Guinness Global Equity Income Fund

INVESTMENT COMMENTARY - November 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.

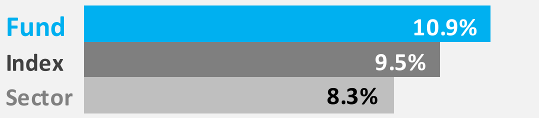
Fund size	£62.9m
Launch date	31.12.10
Managers	Dr. Ian Mortimer, CFA Matthew Page, CFA

Performance

31.10.14

	1 year	3 years	From launch
Fund	9.4	47.0	48.6
Index	9.1	50.9	41.8
Sector	4.2	38.4	35.5

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.

LIPPER
FUND AWARDS 2014
SWITZERLAND

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

Monthly update

October turned out to be a rather volatile month. Continued concern over Syria, persistent protests in Hong Kong and the growing ebola crisis, combined with worrying stress tests on European banks and broad concern over growth in the Eurozone and Asia, all lead to jittery conditions. Global equities sold off fairly hard in the first two weeks of the month, only to come roaring back in the last two weeks as fears partially receded. Further stimulus from the Bank of Japan gave markets a shot in the arm on the last day of the month and a considerably lower oil price should also provide a boost to oil importing economies including Europe and China.

The MSCI World Index finished the month up 1.99%, while the Fund produced a total return of 2.64%, thereby outperforming the market by 0.65%. Year-to-date the Fund is now up 8.54% and ranks as the top performing fund in the IMA Global Equity Income sector over this period.* We also rank as top decile over 1 year, 3 years and since launch.

Our focus on identifying quality companies that are not highly dependent or exposed to government regulation, that are not dependent on strong economic growth to thrive, that are price makers rather price takers and have proven themselves by generating consistently high return on capital for a decade, has certainly meant the Fund has weathered the periods of uncertainty well over the last four years. However, by being disciplined about the valuation at which we are willing to hold these companies in the portfolio, the Fund has been able to participate in the upside when the market mood is more benign.

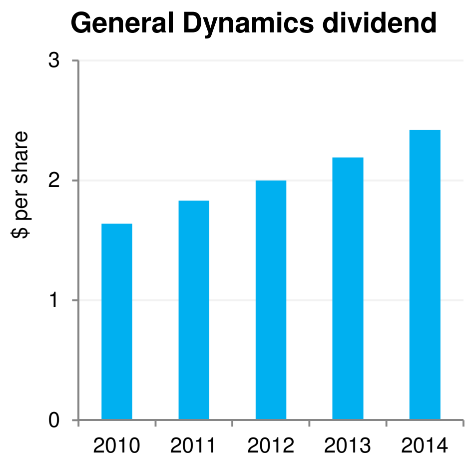
Data sourced from Financial Express, total return in GBP.
**Excluding Premier Global Power & Water Fund.*

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

GUINNESS
ASSET MANAGEMENT LTD

Dividend growth is also an important consideration for us. A company that is willing and able to grow its dividend will often be a profitable, growing business with a healthy balance sheet. It's not always the case, of course: many banks were paying growing dividends through the last decade until 2008. It is as important not to buy companies primarily on their dividend growth rate as it is not to buy them simply on their dividend yield. However, if we can have sufficient conviction in the underlying quality of a company that is willing and able to grow its dividend, the dividend can potentially be a very powerful contributor to shareholder returns. If the market believes a company should trade at a dividend yield of X%, and the company then grows its dividend at say 10%, then in order for the dividend yield to remain constant the share price will have to rally 10%. There is of course no guarantee that the market will take this view, and if the valuation is already excessive then this logic falls away, but in an environment where demand for income/yield is particularly high, as it is today, this can be another good reason to own a good company.

Consider a company that we own in the portfolio as an example. General Dynamics went ex-dividend this month, with a healthy dividend that increased 11% compared to last year. General Dynamics is a US aerospace and defence company with a global presence. When we examine the quality of the company we see that for each of the last ten years the company has earned a return on capital 60-100% higher than the average company in the aerospace and defence sector, and has a healthy balance sheet which has more cash than debt. Despite government cuts in defence spending, the company has managed to maintain high levels of return on capital, maintain gross margins and continue to increase its dividend. We have owned General Dynamics since we launched the Fund in 2010, and over that period the dividend has increased from $1.64 in 2010 to $2.42 in 2014. That is an increase of 48%, or a compound annual growth rate (CAGR) of 10% per year.



This dividend growth has certainly increased the attractiveness of owning the company, and will have contributed to the share price almost doubling since 31/12/10, but it only explains a proportion of this return. The return from buying at a discounted valuation has also been important.

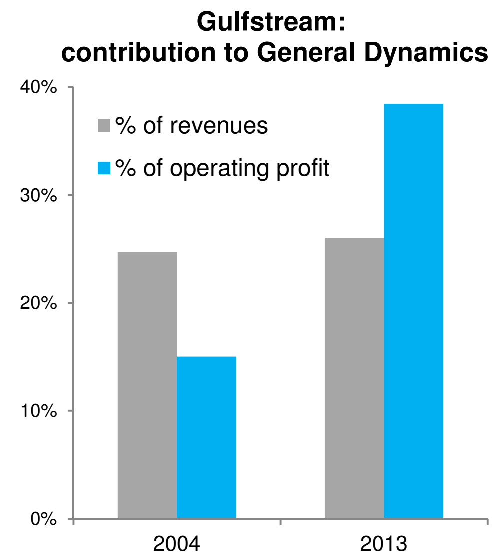
When we considered valuation back in 2010, we found the company trading on a P/E of 10x and a EV/EBITDA of 6x; in the context of its historical range, the company looked cheap, trading at around one standard deviation below its historic ten year average of 13x. Concerns regarding the US defence budget meant defence companies were trading at depressed levels. However, if sentiment were to turn and we saw a return to the historic average P/E multiple of 13x, that would provide 30% upside (assuming no earnings growth).

Our own reverse discounted cash flow analysis showed that the market's valuation in December 2010 implied the company's cash flow was going to contract at 1% in perpetuity, which seemed overly pessimistic. If we assumed the company could simply maintain its current rate of cashflow, this implied there was 35% upside to the valuation.

The dividend yield was 3%, with share buybacks providing additional shareholder returns. The dividend payout ratio was only 25%, and after looking at other calls on cash the dividend remained well covered. Simply by increasing the payout ratio from 25% to 27.5%, and maintaining their level of profitability, implied the company could increase its dividend by 10%.

Before we even considered any other factors, the company looked like an attractive opportunity to us – a high quality company, with an attractive valuation that implied a likely over-pessimistic scenario, and a solid dividend with plenty of scope for growth.

The company made what turned out to be a shrewd acquisition in 1999 when it acquired corporate jet manufacturer Gulfstream for $4.8 billion, thereby diversifying the company away from purely defence. Ten years ago Gulfstream represented around 25% of the company's revenues, but only 15% of operating profit, whereas in 2013 Gulfstream still represented about 25% of revenues but its share of the entire company's operating profit had increased to about 38%. See chart below.



Improved profitability of the Gulfstream business is in part driven by rising demand in an improving economy. However, Gulfstream launched a new jet in 2013, the G650, which has proved to be very popular.

Source: Gulfstream

The G650 is the most desired top of the range corporate jet currently on offer. It offers a range of over 8,000 miles and is also the fastest available, travelling at up to Mach 0.93 (93% of the speed of sound) at a maximum altitude of 51,000 feet. It is also more fuel efficient and cheaper to service for owners and operators. Importantly from a cost perspective, the G650 uses 50% fewer parts than their legacy offerings, making it simpler and cheaper to build.

(You might have seen the story about Tesco's new CEO Dave Lewis deciding to sell the shiny new corporate jet that his predecessor Philip Clarke had ordered back in early 2013. That was not an all singing, all dancing $65 million G650, but a mere $50 million G550. Every little helps!)

Demand for the G650 has been very strong, with a waiting list now of around three years, and with some aircraft delivered recently being sold on at a significant premium. Gulfstream's order backlog is now around $14 billion.

Today, General Dynamic's valuation reflects this more positive narrative and outlook, both in terms of the positive contribution of the Gulfstream division and the more positive outlook for defence spending. Consequently, it is a position in the portfolio that is giving us pause for thought. With the company's operating profit more reliant on highly cyclical business jet demand, General Dynamics is arguably a riskier business today than it was a decade ago. It's a position we will continue to keep a close eye on.

A new UCITS fund for an existing Guinness strategy

We'd like to bring to your attention a global growth fund that we have been managing for our US sister company (Guinness Atkinson), that is now available to UK and European investors through the launch of a mirror UCITS version. The **Guinness Global Innovators Fund** is managed as an exact replica of the long-established Guinness Atkinson Global Innovators Fund (ticker: IWIRX US). The US version has been managed by the Guinness team since 2003 and was initially managed by Tim Guinness. We then took over the running of the Fund in 2010.

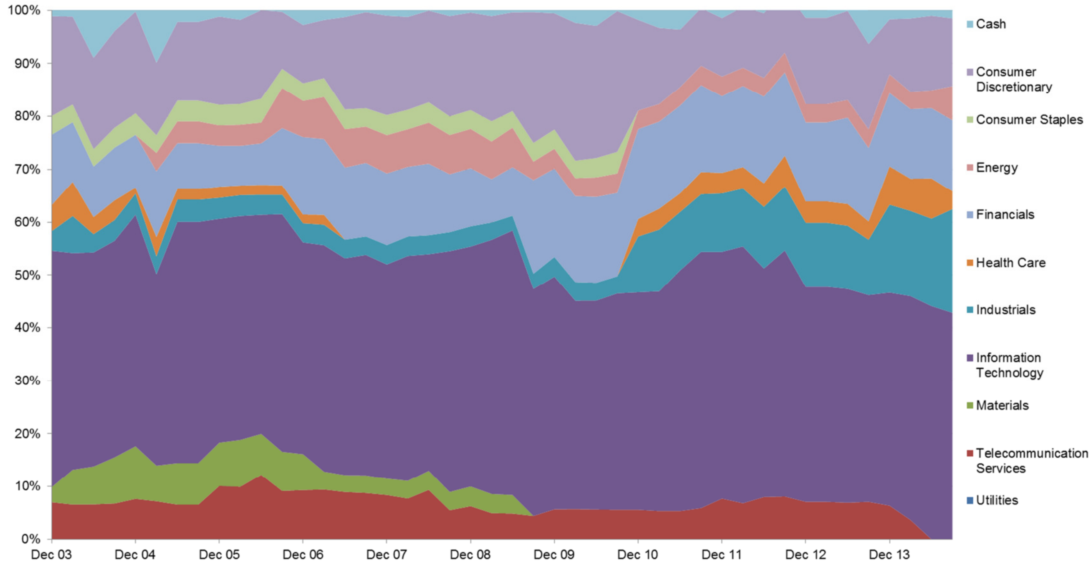
In terms of philosophy and approach it shares much with the Global Equity Income Fund. We maintain our focus on value, which in a growth portfolio steers us away from many of the glossy hyped-up story stocks and towards more out-of-favour names. It is a high conviction portfolio with 30 equally weighted positions, meaning the portfolio has a high active share, typically over 90%, and we are agnostic as to index weights.

We look to invest in innovative companies because we think that a company that is doing something innovative, be it making scientific or technological breakthroughs, or developing better products, or creating new and better business models, should be able to earn a higher return on capital than its average peers. Some of these companies will be highly disruptive (for example we bought Netflix before online streaming of films and TV had really taken off), while others will be making more incremental or continuous innovations, such as Intel. We look at the whole spectrum. What is most important to us is not to provide you with a portfolio of the most innovative companies, but to identify a universe of innovative companies, and then select from that universe a portfolio of companies that offer attractive valuation. Recently that has meant steering away completely from the more disruptive companies like Tesla as valuations look excessive to us. Today the most expensive company in the portfolio trades on around 20x earnings, while the portfolio is trading on 14.5x 2015 expected earnings, a small premium to the MSCI World Index.

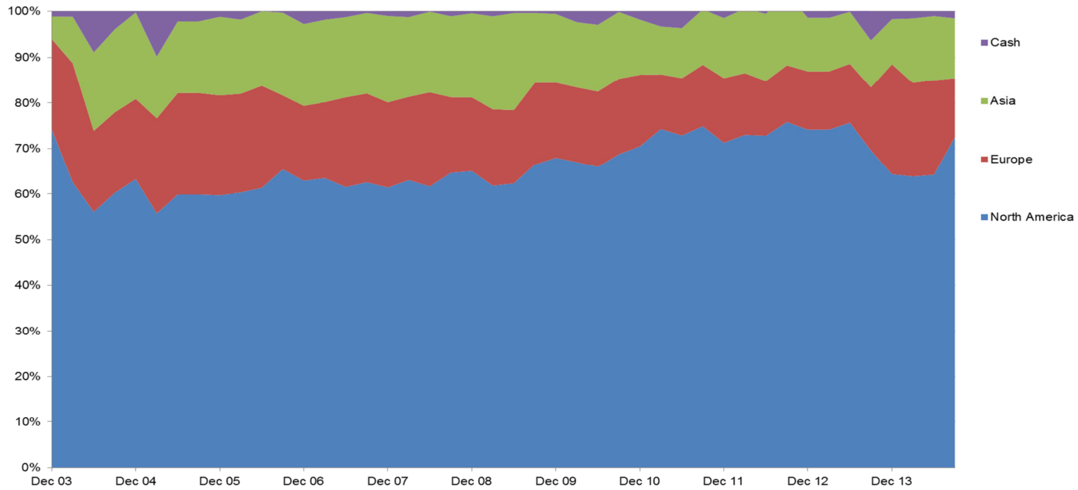
The charts overleaf show that since 2003 the portfolio has had a bias towards companies in the IT sector and also a bias towards US companies, as this has tended to be where we have identified more innovative companies.

Global Innovators portfolio history

1) Sector breakdown



2) Geographic breakdown



We also maintain a low portfolio turnover in order to keep trading costs to an absolute minimum. The maximum number of switches we have made in any year in the portfolio over the last five years has been seven. You can see all the switches in the table below.

	Buys	Sells
2010	Best Buy, Danaher, Gilead, Roper	amazon.com, Costco Wholesale, Microsoft, Sony
2011	intel	Netflix, citigroup, AIG, Garmin
2012	H&R Block	infospace
2013	Ultra Electronics, Ubisoft, Gannett, lenovo, Qualcomm, Schneider Electric, Shire	Best Buy, Blucora, Nokia, Honda, RIM, Toyota
2014	Cisco, Li & Fung Limited, Boeing, Schlumberger, xerox	CenturyLink, vodafone, Ubisoft, Shire

Pleasingly, the performance is also satisfactory. The Fund ranks as the best performing fund in Lipper's category of large-cap growth funds available in the US over 1 year, 3 years, 5 years and 10 years, and is rated 5* by Morningstar. When we compare the performance to the UK IMA's Global sector of around 260 funds, the fund is in the top 5 funds over 1 year, 3 years, 5 years and 10 years.

It is a strategy that has been attracting assets in our US mutual fund, which is now over $140 million, while the new UCITS fund has attracted just over $10 million in its first week. We are also offering our reduced AMC of 25bps for early investors in the Global Innovators Fund, until it reaches $50 million in size.

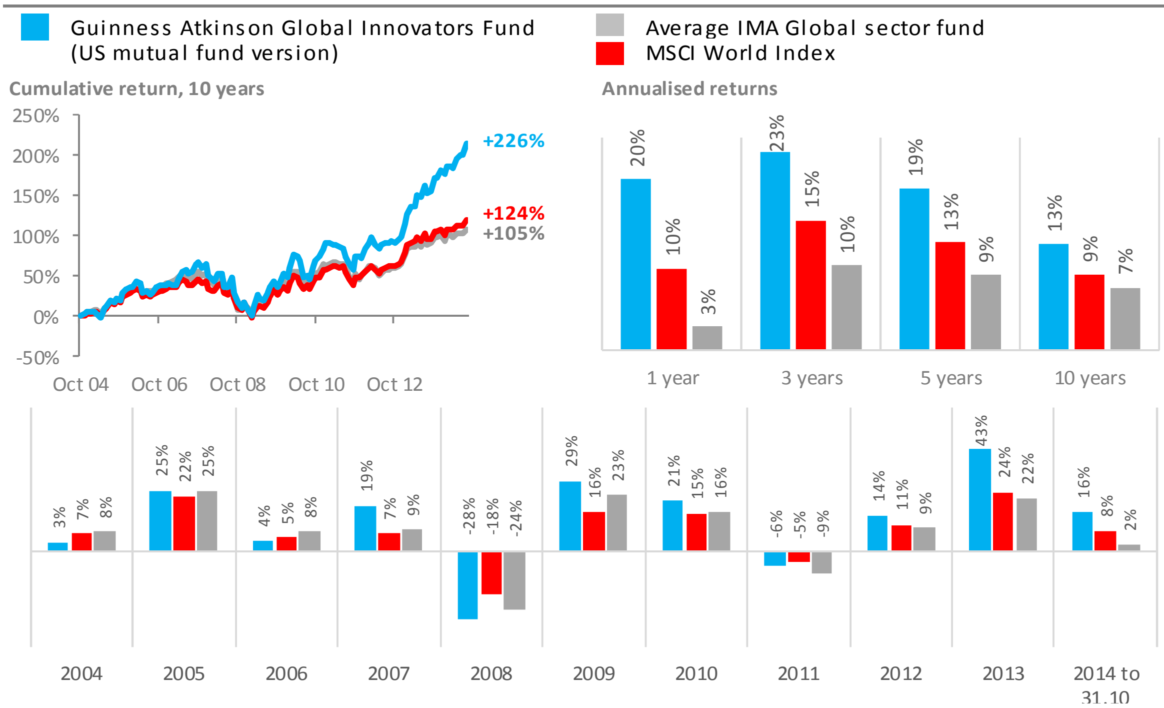
We would be delighted to send you more information or discuss either strategy in more detail. We are both in California this week, sadly not flying on a Gulfstream G650, but will be back in London for the rest of the year should you wish to discuss in person.

Many thanks to those of you who have already supported the launch of the new Fund and, as always, thank you all for your continued support.

Dr. Ian Mortimer & Matthew Page

Co-managers, Guinness Global Equity Income Fund
November 2014

Guinness Global Innovators – strategy performance (31.10.14)



Discrete years performance (FCA standard)

12 months ending:	Oct-10	Oct-11	Oct-12	Oct-13	Oct-14
Global Innovators strategy	25.0	1.9	9.8	42.5	20.2
MSCI World Index	16.8	1.3	10.3	26.8	9.7
IMA Global sector average	14.8	0.1	4.4	24.3	2.8

Past performance should not be taken as an indicator of future performance. Returns stated below are in GBP; returns in other currencies may be higher or lower as a result of currency fluctuations.

Simulated past performance. Guinness Global Innovators Fund (Dublin UCITS version) launchesdon 31.10.14, so no actual performance numbers are available. The investment team has been running the Guinness Atkinson Global Innovators Fund (mutual fund for US investors) in accordance with the same methodology continuously since May 2003 and therefore we believe the performance numbers quoted are a fair reflection of what the performance of this Fund would have been. The past performance of the Guinness Atkinson Global Innovators Fund is not indicative of the future performance of Guinness Global Innovators Fund. Data source: Financial Express, total return, bid to bid, in GBP.

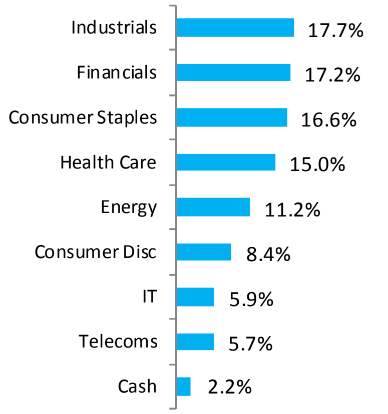
Past performance should not be taken as an indicator of future performance. The value of investments and any income arising from them can fall as well as rise as a result of market and currency fluctuations.

PORTFOLIO (31.10.14)

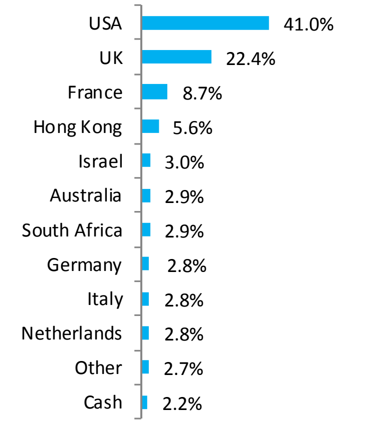
Fund top 10 holdings

General Dynamics	3.2%
Abbvie	3.1%
Johnson & Johnson	3.1%
L-3 Communications	3.0%
Schneider Electric	3.0%
Microsoft	3.0%
Aberdeen Asset Management	3.0%
Teva Pharmaceutical	3.0%
Sonic Healthcare	2.9%
Gallagher, Arthur J	2.9%
% of Fund in top 10	30.2%
Total number of stocks in Fund	34

Sector analysis



Geographic allocation



PERFORMANCE

Discrete years % total return (GBP)

12 months to month end:	Oct '10	Oct '11	Oct '12	Oct '13	Oct '14
Fund C Class (1.5% AMC)	-	-	6.7	24.1	8.6
Fund X class (0.75% AMC)	-	-	7.5	25.0	9.4
MSCI World Index	16.2	0.8	9.7	26.1	9.1
IMA Global Equity Income sector average	14.9	3.5	8.3	22.7	4.2

Cumulative % total return (GBP)

31/10/2014	1 month	Year-to-date	1 year	3 years	From launch
Fund X class (0.75% AMC)	2.6	8.5	9.4	47.0	48.6
MSCI World Index	2.0	8.3	9.1	50.9	41.8
IMA Global Equity Income sector average	0.4	4.7	4.2	38.4	35.5

Annualised % total return from launch (GBP) 31/10/2014

Fund X class (0.75% AMC)	**10.88%**
MSCI World Index	**9.54%**
IMA Global Equity Income sector average	**8.25%**

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

31/10/2014	Index	Sector	Fund
Alpha	0	0.83	3.02
Beta	1	0.78	0.80
Information ratio	0	-0.18	0.27
Maximum drawdown	-18.26	-15.50	-16.34
R squared	1	0.82	0.89
Sharpe ratio	0	0.40	0.63
Tracking error	0	5.82	4.60
Volatility	13.56	11.75	11.43

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 equity markets 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.