Guinness Global Equity Income Fund

INVESTMENT COMMENTARY – August 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	£412m
Launch date	31.12.10
Managers	Dr. Ian Mortimer, CFA Matthew Page, CFA
Analysts	Joshua Cole Sagar Thanki

Performance — 31.07.18

	1 year	3 years	From launch
Fund	12.7	49.7	130.4
Index	12.4	53.8	134.5
Sector	6.6	37.9	95.7

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

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Summary performance

In July, the Guinness Global Equity Income Fund produced a total return of 5.79% (in GBP) versus the MSCI World Index return of 3.79% (in GBP). The fund therefore outperformed the index by 2.00% in the month.

Year-to-date, the fund has produced a total return of 7.54% (in GBP) versus the MSCI World Index return of 6.80% (in GBP). The fund has therefore outperformed the index by 0.74%.

It is pleasing to see that both the short and long-term performance of the fund's strategy remain very strong versus the IA Global Equity Income sector peers:

	QTD	YTD	1yr	3yr	5yr	Since Launch*
Fund	3.79%	7.54%	12.65%	49.69%	67.47%	130.44%
Index	5.79%	6.80%	12.44%	53.84%	81.85%	134.52%
IA sector average	3.57%	2.68%	6.63%	37.90%	54.03%	95.74%
Rank vs peers	2/55	1/55	4/54	6/45	12/36	5/20

Source: Y Class (0.99% OCF) Financial Express. Cumulative Total Return in GBP, as of 31st July 2018. *31.12.2010

Outperformance in the month came largely from good stock selection, particularly within IT, Telecoms and Consumer Staples. Our overweight positions in Healthcare, Industrials and Consumer Staples also proved beneficial, with these sectors performing well over July. We continue to hold no positions in Real Estate, Materials and Utilities and this also benefitted the fund's performance.

Towards the end of the month, we have seen value outperform growth quite significantly. This is in stark contrast to most of the year so far and was triggered by disappointing results from some of the large-cap technology names.

Source: Bloomberg. Dates: 1st January 2018 to 31st July 2018

At month end, the Guinness Global Equity Income Fund has assets under management totalling £412m GBP (c.$540m USD).

July in Review

Global equity markets, like the weather in the northern hemisphere, showed no signs of cooling in July, as investors put aside concerns over global trade tariffs and instead focused on positive economic news releases and a strong start to the second-quarter earnings season. U.S. equities climbed to their highest levels since the market sell-off in February; disappointing results from some technology companies dampened the market's momentum, but a de-escalation of trade tensions between the U.S. and Europe helped investors regain optimism.

Trade Tariffs

On July 6th, under Section 301 of the Trade Act of 1974, the White House imposed a 25% import tariff on US$34 billion of Chinese goods, although it notably excluded major consumer goods such as televisions and smartphones. China retaliated with an equal tariff on U.S. goods; the U.S. then threatened a 25% levy on another $16 billion of Chinese goods, possibly increasing to an additional 10% on $200 billion-worth.

Because the U.S. exports only about $130 billion to China, Chinese officials would be forced to retaliate with higher tariff rates or non-tariff measures (e.g. investment restrictions, sales of U.S. assets or currency devaluation) if they are to continue to respond in kind. Since April, the Chinese Yuan has depreciated against the Dollar by roughly 9%, making U.S. goods less competitive and, to some extent, offsetting the impact of the tariffs on both the U.S. and Chinese economy.

Larger Chinese enterprises should be able to withstand the impact of the tariffs by negotiating with their U.S. customers, relocating production to outside China, or leveraging the complex global supply chain to change how their internal costs are charged among subsidiaries. However, smaller companies in

China with significant revenue exposure to tariffed exports are likely to suffer, particularly given that they are already struggling with rising wages, social insurance contributions and tighter environmental protection laws. According to Chinese customs data, private companies, most of which are small and medium-sized, generate about 45% of China's exports. If tariffs were to have a large adverse effect on these companies, it could well lead to more onshore loan defaults.

Outside China, Asian countries reliant on domestic demand to fuel growth are better positioned to weather the current trade frictions. Open economies such as South Korea, Taiwan and Singapore, which have substantial export exposure to both China and the U.S., are more likely to suffer. In 2017, the share of total exports to the U.S. and China was 42.3% for Taiwan, 29.4% for South Korea and 23.1% for Singapore.

Earnings Season

Over two-thirds of S&P 500 companies had reported second quarter results by the end of July. According to Bloomberg, 86% of those companies beat analyst earnings expectations and 73% beat on revenues. All sectors except for Real Estate reported earnings growth greater than 10%. (The fund has never held a position within the Real Estate sector). Looking deeper within the earnings releases, "tariffs" were a hot topic this quarter with over 45% of companies mentioning the term on their calls. However, most companies' mentions indicated that they have seen little or no impact on their businesses so far.

Another major focus of this earnings season has been the mixed news coming from the FAANGS. The Financial Times wrote on 1st August: "The FAANGs are dead; long live the FAANGs". This came after a month in which Facebook suffered the biggest one-day loss of market value in U.S. history, dropping almost US$120bn. Twitter followed Facebook in delivering disappointing results (and a fall in user numbers) and Intel said a new key chip technology would not be available until late next year. Shares in Netflix also fell when its quarterly earnings revealed disappointing viewer growth. The tech sector's performance was much weaker in July, compared with the previous few months; Facebook, Amazon, Apple, Netflix and Google have dominated market performance so far this year, seeming to promise relentless growth based on society's digital revolution. It's worth noting that without the inclusion of technology stocks and Amazon, which is classified as a retailer within the Consumer Discretionary sector, the S&P 500 Index would be negative year-to-date – it is currently up 6.47% (in USD) for 2018 to the end of July.

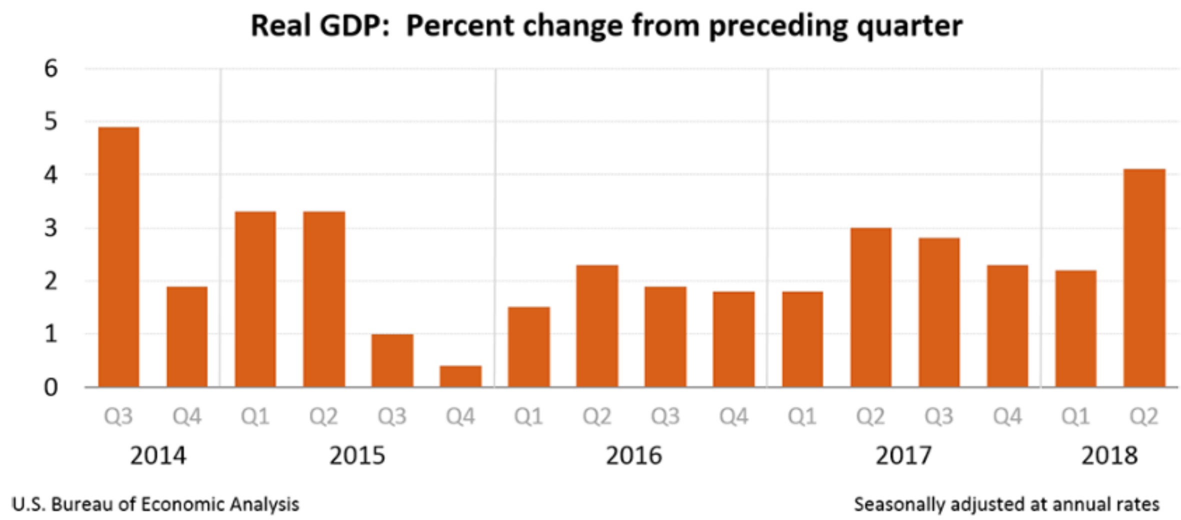
Within the portfolio, 20 companies reported earnings in July, with 15 showing positive surprises:

Company	Date of announcement	Period	Estimated earnings (Local currency)	Actual earnings (Local currency)	Surprise
VF Corp	20-Jul	Q1 19	0.33	0.43	30.70%
Roche Holding AG	26-Jul	S1 2018	9.03	9.84	9.00%
Aflac Inc	26-Jul	Q2 2018	0.99	1.07	8.10%
United Technologies Corp	24-Jul	Q2 2018	1.85	1.97	6.30%
Microsoft Corp	19-Jul	Q4 2018	1.08	1.13	4.90%
Eaton Corp PLC	31-Jul	Q2 2018	1.33	1.39	4.80%
Procter & Gamble Co/The	31-Jul	Q4 2018	0.90	0.94	0.044
Merck & Co Inc	27-Jul	Q2 2018	1.03	1.06	2.80%
Unilever PLC	19-Jul	S1 2018	1.19	1.22	2.30%
Johnson & Johnson	17-Jul	Q2 2018	2.07	2.10	1.40%
CME Group Inc	26-Jul	Q2 2018	1.72	1.74	1.20%
AbbVie Inc	27-Jul	Q2 2018	1.98	2.00	1.20%
Danone SA	27-Jul	S1 2018	1.75	1.76	0.30%
Taiwan Semiconductor Manufacturing	18-Jul	Q2 2018	2.78	2.79	0.10%
British American Tobacco PLC	26-Jul	S1 2018	1.37	1.37	0.10%
Illinois Tool Works Inc	23-Jul	Q2 2018	1.97	1.97	-0.10%
Reckitt Benckiser Group PLC	27-Jul	S1 2018	1.40	1.40	-0.20%
Deutsche Boerse AG	25-Jul	Q2 2018	1.43	1.42	-0.40%
Arthur J Gallagher & Co	26-Jul	Q2 2018	0.63	0.62	-1.40%
Schneider Electric SE	26-Jul	S1 2018	2.01	1.93	-3.80%

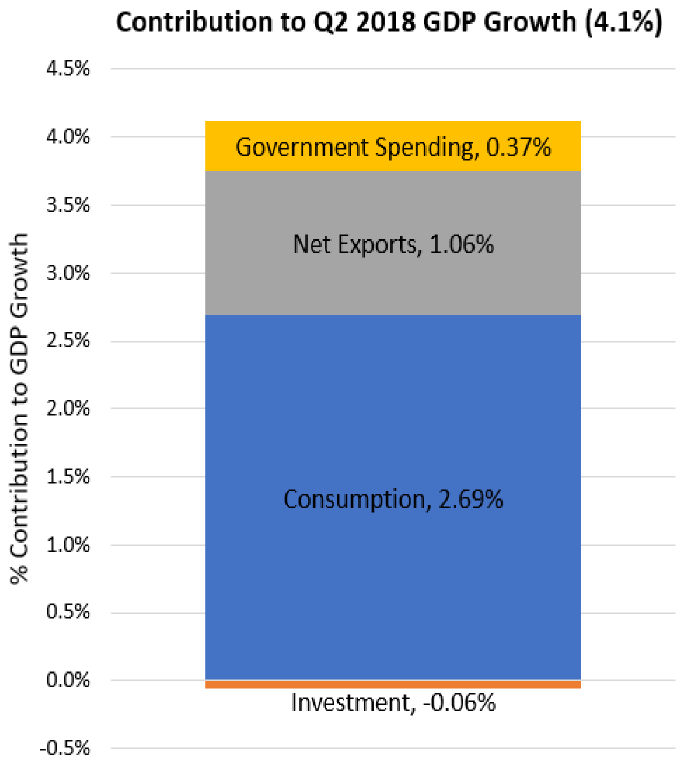
Source: Bloomberg

Economics

The first release of U.S. GDP shows that the economy expanded at an annual rate of 4.1% in the second quarter of 2018 (Q2 2018 vs Q2 2017). Whilst this was lower than the consensus of 4.4%, it represented the highest pace of growth in four years.



Looking deeper into the components of GDP gives some insights into the sources of that growth:



Source: U.S. Bureau of Economic Analysis. Seasonally adjusted at annual rates

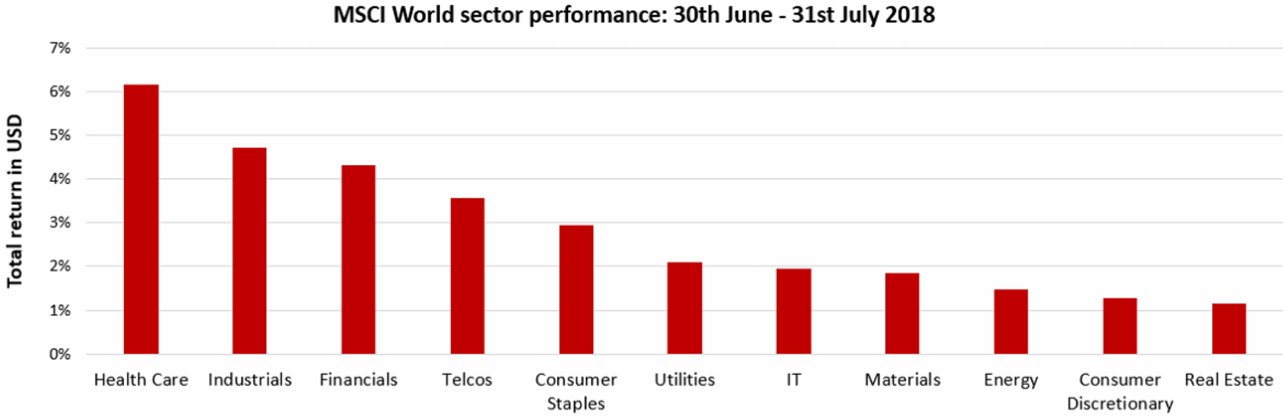
- The largest component of GDP is consumer spending, which represents nearly 70% of the U.S. economy; it rose 4.0% for the second quarter, up from 0.5% for the first quarter.
- Business investment, accounting for 18% of GDP, was up 5.4% in the second quarter, compared to an increase of 8.0% in the first quarter. This reflects not only the initial benefit from the tax cuts, but also the strength in the Energy and Technology sectors this year. This led to a negative contribution to quarter-on-quarter GDP growth.
- Government spending (17% of GDP) grew 2.1% in Q2 verses 1.5% in Q1 2018.
- Net exports (which constitute -5% of GDP since the U.S. imports more than it exports) had a positive contribution to GDP growth in the second quarter. This was because exports surged 9.3% versus Q1 2018, whereas imports grew by only 0.5%. This was primarily due to energy-related exports, but also the acceleration in soybean exports in advance of the retaliatory tariffs put in effect by China.

In Europe, equity markets advanced as earnings releases proved to be reasonably strong and trade tensions eased after an agreement was reached between the EU and the U.S. to work together to reduce tariffs related to non-auto industrial goods. In macroeconomic news, Mario Draghi reiterated his positive view on the state of the eurozone economy but made no changes to the European Central Bank (ECB) policy or forward guidance. In fact, he supported market expectations for interest rates to remain the same until late 2019 and made clear that the ECB would not be rushed into early rate hikes by accusations of currency manipulation.

UK equity markets rose during July, a month dominated by Brexit headlines, mixed economic data and continued Sterling weakness. July saw the publication of the Government's Chequers plan, which resulted in the resignation of committed 'Brexiteers' David Davis (Secretary of State for Exiting the EU) and Boris Johnson (Foreign Secretary). This pushed Sterling weaker on fears that Prime Minister, Theresa May, could face a leadership challenge.

China's economic activity data remained soft over the month which points to a negative impact from continuous deleveraging efforts. Second quarter GDP slowed to 6.7% year-on-year, and alongside the trade tensions, lead to a weaker Chinese Yuan. This made it the worst-performing currency against the Dollar in July.

Market Update



Source: Bloomberg. As of 31st July 2018

Healthcare, Industrials and Financials were the stand-out sectors in July, although all sectors registered gains. Information Technology led early in the month, but selling pressure later increased as several large tech companies reported underwhelming results. This in fact led to value-biased stocks outperforming growth, with a broad rotation into more traditionally defensive sectors – which benefitted the portfolio since it is overweight Healthcare and Consumer Staples.

Portfolio Update

We made one change to the portfolio in July. We bought a new position in Broadcom and sold our holding of CA Technologies.

Broadcom announced that it would buy CA Technologies for US$18.9bn, the chipmaker's first major takeover since it was blocked by President Trump from pursuing a bid for rival Qualcomm earlier this year. Broadcom manufactures digital and analogue semiconductors, and serves four primary markets: wired infrastructure, wireless communications, enterprise storage, and industrial & others. With a history of successfully integrating acquisitions, Broadcom has been able to grow revenues and gross profits consistently every year. At time of purchase, the stock was trading on a one-year forward price-to-earnings ratio of 10.6, which is significantly cheaper compared to both its history and the market. We found this particularly attractive given the strong growth profile of Broadcom and the semiconductor industry in general. The recent sell-off points to market pessimism regarding the CA acquisition, since CA's legacy software assets are seen as highly tangential to Broadcom's core business.

For the transaction to be deemed successful in the future, Broadcom will need to quickly divest pieces it deems non-core while integrating elements that are synergistic. Substantial SG&A (Selling, General & Admin) cuts are likely: CA's SG&A intensity last quarter was 36% of sales, while Broadcom operates at below 6%. While the full gap can't be bridged due to the industries each company operates in, it can be narrowed. Broadcom has a history of dramatically improving operating and gross margins through scale and cost-cuts of its target companies.

CA was the best performer in the fund over July (+23.4% in USD) due to the takeover bid from Broadcom, and this presented a good profit-taking opportunity. We initiated a position in CA at the end of 2015 and it has since returned 63% (in USD). The software manufacturer provides tools for managing networks, databases, applications, storage, security, and other systems. Primarily serving large enterprises, its applications work across both mainframes and cloud computing environments. Revenues and gross profit have been falling in recent years mainly due to a lack of organic growth and a decrease in software subscriptions. Cash flows returns on investment have also been gradually falling year-on-year, and although acquisitions have added to inorganic sales growth, they have also added to net debt. The bid from Broadcom led to a 18% rise in CA's share price and this provided an attractive sell opportunity.

The second best performing stock in July was **Vodacom** (+19.6% in USD). The South African company provides a cellular telephone network with operations also in Tanzania, Mozambique, Lesotho and the Democratic Republic of Congo. The company has been able to take advantage of its large market share (~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 above 14.6% for the past 18 years. The group has a strong balance sheet and attractive dividend yield of 6.4%. Capital expenditure has been directed to improve the company's network, which has reached 78% 4G population coverage and 99% 3G population coverage. Its sell-off at the end of last quarter points to new regulation which prohibits service providers 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. The market was initially overly pessimistic and this is reflected by the strong rebound seen over July.

The weakest performer in the fund was **Hengan International** (-7.5% in USD). The company 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 been seeing 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 making this a compelling stock. Its recent weak performance comes due to increasing pulp prices – to which the company is significantly exposed – and a concern over competition from the likes of Proctor and Gamble and Kimberly Clark, as well as Japan's Unicharm and Kao.

Thank you for your continued support.

Portfolio Managers
Matthew Page, CFA
Dr Ian Mortimer, CFA

Analysts
Joseph Stephens
Sagar Thanki

Data sources

Fund performance: *Financial Express, Total return in GBP*

Index and stock data: *Bloomberg*

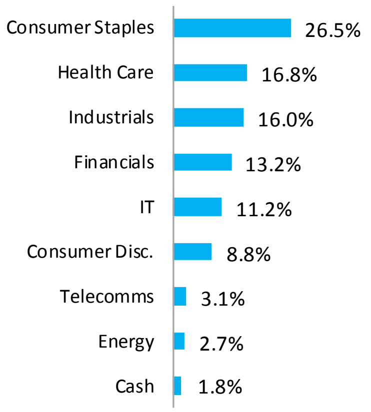
PORTFOLIO

31/07/2018

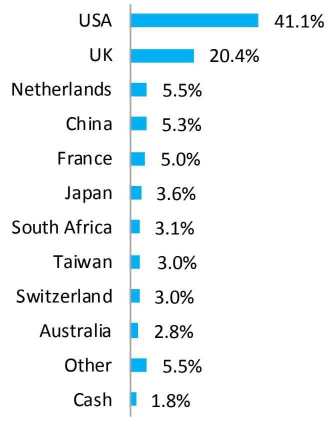
Fund top 10 holdings

British American Tobacco	3.6%
Japan Tobacco	3.6%
WPP	3.1%
Vodacom	3.1%
Reckitt Benckiser	3.1%
VF Corp	3.0%
Taiwan Semiconductor	3.0%
Roche Holding	3.0%
Johnson & Johnson	2.9%
Broadcom	2.9%
% of Fund in top 10	31.1%
Total number of stocks in Fund	35

Sector analysis



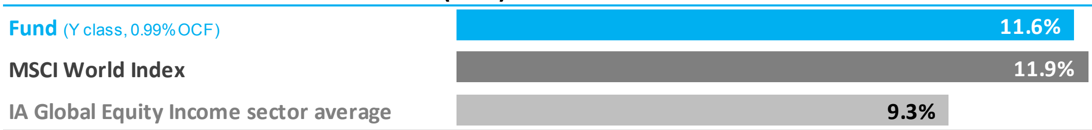
Geographic allocation



PERFORMANCE

31/07/2018

Annualised % total return from launch (GBP)



Discrete years % total return (GBP)	Jul '14	Jul '15	Jul '16	Jul '17	Jul '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 % total return (GBP)	1 month	Year-to-date	1 year	3 years	5 years	From launch
Fund (Y class, 0.99% OCF)	5.8	7.5	12.7	49.7	67.5	130.4
MSCI World Index	3.8	6.8	12.4	53.8	81.9	134.5
IA Global Equity Income sector average	3.6	2.7	6.6	37.9	54.0	95.7

RISK ANALYSIS

31/07/2018

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, 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 monitor