

Guinness Global Equity Income Fund

INVESTMENT COMMENTARY – April 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 £337m

Launch date 31.12.10

Managers Dr. Ian Mortimer, CFA
Matthew Page, CFA

Analysts Joshua Cole
Sagar Thanki

Performance 31.03.18

	1 year	3 years	From launch
Fund	2.0	30.8	107.9
Index	1.8	35.5	117.7
Sector	-1.4	21.5	78.7

Annualised % gross total return from launch (GBP)

Fund	10.6%
Index	11.3%
Sector	8.3%

Benchmark index MSCI World Index

IA sector Global Equity Income

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

Source: Financial Express, bid to bid, gross total return. 0.99% OCF



Summary performance

In March the Guinness Global Equity Income Fund was down -2.53% (in GBP), while the MSCI World Index was down -3.86% (in GBP). The fund therefore outperformed the Index by 1.26% over the month.

Year-to-date the fund is down -3.00% (in GBP) and the MSCI World Index is down -4.68% (in GBP). The fund therefore outperformed the Index by 1.68% over the quarter.

With weaker markets and a return of volatility seen over the first quarter of 2018 – a stark contrast to the conditions of 2017 – it is pleasing to see that both the short and long-term performance of the strategy remain very strong versus both the MSCI World Index and IA Global Equity Income Sector peers:

<i>Fund Y-class, GTR in GBP to 31.03.18</i>	YTD	1yr	3yr	5yr	Launch
Fund	-3.00	2.00	30.77	64.57	107.87
MSCI World	-4.68	1.80	35.47	76.84	117.72
IA sector average	-6.27	-1.39	21.46	46.49	78.69
Rank vs peers	1/57	15/53	6/44	4/35	4/22

Source: Financial Express. Cumulative Total Return in GBP, as of 31st March 2018

Quarter in review

Global equity markets have had an eventful start to 2018. The turn of the year saw markets surge ever higher on optimism over the strength of the world economy, big US tax cuts, and upbeat corporate earnings releases. Global growth

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forecasts for 2018 and 2019 were raised by 0.2%, to 3.9% in both years, and the MSCI World Index enjoyed its best January since 1994. This was, however, followed by the largest ever one-day spike in the CBOE Volatility (VIX) Index; the first 10% market correction since early 2016; and a subsequent 8% rebound (all in USD).

February's sell-off was triggered not by weaker economic data but by an acceleration in wage growth in the US. Average hourly earnings increased 2.5% year-on-year in December 2017 after a similarly strong November number and data released in early February 2018 confirmed an unexpected further pick-up in wage growth during January (2.9%). The updates strengthened the prospect of more aggressive rate hikes and prompted investors to consider the implications for bond markets; 10-year U.S. treasury yields rose to a high of 2.95% in February, raising speculation that the long-term downward trend in yields had been broken.

This was all before March, a month in which the year's early optimism faced increasingly strong headwinds from rising inflationary pressures, Federal Reserve (Fed) rate hikes, and protectionist threats. As many anticipated, the Fed did indeed raise rates by 25 basis points, to a range of 1.5% to 1.75%. It did not, however, alter its overall rate projection of three hikes for 2018. The announcement quelled some concerns, though just as it appeared that calm had returned to markets, global equities were rocked once again by fears of a global trade war.

The US administration initially announced tariffs on steel and aluminium imports, followed by a 25% tariff on \$60 billion worth of Chinese imports. The Chinese, in response, announced increased tariffs on \$3 billion-worth of US imports. As the tit-for-tat continues it is worth reiterating that the proposed tariffs on Chinese goods amount to only about 0.1% of Chinese GDP, while those on US goods are even less significant for US and global growth. That is not to say that risks to the trade outlook do not exist, but market gyrations have largely been due to the unpredictable potential impact on corporate profitability of specific industries. Overall, the S&P 500 has declined -0.76% (in USD) year-to-date.

In the meantime, the quarter has seen US companies report strong Q1 2018 earnings and analysts have been busy revising up their earnings estimates for the full year as companies start to communicate the effect the US tax cuts would have. While fiscal stimulus runs the risk of eventually overheating the economy, it significantly reduces the risk of a recession this year. Key early warning indicators for the economy continue to paint a positive picture of the growth outlook: consumer confidence is elevated, jobless claims remain low and job openings are the highest on record.

Looking at Europe, equity markets retreated in March for a second month. Much like the US, February's pullback was set off by rising inflation and interest rate concerns and March's drop was caused by global trade worries. Although there was some relief when the White House declared a temporary exemption for the European Union and other nations on the steel and aluminium levies, it was not enough to fully recover the quarter's losses; the MSCI Europe ex UK Index fell 1.24% (in USD) over the month.

Turning to economics, the conditions in the Eurozone remained encouraging over the three months. January figures revealed that GDP growth for Q4 2017 was confirmed at 0.6% quarter-on-quarter and unemployment was stable at 8.6%. However, forward-looking surveys painted a picture of slower future growth. The composite purchasing managers' index (PMI) hit a 14-month low in March, although the reading of 55.3 still implies solid growth. Annual inflation was 1.1% in February, below the European

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Central Bank's (ECB) target, but Chairman Mario Draghi reiterated that interest rates would not rise until well past the end of the quantitative easing programme.

In the UK, the backdrop of improving wage growth (2.8%) and low unemployment (4.3%), combined with the recent good news that a Brexit transition deal has been agreed, indicated that the Bank of England (BoE) could well raise rates again in May. This is certainly what the market rhetoric suggests. However, with Sterling's rally since the start of the year, UK inflation could also fall quite quickly (currently 2.7%), easing the squeeze on real wages.

Sterling strength has been accompanied by Dollar weakness; hence it is not surprising that Emerging Market (EM) equities have held up relatively well compared to many other markets, supported by still-strong GDP and corporate earnings growth. Brazil generated the strongest return as former President Luiz Inácio Lula da Silva saw his criminal conviction upheld, increasing the chances that the left-wing candidate is prohibited from participating in October's presidential elections. Despite falling back later in the quarter, Russia recorded a strong gain as the central bank cut interest rates and the country's debt was upgraded to investment grade by ratings agency S&P. Although Chinese equities were volatile towards the end of the quarter, due to rising trade tensions with the US, the market recorded a positive return and outperformed. Macroeconomic data remained broadly stable, although there were ongoing signs of a gradual slowing in momentum, with official PMI easing to 50.3.

Performance Drivers

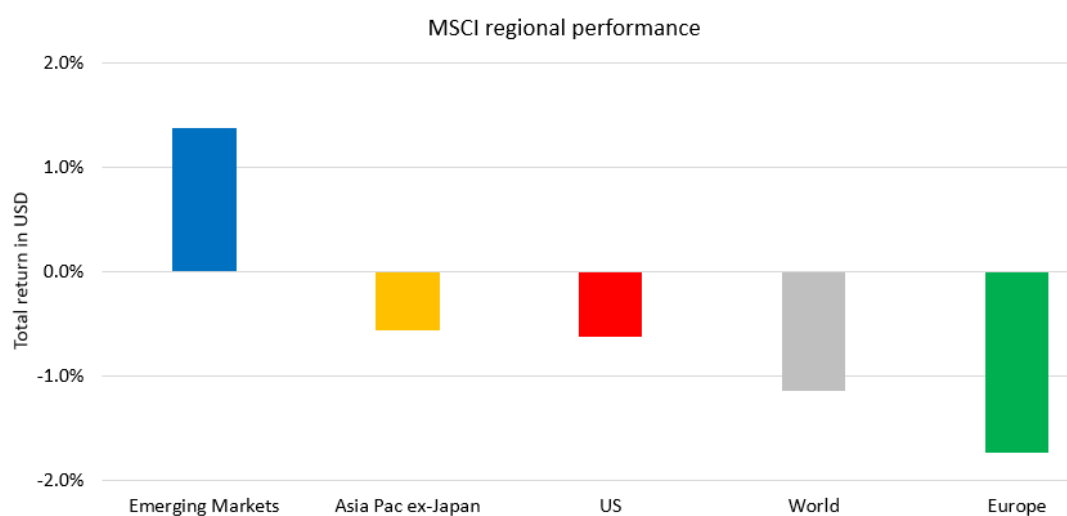


Chart 1: MSCI World Index geographic total return breakdown for Q1 2018, in USD. Source: Bloomberg

From a sector perspective, cyclical sectors performed more strongly in January and February, when the market was focused on faster rate hikes. In March, the broader decline in risk appetites saw more defensive areas outperform. Over the quarter, the weakest performance was in Telecoms, Energy, Consumer Staples and Materials, although most sectors fell. Despite the strong quarter overall for Technology, volatile March's volatile performance weighed on investor sentiment as the quarter drew to a close. Of note was the privacy-driven regulatory concerns, contributing to the sector's weakness during the latter half of March.

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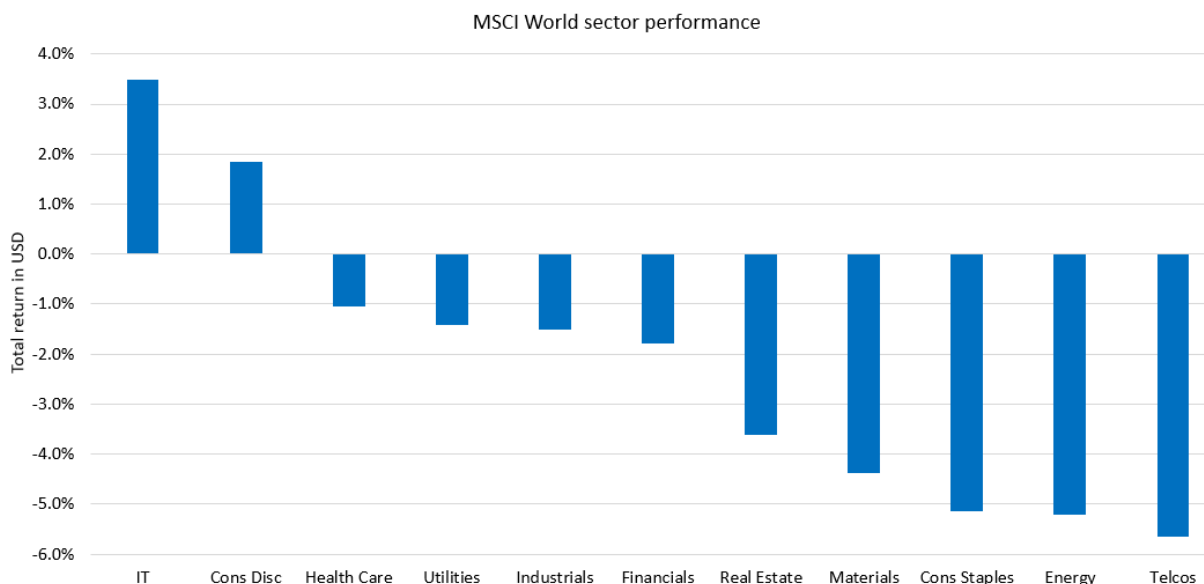


Chart 2: MSCI World Index sector total return breakdown for Q1 2018, in USD. Source: Bloomberg

Positioning

In terms of geographic exposure (chart 3), 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.60%. The largest geographic overweight remains the UK which had a c.17% larger position than the benchmark over the quarter.

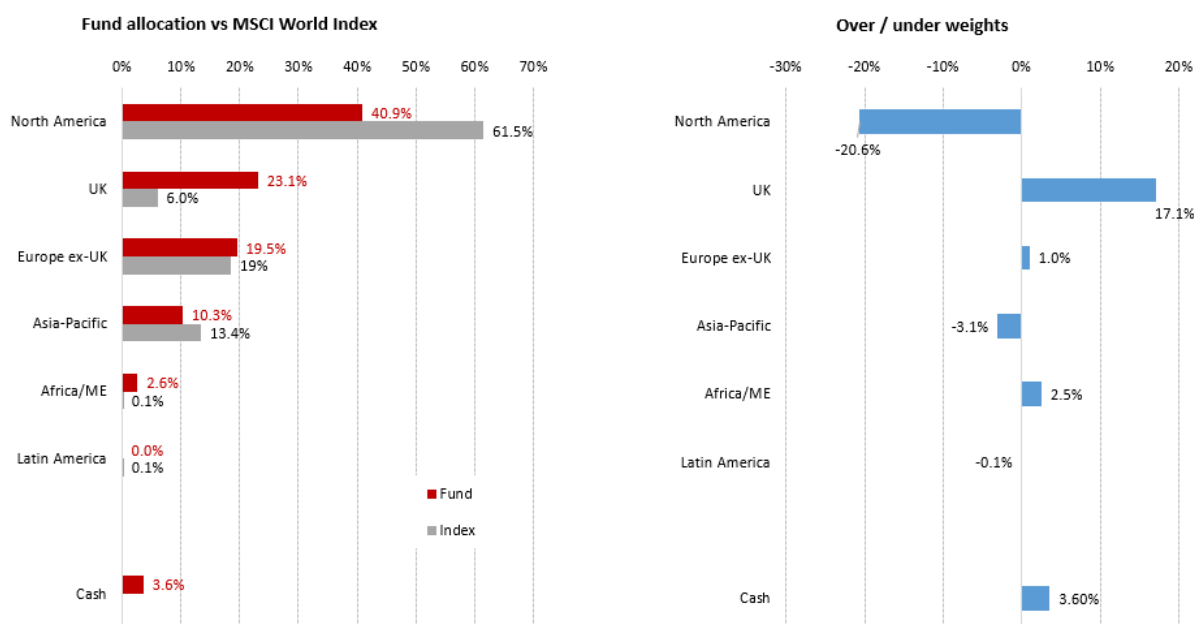


Chart 3: Regional breakdown of the fund versus MSCI World Index. Guinness Asset Management, Bloomberg (data as at 31.03.2018)

We would however note two main points, referring to chart 4; (i) the fund has a lower exposure to the UK when considered by revenues (c.7%) versus by domicile (c.23%). This is because we have favoured

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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.20%) than the equivalent statistic as measured by domicile (c.10%).

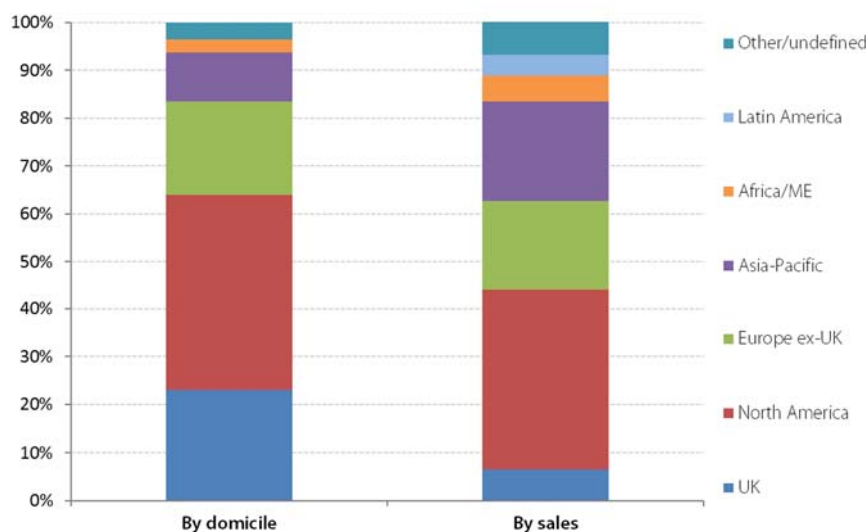


Chart 4: Geographic breakdown of the fund. Guinness Asset Management, Bloomberg (data as at 31.03.2018)

In terms of sectors, the fund benefitted most from our overweight in Industrials and Healthcare, though underweight IT was still a drag given the sector’s positive performance overall. The fund continues to have a zero weighting to Utilities, Materials and Real Estate, and only one position in each of Telecoms and Energy – all to the benefit of the fund’s performance in the last quarter.

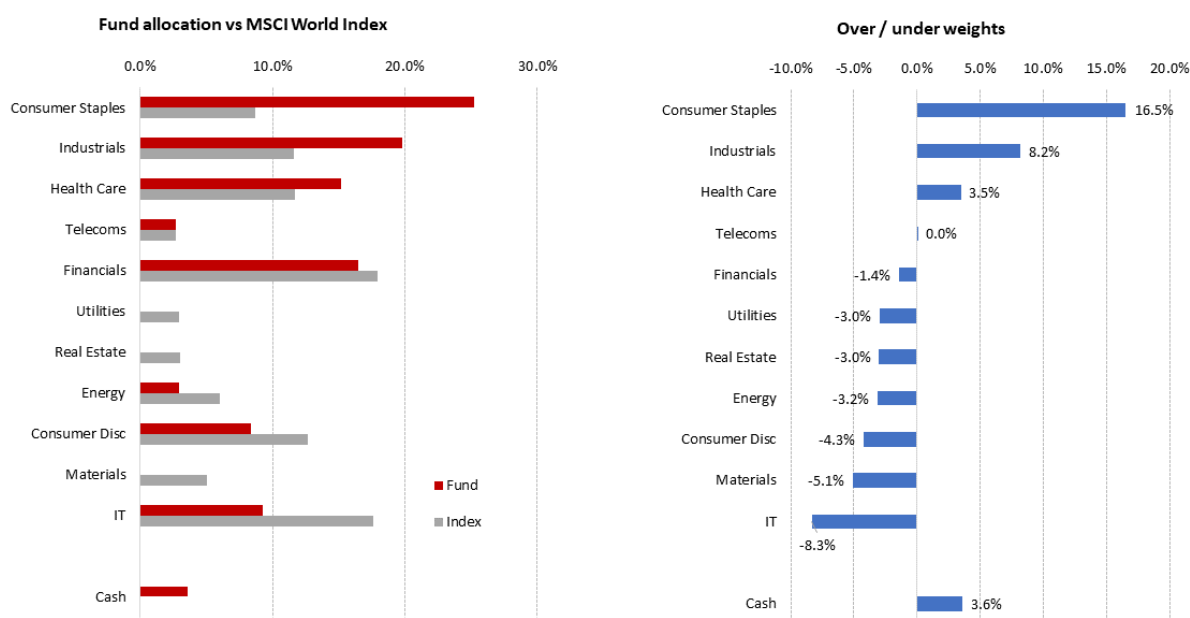


Chart 5: Sector breakdown of the fund versus MSCI World Index. Guinness Asset Management, Bloomberg (data as at 31.03.2018)

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

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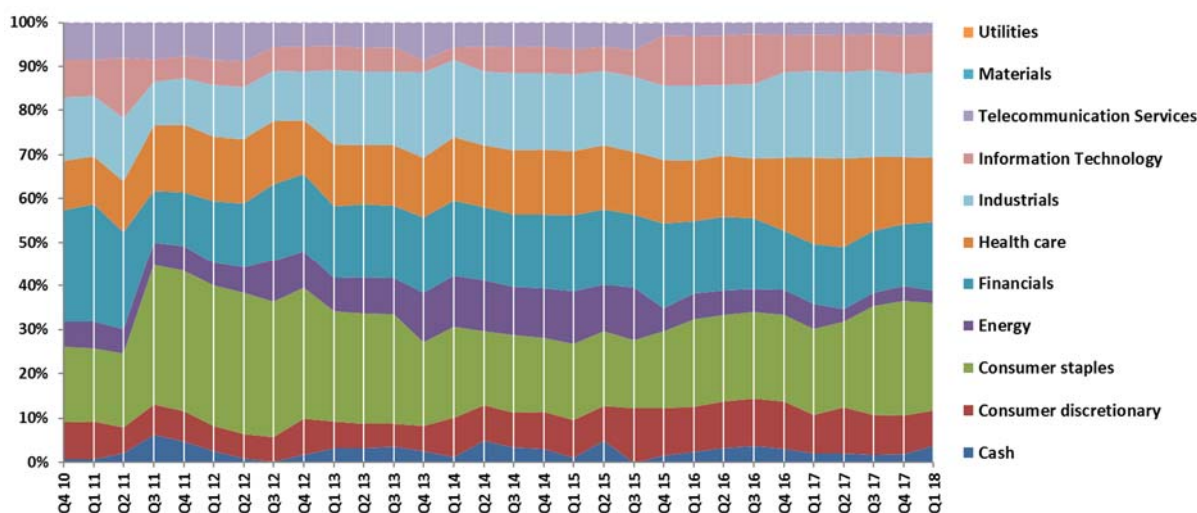


Chart 6: Sector breakdown of the fund since launch. Guinness Asset Management, Bloomberg (data as at 31.03.2018)

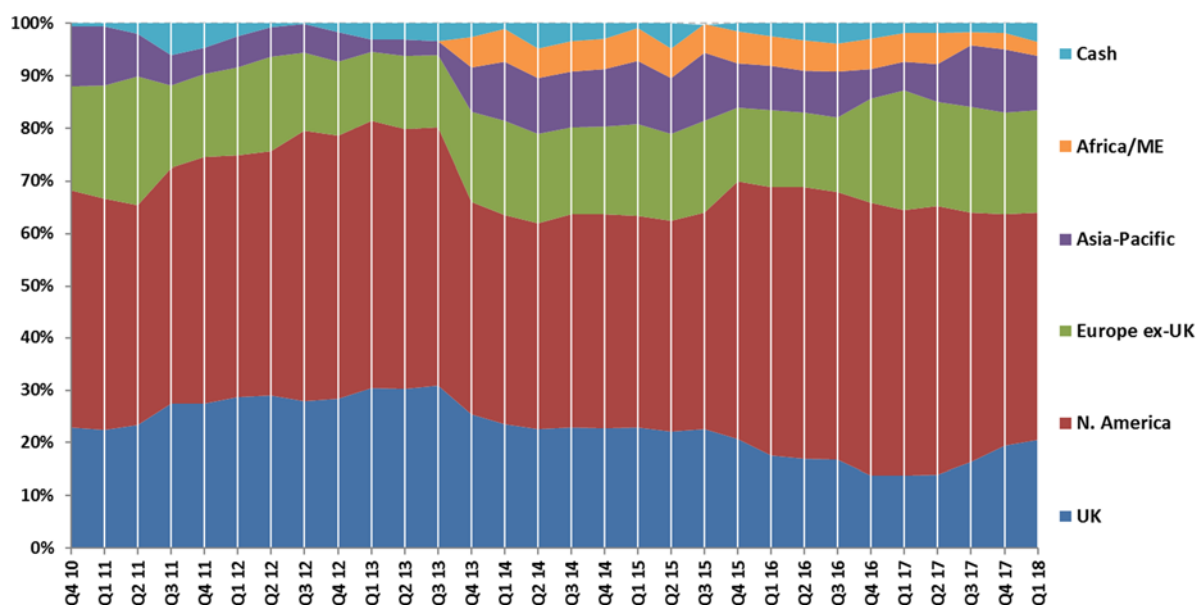


Chart 7: Geographic breakdown of the fund since launch. Guinness Asset Management, Bloomberg (data as at 31.03.2018)

Individual companies that performed well over Q1 were NEX Group, Deutsche Börse and Cisco. Companies that had weaker performance over Q1 were Imperial Brands and Hengan International.

NEX Group (+67.6% in USD) was the best performer in the quarter after a combination of increased market activity and trading volumes was followed by a \$5.5 billion takeover approach from CME Group. The financial technology firm, which provides electronic trading platforms, will be CME Group's largest overseas acquisition and its largest since it



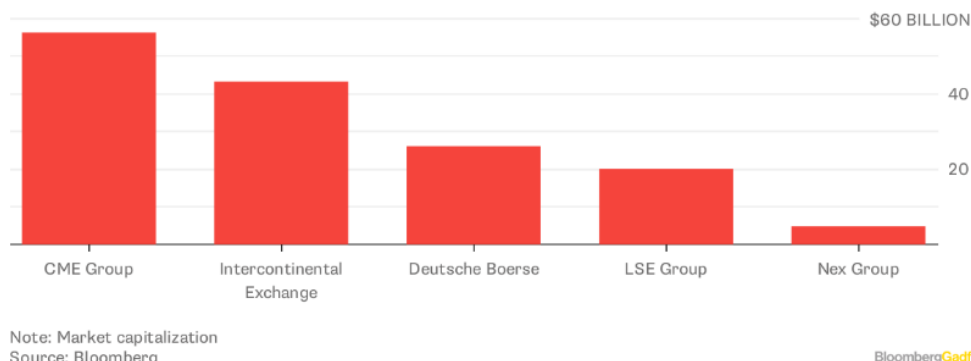
bought Nymex for \$11bn in 2008. CME Group, which owns and operates both the Chicago Board of Trade and the Chicago Mercantile Exchange, will pay 500 pence and 0.0444 in new CME shares for each NEX Group share. The market has seen the latest wave of consolidation in global exchange markets as positive for both companies, with the annual synergy of expenses expected to reach \$200 million per

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year by 2021. Pleasingly, we also own CME Group in the fund, and the stock is up 11.2% (in USD) over the quarter.

Spot The Target

Nex Group looks like an easy morsel for the larger exchange groups



"At a time when market participants are seeking ways to lower trading costs and manage risk more effectively, this acquisition will create significant value and efficiencies for clients globally," said CME Group's CEO, Terry Duffy. "As one organization, we will be able to employ the complementary strengths of each company to serve a wider client base while diversifying our combined businesses across futures, cash and OTC products, and post-trade services."

Deutsche Börse (+16.8% in USD) reported a 3% year-on-year increase in net revenue to €639m, beating analyst expectations (€619m). Theodor Weimer, the new CEO of Deutsche Börse, in charge since January, revealed that the German exchange platform is targeting net revenue growth of at least 5% and net income growth of at least 10%. The Company offers listing and trading services and operates the trading platforms Xetra and Frankfurter Wertpapierboerse. It also provides clearing, reporting, settlement and custody services for fixed income securities, stocks and investment funds. Revenue tailwinds include rising interest rates, greater volatility, and Brexit uncertainty. The company has also recently benefitted from strict cost controls.



Cisco (+12.8% in USD), a world-leading IT infrastructure equipment maker, 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, with CEO Chuck Robbins citing the 9000 as the fastest-growing new product in Cisco's history.



Imperial Brands (-18.8% in USD) is a global tobacco manufacturer. Share price weakness has come due to falling cigarette volumes and increasing regulatory pressure on tobacco companies.



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However, the company's fundamentals remain strong and there is an active effort from management to refocus business on key brand franchises. This will inevitably lead to a fall in cigarette volumes in the short run, as a range of tobacco products are disposed. However, the goal is to maximise profitability and cash generation. This is then to be reinvested in faster-growing next-generation products, which would form the basis of future growth. The company's cashflow return on investment trends upwards and the dividend has attractively been grown nine consecutive times by 10%. Currently trading at a one-year forward P/E multiple of 9.6 and a dividend yield of 6.8%, we believe the market has been overly pessimistic and continue to favour the company.

Hengan International (-16.6% in USD) is one of the largest producers of sanitary napkins, diapers and tissue paper in China. Historically the company has captured significant market share in established distribution channels (maternity stores, hypermarkets) and more recently it has seen growth



from online exposure. Management has built up an e-commerce team to take advantage of the channel shift in China, whereby consumers are increasingly purchasing everyday items online. Alongside this there are new brand launches and a revitalised "Amoeba" sales strategy to maintain its offline market share. Growing revenues, high and stable margins, year-on-year earnings growth and a well-covered, high dividend are some of the highlights which make this a compelling stock. Its recent sell-off points to two factors: first, a slowing momentum of sales growth, and secondly the increasing price of wood pulp – a major input for Hengan's product. We believe the market has been overly pessimistic considering that slowing sales growth has been explained as voluntary curbing, after some regional offices had already hit their yearly sales targets by December. Furthermore, structurally the company is still in the process of reforming its sales strategy that has shown early signs of success.

In the quarter we made no changes to the portfolio. The average turnover of the fund is 20% annually (~5 positions).

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.

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

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		Fund	MSCI World Index
Quality	Average 10 year CFROI	18%	8%
	Weighted average debt / equity	45%	61%
Value	PE (2018e)	16.3	15.6
	FCF Yield (LTM)	6.7	4.3
Dividend	Dividend Yield (LTM)	2.8%	2.3%
	Weighted average payout ratio	59%	52%
Conviction	Number of stocks	35	1650
	Active share	92%	-

Chart 7: Portfolio metrics versus index. Guinness Asset Management, Credit Suisse HOLT, Bloomberg (data as at 31.03.2018)

Outlook

With an increasingly volatile environment potentially on the horizon, 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 a reasonable valuation to the MSCI World on a price to earnings basis and has a free cash flow yield 50% higher than the MSCI World (6.7% vs 4.3% respectively). We believe this provides good value to investors and puts us in good stead in our search for long-term capital growth and a steady, growing income stream.

Thank you for your continued support.

Portfolio Managers

Matthew Page, CFA
Dr Ian Mortimer, CFA

Analysts

Joshua Cole
Sagar Thanki

Data sources

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

Index and stock data: *Bloomberg*

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PORTFOLIO

31/03/2018

Fund top 10 holdings

NEX Group	4.3%
Cisco Systems	3.3%
Microsoft	3.3%
Deutsche Boerse	3.2%
Anta Sports Products	3.0%
Unilever	3.0%
BAE Systems	3.0%
CME Group	2.9%
Gallagher, Arthur J	2.9%
Reckitt Benckiser	2.9%
% of Fund in top 10	31.9%
Total number of stocks in Fund	35

Sector analysis

Consumer Staples	24.8%
Industrials	19.5%
Financials	16.2%
Health Care	15.0%
IT	9.2%
Consumer Disc.	8.2%
Energy	2.9%
Telecomms.	2.6%
Cash	1.7%

Geographic allocation

USA	44.3%
UK	21.0%
France	5.7%
Netherlands	5.6%
China	5.4%
Germany	3.2%
Switzerland	2.8%
Japan	2.7%
South Africa	2.6%
Denmark	2.6%
Other	2.4%
Cash	1.7%

PERFORMANCE

31/03/2018

Annualised % gross total return from launch (GBP)

Fund (Y class, 0.99%OCF)	10.6%
MSCI World Index	11.3%
IA Global Equity Income sector average	8.3%

Discrete years % gross total return (GBP)

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

Cumulative % gross total return (GBP)

	1 month	Year-to-date	1 year	3 years	5 years	From launch
Fund (Y class, 0.99%OCF)	-2.5	-3.0	2.0	30.8	64.6	107.9
MSCI World Index	-3.9	-4.7	1.8	35.5	76.8	117.7
IA Global Equity Income sector average	-4.1	-6.3	-1.4	21.5	46.5	78.7

RISK ANALYSIS

31/03/2018

Annualised, weekly, from launch on 31.12.10, in GBP	Index	Sector	Fund
Alpha	0	0.25	1.24
Beta	1	0.76	0.87
Information ratio	0	-0.34	-0.02
Maximum drawdown	-18.26	-15.50	-16.34
R squared	1	0.80	0.89
Sharpe ratio	1	0.41	0.56
Tracking error	0	6.13	4.43
Volatility	13.83	11.56	12.43

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Source: Financial Express, bid to bid, gross total return. Fund launch date: 31.12.10. Fund Y class (0.99% OCF): Composite simulated performance based on actual returns of E share class (available from Fund launch), calculated in GBP.

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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