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 - August 2013

Fund size (31.7.13) **£28.6m**

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."

Performance

July saw a strong rebound in global equities after the decline in markets from their peak on 22nd May. The Fund generated a total return of +4.78% (in GBP) in July, compared to its MSCI World Index benchmark return of +5.31%. The Fund has returned +26.40% year-to-date versus the Index return of +22.38%. This ranks the Fund first in its peer group of 31 funds in the IMA Global Equity Income sector over this period. Since the launch of the Fund at the end of 2010 the Fund ranks second amongst the same peer group (22 funds).

Update

Global equities were mostly positive in July, with most developed markets up strongly, compared to a more mixed bag for emerging market economies. So called 'cross-asset correlations' reduced from their July highs. In plain English: when Fed chairman Bernanke hinted back in May at a tapering of the $85bn in monthly bond purchases, markets took fright and were sold down indiscriminately – developed market equities, emerging market equities, commodities, sovereign bonds, corporate credit were all down sharply between 22nd May and 24th June – meaning the correlations between these asset classes during that period were quite high. In the ensuing rally in July the different asset classes didn't recover equally well – meaning correlations between the different asset classes were lower. Conventional wisdom (and empirical evidence over the last decade at least) suggests that all asset classes don't fall in-step unless there is a large external shock to markets, such as the financial crisis or 9/11. The prevailing relationship seen over the last decade or so has generally seen a negative correlation between stocks and bonds, for example. So what happened?

In his May testimony Chairman Bernanke signalled that the Fed would begin to withdraw stimulus as certain economic indicator levels were met. The market then immediately sold off. This was obviously not the effect Mr Bernanke, or indeed the Fed, were looking for; Bernanke himself and an assortment of other Fed officials frantically took to talking down the 'taper' in the business and wider press throughout the following weeks, causing markets to rally again. But, ultimately, Bernanke and the Fed have largely achieved what they set out to do: use low rates and QE to coerce investors into bidding up assets.

Perhaps the result of this unprecedented monetary policy has been to raise asset prices by pushing some investors into risker positions than they would normally like to hold – if the return on cash has been telegraphed to be extraordinarily low and for an extraordinarily long period of time, then it may give you no choice. This might then mean that the good performance in markets has not been entirely a result of improved sentiment and confidence, but rather helped by investors taking positions through gritted teeth. If the status quo then changes, as was hinted at the end of May, some of these 'nervous' investors might then be happy to sell down their positions, regardless of where they were invested. The next few months will therefore be a particularly interesting time as all eyes will be on US payroll numbers before the September Fed meeting. And we will have to wait and see whether the Fed can adroitly extract themselves from their asset purchases without further spooking the market.

Our belief remains, and apologies if we sound like a broken record, that investors should concentrate on the quality of the underlying businesses they are invested in first and foremost. Again and again we have seen over the last two and a half years since we launched the Fund that our performance has been best (relative to the broad market at least) when markets have taken a tumble – in the summer of 2011 when the US lost its 'AAA' rating, in the spring of 2012 when the European crisis bubbled to the surface once more, and in the recent sell off (22nd May to 24th June). We only look for companies that have a long track record of consistently high returns on capital, and then we consider the dividend – we try to avoid the trap of buying higher-yielding companies where the core business is actually rather poor and could do even worse if the rising tide of cheap capital and easy monetary policies turns. Companies that tick all our boxes, and specifically those that are also cheap, are proving harder to come by. That does not mean they no longer exist, but it may mean that we have to move into more 'unloved' areas of the market – something we started to do in March with sales of Walmart and VF Corp and purchases of Northrop Grumman and BAE Systems. This is necessary to avoid getting swept up with the crowd in unsustainable price rises in select market sectors.

Fund dividend

The Fund went ex-dividend on 1st July, and we distributed £0.2086 per share (C-class), a 10.7% increase on 2012's H1 distribution. This is a slightly flattering result as we had two companies that went ex-dividend in the second half of the year last year and have now done so in the first half this year, increasing the H1 2013 dividend compared to last year. Including this small anomaly we still see good organic growth in the dividend stream of the Fund – something we keep a close eye on.

If we look at the individual companies in the portfolio we see a median growth of 7% in the dividends paid in H1 2013 versus H1 2012, and we continue to favour companies with high expectations of dividend growth in the future. Notable examples of good dividend growth include Aberdeen Asset Management (+36% in H1 dividends year-on-year), Mattel (+16% in H1 dividends year-on-year), and General Dynamics (+14% in H1 dividends year-on-year).

Dr. Ian Mortimer & Matthew Page

Co-managers, Guinness Global Equity Income Fund
August 2013

PORTFOLIO DIVIDEND SCHEDULE (dividends paid, in local currency)

Holdings	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013	H1 2012	H1 2013	% change YoY H1
AbbVie	na	na	na	na	0.400	0.400	-	0.800	na
Aberdeen Asset Management		0.044		0.071		0.060	0.044	0.060	36.4%
Aflac	0.330	0.330	0.330	0.350	0.350	0.350	0.660	0.700	6.1%
Arthur J Gallagher & Co	0.340	0.340	0.340	0.340	0.350	0.350	0.680	0.700	2.9%
AstraZeneca		0.900		1.900		0.900	0.900	0.900	0.0%
BAE Systems		0.078		0.117		0.080	0.078	0.080	2.6%
China Mobile		1.747	1.633			1.778	1.747	1.778	1.8%
Coca-Cola Co	0.255	0.255	0.255	0.255	0.280	0.280	0.510	0.560	9.8%
Danone		1.390				1.450	1.390	1.450	4.3%
Deutsche Boerse		2.300			2.100		2.300	2.100	-8.7%
Eni		0.520	0.540			0.540	0.520	0.540	3.8%
General Dynamics Corp	0.510	0.470	0.510	1.020	0.560	0.560	0.980	1.120	14.3%
H&R Block	0.200	0.200	0.200	0.200	0.200	0.200	0.400	0.400	0.0%
Halma	0.060		0.041		0.064		0.060	0.064	7.1%
ICAP	0.160		0.060		0.160		0.160	0.160	0.0%
Illinois Tool Works	0.360	0.360	0.380	0.380	0.380	0.380	0.720	0.760	5.6%
Imperial Tobacco Group	0.317		0.739		0.352		0.317	0.352	11.0%
Johnson & Johnson	0.570	0.610	0.610	0.610	0.610	0.660	1.180	1.270	7.6%
Kraft Foods Group	na	na	na	0.500	0.500	0.500	-	1.000	na
L-3 Communications Holdings	0.500	0.500	0.500	0.450	0.550	0.550	1.000	1.100	10.0%
Mattel	0.310	0.310	0.310	0.310	0.360	0.360	0.620	0.720	16.1%
Meggitt		0.036		0.082		0.040	0.036	0.040	9.7%
Merck & Co	0.420	0.420	0.420	0.430	0.430	0.430	0.840	0.860	2.4%
Microsoft Corp	0.200	0.200	0.230	0.230	0.230	0.230	0.400	0.460	15.0%
Mondelez International	0.097	0.097	0.097	0.130	0.130	0.130	0.193	0.260	34.5%
Northrop Grumman Corp	0.500	0.550	0.550	0.550	0.550	0.610	1.050	1.160	10.5%
Pfizer	0.220	0.220	0.220	0.220	0.240	0.240	0.440	0.480	9.1%
Procter & Gamble Co	0.525	0.562	0.562	0.562	0.562	0.602	1.087	1.164	7.1%
Reckitt Benckiser Group		0.560		0.780		0.600	0.560	0.600	7.1%
Reynolds American	0.560	0.590	0.590	0.590	0.590	0.630	1.150	1.220	6.1%
Royal Dutch Shell	0.430	0.430	0.430	0.430	0.450	0.450	0.860	0.900	4.7%
Total	0.570	0.590	0.590	0.590	0.590	0.590	1.160	1.180	1.7%
Unilever	0.188	0.198	0.189	0.198	0.204	0.229	0.386	0.433	12.2%
Vodafone Group	0.065		0.033		0.069		0.065	0.069	7.0%
Willis Group Holdings PLC	0.270	0.270	0.270	0.270	0.280	0.280	0.540	0.560	3.7%
								Median	**7.0%**
								Average	**7.9%**

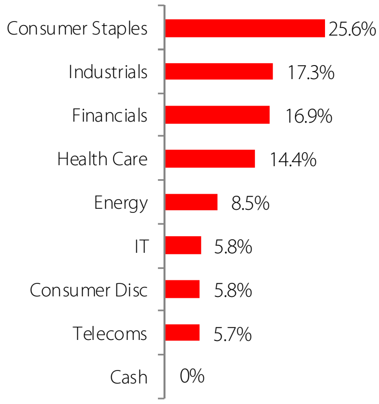
Past performance should not be taken as an indicator of future performance. The value of investments and any income arising from them can fall as well as rise.

PORTFOLIO (31.7.13)

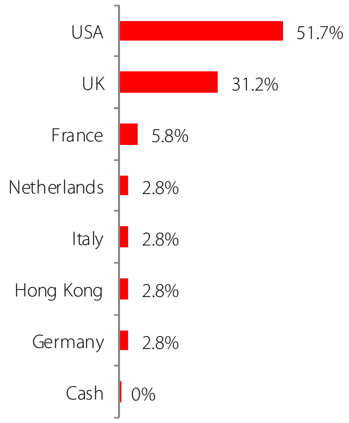
Fund top 10 holdings

Danone	2.9%
Abbvie	2.9%
H & R Block	2.9%
Aflac	2.9%
Northrop Grumman	2.9%
Halma	2.9%
Mondelez International	2.9%
Johnson & Johnson	2.9%
L-3 Communications	2.9%
Merck & Co	2.9%
% of Fund in top 10	29.1%
Total number of stocks in Fund	35

Sector analysis



Geographic allocation



PERFORMANCE

12 months to month end:	Jul '09	Jul '10	Jul '11	Jul '12	Jul '13
Guinness Global Equity Income Fund	-	-	-	4.8	26.4
MSCI World Index	-6.3	16.3	13.1	2.7	27.4
IMA Global Equity Income sector average	-5.2	16.2	13.6	4.2	22.1

Cumulative % total return

31/07/2013	1 month	3 months	6 months	1 year	From launch
Guinness Global Equity Income Fund	4.8	7.4	18.0	26.4	35.0
MSCI World Index	5.3	5.4	13.6	27.4	29.0
IMA Global Equity Income sector average	4.0	2.8	9.8	22.1	27.1

Annualised % total return from launch

	31/07/2013
Guinness Global Equity Income Fund	**12.31%**
MSCI World Index	**10.35%**
IMA Global Equity Income sector average	**9.72%**

Risk analysis - Annualised, weekly, from launch on 31.12.10

31/07/2013	Index	Sector	Fund
Alpha	0	1.83	3.72
Beta	1	0.76	0.77
Information ratio	0	-0.06	0.32
Maximum drawdown	-18.26	-15.50	-16.40
R squared	1	0.81	0.90
Tracking error	0	6.65	5.21
Volatility	15.12	12.81	12.32

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

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