Guinness Global Equity Income Fund

INVESTMENT COMMENTARY - September 2014

About the Fund

Guinness Global Equity Income Fund is designed to provide investors with global exposure to dividend-paying companies.

The Fund is managed for income and capital growth and invests in profitable companies that have generated persistently high return on capital over the last decade, and that are well placed to pay a sustainable dividend into the future.

Fund size	£61.3m
Launch date	31.12.10
Managers	Dr. Ian Mortimer, CFA Matthew Page, CFA

Performance — 31.08.14

	1 year	3 years	From launch
Fund	10.5	49.7	45.2
Index	12.8	51.0	39.5
Sector	10.6	44.3	36.1

Annualised % total return from launch (GBP)

Benchmark index	MSCI World Index
IMA sector	Global Equity Income

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.

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Guinness Global Equity Income
BEST FUND OVER 3 YEARS
EQUITY GLOBAL INCOME

Monthly update

In what was a fairly volatile August for global equities, the MSCI World Index ended the month in positive territory. The Fund was up 4.01% (in GBP) versus the MSCI World Index up 3.90%, and the average IMA Global Equity Income fund up just 1.85%.

Our holdings in the Financials sector performed well as a group, with ICAP, Arthur Gallagher and Aberdeen Asset Management contributing meaningfully to performance. However, our best performing positions over the month were in Asia, with China Mobile and CNOOC both providing double digit returns. This time last year we held only 3% of the portfolio in emerging markets, whereas today we own nearer 12%. This shift has been driven purely by valuations. Emerging market companies that have met our initial search for persistently high return on capital had continued to look expensive through 2011 to the middle of 2013. However, by the fourth quarter of last year broad concerns on the effect of US interest rate rises on emerging market economies meant more attractive valuation opportunities appeared.

While much uncertainty surrounds the strength of emerging market economies, we are likely to continue to see a relatively choppy ride in these positions. Having said that, year-to-date our positions in emerging markets have on average outperformed our holdings in the US and Europe. We will continue to make the most of our equally-weighted portfolio structure to turn any volatility to our advantage by rebalancing the Fund every two to three months or as appropriate.

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GUINNESS FUNDS

Back closer to home, one question we have recently been asked by a number of clients is whether we own or have owned Tesco in the Fund. Tesco is a company which for some would fit the "quality" bucket. It is a mature, large company that everyone in the UK knows. The company has grown to be the dominant player in UK supermarkets and the UK's largest retailer, and we have all heard the statistic that one in seven pounds spent in UK shops is spent in Tesco.

Tesco has grown rapidly over the last ten years, both at home in the UK and expanding internationally, driving revenues up by 85% over the last decade. Terry Leahy oversaw much of this growth during his tenure as CEO from 1997 to 2010, taking over where Lord MacLaurin had left off. In Terry Leahy the company had a high profile and well respected CEO who was knighted in 2002, chosen as Fortune European Businessman of the Year in 2004, not to mention his 3rd place in Rear of the Year 2006!

The company has paid an alluring dividend that had grown each year until 2013. This dividend has typically represented approximately 40-50% of earnings.

In our opinion neither the size of the company, the brand awareness, the profile of management, the rate of growth or the simple fact a company pays a dividend are good indicators of the quality of a company.

We have never owned Tesco because it has never met our strict definition of "quality". We think the best way to start to identify quality companies is to study their return on capital. A quality company will demonstrate both a return on capital well above their cost of capital whilst also demonstrating the ability to do this year-on-year. We look for companies that have generated a return on capital (CFROI) of more than 10% for each of the last ten years.

Tesco has not managed to achieve a return on capital of 10% in even one of the last 10 years. It achieved a level of around 8% each year until 2010 when it started to decline to nearer 6% in 2013. Based on current earnings forecasts it looks set to decline yet further.

While it would be fair to say that Tesco has a better return on capital profile than its UK peers such as Sainsbury's and WM Morrison, that does not mean to say it is a high quality company in absolute terms. Even if we compare Tesco to the global universe of supermarkets, Tesco's return on capital profile looks decidedly average.

Tesco has pursued growth somewhat aggressively – looking to expand into new markets such as the US, Asia and Eastern Europe and new product lines, be it banking to telephony, and with that pursuit of growth comes risk. Aside from Tesco's fairly average return on capital profile, this kind of pursuit of growth away from a core competency is something we prefer to avoid.

One might consider the supermarket industry to be one with high barriers to entry; after all it is dominated by a few large players. However, despite the major supermarket chains having significant pricing power, the margins within these businesses are thin, suggesting otherwise. Given the very modest opportunities for the supermarket industry to grow, this translates into a highly competitive industry with each player jostling for market share. It is therefore interesting that Tesco would see increased competition from relative new entrants Lidl and Aldi.

The only comparable company that we have owned in the portfolio is Wal-Mart. It has consistently generated a return on capital in excess of 10% for the last 20 years, and offered a reasonable dividend yield. Crucially, the dividend has grown at around 12% per year for the last five years. We sold the company in March 2013 after the valuation multiple rerated upwards over the previous 18 months to a level where, whilst we continued to like the company, we felt there were better valuation opportunities in quality companies available.

Tesco may manage to turn things around. Perhaps with some restructuring and a bit of luck its return on capital may well revert back to its range in the 2000s. Once all the bad news has come out of the woodwork and sentiment has bottomed out, it may make an interesting investment. But we don't consider turnaround situations in low return on capital companies to be our area of expertise, and will happily leave these opportunities to special situations managers. There are plenty of quality companies available to us that have consistently generated high return on capital and look set to continue to do so, that also offer attractive valuations.

Perhaps what is most extraordinary about the Tesco situation is that the decline in fortunes of the company and the recent revelations have come about in a macro environment that is, whilst not perfect, certainly improving. Companies with average or below average return on capital often get found out in difficult economic environments, recessions, and unanticipated shocks. The current environment is more synonymous with improving growth rates and recovering margins. Consequently, at this point in the cycle, average companies are often seen as more attractive than they really are, with earnings forecasts being extrapolated at current growth rates into the foreseeable future, rather than taking into account the fact that most "growth" companies are actually cyclical companies.

We continue to invest in companies that have weathered macro storms remarkably well and where valuations are attractive, certain in the knowledge that we don't know what the future holds.

Dr. Ian Mortimer & Matthew Page
Co-managers, Guinness Global Equity Income Fund

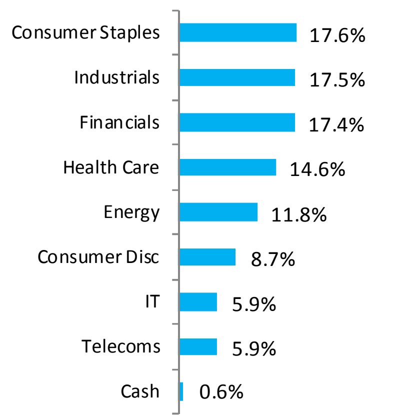
September 2014

PORTFOLIO (31.08.14)

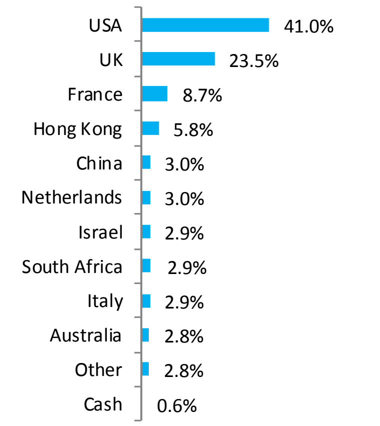
Fund top 10 holdings

CNOOC	3.0%
Imperial Tobacco	3.0%
China Mobile	3.0%
Total	3.0%
Microsoft	3.0%
Abbvie	3.0%
ICAP	3.0%
Merck & Co	3.0%
Royal Dutch Shell	3.0%
Illinois Tool Works	3.0%
% of Fund in top 10	29.6%
Total number of stocks in Fund	34

Sector analysis



Geographic allocation



PERFORMANCE

Discrete years % total return (GBP)

12 months to month end:	Aug '10	Aug '11	Aug '12	Aug '13	Aug '14
Fund C Class (1.5% AMC)	-	-	11.3	19.9	9.7
Fund X class (0.75% AMC)	-	-	12.1	20.8	10.5
MSCI World Index	7.7	8.0	10.8	20.8	12.8
IMA Global Equity Income sector average	9.0	8.7	11.3	17.3	10.6

Cumulative % total return (GBP)

31/08/2014	1 month	Year-to-date	1 year	3 years	From launch
Fund X class (0.75% AMC)	4.0	6.0	10.5	49.7	45.2
MSCI World Index	3.9	6.5	12.8	51.0	39.5
IMA Global Equity Income sector average	1.9	5.2	10.6	44.3	36.1

Annualised % total return from launch (GBP) 31/08/2014

Fund X class (0.75% AMC)	10.69%
MSCI World Index	9.50%
IMA Global Equity Income sector average	8.76%

Risk analysis - Annualised, weekly, from launch on 31.12.10, in GBP

31/08/2014	Index	Sector	Fund
Alpha	0	1.38	2.94
Beta	1	0.78	0.79
Information ratio	0	-0.10	0.24
Maximum drawdown	-18.26	-15.50	-16.34
R squared	1	0.81	0.89
Sharpe ratio	0	0.45	0.63
Tracking error	0	5.86	4.64
Volatility	13.49	11.67	11.25

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. Fund launch date: 31.12.10. **Fund X class**: Simulated performance based on actual returns of E share class (available from Fund launch), calculated in GBP. **IMA sector** performance based on highest fee share classes for each fund (C Class (1.5% AMC) for Guinness Global Equity Income). **See Notes overleaf.**

Performance data notes

1) The performance numbers displayed on the previous page are calculated in GBP (Sterling). Please note: The Fund's X class was launched on 15/02/2012. The performance shown is a simulation for X class performance being based on the actual performance of the Fund's E class, which has the same annual management charge as the X class, and has existed since the Fund's launch. The Fund's E class is denominated in USD but for the purposes of this performance data its performance is calculated in GBP. Hence the Fund's E Share class is used here to illustrate the performance of a GBP-based clean-fee (RDR-compliant) share class since the Fund's launch on 31.12.10.

2) The performance of the IMA Global Equity Income sector is based on the average of the highest fee share class of each constituent fund, e.g. C class for the Guinness Global Equity Income Fund, with an annual management fee of 1.5%.

Important information

Issued by Guinness Asset Management Limited, authorised and regulated by the Financial Conduct Authority.

This report is primarily designed to inform you about Guinness Global Equity Income Fund. It may provide information about the Fund’s portfolio, including recent activity and performance. It contains facts relating to the energy market and our own interpretation. Any investment decision should take account of the subjectivity of the comments contained in the report.

This document is provided 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 contents of the document should not therefore be relied upon. It should not be taken as a recommendation to make an investment in the Fund or to buy or sell individual securities, nor does it constitute an offer for sale.

Risk

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 an investment and the income from it can fall as well as rise as a result of market and currency movement, and you may not get back the amount originally invested. Details on the risk factors are included in the Fund’s documentation, available on our website. 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.

Documentation

The documentation needed to make an investment, including the Prospectus, the Key Investor Information Document (KIID) and the Application Form, is available from the website www.guinnessfunds.com , or 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.

Residency

In countries where the Fund is not registered for sale or in any other circumstances where its distribution is not authorised or is unlawful, the Fund should not be distributed to resident Retail Clients.

NOTE: THIS INVESTMENT IS NOT FOR SALE TO U.S. PERSONS.

Structure & regulation

The 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, which operates under EU legislation. The Fund has been approved by the Financial Conduct Authority for sale in the UK. If you are in any doubt about the suitability of investing in this Fund, please consult your investment or other professional adviser.

Switzerland

The prospectus and KIID for Switzerland, the articles of association, and the annual and semi-annual reports 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, www.carnegie-fund-services.ch. The paying agent is Banque Cantonale de Genève, 17 Quai de l'Ile, 1204 Geneva, Switzerland.

Telephone calls may be recorded and monitored.