Guinness Global Equity Income Fund

INVESTMENT COMMENTARY - May 2015

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	£106.5m
Launch date	31.12.10
Managers	Dr. Ian Mortimer, CFA Matthew Page, CFA

Performance 30.04.15

	1 year	3 years	From launch
Fund	16.4	53.5	60.7
Index	18.0	54.5	55.2
Sector	12.2	44.6	47.0

Annualised % total return from launch (GBP)

Benchmark index	MSCI World Index
IA 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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SWITZERLAND

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

Monthly update

In April the Fund generated a total return of 1.12% (in GBP), compared to its MSCI World Index benchmark return of -1.13%, thereby outperforming by 2.25%.

This good relative performance in April puts the Fund back ahead of the benchmark year-to-date; in the first four months of the year the Fund is up 6.60%, versus 6.25% by the Index.

In April we closed the 'early investor' share class offer, and we are happy to report we reached our goal of getting the Fund to £100 million in size. In fact, the Fund today sits at £108 million, and we hope to continue to grow it from here. Our new RDR-compliant share classes with an AMC of 0.50% are now available both directly and via the usual platforms (maximum 0.99% OCF), but we will keep the 0.25% AMC share class open for any charities that would like to invest in the Fund.

The Fund's outperformance of the Index in April was driven by individual company performance. That is, relative sector allocations in the Fund versus the Index did not contribute meaningfully. For example our c.7% overweight in consumer staples and c.7% underweight in information technology both contributed a drag of less than 0.1% to the overall 2.25% difference between the Fund and the Index. Our slight overweight to energy (c.4% versus the benchmark) was a positive contributor, as the oil price rebounded from its recent lows, but not in any meaningful way. Our allocation to Asia-Pacific companies helped performance, as we saw a big rally in those markets in the month – the Hang Seng Index, for example, was up over 13% in USD terms in April alone. At a c.12% weighting, however, this just puts the Fund roughly in-line with the Index weighting to this region.

There were seven companies in the portfolio that had double-digit returns in April (in USD terms): Mattel (+23.2%), CNOOC (+19.9%), Microsoft (+19.6%), Vodacom (+13.2), Imperial Tobacco (+11.5%), Abbvie (+11.4%), and ENI (+11.0%). Macro factors which aided performance were a rising oil price (ENI and CNOOC) and the Shanghai-Hong Kong stock connect volumes reaching capacity limits as mainland Chinese investors began to fully utilise access to the offshore Hong Kong market for the first time (CNOOC). But, broadly speaking, all the companies in this list rose as underlying company performance proved more resilient than the market had given them credit for, and this was reported in their Q1 earnings updates. Many of these companies had been underperformers over the last six to twelve months for one reason or another, and fallen out of favour with investors (most notably Mattel). It is therefore pleasing that our long-term investment horizon and rebalancing approach continues to provide a benefit to the Fund. In particular, months such as this highlight how well our rebalancing approach works. As we regularly rebalance the portfolio to equal weights, it means no company we hold can dwindle to an insignificantly small percentage of the Fund. We do not know when sentiment can change towards an unloved company, but we do know that when it does change the stock price can move quickly, and if this 'turn' is missed (by having a small proportion of that company in the portfolio) then a lot of the potential upside can be left on the table.

Investors have been asking us recently whether the 'dividend trade' has run its course – the idea that investors have been buying up dividend-paying equities because they do not get enough yield from bonds and that this will reverse as we start to see rates increase. We have also had some questions regarding dividend sustainability as pay-out ratios are rising and earnings growth has been tepid.

The first thing (and most important in our minds) is the differentiation between high yield and dividend growth. We would put our approach firmly in the dividend growth (and moderate yield) camp – the running yield on the Fund today is about 3%, and we have grown the dividend on the GBP share class by 4.5% annualised over the four years since launch.

We are quite positive for the dividend growth prospects for our Fund, despite the lowered earnings and higher pay-out ratios in the wider market. This is based on two main reasons (in order of importance);

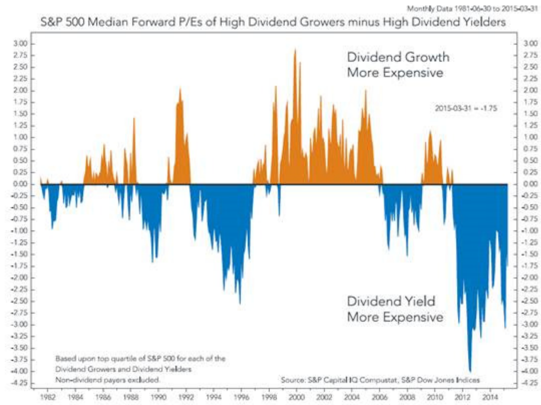
1. We look for companies with persistently high return on capital – specifically companies with a ten year track record of top-quartile return on capital. We find these companies have an above average potential to continue to be profitable and invest in profitable enterprises. Often these companies do not have very high yields – they can and still want to use cash to grow. So their pay-out ratios are generally lower and cash generation generally higher. We therefore believe these types of company are best placed to provide a growing income stream, even if their current dividend yield is not necessarily very high. An example amongst the companies we own is General Dynamics, the US aerospace and defence company, with a dividend yield of 2%, five year dividend growth of 10%, and a pay-out ratio of 31%.

2. Low debt ratios: we screen for companies with a debt/equity ratio less than 1. This means they can use any cash they generate to pay back to shareholders in the form of dividends (or buybacks) rather than pay down debt. It also means the companies can, in extremis, borrow to maintain or grow their dividend; this is not something we see as positive or sustainable, but it can give greater flexibility to weather any periods of lower earnings. As we know earnings (and GDP) are more volatile than dividend payments.

In terms of worries about interest rate rises, we think our approach is well suited to this environment (including relative to other income funds). Generally we tend to avoid those companies who are just returning capital to shareholders (utilities, Reits, MLPs etc.), as they do not pass our return-on-capital requirements. Indeed, we have never owned a utility company in the Fund, which is quite different from an approach which just screens for stocks on the basis of overall dividend yield. This has meant our Fund has done particularly well in periods like the second quarter 2013 ‘taper tantrum’ in the US. This year we have started to see a de-rating of some of these ‘bond-like’ equities; the only MSCI World sector in the red year-to-date is utilities.

Valuations of dividend-paying equities is another concern in the market, and one we hear a lot from investors. But our Fund is actually on a discount of c. 4-5% versus the MSCI World, so we think we are doing a reasonable job to counter that. The companies we have been selling are those like the tobacco company Reynolds American, with a yield of 3.5%, but whose PE multiple is now more than two standard deviations from its 10 year average at almost 20x.

I saw the below chart from NED Davies research with I think encapsulates a lot of our thoughts; in highlighting the difference in valuations between dividend growth and high dividend yield (by quartiles) in the S&P500, it shows that the market is paying up for the high yielders today. If that swings back the other way – and we feel there is a good chance it will – then it should be a positive for the type of companies we like to hold.



We thank you for your continuing support.

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

May 2015

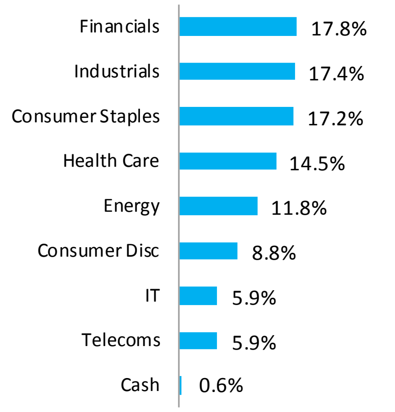
PORTFOLIO

30/04/2015

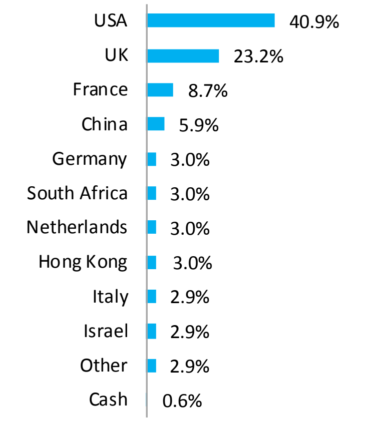
Fund top 10 holdings

Microsoft	3.1%
Deutsche Boerse	3.0%
Aberdeen Asset Management	3.0%
Vodacom	3.0%
Mattel	3.0%
Royal Dutch Shell	3.0%
Aflac	3.0%
CNOOC	3.0%
Li & Fung	3.0%
Schneider Electric	3.0%
% of Fund in top 10	29.9%
Total number of stocks in Fund	34

Sector analysis



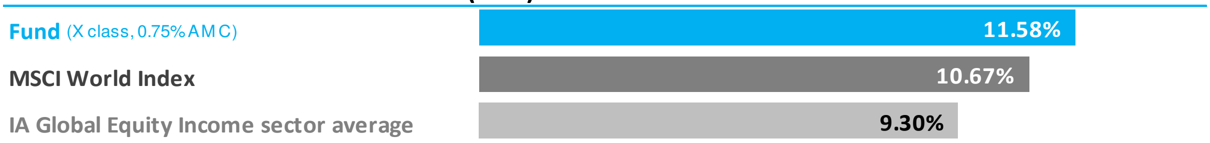
Geographic allocation



PERFORMANCE

30/04/2015

Annualised % total return from launch (GBP)



Discrete years % total return (GBP)	Apr '11	Apr '12	Apr '13	Apr '14	Apr '15
Fund (X class, 0.75% AMC)	-	1.1	22.1	8.0	16.4
MSCI World Index	8.5	-2.0	21.8	7.5	18.0
IA Global Equity Income sector average	11.4	-0.9	21.6	6.0	12.2

Cumulative % total return (GBP)	1 month	Year-to-date	1 year	3 years	From launch
Fund (X class, 0.75% AMC)	1.1	6.6	16.4	53.5	60.7
MSCI World Index	-1.1	6.3	18.0	54.5	55.2
IA Global Equity Income sector average	-0.1	6.5	12.2	44.6	47.0

RISK ANALYSIS

30/04/2015

Annualised, weekly, from launch on 31.12.10, in GBP	Index	Sector	Fund
Alpha	0	1.01	2.66
Beta	1	0.78	0.82
Information ratio	0	-0.22	0.17
Maximum drawdown	-18.26	-15.50	-16.34
R squared	1	0.81	0.89
Sharpe ratio	1	0.54	0.74
Tracking error	0	5.77	4.52
Volatility	13.37	11.57	11.61

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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 IA 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.