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.

INVESTMENT COMMENTARY - August 2012

Fund size (30.7.12) **£15.0m**

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."

Equity markets in July continued the rally seen from the start of June. The Fund delivered a total return of +1.93% (in GBP) in the month, versus the MSCI World Index total return of +1.39% (in GBP). The Fund therefore outperformed the index by 0.54% over the month. We made no changes to the portfolio in July.

However, the positive return seen in July is somewhat masked by events in the last week of the month. Mario Draghi, president of the European Central Bank, in a press conference said he and the central bank would do "whatever it takes" to save the Euro – without giving any definitive answers as to what that would incur. Markets, as so often we have seen in the past months, took great heart from this statement – coming as it did one week before the official ECB meeting on August 1st – and rallied strongly for 2 days; the MSCI World Index posted daily gains of +2.18% and +1.81% (in GBP) on the 26th and 27th July, respectively. These two days helped drag the index into positive territory for the month, having been down 1.41% (in GBP) up to 25th July, prior to Draghi's statement.

During the month, most major markets posted a positive gain, with Japan and China the notable exceptions. Looking at where this leaves us year-to-date, most markets still remain in positive territory, with the perceived safety of the US and Germany having the highest gains in the developed markets and Hong Kong and India showing the best returns in the developing markets.

Market index total returns

Country	Index	YTD (%)	July (%)
USA	S&P 500	11.10	1.39
UK	FTSE 100	3.82	1.23
Germany	DAX	14.82	5.55
France	CAC 40	7.87	3.06
Russia	MICEX	3.19	1.42
Japan	NIKKEI 225	3.94	-3.46
Hong Kong	HANG SENG	10.25	1.84
South Korea	KOSPI	3.09	1.51
China	Shanghi Composite	-2.24	-5.08
India	SENSEX	13.06	-0.87

Source: Bloomberg, all data in local currencies.

On a sector basis, using the individual sectors of the MSCI World Index, we see a more mixed result, with both the more defensive areas (consumer staples, health care) and some of the more cyclical sectors (consumer discretionary, finance) having double-digit total returns year-to-date. Energy, materials, industrials and utilities all underperformed year-to-date.

MSCI World Index total returns

MSCI World Index Sector	YTD (%)	July (%)
Energy	-0.78	3.35
Materials	-1.67	-0.36
Industrials	5.77	0.83
Consumer discretionary	10.77	-0.06
Consumer staples	11.44	3.17
Health care	11.74	2.21
Finance	10.87	0.93
Information Technology	11.05	0.51
Telecoms	9.00	2.99
Utilities	0.95	-1.52

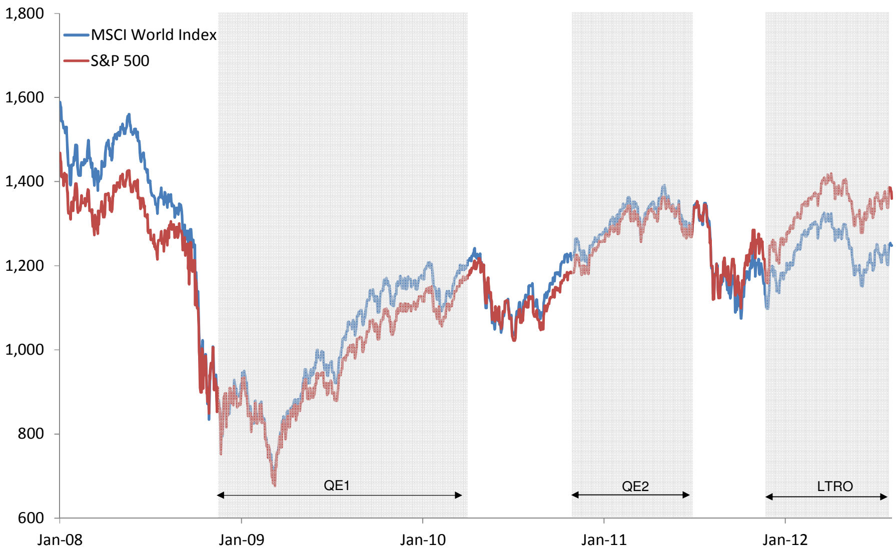
Source: Bloomberg, all data in USD.

Tel: +44 (0) 20 7222 5703
Email: info@guinnessfunds.com
Web: guinnessfunds.com

GUINNESS FUNDS

In the four years since the onset of the 2008 financial crisis, investors have increasingly become used to large-scale intervention in the markets by the various central banks and government policy makers as they try to abate the effects of the significant deleveraging required to put markets back on a stable footing. The first significant measure, QE1 from the US Federal Reserve, stimulated renewed demand for riskier assets during the depths of the crisis in the fourth quarter of 2008, and strong equity returns followed. QE2, enacted at the end of 2010, had a similar, albeit more modest, effect on equity prices. And the most recent long-term refinancing operation (LTRO) from the ECB has served merely to prop up recent equity values. Our feeling, therefore, is that the market is beginning to 'tire' of such interventions as hopes have been raised and dashed on multiple occasions that the latest round of easing is the one which provides the path to the sunny uplands so often promised. The increasingly complex political situation between the European leaders, their constituents and the central bank only adds to the difficultly of the market trying to establish a path to which it can successfully navigate.

MSCI World Index and S&P 500 price since beginning of 2008



Source: Bloomberg

We also saw US GDP growth numbers for the second quarter of 2012: a drop from 1.9% (annualised) in the first quarter to 1.5% (annualised), showing the US is not immune to the slowdown in the global economy.

So what works in a slowing economy? We believe the current market malaise could actually present a good opportunity for patient, long-term investors. The current fascination of 'risk-on, risk-off' investing, combined with a move towards more passive investment approaches – which make such broad-based strategies that much easier to execute – has left us in a situation where markets, sectors and stocks trade with increasing correlation to each other, and decreasing correlation to their fundamental values. Rather than focusing on where the next stimulus package is coming from and how high that might lift equity markets, we remain focused on identifying companies that can create value for shareholders by growing their earnings and distributing those gains back to shareholders in the form of dividends. We have seen across the last century the value of such an approach, and particularly in periods of weak and stuttering growth. (See our recent white paper, ***Why Dividends Matter***.) The valuations of these well-capitalised, quality companies remains, to us at least, compelling; the Fund is currently trading on a price/earnings multiple of 11.4X (2012) versus the broad market (MSCI World Index) on 12.7X (2012) – a decent discount when you consider the ability of the core of companies that we own to maintain a decent level of profitability through times of recession.

We cannot know with any certainty the outcome of the political machinations in Europe, or the impending 'fiscal cliff' debates post-elections in the US. What we do know, however, is that a steady focus on good value, cash-generative companies which have shown the ability to weather previous financial storms and remain committed to creating shareholder value and returning that value back to shareholders in the form of dividends and share buybacks, should provide investors with a healthy reward over the long term.

Dr. Ian Mortimer & Matthew Page

Co-managers, Guinness Global Equity Income Fund

August 2012

PORTFOLIO (31.7.12)

Fund top 10 holdings

China Mobile	3.3%
Sanofi	3.2%
Unilever	3.2%
Wal-Mart Stores	3.2%
Mattel	3.1%
Total	3.1%
AstraZeneca	3.1%
Coca-Cola	3.1%
Procter & Gamble	3.1%
Reynolds American	3.1%
% of Fund in top 10	31.5%
Total number of stocks in Fund	35

Geographic allocation

United States	48.4%
Great Britain	29.3%
France	9.3%
Hong Kong	3.3%
Netherlands	3.0%
Germany	2.9%
Australia	2.7%
Spain	2.5%
Cash	-1.4%
	100.0%

Sector analysis

Consumer Staples	33.1%
Health Care	15.4%
Financials	14.4%
Industrials	11.8%
Telecommunication	8.8%
Consumer Discretionary	6.2%
Energy	6.1%
Information Technology	5.6%
Cash	-1.4%
	100.0%

PERFORMANCE

12 months to month end:	Jul '08	Jul '09	Jul '10	Jul '11	Jul '12
Guinness Global Equity Income Fund	-	-	-	-	4.8
MSCI World Index	-8.6	-6.3	16.3	13.1	2.7
IMA Global Equity Income sector average	-10.8	-5.2	16.2	13.6	4.2

Cumulative % total return

31/07/2012	1 month	3 months	6 months	1 year	From launch
Guinness Global Equity Income Fund	1.9	3.0	4.0	4.8	6.8
MSCI World Index	1.4	0.8	2.9	2.7	1.3
IMA Global Equity Income sector average	3.1	2.4	4.3	4.2	4.1

Risk analysis - Annualised, month end, from launch on 31.12.10

31/07/2012	Index	Sector	Fund
Alpha	0	1.89	3.57
Beta	1	0.89	0.74
Information ratio	0	0.33	0.76
Maximum drawdown	-14.06	-10.95	-10.76
R squared	1	0.78	0.85
Tracking error	0	5.32	4.50
Volatility	11.04	11.09	8.87

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, C class shares, GBP. Launch date: 31.12.10.

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.

The full Fund documentation contains more complete and detailed information of risk, fees, charges and expenses that are to be borne by an investor. The documentation should be read carefully before investing. The full documentation needed to make an investment, including the Prospectus, the KIID and the Application Form are available, free of charge, from the Manager: Capita Financial Managers (Ireland) Limited, Montague House, Adelaide Road, Dublin 2 Ireland or the Promoter and Investment Manager: Guinness Asset Management Ltd, 14 Queen Anne's Gate, London SW1H 9AA. **Documentation is also available from the website guinnessfunds.com.** This document should not be distributed to Retail Clients who are resident in countries where the Fund is not registered for sale or in any other circumstances where its distribution is not authorised or is unlawful. THIS INVESTMENT IS NOT FOR SALE TO U.S. PERSONS.

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.

Telephone calls to Guinness Asset Management may be recorded.

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.

GLOSSARY

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.