

Guinness Global Equity Income Fund

INVESTMENT COMMENTARY – November 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 £429m

Launch date 31.12.10

Managers Dr. Ian Mortimer, CFA
Matthew Page, CFA

Analysts Sagar Thanki
Joseph Stephens

Performance 31.10.18

	1 year	3 years	From launch
Fund	5.8	46.2	120.8
Index	5.1	51.9	127.1
Sector	-0.1	35.3	87.9

Annualised % gross total return from launch (GBP)

Fund	10.6%
Index	11.0%
Sector	8.4%

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 October, the Guinness Global Equity Income Fund produced a total return of -4.66% (in GBP) versus the MSCI World Index return of -5.44%. The fund therefore outperformed the index by 0.78% in the month.

Year to date, the fund has produced a total return of 3.04% versus the MSCI World Index return of 3.43%. The fund has therefore underperformed the index by 0.39% over the year so far.

It is pleasing to see that both the short and long-term performance of the fund remain very strong versus IA Global Equity Income Sector peers.

	YTD	1yr	3yr	5yr	Since Launch*
Fund	3.04%	5.76%	46.20%	62.56%	120.81%
Index	3.43%	5.13%	51.89%	74.75%	127.10%
IA sector average	-1.41%	-0.06%	35.29%	44.46%	87.94%
Rank vs peers	8/54	6/53	6/44	8/37	5/19

Source: Financial Express. Cumulative Total Return in GBP as of 31 October 2018

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Performance drivers

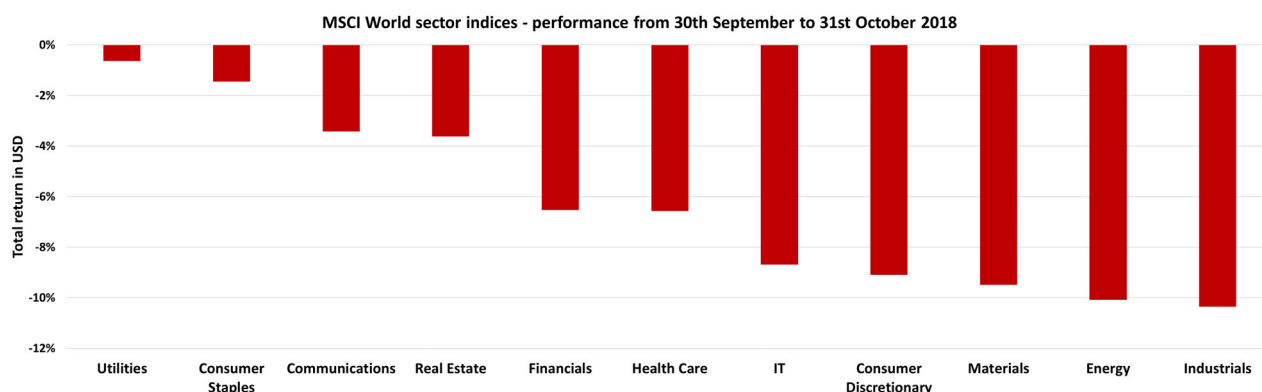


Chart 1. Source: Bloomberg. As of 31st October 2018

Defensive sectors outperformed Cyclical over October and the performance of the fund was particularly aided by our overweight allocation to Consumer Staples. After underperforming for much of the year, the sector had a very strong month (Chart 2), as markets rewarded those stocks less vulnerable to a slowing economy.

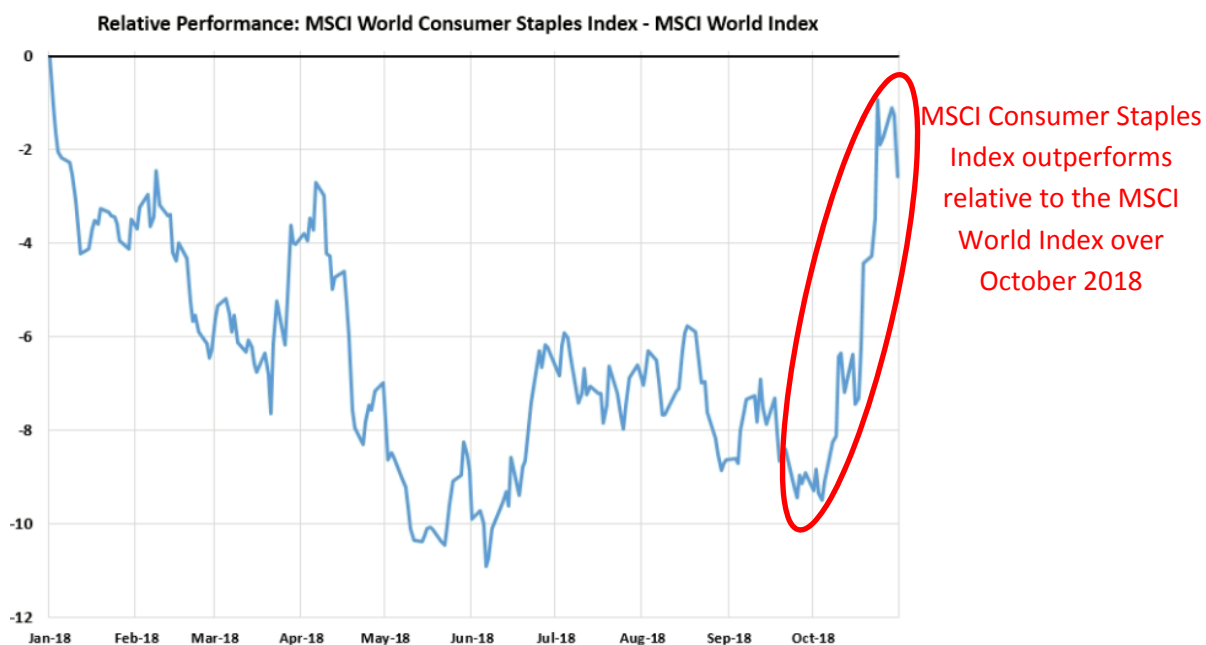


Chart 2. TR in USD. Source: Bloomberg. As of 31st October 2018

This coincided with the outperformance of Value versus Growth (Chart 3).

Guinness Global Equity Income Fund



Chart 3. Source: Bloomberg. As of 31st October 2018

Upside in the quarter also came from good stock selection, particularly within the Financials sector. The absence of banks from the portfolio helped performance. The fund's Financials exposure comes from security exchanges (CME Group, Deutsche Boerse) and insurance (Arthur Gallagher, Aflac), which all performed well overall. Banks and asset managers notably underperformed due to cyclical concerns and contagion from rising bond yields.

The fund also benefitted from continuing to hold no positions in Materials and only one position within the Energy sector. These sectors were amongst the worst-performing in the month after oil prices fell following reports of rising oil supplies and a weakening demand outlook. The earlier spike in oil price caused by US sanctions on Iran was almost reversed as Saudi Arabia pledged to increase production to cover any shortfall left by Iran.

In a rare occurrence, Utilities was the best-performing sector over the month. Power companies had the best month relative to the market since 2001, rallying more than 3% in October and beating the S&P 500 by 12%. Such an outperformance has occurred only four times previously, all surrounding market crashes (chart 4). Although the fund has zero exposure to the sector, the drag on active performance was minimal since Utilities makes up only 3% of the MSCI World Index.

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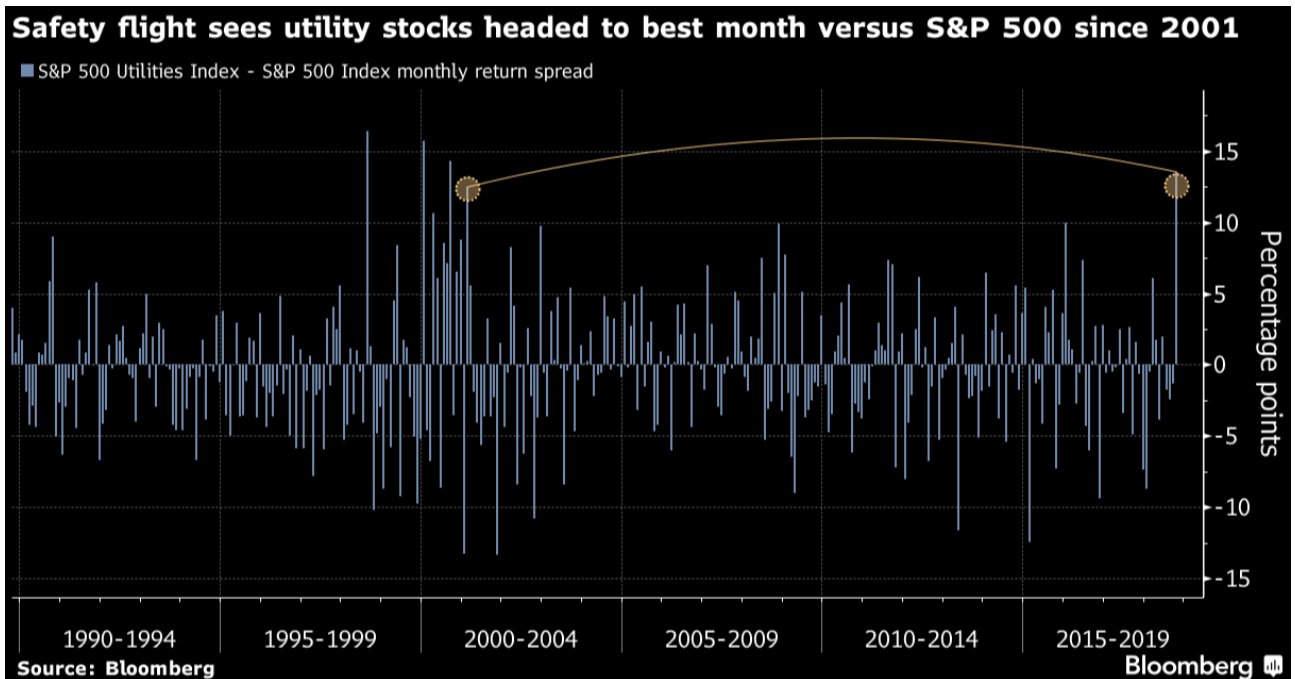


Chart 4. Source: Bloomberg. As of 31st October 2018

Drags on performance came largely from our overweight position in Industrials, which was the worst-performing sector over the month. Third-quarter results from 3M and Caterpillar, two US industrial bellwethers, fed the concern that earnings have peaked. 3M cut its earnings forecasts and while Caterpillar's profits beat forecasts, its warnings of rising materials costs rattled investors. Trade tariff concerns also negatively affected the sector; threatened US tariffs on effectively all Chinese imports are expected to have a knock-on effect on all global supply chains. The cyclical nature of industrial stocks makes them sensitive to the changing sentiment surrounding global growth.

Portfolio update

The strongest individual performer in the fund was **CME Group** (+7.7% in USD). The return of volatility is a boon for the world's leading derivatives exchange and October volumes trended 40% higher than the previous year. CME is well positioned to achieve double-digit revenue growth in 2018-19 due to higher volatility, growing non-US participation, data fee increases and a growing shift towards electronic options. Equity index volume will likely outstrip growth in other asset classes this year, given weak 2017 comparisons, though interest rates and energy contracts remain the key long-term drivers, supported by the unwinding of quantitative easing and rising US oil exports. CME is particularly well placed to benefit from increased interest rate hedging around Fed rate hikes 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 cashflow returns on investment increasing every year for the last five years.



Earlier in the year, CME was also rewarded by the market over its bid for NEX Group, the financial technology firm which provides electronic trading platforms. NEX will be CME Group's largest overseas acquisition. The market sees 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 year by 2021. The acquisition allows CME to offer clients significant margin savings and to provide access to a large base of bank clients to whom it could market its core futures, options and data products. The deal also supports CME's international expansion plans, as 50% of NEX's revenue is generated outside of the US.

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Procter & Gamble (+7.5% in USD) also performed well in October. The world's largest maker of consumer packaged goods divides its business into five global segments: Beauty, Grooming, Health Care, Fabric Care and Home Care, and Baby, Feminine and Family Care. Around 24 of P&G's brands are billion-dollar sellers, including Always, Braun, Crest, Fusion, Gillette, Head & Shoulders, Mach3, Olay, Oral-B, and Pantene, as well as Bounty, Charmin, Dawn, Downy, Gain, Pampers, and Tide. Even though P&G holds market-leading positions in several product categories, the company has been successful in focusing resources on roughly 40 best-selling brands. Best-sellers are those that generate more than \$500 million annually and represent around 85% of sales; brands that fall below this metric are typically sold off. Strong recent performance comes after earnings and sales releases beat analyst estimates; P&G saw sales volume and market share growth across numerous product categories in both the US and China, as well as e-commerce channels. Gross margins also seem to be somewhat protected from rising costs via significant pricing power and expected efficiency gains.



The market has also seen positives from one of P&G's largest acquisitions in the last decade. In May 2018, it agreed to buy the Consumer Health unit of Merck KGaA for \$4.2 billion. The purchase will add vitamins and supplements including the Seven Seas brand, to P&G's portfolio and expand its operations in Latin America and Asia. The new unit adds to both revenue growth and profitability.

The worst-performing stock in October was **WPP** (-21.0% in USD), a position we have held in the portfolio since August 2015. After 18 months of good performance (+47% in USD to Q1 2017), the company has over the last year faced both internal and external challenges. The group, which until this month was the world's largest advertising group (by market capitalisation), has seen its stock market value fall after the loss of large global clients Ford, American Express and United Airlines, and after management announced lower sales guidance from -0.5% decline to -1.0% decline. WPP's CEO, Mark Read, who was confirmed in charge in September, faces an uphill task in trying to steady the ship after the abrupt departure of founder and former CEO, Sir Martin Sorrell, earlier this year. Strategies underway seem to focus on merging advertising networks and selling lower-growth parts of the business to become more streamlined.



Further, the cashflow return on investment profile is high and stable, operating margins are around 20%, the company has had positive sales growth every year since 2002 (including 2009), the dividend is well covered and growing, and the balance sheet is strong. We are therefore minded to maintain our holding in the company at this stage, particularly given that market pessimism seems overdone: the company's shares trade on a 1-year forward price-to-earnings multiple of 8.1x – almost two standard deviations below its 10-year average – and the current dividend yield is close to 7%. Looking at peers, the general advertising environment seems more positive than at the start of the year, and we look closely towards the December analyst day for further insights on progress and outlook for 2019.

We made no changes to the portfolio in the month.

October in Review

"October. This is one of the peculiarly dangerous months to speculate in stocks. The others are July, January, September, April, November, May, March, June, December, August, and February."

Mark Twain, Pudd'nhead Wilson (1894)

As Halloween passes by and October comes to a close, it seems the month succeeded in spooking some investors. The month has historically been the most volatile; the S&P 500 Index on average registers more daily moves of at least 1% in October than in any other month.

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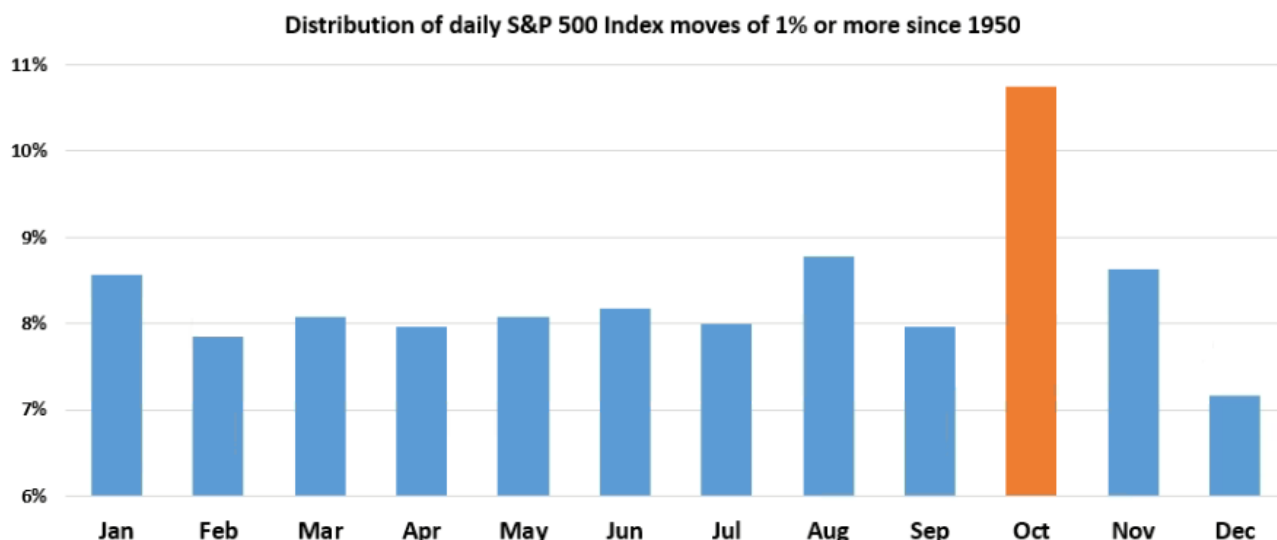


Chart 5. Source: Bloomberg. As of 31st October 2018

Some of the biggest market falls have happened in October. The 1929 crash took place in October, as did the one in 1987, which saw the S&P 500 lose more than 20% of its value in one day. The biggest sell-offs of the 2008 Financial Crisis also occurred in the month.

Quite fittingly then, October 2018 was the worst month for global equities this year, and in fact the worst since May 2012.

MSCI World 10 worst monthly performances of the last decade

Rank	Date	MSCI World Total Return Monthly Change
1	31 October 2008	-19.0%
2	30 September 2008	-12.1%
3	28 February 2009	-10.5%
4	31 May 2010	-9.9%
5	31 May 2012	-9.0%
6	30 September 2011	-8.8%
7	31 January 2009	-8.8%
8	30 June 2008	-8.1%
9	31 January 2008	-7.7%
10	31 October 2018	-7.4%

Chart 6. Source: Bloomberg. Total Return in USD. As of 31st October 2018

As seen below, all regions saw negative performance, with the UK and US faring best and Asia Pacific ex-Japan doing worst.

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Guinness Global Equity Income Fund

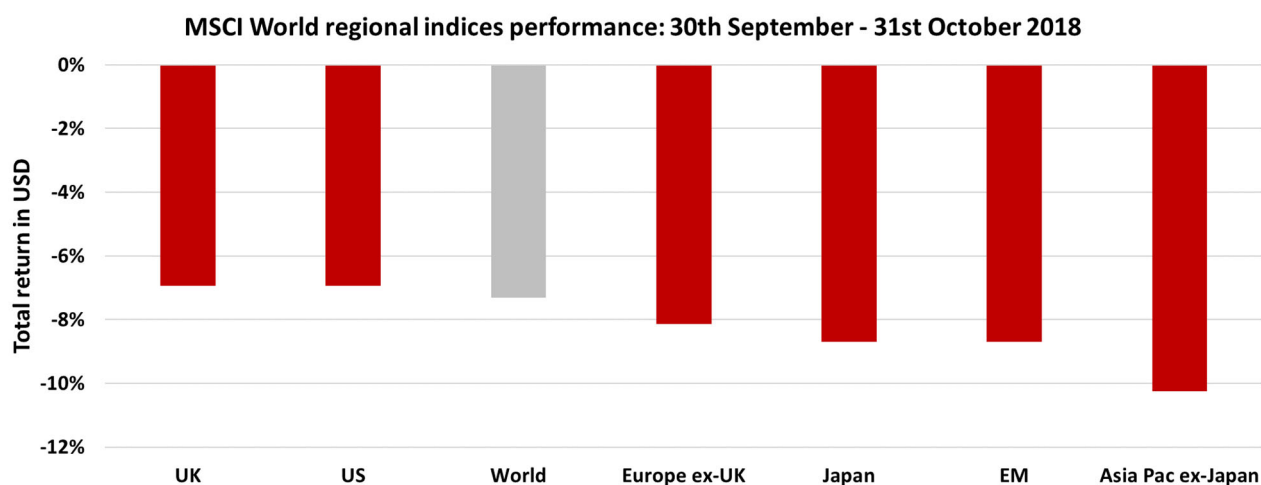


Chart 7. Source: Bloomberg. As of 31st October 2018

Although there was no specific catalyst for the sudden set-back, equity markets seemed to have grown increasingly sensitive to economic, corporate and geopolitical risks. Continuous trade tensions, some disappointing earnings from the 'big tech' darlings, and a rising interest rate environment all contributed to unsettled markets and fears rose regarding the pace of economic slowdown that could be seen in 2019.

In the US there were doubts over the continued strength of corporate earnings and the outcome of the mid-term elections being held in November, while a strong Dollar maintained the pressure on Emerging Markets. Quarter three reporting season has been characterised by investors shrugging off positive earnings announcements, citing worries that earnings and profits may have peaked.

74% of the S&P 500 companies had reported by the end of October. Of these:

- 78% reported higher actual EPS compared to analyst estimates, with an average 'beat' of 6.8%. Both figures are above the five-year average.
- 61% reported higher sales compared to estimates, with an average 'beat' of 1.0%. Both figures are also above the five-year average.
- Companies that reported positive earnings surprises saw an average price decrease of -1.5% for the period from two days before the earnings release through two days after. The five-year average stands at an increase of +1.0%.

The blended year-over-year earnings growth rate for the third quarter (combining actual results for companies that have reported and estimated results for companies that have yet to report) is 24.9% today, which is above the estimate of 19.3% at the end of last quarter. If 24.9% is the actual growth rate for Q3, it will mark the second highest earnings growth since Q3 2010.

Despite this, the S&P 500 Index closed higher only six days this month, and for the first 30 days there were no back-to-back gains. The VIX Index (gauge of volatility) shot upwards after a subdued six months, and although its level stayed below its February peak, the futures contracts tied to the Index point to a greater expected persistence of volatility for the next three months at least.

However, looking past market noise, economic releases continue to be strong. The initial estimates for third-quarter US GDP came in at 3.5% quarter-on-quarter growth, beating consensus expectations. US consumer spending was a significant driver of the strong GDP reading, though net exports were a drag, with businesses likely to have brought forward imports ahead of scheduled tariff increases. The US unemployment rate for September fell to 3.7% – the lowest in almost 50 years – and this has supported consumer confidence, which remains close to record highs.

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Tariff tensions, alongside the intentional shift from Chinese authorities to slow the pace of credit growth, have also contributed to a slowdown in China. GDP growth recorded 6.5% (year-on-year) for the third quarter and this was marginally lower than consensus expectations, though still robust. Emerging markets more broadly have been hurt by the increase in yields in the US. While the US 10-year government bond yield has now come down from the highs of the month, the pace of the move through to 3.2% is a concern for those emerging markets with high dollar-denominated debts. Coupled with the recent risk-off environment, this led to weaker EM and Asia equities and both fell by more than 8% (in USD).

In the Eurozone, recent purchasing managers' indices (PMIs) continue to disappoint; the flash estimate for the composite PMI fell to 52.7 for October. Political concerns in Europe have also not dissipated. The Italian government submitted a budget plan to the European Commission that would see the 2019 deficit rise to 2.4% of GDP. The Commission rejected its proposal and has asked that revisions be made. Moody's downgraded Italy's sovereign debt by one notch but crucially the rating was not moved below investment grade. In Germany, pressure on Angela Merkel mounted further following election results in Hesse where each of the CDU and Socialists lost around 11% of the vote, prompting her to say that she will stand down as chairman of the CDU in December and not seek re-election in 2021.

In the UK, Governor of the Bank of England and Chairman of the Monetary Policy Committee (MPC) Mark Carney noted that businesses were cautious due to the uncertainty around Brexit negotiations. The same could be said for the MPC overall, which left interest rates on hold at 0.75% despite noting wages were rising faster than expected – in fact, at the fastest pace in almost a decade. It was also noted that there was pent up business investment demand, which could be unleashed in the event of a Brexit deal being reached. "Brexit Day" is scheduled to be 29th March 2019 – five months away...

We thank you for your continued support.

Portfolio Managers

Matthew Page, CFA

Dr Ian Mortimer, CFA

Analysts

Joseph Stephens

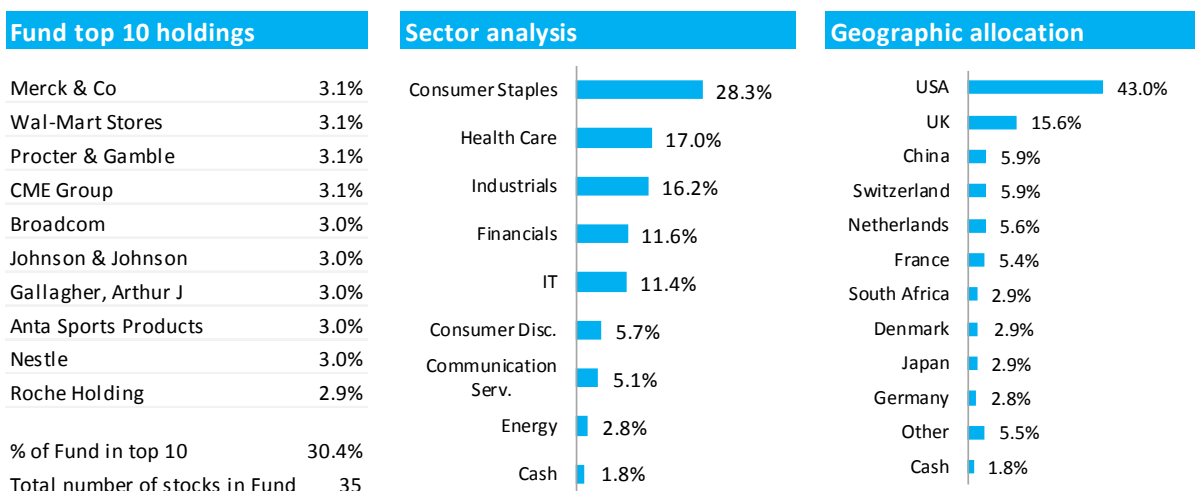
Sagar Thanki

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Guinness Global Equity Income Fund

PORTFOLIO

31/10/2018



PERFORMANCE

31/10/2018

Annualised % total return from launch (GBP)

Fund (Y class, 0.99% OCF)	10.6%
MSCI World Index	11.0%
IA Global Equity Income sector average	8.4%

Discrete years % total return (GBP)

	Oct '14	Oct '15	Oct '16	Oct '17	Oct '18
Fund (Y class, 0.99% OCF)	9.4	1.6	30.0	6.3	5.8
MSCI World Index	9.7	6.0	28.8	13.5	5.7
IA Global Equity Income sector average	4.3	2.4	22.8	10.3	-0.1

Cumulative % total return (GBP)

	1 month	Year-to-date	1 year	3 years	5 years	From launch
Fund (Y class, 0.99% OCF)	-4.7	3.0	5.8	46.2	62.6	120.8
MSCI World Index	-5.4	3.4	5.1	51.9	74.8	127.1
IA Global Equity Income sector average	-4.5	-1.4	-0.1	35.3	44.5	87.9

RISK ANALYSIS

31/10/2018

Annualised, weekly, from launch on 31.12.10, in GBP	Index	Sector	Fund
Alpha	0	0.08	1.08
Beta	1	0.76	0.87
Information ratio	0	-0.37	-0.06
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	6.05	4.38
Volatility	13.83	11.40	12.22

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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.

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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

GUINNESS

ASSET MANAGEMENT

Guinness Asset Management Ltd is authorised and regulated by the Financial Conduct Authority

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