Guinness Global Equity Income Fund

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

INVESTMENT COMMENTARY - April 2013

Fund size (31.3.13) **£18.2m**

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."

One in, one out

The first half of March continued where February left off, with equity markets rallying strongly. The second half of the month saw prices soften, but overall in March the Fund was up 3.7% (in GBP) compared to the MSCI World Index up 2.3% (in GBP). This marks the fifth month in a row of positive performance for global equities and leaves the Fund up 16.3% for the first quarter of 2013, versus a 15.3% return for the MSCI World Index. Since launch (31st December 2010) the Fund is up 24.2% versus the MSCI World Index up 21.5%.

During the month developed markets led the way, with Japan and the US posting the strongest gains and, perhaps surprisingly, Europe also posting a small positive return. Chinese and Russian equities lagged, with small losses seen in a number of other emerging market regions also. Looking at where this leaves us year-to-date, we see a similar picture: Japan, the US and the UK have posted the largest gains; Western Europe showed modest positive returns; and the majority of emerging markets down. It is interesting to note the performance of each market since the bottom of the financial crisis (which we have taken as 9th March 2009): the US has recovered most strongly, alongside the Hang Seng Index, Russia and India. However, this partly reflects a recovery of markets which fell most dramatically in the crisis. If instead we look at the total return of each market from its individual pre-crisis peak we can see, for example, Russian equities have some distance to go to recover losses sustained during the financial crisis.

Country index total returns

% total return to 31.3.13. All data in local currencies.

	March 2013	YTD	Since market bottom	Date of pre-crisis peak	Since pre-crisis peak
US	3.75	10.61	152.97	12/10/07	13.43
UK	1.38	9.97	114.22	12/10/07	20.12
Germany	0.69	2.40	111.14	12/10/07	-3.06
France	0.40	2.69	75.26	01/06/07	-24.75
Europe	-0.26	-0.00	74.39	13/07/07	-26.68
Japan	7.94	20.13	89.92	13/07/07	-24.49
Hong Kong	-2.80	-1.22	124.35	02/11/07	-13.17
China	-5.44	-1.42	13.85	12/10/07	-58.53
Russia	-3.15	-2.41	126.65	16/05/08	-19.65
S Korea	-1.07	0.39	95.25	28/10/07	6.60
India	-0.01	-2.88	144.78	13/01/08	-2.70
Brasil	-1.87	-7.55	53.38	16/05/08	-22.56

Source: Bloomberg. Respective indices: S&P 500 Index; FTSE 100 Index; DAX Index; CAC 40 Index; Euro Stoxx 50; Nikkei 225; Hang Seng Index; Shanghai Se Composite; Micex Index; Kospi Index; S&P BSE Sensex Index; Brazil Bovespa Index.

On a sector basis, using the individual sectors of the MSCI World Index, we can broadly identify where the positive performance seen in the first quarter has been achieved. In periods of sharply rising markets we would typically expect the more cyclical sectors of the market to drive the rally. However, in the first quarter of 2013 the

7.89% (in USD) rise in the MSCI World Index has in large parts come from a strong performance in the more defensive sectors such as health care and consumer staples, which are up 14.48% and 12.85% respectively. We believe this is a reflection of both valuations at the start of the year and also a note of caution as investors looking for exposure to equities choose to allocate to 'lower risk' assets in the first instance. Our Fund's relatively high exposure to both of these top-performing sectors has aided the strong performance seen since the start of the year.

MSCI World Index total returns by sector

% total return to 31.3.13. All data in USD.

		March	YTD
	MSCI World Index	**2.40**	**7.89**
MSCI World sector indices	Health Care Index	5.62	14.48
	Consumer Staples Index	4.35	12.85
	Consumer Discretionary Index	3.37	9.83
	Industrials Index	1.61	8.54
	Financials Index	1.21	7.61
	Telecom Service Sector Index	4.74	7.56
	Utilities Sector Index	4.11	6.35
	Energy Sector Index	1.03	5.53
	Information Technology Index	2.33	4.92
	Materials Sector Index	-2.57	-3.24

Source: Bloomberg

With markets up so strongly in just a few months, where do we think we'll go from here? History has shown that it is foolhardy to simply 'chase the market', but neither are we prepared to throw in the towel. A sanguine approach would be to note 'cautious optimism' and effectively sit on the fence; there remains enough evidence to suggest a reasonable economic outlook in the US, for example, but this can easily be tempered by the continuing issues caused by the unsustainable indebtedness in the European periphery. Instead of trying to call the top, or pile in with renewed bullish zeal, we instead continue to concentrate on doing the simple things right: thinking long-term and focusing on good value, cash-generative companies which have, first, shown the ability to perform well in most economic conditions and, second, that are committed to creating shareholder value and returning that value to shareholders in the form of dividends and share buybacks. We also try to maintain a strong sell discipline, taking profits where companies we own have performed well and no longer have a sufficient upside to warrant holding them in the Fund, i.e. the margin of safety has become too thin and expectations for future growth have become stretched.

Two companies we felt had reached this level were Wal-Mart and VF Corp, which we sold in March. We have owned both companies in the Fund since launch (December 2010), and each has made a significant contribution to performance. Over the period we held them, Wal-Mart has a total return of over 40% (increasing its market capitalisation by over $50bn) and VF Corp has a total return of over 100%. They are very different businesses and have grown in very different ways, but what they share is a remarkable ability to generate cash and a consistent approach to distributing that cash back to shareholders. Over the last year alone VF Corp increased its dividend by over 20%, and Wal-Mart by just under 10%. However, neither company is now the bargain it once was (VF Corp trades on a price-earnings ratio ("PE") of 15.3X for 2013, and Wal-Mart on 15.4X) and their share price growth has outpaced that of their dividend, meaning their dividend yields have significantly reduced. We continue to like both companies and will follow their progress in the future, but for now we are happy to take profits and put those profits back to work in other companies where we see better opportunities.

In last month's commentary we noted the market's obsession with 'cliffs' of all types, be it patent or fiscal, and the investment opportunities these obsessions can throw up – as people's perceptions of the severity and implications of such cliffs move the market to extreme levels which do not necessarily reflect reality. One area we identified in particular were the defence stocks, which looked cheap on our screens because of the negative sentiment towards these companies following the sequestration debates in the US. To take advantage of these cheap valuations, and to replace our sales of Wal-Mart and VF Corp, we purchased two new companies for the portfolio: Northrup Grumman and BAE Systems. Northrop Grumman is a US-focused defence contractor trading on a PE of 9.9X for

2013, and BAE Systems is a more internationally diversified supplier of defence equipment and systems trading on a PE of 9.4X for 2013. Both companies have underperformed the broad market in recent months and are trading on EV/EBITDA multiples at historic lows. But with free cash flow yields of 10%+ and proven track records of generating high returns on capital even in previous periods of budgetary constraints we feel these companies now offer a compelling investment opportunity.

Dr. Ian Mortimer & Matthew Page

Co-managers,
Guinness Global Equity Income Fund

April 2013

PORTFOLIO (31.3.13)

Fund top 10 holdings (%)

H & R Block	3.2%
Mondelez International	3.1%
Meggitt	3.1%
Aberdeen Asset Management	3.0%
Johnson & Johnson	3.0%
Mattel	3.0%
Abbvie	3.0%
Pfizer	2.9%
Kraft	2.9%
Arthur J Gallagher	2.9%
% of Fund in top 10	30.1%
Total number of stocks in Fund	35

Geographic allocation (%)

United States	53.8%
Great Britain	27.6%
France	5.5%
Germany	2.7%
Netherlands	2.5%
Hong Kong	2.4%
Italy	2.4%
Cash	3.1%
	100.0%

Sector analysis (%)

Consumer Staples	24.9%
Industrials	16.8%
Financials	16.4%
Health Care	14.2%
Energy	7.6%
Consumer Discretionary	6.1%
Information Technology	5.6%
Telecoms	5.2%
Cash	3.1%
	100.0%

PERFORMANCE

12 months to month end:	Mar '09	Mar '10	Mar '11	Mar '12	Mar '13
Guinness Global Equity Income Fund	-	-	-	3.6	17.7
MSCI World Index	-20.4	44.0	7.4	0.9	17.7
IMA Global Equity Income sector average	-19.2	38.7	9.1	1.6	18.3

Cumulative % total return

31/03/2013	1 month	3 months	6 months	1 year	From launch
Guinness Global Equity Income Fund	3.7	16.3	16.1	17.7	24.2
MSCI World Index	2.3	15.3	17.4	17.7	21.5
IMA Global Equity Income sector average	2.1	13.5	15.3	18.3	22.0

Annualised % total return from launch

	31/03/2013
Guinness Global Equity Income Fund	10.12%
MSCI World Index	9.06%
IMA Global Equity Income sector average	9.24%

Risk analysis - Annualised, weekly, from launch on 31.12.10

31/03/2013	Index	Sector	Fund
Alpha	0	2.41	2.89
Beta	1	0.75	0.76
Information ratio	0	0.05	0.19
Maximum drawdown	-18.26	-15.50	-16.40
R squared	1	0.80	0.90
Tracking error	0	6.86	5.34
Volatility	15.39	12.93	12.41

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. 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.

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, 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. **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 Conduct 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 Conduct 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.

GUINNESS FUNDS

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