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.

Annual review

(4th anniversary)

2014

GUINNESS
ASSET MANAGEMENT LTD

Fund size (31.12.14)	£66.8m
Launch date	31.12.10

Aim

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.

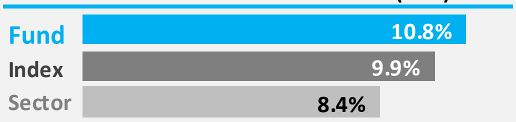
Performance 31.12.14

Fund	Guinness Global Equity Income (X)
Index	MSCI World Index
Sector	IA Global Equity Income

	2012	2013	2014
Fund	5.5	26.3	10.1
Index	10.7	24.3	11.5
Sector	9.7	20.4	6.7

	1 year	2 years	3 years
Fund	10.1	39.1	46.8
Index	11.5	38.6	53.5
Sector	6.7	28.5	41.0

Annualised % total return from launch (GBP)



Risk analysis (annualised, weekly, from launch)

	Index	Sector	Fund
Alpha	0	0.6	2.6
Beta	1	0.8	0.8
Info ratio	0	-0.3	0.2
Max drwdn	-18.3	-15.5	-16.3
Tracking err	0	5.8	4.6
Volatility	13.6	11.7	11.6
Sharpe ratio	0.5	0.4	0.6

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 X class: Simulated performance based on actual returns of E share class (available from Fund launch), calculated in GBP.

Annual review

2014 was another good year for the Guinness Global Equity Income Fund. It was the fourth consecutive year of positive returns, and the Fund ranks in the top quartile over one year, three years and since launch in the IA Global Equity Income sector.

In 2014 the Fund produced a total return of 10.1% (in GBP – E Class) compared to the MSCI World Index return of 11.5% and IA Global Equity Income sector return of 6.7%. The Fund therefore underperformed the Index by 1.4% but outperformed the sector by 3.4%. This puts the Fund in the top quartile relative to peer funds for the year. Indeed, the Fund has ranked in the top quartile for three of the last four calendar years.

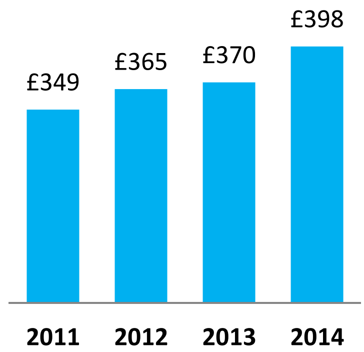
% TR in GBP (E class)	2011	2012	2013	2014
Fund	**2.7**	**5.5**	**26.3**	**10.1**
IA Global Equity Income sector	-2.1	9.7	20.4	6.7
Fund sector quartile rank	**1st**	**4th**	**1st**	**1st**

December 31st 2014 marks the four year anniversary of the Fund's launch. Over this period the Fund has produced a total return of 50.8% compared to the MSCI World Index return of 46.0% and the IMA Global Equity Income sector 38.1%; so it has outperformed the Index by 4.8%, and the sector by 12.7%.

Our focus on high return on capital companies that have the potential to grow their dividends has enabled us to grow the dividend distributed by the Fund every year. In 2014 the Fund's dividend grew by 7.5%, which was greater than in previous years.

Dividend growth

Dividends paid each year on £10,000 invested at launch (C Class, 1,000 shares purchased on 31.12.10)

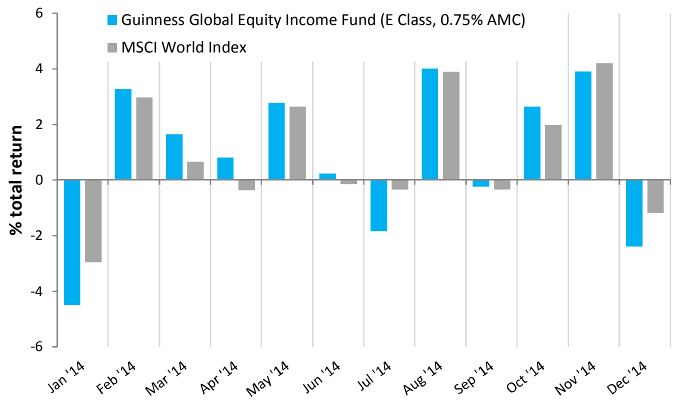


Past performance should not be taken as an indicator of future performance. The value of investments and any income arising from them can fall as well as rise.

Given the broader macro concerns that existed at the beginning of the year, 2014 was unlikely to be a repeat of 2013's very strong returns for global equities. Whilst it turned out to be a positive year for global equities, it was not a smooth ride, particularly over the last six months.

There were six positive months and six negative months for the Index, while the Fund had eight positive months and four negative months. Over the course of the year there were three months where the Fund underperformed the Index by more than 1% (January, July and December).

Monthly total return of Fund and benchmark in 2014



Source: Financial Express

The main detractors in January were our holdings in the Financials sector, particularly Aberdeen Asset Management, and we were not helped by our holding in toy company Mattel, which had suffered a poor holiday season.

July was also a poor month for our Financials, and more broadly our holdings in the US, whilst in December our positions with exposure to emerging markets and the oil price underperformed.

Looking at the year as a whole we saw particularly strong performance in Teva Pharmaceutical (+47.3% in USD), which we had bought towards the end of 2013. The Healthcare sector was the best performing global sector in 2014, with a number of high profile acquisition attempts leading to higher multiples. The sector was up 18.7% over the year. All our Healthcare holdings provided a positive total return, with Abbvie, Johnson & Johnson and Merck all contributing meaningfully to performance.

Teva Pharmaceutical was extremely unloved when we bought it. In last year's annual review we wrote:

"The company has been a consolidator of generic drug manufacturers and also generates a large proportion of its revenues from a multiple sclerosis drug for which it owns the patent. Ironically it is the threat of generic competition to this drug next year, when it comes off patent, that has been a drag on the company. At just over 7 times 2014 expected earnings, however, it ranked in the bottom decile of its industry peers and almost two standard deviations away from its median multiple over the past ten years. Earnings expectations have fallen over the past year, but we felt this may have bottomed and the market has oversold the stock based on an overly pessimistic view. Again, we cannot pinpoint when sentiment and/or the share price may start to recover, but at such lowly valuations and with sentiment at extreme levels already we feel there is good upside potential over the longer term and a lot of bad news already priced in."

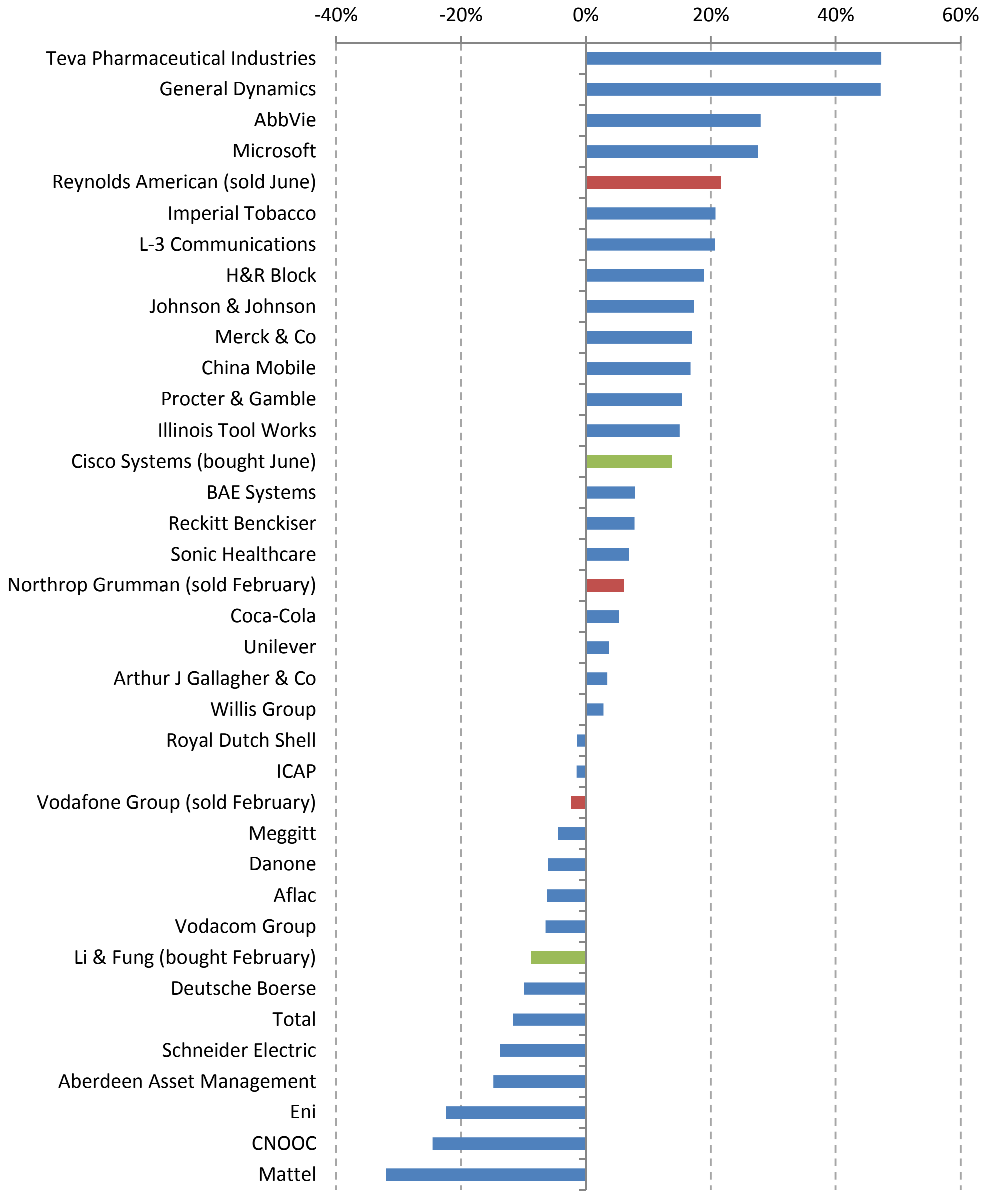
This was a classic example of buying a company that was attractively valued but where no obvious "catalyst" existed. We never know how long negative sentiment will persist, and whether it will become more negative before it improves. In this instance, the turnaround was fairly quick.

We discussed our holding in General Dynamics in detail in our November 2014 update. After strong performance in 2013 it went on to have another good year in 2014, producing a total return only just shy of Teva Pharmaceutical (+47.2%). The company has been growing its dividend at 10% per year for the last five years, and we believe this strong dividend growth is likely to continue.

The poor performing positions in 2014 were generally affected either by the falling oil price, or their exposure to emerging markets. The halving in the oil price over the last six months hurt the valuations of our energy companies. We were modestly overweight in the energy sector, but the positions we held were the more defensive 'integrated' names, which have generally held up well relative to the broader energy sector.

Positions exposed to emerging markets generally underperformed due to the strengthening US dollar and implications for slower GDP growth in these countries.

2014 individual stock performance



Source: Bloomberg, total return in USD

To put these moves in some context, outlined below is a regional and sector performance analysis over 2014. In terms of sectors Healthcare and Utilities performed well across regions. Headline regional returns were very diverse, with the US outperforming Europe by just under 20%.

Total return by region and sector (USD) in 2014

Total Return (USD)	MSCI World	MSCI US	MSCI Europe	MSCI Asia	MSCI EM
Index	5.6%	13.4%	-5.5%	0.7%	-2.1%
Energy	-10.9%	-7.5%	-18.1%	-12.7%	-26.5%
Materials	-4.6%	7.8%	-11.8%	-4.2%	-19.6%
Industrials	1.0%	7.8%	-11.7%	-1.5%	-3.1%
Cons Disc	4.5%	9.8%	-4.0%	-4.8%	-1.8%
Cons Staples	8.1%	16.0%	-1.8%	2.1%	-5.0%
Healthcare	18.7%	25.7%	5.4%	8.2%	19.5%
Finance	4.0%	14.6%	-7.0%	2.2%	5.6%
IT	16.7%	19.8%	-4.3%	7.7%	9.6%
Telecomms	-1.0%	2.2%	-2.1%	-1.3%	-1.5%
Utilities	16.5%	28.0%	5.7%	5.5%	3.0%

Source: Bloomberg

Portfolio turnover was particularly low in 2014, even by our own historical standards – we only made two purchases and three sales – leaving the portfolio with 34 holdings by the end of the year.

	2011	2012	2013	2014
Buys	8	4	7	2
Sales	9	3	8	3
Total holdings (year end)	35	36	35	34

In February we sold our position in Northrop Grumman and replaced it with Li & Fung.

NORTHROP GRUMMAN LI & FUNG

We had bought US defence contractor Northrop Grumman in March 2013. When we looked at the valuation multiples back then we found the company was trading at the lower end of its ten year range, with a 2014 P/E of 9x. We appreciated the concerns surrounding defence spending cuts, but ultimately we thought that the valuation multiples had gone too far.

When we initiated the position, the source of return we felt most confident about was the dividend stream; the company had grown its dividend for the last ten years, the payout ratio was modest at 30%, and we expected the impact from declining earnings to be slower than the market was forecasting. Share price over-reaction on the downside and our willingness to be patient also gave us some confidence that we could derive a return from a re-rating (multiple expansion). Finally, earnings growth was clearly quite uncertain.

We decided to sell it in February this year as sentiment had turned quite rapidly. The total return over the holding period was 80.3% (in USD). Given the relatively short holding period, the proportion of total return from dividends was only 2.5%, while 75.9% came from price appreciation. Of this price appreciation, more than half came from multiple expansion, and the remainder from earnings forecast growth.

We replaced it with a position in Hong Kong-listed Li & Fung, which is a global outsourcing company. It's an interesting example of a company that is listed in Asia but derives the bulk of its revenues from outside Asia (88% – mostly from the US and Europe). Just like Northrop Grumman it was trading at the low end of its ten year valuation range when we bought it. Partly this was due to general fears surrounding China and emerging market-listed companies, and partly because the holiday season in the US the previous year was a little disappointing. They also took a restructuring charge on the US arm of their business. So there were reasons why the company was lowly valued, but we have to remember this is another company that has a ten year history of generating top quartile return on capital, and it weathered the financial crisis extremely well.

Our levels of confidence in the sources of total return were the same as Northrop Grumman: dividends, then multiple expansion, and finally earnings growth. But we may well have to wait considerably longer than we did with Northrop Grumman.

In February we also sold our position in Vodafone after Verizon's acquisition of Vodafone's stake in Verizon Wireless. Vodafone was a company whose return on capital was already in a state of decline, and we concluded that once the Verizon wireless stake was gone the return on capital was likely to fall below our threshold level.

In June we decided to sell our position in tobacco company Reynolds American and bought Cisco.

Reynolds American was a company we have owned since the launch of the Fund, and it has provided a good return, more than doubling in value over this period (119.4% in USD).

The consensus bear case on tobacco companies over this period has always focused on falling volumes because of campaigns against smoking, the threat of plain packaging, and the tax burden on consumers. We don't disagree with any of these specific threats, but we did also observe that tobacco companies in general were able to offset falling volumes with an increase in price.

When you look at Reynolds American specifically, the expectation for revenues in 2014 was only around 2% lower than the company's reported revenues in 2010. Over this period the company has also managed to grow gross, operating and net margins quite substantially – leading to a healthy growth in cash flow. Net income grew by 23% (in USD) over our holding period. When combined with an 8% reduction in shares outstanding through share buybacks, this translates into 33% earnings per share growth.

When we initially bought the company back in 2010, it was trading on a modest one-year forward P/E ratio of 13.0x, whereas by June of this year it was trading on 17.7x. So we have certainly seen sentiment towards the business improve – its return due to multiple expansion equates to 36%.

We also received a healthy growing dividend stream over our holding period, with the company expected to pay out $2.68 in 2014 vs $2.15 in 2011, representing a growth of 25%. Dividends represented 20.6% of the total return.

In the end we decided to sell the position largely on the rerating of its valuation, which has coincided with merger and acquisition activity in the sector. The risks to the business remain the same as when we bought it, but in our opinion the potential for upside from here was much reduced, despite the prospect for a steady dividend (but with likely lower growth going forward).

In place of Reynolds American we bought a position in Cisco. Cisco only started paying a dividend in 2011, and is an interesting example of what has historically been considered a growth company morphing into more of a steady state. Like many large-cap IT companies, Cisco is awash with cash and short-term investments (over $50 billion), which compares to the company's market capitalisation of $126 billion (when we bought it). We also like its geographic diversification, with 59% of revenues coming from North America, 25% from Europe and 16% from Asia-Pacific. Its balance sheet also looks healthy, with a (gross) debt to equity ratio of just 27%, total debt to EBIT of just 2.1x, and interest cover of over 19x.

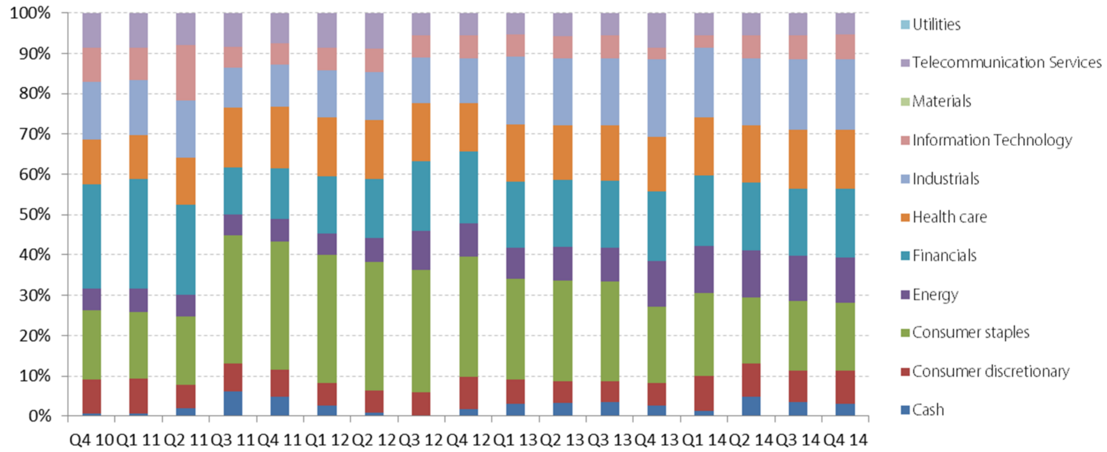
Revenue has been growing modestly over the last few years, and margins are stable. Acquisitions have been a significant part of how Cisco has managed to maintain its edge over the last ten years, and it has largely financed these through free cash flow generation. Given the amount of cash on the balance sheet and the steady (but not spectacular) growth prospects, we believe there is scope for a very reliable dividend, with potential growth. The payout ratio is around 35% and the company offered a prospective yield for 2015 of 3.2% when we initiated the position.

Most importantly, the valuation was attractive, with the company trading on a one-year forward P/E ratio of 12.1x, which was certainly cheap relative to its historical range, its peers, and the broad market.

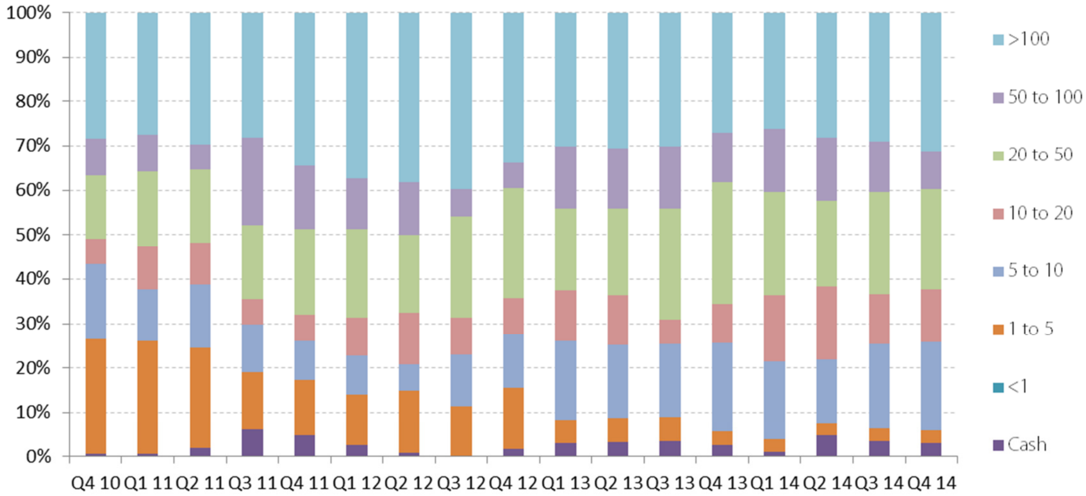
Time will tell where the total return from this position will come from. But we feel very confident that if we look back in three years' time we will have received a very healthy proportion of the total return from the dividend. The multiple looks attractive even when you take the cash into consideration, and there is still opportunity for earnings growth, but how the proportion of any future total return will split between these two is uncertain.

The effect of these changes on the sector and geographic breakdown of the portfolio was commensurately modest. Over the 12 months our exposure to Telecoms, Industrials and Consumer Staples reduced while we increased our exposure to Consumer Discretionary and IT.

The major long-term trend that can be seen is the marked reduction in our exposure to the Consumer Staple sector, which peaked in the summer of 2011. This has largely been due to the considerable rerating of this sector, with steady (but minimal) earnings growth. We have not owned any companies in the Materials or Utilities sector over the last four years.

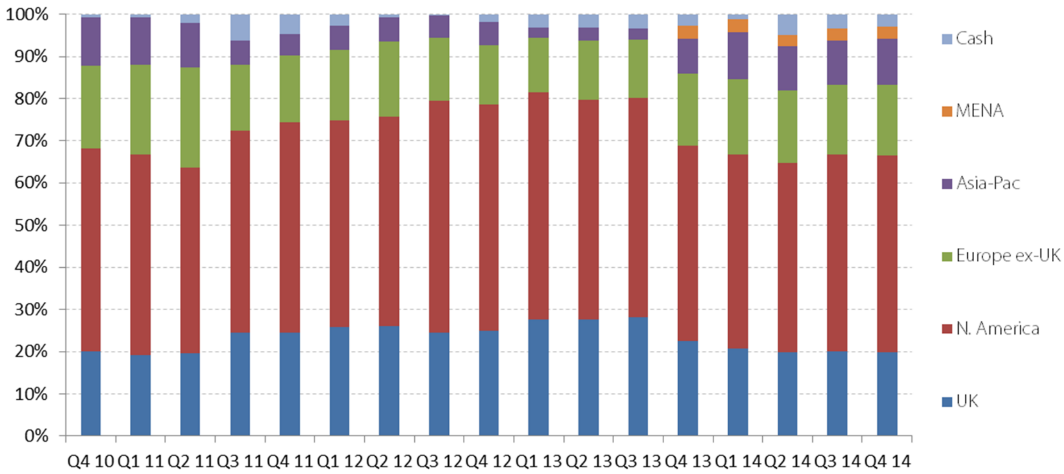


The market cap breakdown has also remained steady, with a small increase in companies with a market cap below $20 billion.



The net effect on the Fund's geographic breakdown was marginally to reduce our exposure to the UK and increase our exposure to Asia.

Over the longer term, we have cut back our exposure in the UK from nearly 30% at the beginning of 2013 to around 20% today, whilst also reducing our exposure to the US from 55% to 45% over the same period. A larger exposure to continental Europe and Asia has offset this reduction.



At this point we might provide some kind of macro outlook but I'm sure you are receiving plenty of those, from people far more qualified to produce them than us. As interested as we are in the macro environment, we don't spend any time trying to make big macro forecasts and therefore don't have any particularly interesting views to share with you. We prefer to prioritise our time on the three core pillars of our investment process – quality, value and growing dividends – as we believe these will ultimately drive our returns.

Over the last year our focus on quality has meant that the median ten year cash flow return on investment of our positions is more than twice as high as that of the MSCI World Index. Our focus on valuation means that the Fund remains at a P/E valuation discount of 7% relative to the Index. Our focus on dividend growth has produced a dividend distributed by the Fund that was 7.5% greater than the previous year, and provided a dividend yield of 3.25% (based on the unit price at the beginning of the year).

This will continue to be our priority in 2015 and beyond.

We would like to wish everyone a happy and prosperous New Year, and to thank all our investors for their support. We look forward to meeting as many of you as we can over the course of 2015.

Matthew Page, CFA
Dr Ian Mortimer, CFA

Co-managers, Guinness Global Equity Income Fund

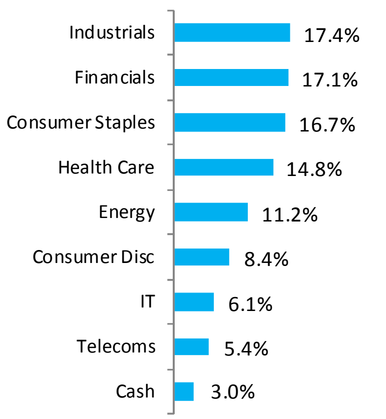
January 2015

PORTFOLIO (31.12.14)

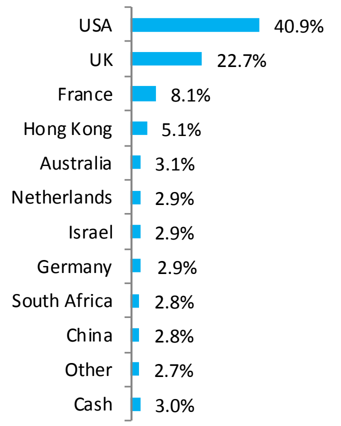
Fund top 10 holdings

Cisco Systems	3.2%
Abbvie	3.1%
Sonic Healthcare	3.1%
L-3 Communications	3.1%
General Dynamics	3.0%
Mattel	3.0%
Meggitt	2.9%
Willis Group	2.9%
Illinois Tool Works	2.9%
Royal Dutch Shell	2.9%
% of Fund in top 10	30.2%
Total number of stocks in Fund	35

Sector analysis



Geographic allocation



PERFORMANCE

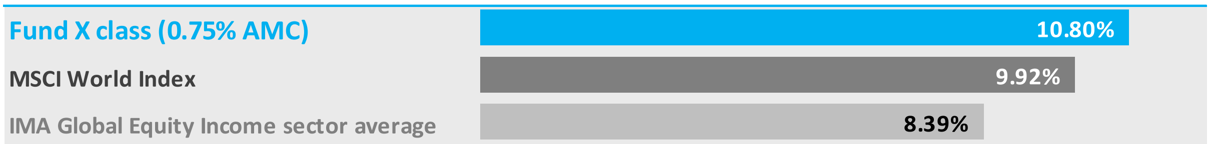
Discrete years % total return (GBP)

12 months to month end:	Dec '10	Dec '11	Dec '12	Dec '13	Dec '14
Fund C Class (1.5% AMC)	-	2.0	4.7	25.4	9.3
Fund X class (0.75% AMC)	-	2.7	5.5	26.3	10.1
MSCI World Index	15.3	-4.8	10.7	24.3	11.5
IMA Global Equity Income sector average	14.3	-2.1	9.7	20.4	6.7

Cumulative % total return (GBP)

31/12/2014	1 month	Year-to-date	1 year	3 years	From launch
Fund X class (0.75% AMC)	-2.4	-	10.1	46.8	50.8
MSCI World Index	-1.2	-	11.5	53.5	46.0
IMA Global Equity Income sector average	-1.5	-	6.7	41.0	38.1

Annualised % total return from launch (GBP) 31/12/2014



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

31/12/2014	Index	Sector	Fund
Alpha	0	0.64	2.57
Beta	1	0.78	0.81
Information ratio	0	-0.25	0.17
Maximum drawdown	-18.26	-15.50	-16.34
R squared	1	0.82	0.90
Sharpe ratio	0	0.43	0.64
Tracking error	0	5.81	4.55
Volatility	13.60	11.69	11.64

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.

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