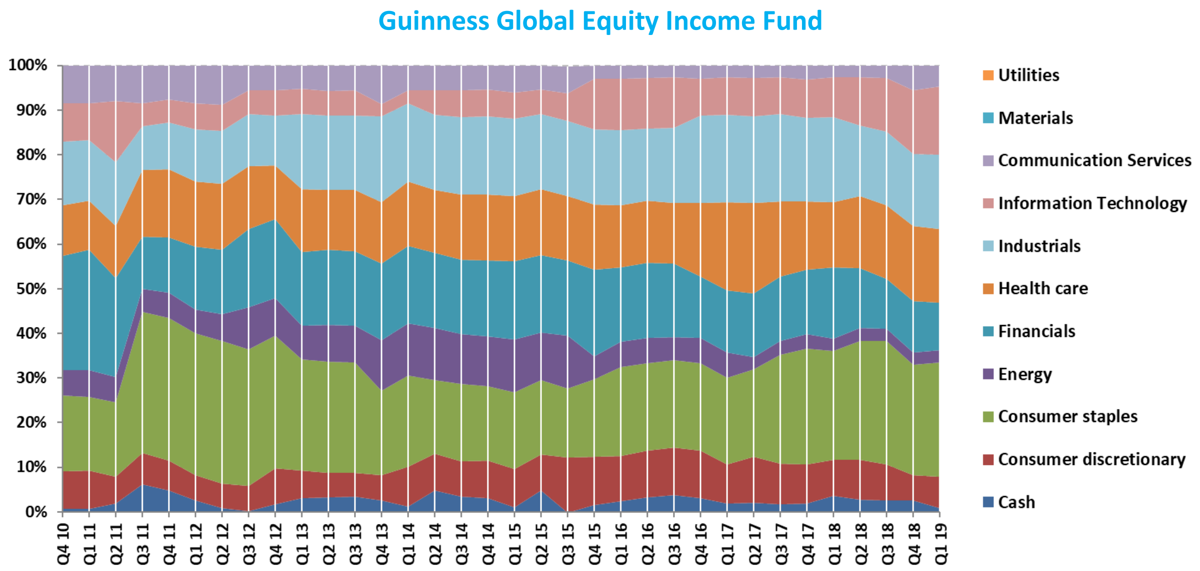


Figure 2 – Portfolio sector breakdown as of 31st March 2019

Source: Guinness Asset Management

In terms of geographic exposure (figure 3), the largest difference between the Fund and the benchmark is our exposure to the US (as measured by country of domicile). On average over the quarter the Fund had a c.43% weighting to North America which compares to the Index at c.65%. The largest geographic overweight remains the UK, which had a c.11% larger position than the benchmark over the quarter.

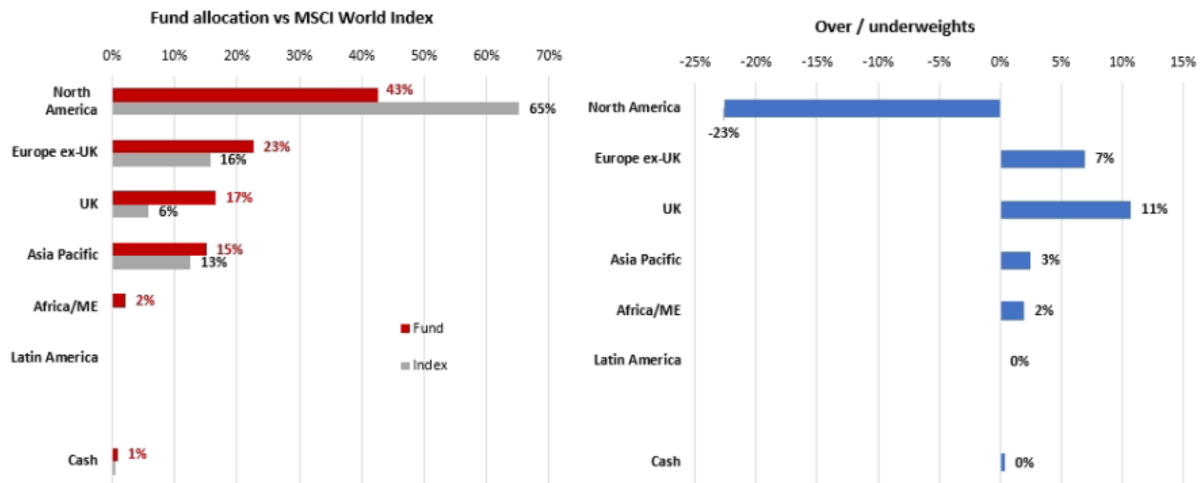


Figure 3 – Portfolio geographic breakdown versus the MSCI World Index.

Source: Guinness Asset Management, Bloomberg (data as at 31st March 2019)

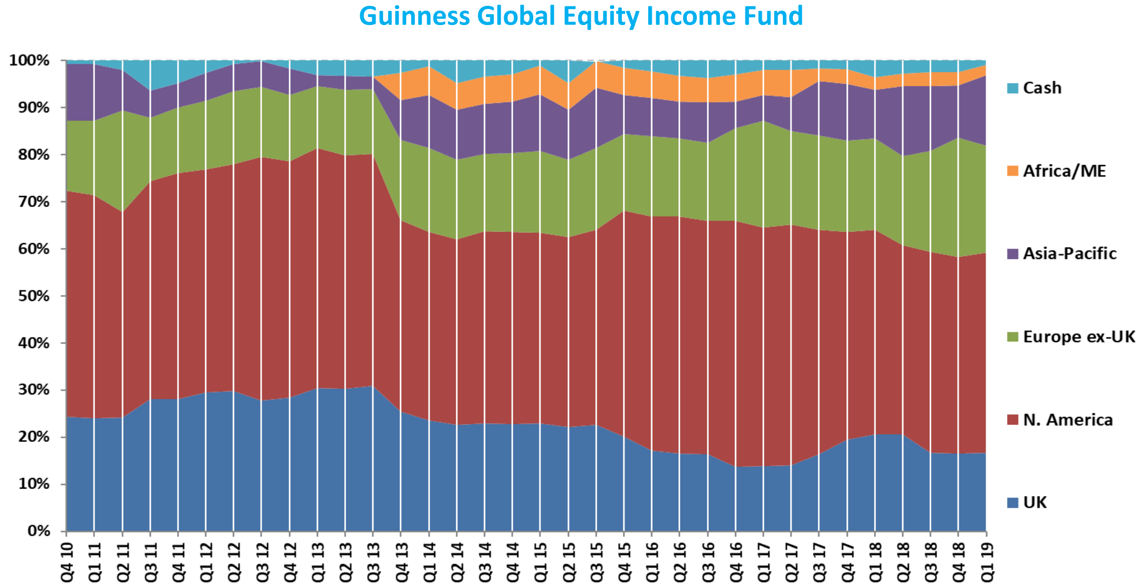


Figure 4 – Portfolio geographic breakdown as of 31st March 2019

Source: Guinness Asset Management

With reference to chart 5, below, we would note two points. First, the Fund has a lower exposure to the UK when considered in revenues (c.5%) versus by domicile (c.18%). This is because we have favoured UK domiciled companies with more global exposure (such as Unilever and Imperial Brands). Second, there is a larger exposure to Asia and Emerging Markets by revenues (c.25%) than by domicile (c.15%).

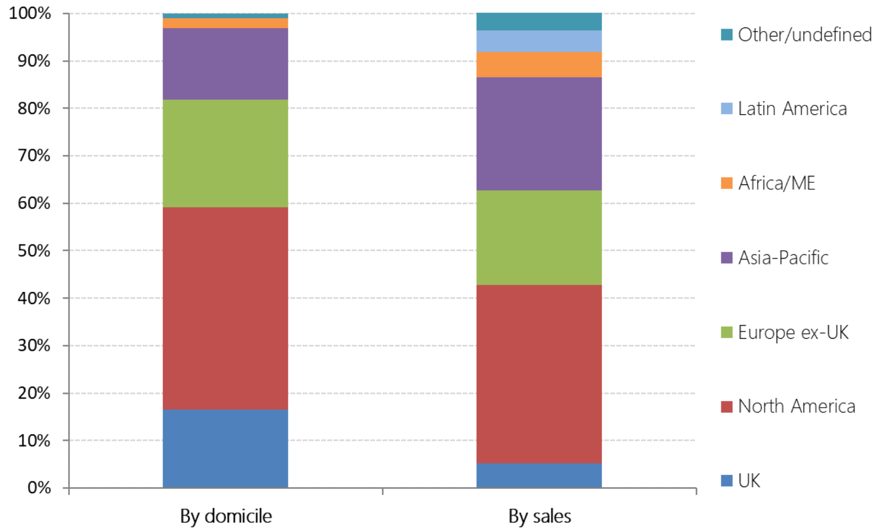


Chart 5: Geographic breakdown of the portfolio as of 31st March 2019

Guinness Asset Management, Bloomberg

Outlook

The four key tenets to our approach are quality, value, dividends, and conviction. We follow metrics at the portfolio level to make sure we are adhering to them through stock selection. Based on these, we find a high-conviction fund investing in companies that are on average better quality and better value than the Index.

		Fund	MSCI World Index
Quality	Average 10 year Cashflow Return on Investment	17%	8%
	Weighted average net debt / equity	40%	67%
Value	PE (2019e)	15.4	15.7
	FCF Yield (LTM)	6.1%	5.4%
Dividend	Dividend Yield (LTM)	2.7%	2.5%
	Weighted average payout ratio	64%	63%
Conviction	Number of stocks	35	1650
	Active share	91%	-

Figure 22 – Portfolio metrics versus index as of 31st March 2019

Source: Guinness Asset Management, Credit Suisse HOLT, Bloomberg

At the end of the quarter the Fund was trading on 15.4x 2019 expected price to earnings, a discount of 2% to the broad market. Additionally, on a free cashflow basis, the Fund trades at a 13% discount to the market.

It seems the markets may be telling two contrasting stories, with rising stock prices suggesting continued growth and rising bond prices signalling expectations of a slow-down. While growth is indeed moderating, this can be viewed as a reversion back to levels seen for much of this economic cycle and not something more sinister. Higher growth in 2018 was largely driven by US tax reform, the effects of which are gradually wearing off. Fundamentals remain supportive, major central banks remain accommodative, and policy stimulus in China should support continued positive growth, albeit at lower levels. While an inverted yield curve is generally viewed as a recession precursor, it has historically been a poor indicator of recession timing.

With more sensitive markets and many uncertainties, any risks should be considered in the context that global equities now trade below their 10-year average price-to-earnings multiple, and our Fund is at a discount to the market despite holding higher-quality companies. 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.

We thank you for your continued support.

Portfolio Managers
Matthew Page, CFA
Dr Ian Mortimer, CFA

Analysts
Joseph Stephens
Sagar Thanki

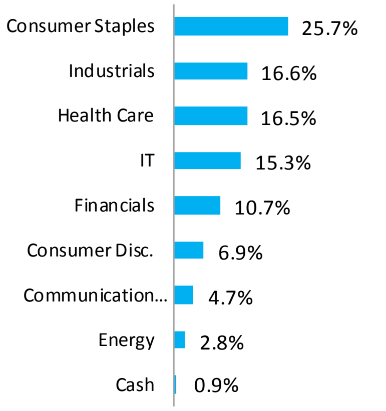
PORTFOLIO

31/03/2019

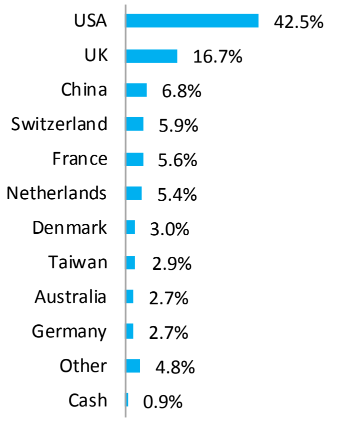
Fund top 10 holdings

Anta Sports Products	4.0%
Broadcom	3.4%
Paychex Inc	3.2%
British American Tobacco	3.1%
Cisco Systems	3.0%
Novo Nordisk	3.0%
Procter & Gamble	3.0%
Nestle	3.0%
Aflac	2.9%
Imperial Brands	2.9%
% of Fund in top 10	31.6%
Total number of stocks in Fund	35

Sector analysis



Geographic allocation



PERFORMANCE

31/03/2019

Annualised % total return from launch (GBP)

Discrete years % total return (GBP)	Mar '15	Mar '16	Mar '17	Mar '18	Mar '19
Fund (Y class, 0.99% OCF)	15.8	2.8	24.7	2.0	13.3
MSCI World Index	19.7	0.3	32.7	1.8	12.6
IA Global Equity Income sector average	12.6	-1.8	25.4	-1.4	8.5

Cumulative % total return (GBP)	1 month	Year-to-date	1 year	3 years	5 years	From launch
Fund (Y class, 0.99% OCF)	4.9	0.7	13.3	44.1	71.6	135.5
MSCI World Index	3.4	-3.0	12.0	49.6	77.6	134.1
IA Global Equity Income sector average	2.2	-5.8	8.5	34.2	48.4	93.9

RISK ANALYSIS

31/03/2019

Annualised, weekly, from launch on 31.12.10, in GBP	Index	Sector	Fund
Alpha	0	0.23	1.52
Beta	1	0.75	0.86
Information ratio	0	-0.36	0.02
Maximum drawdown	-18.26	-15.50	-16.34
R squared	1	0.80	0.89
Sharpe ratio	1	0.42	0.60
Tracking error	0	6.12	4.55
Volatility	13.83	11.40	12.27

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. 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 monitored