Guinness Global Equity Income Fund

A high conviction equity fund managed by Dr. Ian Mortimer and Matthew Page, CFA, in accordance with their intelligent investment process for high quality income portfolios.

Aim	**We don't chase yield, we want capital and dividend growth** Our aim is long-term capital growth and a steady rising dividend stream, balanced with a yield of 3-4%.
Process	**Quality before yield** We buy companies that have generated at least 10% Cash Flow Return on Investment every year for 10 years. ***"It's a rare achievement for a company to meet our investment criteria – 10% cash flow return on investment every year for ten years is a mark of genuine quality. That's where our portfolio starts – persistent cash generation before yield."*** Ian Mortimer, co-manager.

INVESTMENT COMMENTARY

Performance

We have been pleased with how the Fund has performed in its first year. The Fund was up 1.95%, compared to a fall of 4.84% by the MSCI World Index.

The Fund has also performed well against its IMA Global Equity Income peer group. The Fund was 3rd out of 17 funds in the sector over the year.

2011 was a volatile year for equity markets. They rose in the first four months of the year, with the MSCI World up 2.6% by the end of April; our Fund was ahead of the Index, up 3.3%. The market then had a volatile couple of months, trading sideways; again the Fund outperformed, ahead of the Index by 3.3% by the end of July. In August equity markets lurched downwards as the US Sovereign debt rating was downgraded and broader concerns emerged about the future of the Euro. Over the period of August and September our fund fell 7.1% against a fall of 10.5% by the MSCI World Index. By the end of September the MSCI World was down 11.8% for the year while the Fund was down 5.3%. Equity markets attempted to rally over the final quarter, with the prospect of a solution to the Euro crisis. *(Source: Financial Express, bid to bid basis, total return, GBP.)*

Investment process

We have a unique and proprietary system for narrowing down the global universe of stocks to a shortlist of candidates which we can subject to rigorous company analysis. Our focus is to identify companies that are persistent high achievers, which we define as companies that achieve top quartile returns on capital every year throughout a business cycle. On average, top quartile equates to a return on capital over 10%. Our research, having analysed 20 years of data, has shown that companies that meet these criteria are very likely to continue to achieve top quartile returns on capital in the future and thereby continue to create shareholder value. This process weeds out companies with business models that generate highly cyclical returns on investment and also excludes companies which lack competitive strength, pricing power, or have poor management.

This process narrows down the global list of equities to a shortlist of 300 companies that have maintained top quartile returns on capital every year over a business cycle, are likely to continue to achieve top quartile returns on capital in the near future, are well managed and able to adapt to changing circumstances, and often generate significant amounts of cash. These companies are highly effective at allocating this cash to high return on capital projects. Many of these companies generate more cash each year than they can effectively deploy into new projects, and therefore return some of this cash to shareholders in the form of dividends or share buybacks. These companies are able to grow their dividends year-on-year at a pace that is faster than their growth in cash flow. If we take an example of a company that generated

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$100 million of cash flow last year and the management have concluded that there are only $50 million worth of projects that they can deploy cash to that will continue to maintain top quartile returns on capital, that will leave them $50 million which can be paid out to shareholders in the form of a dividend. If the company then grows its cash flow by just 5% the next year to $105 million and management continue to conclude there are only $50 million of projects to invest in that leaves $55 million that can be paid out in dividends which is a 10% growth rate on the previous dividend. The compounding effect on the dividend over a number of years is very powerful and supports a higher valuation in the future if we assume the company will continue to trade on the same yield. These are what constitute "good" companies in our mind.

We next seek to narrow down this list further to identify those companies that we believe the market is undervaluing, that have improving earnings sentiment, that have improving returns on capital and where the stock price is not falling. This presents ideas for further due diligence and a thorough review of the company's business model. We are particularly focused on value relative to the industry the company is in, relative to the company's historic valuations and in absolute terms. We look to understand what assumptions the market is currently pricing in to a stock price, and whether these assumptions appear optimistic, realistic or pessimistic.

The portfolio is then drawn together from our favourite 35 ideas and each stock is given an equal weight in the portfolio. We do not consider volatility, beta or market capitalisation to be an appropriate measure of risk for an equity. We believe it is unwise to consider "risk-based" portfolio weights of stocks in a portfolio based on metrics that are, first, backward looking, and second, simply derived from price movements which are subject to numerous factors well beyond the quality of the underlying business. Instead we see the price fluctuations as opportunities to buy good companies below their intrinsic value and to sell good companies that are trading above their intrinsic value. The price at which we buy a company is our key risk control whereby the underlying business model is taken into consideration and a commensurate margin of safety is factored into the valuation at which we are willing to purchase.

At the same time we overlay a top down view of the portfolio to ensure we are comfortable with our sector and geographic allocation and to avoid excessive concentration.

Process performance

Our research has shown that those companies that meet our criteria of maintaining top quartile returns on investment each year over a business cycle have a better than 90% chance of maintaining top quartile returns on investment the following year. Of the 38 core stocks that we held in the portfolio during 2011, only one failed to meet the criteria in its 2011 results – Compal Electronics, which we sold in August. The remaining 37 continued to generate top quartile return on investment in 2011.

Our best performing stock for the year was VF Corp, which owns numerous well known retail clothing brands such as North Face, Wrangler, Timberland, etc. The company went from strength to strength over the course of the year as earnings estimates continued to be upgraded. The stock delivered a total return of 50.78% in 2011.

VF Corp was an example of a company which was trading at the lower end of the range of dividend yield that we invest in. When we bought the company on 31st December 2010 it had a gross yield of 2.8%. We felt comfortable buying the company on a relatively low yield as on all other metrics the company appeared cheap and there was a track record of dividend growth and scope for continued dividend growth in in the future. By October 2011 the company had announced an increase in their quarterly dividend from 63c per share to 72c per share, which is an impressive growth of 14%.

Our worst performing stock was ICAP, the world's largest inter-dealer broker, which fell 32.79% over the year. ICAP was hit particularly hard by the sovereign debt crisis in Europe as concern grew about the outlook for trading volumes and the lurking threat of a financial transaction tax potentially threatening longer-term growth prospects further. ICAP was one of the smallest companies we owned in the portfolio in 2011 with a market capitalisation of $5.4 billion at the

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beginning of the year; this small cap. effect also probably contributed to its underperformance.

The underlying business model still looks very attractive to us; ICAP is still the market leader in their sector, with a growing dividend and a cheap valuation. The business is quite highly operationally levered but we still believe the long-term growth story is intact. The stock now trades on a yield of over 6% and a P/E ratio of 7.9x 2013 estimated earnings.

The portfolio

In August we became concerned about the increasing sovereign credit spreads of peripheral European countries, the longer-term implications of higher sovereign funding costs and the impact on the Euro currency and its members from a possible Greek default. We found it hard to conclude anything other than a very difficult economic environment with slow growth in Europe over the next few years, with higher debt costs for governments and further austerity measures for consumers.

Within this context we became concerned about how a number of our holdings would perform in this environment and we therefore decided to make a number of changes to the portfolio.

On average, the stocks that we sold had a total return of approximately 7.6% by the end of the year and the stocks we replaced them with had an average total return of 18.8%. We therefore estimate that these switches positively contributed approximately 1.9% towards performance. However, it was most pleasing to see that our investment process managed to provide a positive return in a particularly volatile year. Even if we hadn't made these switches, the Fund would still have outperformed the MSCI World Index by a considerable margin of 4.9% (compared to 6.8% actual outperformance). *(Source: Bloomberg, bid to bid basis, total return, GBP.)*

Outlook

Our investment process is unlikely to outperform in all market conditions, but it is our expectation, given the in-depth research we have undertaken on the set of companies that meet our criteria, that over a 3-5 year period these companies should outperform the market.

2011 proved to be a good year for this process. While volatile markets reacted wildly to global economic uncertainty, our focus on quality, cash-generative, dividend-growing businesses proved an effective hedge against the down swings and rallied well from the lows.

If 2012 turns out to be a strong market for equities in response to an improving outlook for a global economic recovery, then we may well struggle to outperform as our lack of exposure to commodity stocks would likely hold us back. This scenario is not the most likely in our view, given our expectation of low growth in Europe for a considerable period of time, but that does not mean that the market may not rally strongly on increased optimism.

If 2012 turns out to be similar to 2011, characterised by continued macro risks and uncertainty, then our approach is likely to continue to perform well, with stable, cash-generative businesses continuing to appeal to investors in search of income. In periods of relatively low returns for equities, dividends make up a significant proportion of total returns; the market will likely realise this and valuations of these types of companies should increase.

We do not spend too much time worrying about how the global economic environment will fare in the near future but instead we will continue to focus our time and thoughts on our process and on identifying high quality companies and including the best value opportunities in the portfolio.

Dr. Ian Mortimer & Matthew Page

Co-managers
Guinness Global Equity Income Fund

January 2012

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PERFORMANCE

Discrete years' % total return (quarter end)

12 months ending:	31.12.07	31.12.08	31.12.09	31.12.10	31.12.11
Guinness Global Equity Income Fund	-	-	-	-	2.0
MSCI World Index	7.2	-17.9	15.7	15.3	-4.8
IMA Global Equity Income sector average	5.7	-18.4	17.4	14.3	-2.1

Cumulative % total return (month end)

	1 month	3 months	6 months	1 year	From launch
Guinness Global Equity Income Fund	1.5	7.7	-3.9	2.0	2.0
MSCI World Index	1.2	7.9	-7.3	-4.8	-4.8
IMA Global Equity Income sector average	3.9	7.0	-4.7	-2.1	-2.1

Risk analysis

Annualised, month end, from launch on 31.12.10	Index	Sector	Fund
Alpha	0.0	2.5	6.2
Beta	1.0	0.9	0.8
Information ratio	0.0	0.5	1.9
Maximum drawdown	-14.1	-11.0	-10.8
R squared	1.0	0.8	0.9
Tracking error	0.0	5.9	3.8
Volatility	11.6	12.0	10.2

Source: Financial Express, bid to bid, total return, GBP. Launch date: 31.12.10. 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.

Alpha

Alpha is a measure of a fund's over or underperformance by comparison to its benchmark. It represents the return of the fund when the benchmark is assumed to have a return of zero, and thus indicates the extra value that the manager's activities have contributed.

Beta

Beta is a statistical estimate of a fund's volatility by comparison to that of its benchmark, i.e. how sensitive the fund is to movements in the section of the market that comprises the benchmark. A fund with a Beta close to 1 will move generally in line with the benchmark. Higher than 1 and the fund is more volatile than the benchmark.

Information Ratio

An assessment of the degree to which a manager uses skill and knowledge to enhance returns, this is a versatile and useful risk-adjusted measure of actively-managed fund performance. It is calculated by deducting the returns of the fund's benchmark from the fund's overall returns, then dividing the result by its Tracking Error. In this way, we arrive at the value, per unit of extra risk assumed, that the manager's decisions have added to what the market would have delivered anyway.

Maximum Drawdown

Represents the worst possible return over a period, e.g. buying at the highest price over the period and selling at the lowest.

R-Squared

The R-Squared measure is an indication of how closely correlated a fund is to an index or a benchmark. It can be treated as a percentage, showing what proportion of a fund's movements can be attributed to those of the benchmark. Values for R-Squared range between 0 and 1, with 0 indicating no correlation at all, and 1, rarely, showing a perfect match.

Tracking Error

This statistic measures the standard deviation of a fund's excess returns over the returns of an index or benchmark portfolio. As such, it can be an indication of "riskiness" in the manager's investment style. A Tracking Error below 2 suggests a passive approach, with a close fit between the fund and its benchmark. At 3 and above the correlation is progressively looser: the manager will be deploying a more active investment style, and taking bigger positions away from the benchmark's composition.

Volatility

Standard deviation is a statistical measurement which, when applied to an investment fund, expresses its volatility, or risk. It shows how widely a range of returns varied from the fund's average return over a particular period. Low volatility reduces the risk of buying into an investment in the upper range of its deviation cycle, then seeing its value head towards the lower extreme.

PORTFOLIO

Fund top 10 holdings

Holding	%
VF Corp	3.8%
Reynolds American	3.4%
Pfizer	3.3%
Abbott Laboratories	3.3%
Willis Group Holdings	3.1%
Imperial Tobacco	3.1%
Wal-Mart Stores	3.1%
Sanofi	3.1%
Royal Dutch Shell	3.0%
Mattel	3.0%
% of Fund in top 10	32.1%
Total number of stocks	34

Geographic allocation

Country	%
United States	46.9%
Great Britain	27.5%
France	8.5%
Netherlands	3.0%
Australia	2.5%
Hong Kong	2.5%
Germany	2.2%
Spain	2.2%
Cash	4.7%
	100.0%

Sector analysis

Sector	%
Consumer Staples	31.9%
Health Care	15.4%
Financials	12.4%
Industrials	10.4%
Telecoms	7.6%
Consumer Discretionary	6.8%
Energy	5.7%
Information Technology	5.2%
Cash	4.7%
	100.0%

IMPORTANT INFORMATION

This report is primarily designed to inform you about the Guinness Global Equity Income Fund, including recent activity and performance. For regulatory purposes it falls within the legal definition of a financial promotion. Please therefore note the risk warnings below and the following statements: it contains facts relating to equity markets and our own interpretation. Any investment decision should take account of the subjectivity of the comments contained in the report. It is 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 content of the document should not therefore be relied upon. It should not be taken as a recommendation to buy or sell individual securities.

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 the Fund's portfolio changes daily and can be affected by changes in currencies, interest rates, general market conditions and other political, social and economic developments, as well as specific matters relating to the companies in whose securities the Fund invests. Investment in the Fund carries with it a degree of risk and investors should read the risk factors section in the prospectus before investing.

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The Guinness Global Equity Income 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. The Fund has been approved by the Financial Services Authority for sale in the UK. The Company and the Fund have been recognised in the UK by the FSA pursuant to section 264 of the FSMA. Guinness Asset Management Ltd is authorised and regulated by the Financial Services Authority. The prospectus for Switzerland, the simplified prospectus for Switzerland, the articles of association, the annual and semi-annual reports, as well as the list of the buying and selling transactions 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, Fax: + 41 22 705 11 79, www.carnegie-fund-services.ch. The paying agent is Banque Cantonale de Genève, 17 Quai de l'Ile, 1204 Geneva, Switzerland.

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