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 - December 2013

Fund size (30.11.13) **£46.1m**

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.

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

The Fund generated a total return of 0.04% (in GBP) in November compared to its benchmark MSCI World Index total return of -0.18%, thereby slightly outperforming by 0.22%. The Fund has returned +24.59% year-to-date, versus the Index return of +23.10%.

Update

During November, Financials was the strongest performing sector within the portfolio, with our holdings in Aberdeen Asset Management (+11.2% in GBP) and ICAP (+7.5% in GBP) performing well. The market reacted particularly positively to the news that Aberdeen Asset Management had struck a deal to acquire Scottish Widows Investment Partnership from Lloyds Banking Group in a transaction mainly financed by equity. It is an attractive deal for Aberdeen as it will increase their assets by £136 billion and reduce the company's concentration in Emerging Market products. With this deal Aberdeen becomes the largest listed asset management company in Europe.

It has been a fairly volatile year for Aberdeen's share price. By May the company had delivered a total return of around 20% (in USD terms) only for it to give up all this performance in June after concern that Bernanke's signal of tapering the Fed's quantitative easing programme could lead to outflows in their core Emerging Market offering. Since hitting a low in the summer the share price has rallied, boosted by the SWIP transaction. The underperformance in June relative to the rest of the portfolio combined with our equally-weighted portfolio structure meant that we were able to top up our position.

Aberdeen continues to look attractive to us. It's a classic example of a more cyclical company that we like to own in the portfolio. Aberdeen generates consistently high return on capital, it has essentially no debt and it trades on a very undemanding 2015 PE multiple of 12x, with double digit earnings growth achievable. The valuation multiple looks attractive relative to its peer group, with BlackRock trading on a 2015 PE of 17x, T Rowe Price 19x, Schroders 16x as a few examples. The valuation also does not look demanding when compared to its historical range – it's currently trading at around its 10-year average multiple. When we look at the company's cash flow we think there is plenty of scope for continued double-digit dividend growth given the company's tiny capex demands and significant operational leverage. It currently trades on a well-covered dividend yield of 4%.

When we construct a discounted cash flow valuation, our model is showing that at the current price the market is baking in effectively zero growth in free cash flow over the long term. Whilst Aberdeen is clearly a cyclical business, we think this is likely to be too conservative given the company's scale and ability to access new distribution channels. Clearly there are risks associated with the business and, as we have seen this year, the share price can be volatile. However, our equally-weighted portfolio structure combined with rebalancing can turn this volatility in our favour.

We also saw strong performance from our Healthcare holdings in the form of TEVA Pharmaceutical (+10.8% in USD) and Merck (+10.5% in USD).

The worst performing company in the month was Meggitt (-12.8% in GBP), the UK-based engineering company. The company modestly reduced revenue guidance for 2013 due to production issues in the US and announced a raw material supply issue which will have a small impact into next year. These sorts of issues are par for the course for any company that produces high-tech industrial components and has lumpy order books. What was encouraging was that, despite sequestration in the US, revenues from their military division were flat.

We have owned Meggitt since December 2010 and it has performed well over the period, generating a total return of 46% (in GBP) despite recent weakness. It looked very attractive to us back in 2010, and despite the company's good performance it continues to look attractive today as it has become a stronger company. Return on capital has remained steady and high, operating margins have improved from a very healthy 20% in 2010 to around 24% this year, whilst the company has been reducing its debt burden from a perfectly reasonable debt-to-equity ratio of 54% in 2010 to 38% as of June 30th this year. Meanwhile the company has paid out a dividend in 2013 that is 44% higher than what it paid in 2010 while reducing its dividend payout ratio from 50% in 2010 to around 35% today. The company remains attractively valued. It trades on a 2015 PE ratio of 11.7x, which doesn't look expensive relative to the company's historic valuation range, and looks very cheap relative to its peers. On paper it looks like an attractive acquisition target.

As we have explained in earlier updates we have been increasing our exposure to the Industrials sector over the course of this year as we have found some attractively valued opportunities in Northrop Grumman, BAE Systems and Schneider Electric. Encouragingly we are starting to see some increasingly positive industrial production numbers out of the US and Europe, with US industrial output now above its pre-recession peak. Encouragingly for Northrop Grumman and BAE, the recent US budget deal that passed the Senate and Congress will lessen defence sequester cuts in 2014 and 2015.

Thank you for your continued support.

Dr. Ian Mortimer & Matthew Page

Co-managers,
Guinness Global Equity Income Fund

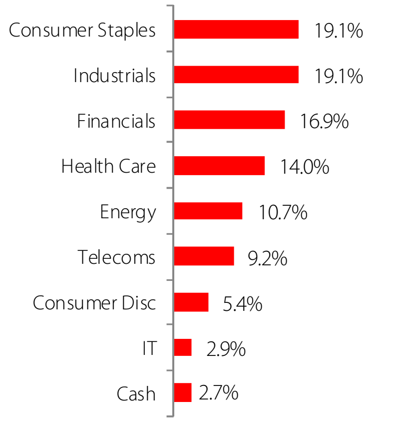
December 2013

PORTFOLIO (31.11.13)

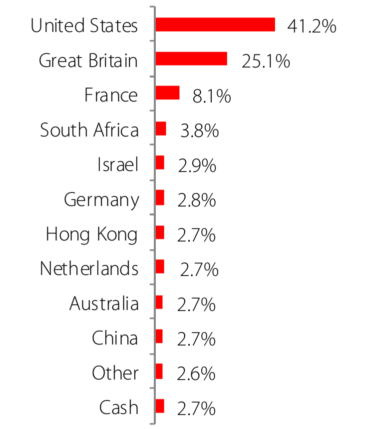
Fund top 10 holdings

Vodacom	3.8%
Aberdeen Asset Management	3.1%
ICAP	3.0%
Merck & Co	3.0%
Teva Pharmaceutical	2.9%
Microsoft	2.9%
Northrop Grumman	2.8%
Reckitt Benckiser	2.8%
General Dynamics	2.8%
Deutsche Boerse	2.8%
% of Fund in top 10	30.0%
Total number of stocks in Fund	35

Sector analysis



Geographic allocation



PERFORMANCE

12 months to month end:	Nov '09	Nov '10	Nov '11	Nov '12	Nov '13
Guinness Global Equity Income Fund	-	-	-	8.0	22.7
MSCI World Index	23.2	11.7	0.5	11.5	23.7
IMA Global Equity Income sector average	23.5	12.2	0.2	13.5	20.2

Cumulative % total return

30/11/2013	1 month	3 months	6 months	1 year	From launch
Guinness Global Equity Income Fund	0.0	3.3	1.9	22.7	33.1
MSCI World Index	-0.2	4.9	3.3	23.7	29.7
IMA Global Equity Income sector average	-1.1	4.5	2.0	20.2	28.6

Annualised % total return from launch

	30/11/2013
Guinness Global Equity Income Fund	**10.28%**
MSCI World Index	**9.33%**
IMA Global Equity Income sector average	**9.01%**

Risk analysis - Annualised, weekly, from launch on 31.12.10

30/11/2013	Index	Sector	Fund
Alpha	0	1.86	2.75
Beta	1	0.77	0.78
Information ratio	0	-0.02	0.18
Maximum drawdown	-18.26	-15.50	-16.40
R squared	1	0.81	0.90
Sharpe ratio	0	0.44	0.55
Tracking error	0	6.33	4.99
Volatility	14.47	12.33	11.92

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 FCA 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 KIID 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.

Sharpe ratio
This is a commonly-used measure which calculates the level of a fund's return over and above the return of a notional risk-free investment, such as cash or Government bonds. The difference in returns is then divided by the fund's standard deviation - its volatility, or risk measurement. The resulting ratio is an indication of the amount of excess return generated per unit of risk.

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.