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 - September 2012

Fund size (31.8.12) **£15.2m**

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, balanced with a yield of 3-4%.

Process

Quality before yield

We buy companies that have generated at least 10% Cash Flow Return on Investment every year for 10 years.

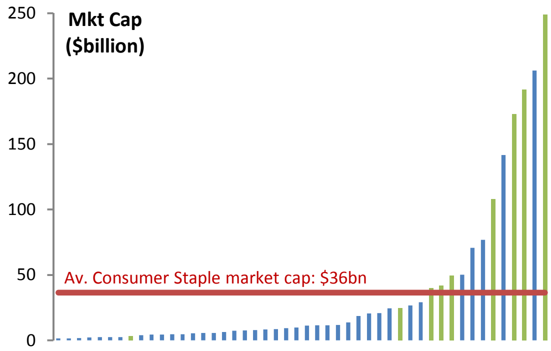
"It's a rare achievement for a company to meet our investment criteria – 10% cash flow return on investment every year for ten years is a mark of genuine quality. That's where our portfolio starts – persistent cash generation before yield."

Staple value

The Consumer Staples sector is often regarded as a rather unexciting area but we see many attractive opportunities within this sector. Our investment process starts by looking for companies that generate steady and high returns on capital over entire business cycles and that have strong balance sheets. This process currently identifies approximately 50 companies within the Consumer Staples sector. The average market capitalisation of these 50 companies is $36 billion, but the distribution is broad, starting at our self-imposed minimum market capitalisation of $1billion up to the $150b+ global mega-caps.

The companies within this well-defined group that we currently own in the Fund (highlighted in green in the graph below) are often fairly mature within their industry, meaning their capital expenditure requirements are relatively modest, their balance sheets are not stretched and they are very efficient at converting profits into cash.

Market cap of companies in the Consumer Staples sector that meet our Universe criteria



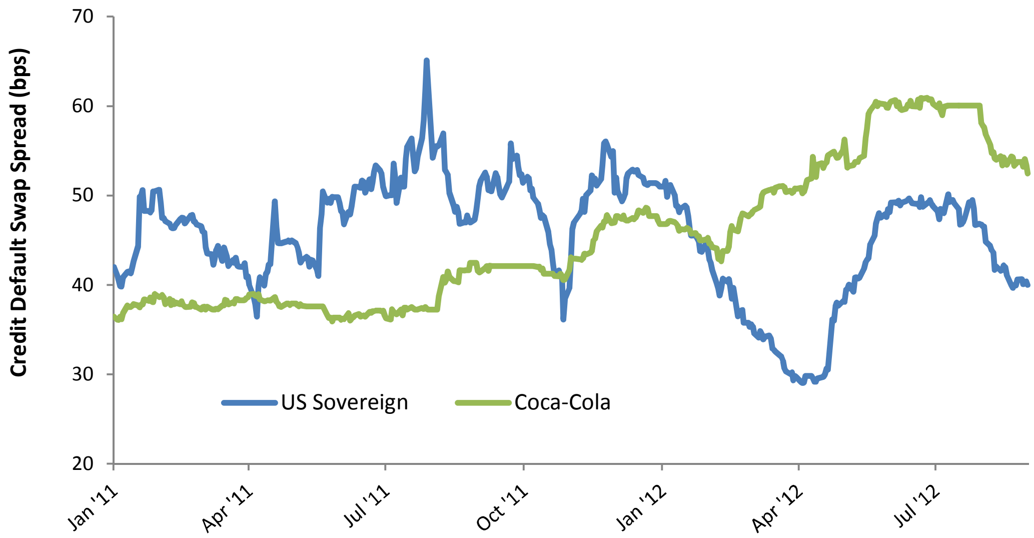
Source: Bloomberg

These companies have performed well over the last 18 months and no longer trade at the very attractive valuations they were, but good value can be still found within the sector. The sector as a whole trades on a price-earnings ratio, based on forecast earnings, of 20.0x 2012 and 17.9x 2013. The companies we own within the sector trade on an average price-earnings ratio of 15.6x 2012 and 14.8x 2013, which offers reasonable value given their steady earnings trajectory, geographic diversification and long histories of rising dividend distributions.

Many of these companies are still growing at a modest but steady pace and are therefore well placed to increase dividend distributions in the near future. As a group, earnings are expected to grow by 12% for 2013 compared to 2012 and dividends are forecast to rise by 7.4% over the same period. The companies that we own are forecast to grow their earnings by a more modest 5.7% over the same period while dividend growth is a little lower at 5.3%.

Given the low yields on government bonds there is clearly demand for steady dividend-paying "bond-like" equities that offer an attractive yield combined with a well-capitalised balance sheet and strong capital structure. We continue to prefer companies with strong credit profiles; over the last 20 months a number of the companies we own in the Fund have had five year Credit Default Swap (CDS) spreads lower than the US sovereign – see Coca-Cola below, for example. The implication is that the market believes that the likes of Coca-Cola, Wal-Mart, etc.

are less likely to default on their debt than the US government. We don't read too much into this, due to the lack of liquidity in the CDS market, but it is interesting to note nonetheless. Of the companies we own in this sector, interest expense is well covered at around 18x, debt to equity ratios average 69% and payout ratios are 72%.



Source: Bloomberg

These large, well-diversified corporates are one of the few beneficiaries of the current low interest rate environment. They are benefitting from lower debt financing costs as they rollover and refinance debt which is in turn reducing interest expense and leading to higher profitability. Given the broad uncertainty over global economic growth, many companies with strong balance sheets across all sectors are choosing to return cash to shareholders through dividends and share buy backs rather than embark on significant mergers and acquisitions or large capital expenditure projects. What modest capital expenditure is being spent is mostly geared towards further penetration of emerging markets, brand development and long-term cost efficiency.

Management of Coca-Cola believe they can grow the company's economic profits at a compound annual growth rate of 10% per year from 2010-2020, i.e. annual economic profits will more than double within the space of ten years. With global personal consumption forecast to grow by 80% from 2011 to 2020 and with Coca-Cola's strong brand, long experience of economic cycles and significant potential to increase penetration in China and India, this certainly appears feasible.

Whilst we take these forecasts with a pinch of salt we enjoy receiving a well-covered dividend that has grown at 8.5% per year for the last five years and where we can see a strong case for it to continue to grow at a similar pace in the near future. Given the markets strong rally over the last four months, and with Europe's troubles far from resolved, these companies in the Consumer Staples sector provide some good downside protection if markets were to fall, whilst also offering reasonable long-term upside, which is always attractive but particularly so in current market conditions.

Dr. Ian Mortimer & Matthew Page

Co-managers, Guinness Global Equity Income Fund

September 2012

PORTFOLIO (31.8.12)

Fund top 10 holdings (%)

Mattel	3.7%
Pepsico	3.5%
Johnson & Johnson	3.4%
Total	3.3%
Sanofi	3.2%
Aflac	3.1%
Aberdeen Asset Management	3.1%
Procter & Gamble	3.1%
Illinois Tool Works	3.1%
Unilever	3.1%
% of Fund in top 10	32.8%
Total number of stocks in fund	33

Geographic allocation (%)

United States	49.4%
Great Britain	29.3%
France	9.4%
Netherlands	3.0%
Germany	2.9%
Hong Kong	2.9%
Australia	2.8%
Cash	0.3%
	100.0%

Sector analysis (%)

Consumer Staples	33.2%
Health Care	15.5%
Financials	14.6%
Industrials	11.8%
Consumer Discretionary	6.7%
Energy	6.3%
Telecommunications	5.8%
Information Technology	5.7%
Cash	0.3%
	100.0%

PERFORMANCE

12 months to month end:	Aug '08	Aug '09	Aug '10	Aug '11	Aug '12
Guinness Global Equity Income Fund	-	-	-	-	11.3
MSCI World Index	-2.8	-7.4	7.7	8.0	10.8
IMA Global Equity Income sector average	-5.8	-5.0	9.0	8.7	11.3

Cumulative % total return

31/08/2012	1 month	3 months	6 months	1 year	From launch
Guinness Global Equity Income Fund	0.6	5.7	2.8	11.3	7.4
MSCI World Index	1.1	5.8	0.4	10.8	2.4
IMA Global Equity Income sector average	0.8	7.2	1.1	11.3	4.9

Risk analysis - Annualised, month end, from launch on 31.12.10

31/08/2012	Index	Sector	Fund
Alpha	0	1.85	2.18
Beta	1	0.75	0.75
Information ratio	0	0.20	0.33
Maximum drawdown	-18.26	-15.50	-16.40
R squared	1	0.79	0.90
Tracking error	0	7.44	5.78
Volatility	16.33	13.81	12.87

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.

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, Montague House, Adelaide Road, 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 Services Authority for sale in the UK. The Company and the Fund have been recognised in the UK by the FSA pursuant to section 264 of the FSMA. Guinness Asset Management Ltd is authorised and regulated by the Financial Services Authority.

Telephone calls to Guinness Asset Management may be recorded.

The prospectus for Switzerland, the simplified prospectus 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.

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.