

Guinness Global Equity Income Fund

INVESTMENT COMMENTARY – June 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 £616m

Launch date 31.12.10

Managers Dr. Ian Mortimer, CFA
Matthew Page, CFA

Analysts Sagar Thanki
Joseph Stephens

Performance 31.05.19

	1 year	3 years	From launch
Fund	9.0	45.6	137.6
Index	5.3	49.6	136.1
Sector	3.9	35.6	96.4

Annualised % gross total return from launch (GBP)

Fund	10.8%
Index	10.8%
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 May, the Guinness Global Equity Income Fund produced a total return of -2.28% (in GBP) versus the MSCI World Index return of -2.54%. The Fund therefore outperformed by 0.26%.

Reignition of trade tariff disputes caused most global markets to experience their worst month of the year. The Fund's exposure to financial exchanges and overweight positioning to Europe were the main contributors to the Fund's outperformance in the month.

	YTD	1yr	3yr	5yr	Since Launch*
Fund	10.1%	9.0%	45.6%	67.5%	137.6%
Index	10.9%	5.3%	49.6%	75.0%	136.1%
IA sector average	9.4%	3.9%	35.6%	46.2%	96.4%
Rank vs peers	23/58	14/56	6/49	10/43	2/20
Quartile	2nd	1st	1st	1st	1st

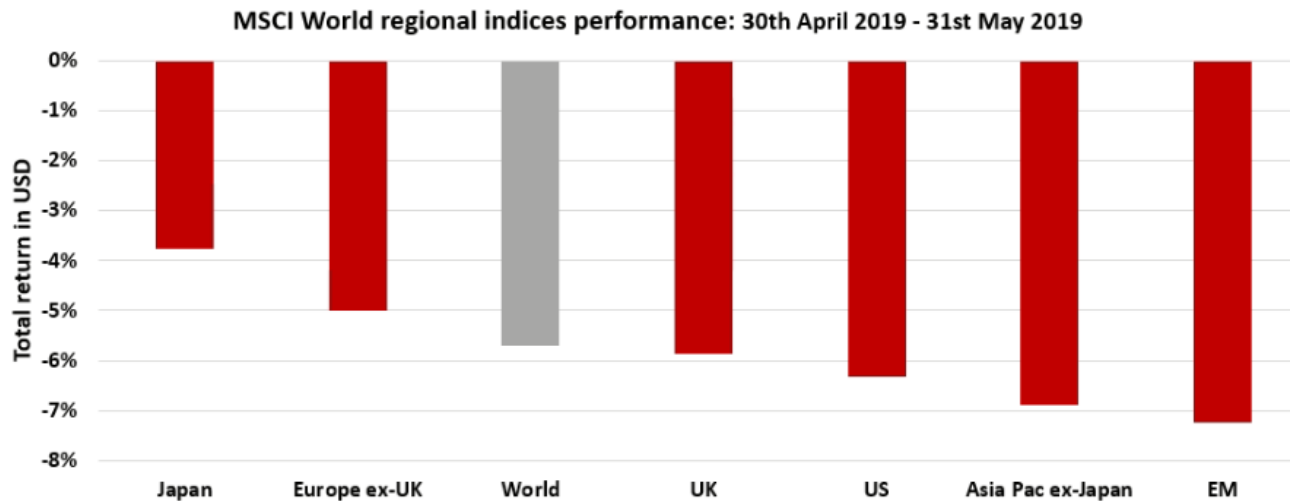
Source: Financial Express. Cumulative Total Return in GBP as of 31st May 2019

May in Review

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With US-China trade talks breaking down, the UK prime minister resigning, North Korea firing missiles, and the US expanding the tariff war to Mexico, May was an eventful month for equity markets. The MSCI World Index fell 5.8% in USD, making the month the worst so far in 2019.



Source: Bloomberg, as of 31st May 2019

In the US and Asia, markets were significantly weaker after US-China trade talks broke down. The US government increased the tariff rate on \$200 billion of Chinese goods to 25% from 10%, and China responded by hiking tariffs on \$60 billion of imports from the US. To fuel the conflict further, the US blacklisted the high-profile Chinese company Huawei, preventing American companies from selling their products to the smartphone and telecoms giant without a license. The news particularly affected US semiconductor suppliers, and in the Fund we saw Broadcom's share price decline 21% as a result. In terms of geographic allocation, the Fund benefitted from being underweight in the US versus the benchmark.

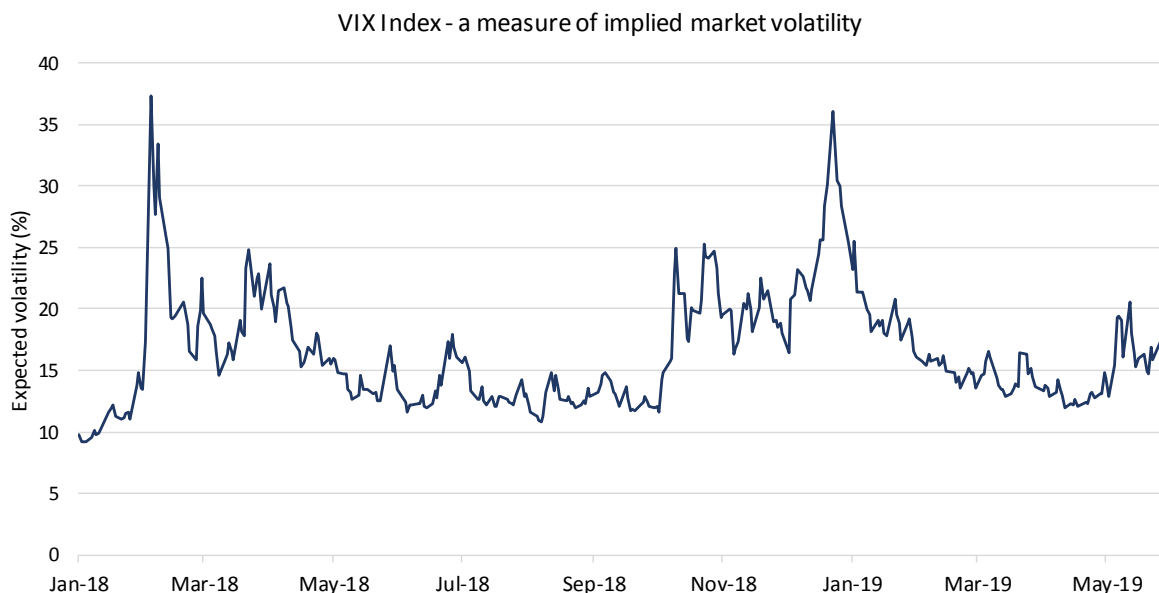
Further on trade, President Trump – who proclaims himself as a “Tariff Man” – threatened to impose a 5% tariff on all Mexican goods from June 10th in an effort to control immigration coming from Central America and Mexico. The move threatens to upheave the efforts made last year to revamp the NAFTA agreement signed by the US, Mexico and Canada.

On a more positive trade note, the US did lift import taxes on Canadian and Mexican steel and aluminium, and delayed potential tariffs on cars from Europe, Japan and other countries. The news left Japan and Europe as the best-performing regions. A further contribution to Europe's performance also came from market-friendly European Parliament election results, which came through towards the end of the month. Although populist and Eurosceptic parties gained seats compared to the last election in 2014, they underperformed expectations, and this was seen as supportive for the outlook of the European Union. The Fund currently has an overweight exposure to Europe, and this contributed positively to overall asset allocation.

In the UK, the end of May saw the end of (Theresa) May, as she announced her resignation after parliament refused to back her Brexit deal. She officially steps down on 7th June, and the market interpreted the news as increasing the likelihood of either a hard-line Conservative Brexiteer leading the UK towards a “no deal” exit from the European Union, or a general election that could pave the way for a potentially less market-friendly Labour government.

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The return of global political instability saw the return of higher volatility – a contrast to what has characterised 2019 so far. The VIX index – a measure of expected market volatility – rose sharply in May and in fact was beneficial to the financial exchanges we hold in the Fund: CME Group and Deutsche Boerse, which were the two best-performing companies in the portfolio in May.



Source: Bloomberg, as of 31st May 2019

CME Group (+7.4% in USD), the operator of various global financial exchanges, benefited from the increased volatility in the market whilst reporting quarterly EPS above market expectations. We view CME Group as a good play on market volatility, benefitting from the geopolitical tensions that have grabbed headlines over the past year. CME is an asset-light business with returns on capital above 60%, net margins at 46% and growing, whilst exhibiting a debt-to-equity ratio of 17% as the company has historically adopted an organic growth strategy.



Deutsche Boerse (+5.5% in USD), the portfolio’s other financial exchange, also benefited from increased volatility and uncertainty deriving from geopolitical tensions. The company is two years into its three-year business plan “Roadmap 2020”, focusing on three strategic areas: organic growth; targeted acquisitions; and investment into new technologies. Indeed, the company has been able to deliver free-cash-flow growth of 9% on average over the last five years, improving margins, whilst maintaining debt-to-equity levels below 50%.

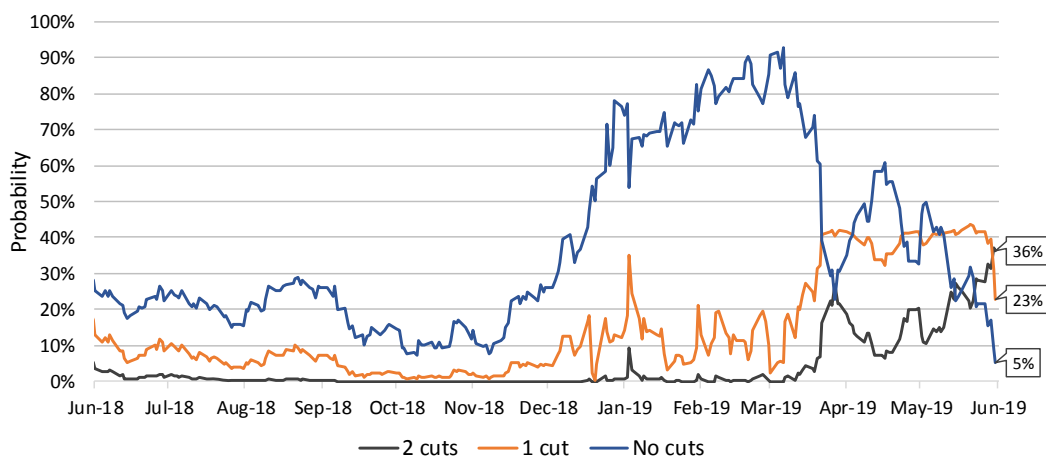


With trade fears reigniting volatility in the market, analyst consensus seems to now predict two US interest rate cuts over the rest of the year – in stark contrast to the tone at the end of 2018 in which rates were set to autopilot, on a path of consistent increases.

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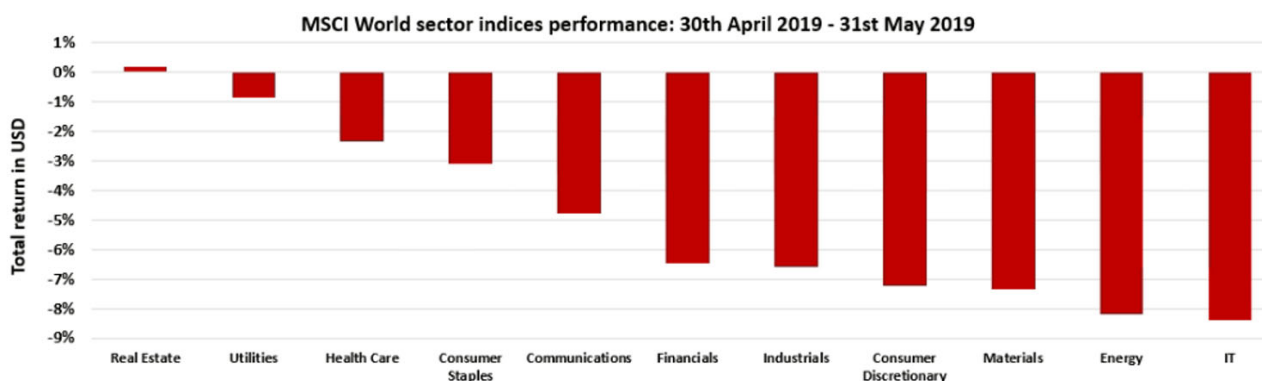
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Market implied probability of number of cuts to Fed Funds rate in 2019



Source: Bloomberg, as of 31st May 2019

With an increasingly “risk-off” backdrop, investors turned their attention in favour of the more defensive sectors. This was particularly beneficial to the Fund’s performance due to our overweight positioning in Consumer Staples and Healthcare. The IT, Energy and Materials sectors were among the weakest performers in May as investors became nervous about the prospects for global growth. This was positive for the Fund due to its underweight exposure in these sectors.



Source: Bloomberg, as of 31st May 2019

In terms of stock selection, individual companies that underperformed over the month were Imperial Brands (-22.7% in USD) and Broadcom (-21.0% in USD).

Imperial Brands, the traditional tobacco company which has been developing its alternative e-cigarette business, reported results during the month that missed expectations after slower e-cigarette sales than forecasted, particularly in the US, where the FDA has been increasing its scrutiny on the fast-developing industry. Imperial Brands has been divesting non-core assets, including its premium cigar business, whilst investing in the fast-growing alternative tobacco industry as the company looks to offset falling demand for its traditional tobacco products. Imperial Brands continues to trade at a significant discount to its peers whilst offering UK companies’ 12th largest dividend, which has been growing at an average of 10% per year for the last five years.



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Broadcom, the fabless producer of semiconductor chips predominately used in wireless and broadband communications, was one of the largest underperformers over the month as the US antitrust department continued to look into the company's dominant position, while the blacklisting of Huawei and more general trade tariffs are set to have an adverse effect on Broadcom's bottom line. From our long-term perspective, Broadcom continues to offer excellent value for money, trading on a forward PE ratio of 10.1 – significantly below its long-term averages – whilst exhibiting over 50% net margins, a free cash flow yield of 8.3% and a dominant position in the semiconductor industry set to benefit from developing technologies such as the 5G smartphone roll-out.



We made no changes to the portfolio in May.

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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PORTFOLIO

31/05/2019

Fund top 10 holdings	Sector analysis	Geographic allocation
Paychex Inc 3.2%	Consumer Stap. 25.0%	USA 42.4%
CME Group 3.1%	Industrials 15.9%	UK 16.4%
Aflac 3.1%	Financials 14.8%	Switzerland 6.0%
Deutsche Boerse 3.0%	Health Care 14.3%	France 5.6%
Nestle 3.0%	IT 14.0%	Netherlands 5.5%
Unilever 3.0%	Consumer Disc. 5.2%	China 4.9%
Gallagher, Arthur J 3.0%	Comm Serv. 5.1%	Germany 3.0%
Reckitt Benckiser 3.0%	Energy 2.8%	Australia 2.9%
Sonic Healthcare 2.9%	Cash 2.8%	Japan 2.9%
Roche Holding 2.9%		Denmark 2.8%
% of Fund in top 10 30.3%		Other 4.7%
Total number of stocks 36		Cash 2.8%

PERFORMANCE

31/05/2019

Annualised % total return from launch (GBP)

Fund (Y class, 0.99% OCF)	10.8%
MSCI World Index	10.8%
IA Global Equity Income sector average	8.4%

Discrete years % total return (GBP)

	May '15	May '16	May '17	May '18	May '19
Fund (Y class, 0.99% OCF)	12.0	2.7	26.6	5.4	9.0
MSCI World Index	16.8	1.3	32.0	8.8	5.9
IA Global Equity Income sector average	10.3	-2.2	26.8	2.9	3.9

Cumulative % total return (GBP)

	1 month	Year-to-date	1 year	3 years	5 years	From launch
Fund (Y class, 0.99% OCF)	-2.3	10.1	9.0	45.6	67.5	137.6
MSCI World Index	-2.5	10.9	5.3	49.6	75.0	136.1
IA Global Equity Income sector average	-1.8	9.4	3.9	35.6	46.2	96.4

RISK ANALYSIS

31/05/2019

Annualised, weekly, from launch on 31.12.10, in GBP	Index	Sector	Fund
Alpha	0	0.30	1.51
Beta	1	0.76	0.86
Information ratio	0	-0.35	0.02
Maximum drawdown	-18.26	-15.50	-16.34
R squared	1	0.80	0.89
Sharpe ratio	1	0.42	0.59
Tracking error	0	6.08	4.52
Volatility	13.83	11.35	12.21

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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

Tel: +44 (0) 20 7222 5703

Email: info@guinnessfunds.com

Web: guinnessfunds.com