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 - October 2012

Fund size (30.9.12) **£15.5m**

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."

The Portfolio

Equity markets in September continued the year's trend of high volatility, rising sharply into the middle of month, before giving up most of these gains in the second half of the month. In September the Fund delivered a total return of -0.41% (in GBP), versus the MSCI World Index total return of +1.06% (in GBP). The Fund therefore underperformed the index by 1.47% over the month, which leaves it now 3.46% ahead of the index since launch at the end of December 2010. We made four changes to the portfolio in September; we sold the French pharmaceutical company Sanofi; and we bought new positions in the US-based pharmaceutical Merck, the insurance broker Arthur Gallagher, and the Italian energy company ENI.

Sanofi had been a good performer in the Fund, rising some 48% (in EUR) since we bought the company at the launch of the fund (31st December 2010). However, the cash flow returns on investment had been trending downwards over recent years and finally had decreased to below our threshold 10% level. The share price had also recovered to above its 2008 peak and we felt it was a good opportunity to realise profits for the Fund and move into another company which offered better value. Sticking with pharmaceuticals, we subsequently bought a new position in Merck, the US company, which offered good value and had just started to increase its dividend, having been flat for a number of years.

Arthur Gallagher is a US-based insurance brokerage with a network of over 300 offices in the US and in 16 other countries, and has a focus on niche groups such as the marine, energy and construction sectors. The company has demonstrated good growth, primarily through a significant number of acquisitions of smaller brokerages, and we expect this growth to continue as the company realises benefits of scale and reduces costs across its business. A current yield of 3.8% also provides good income for the Fund.

ENI is the Italian integrated energy giant which has lagged the broader energy market in recent years. It remains cheap on simple price-to-earnings multiples of 8.4X 2012 and 8.0X 2013 earnings estimates, and also on enterprise value-to-reserves (a metric which values the 'assets in the ground'). The company is undergoing a step-change as it divests its holdings in SNAM, the gas transport group, and moves towards selling down its stake in Galp, the Portuguese energy company. This will leave the group with a greater focus on exploration and production and better able to grow production in the future, a feat it has struggled to execute in recent years.

To ease or not to ease

September saw the much-anticipated continuation of quantitative easing, or 'QE3', from the US Federal Reserve as Ben Bernanke announced a new programme of $40bn of asset purchases per month. Mr Bernanke indicated that this would be open-ended, and added that the environment of low rates would be extended into 2015. We wrote in our August update that "the market is beginning to 'tire' of such interventions as hopes have been raised and dashed on multiple occasions that the latest round of easing is the one which provides the path to the sunny uplands so often promised". This latest effort by the Federal Reserve appears to have continued this trend of diminishing returns (at least in terms of raising asset prices); the S&P500 rallied in the days following the announcement, only to give all these gains back just as quickly – a round trip of less than a month.

But what does this mean over the longer term? The political machinations over Europe, the US presidential election and subsequent 'fiscal cliff' debates, and the fate of China growth are all worries hanging over the market, and are all exceedingly difficult to judge as so much depends on political will and policy responses. What we do know, however, and with some confidence, is that the current environment of low rates appears set to continue; and we believe this will extend the trend we have seen over the last few years of investors searching for income beyond the usual suspects of bank deposits and safe-haven bond investments.

Blue chip valuations

There has been some debate as to whether this income search has boosted valuation levels of dividend-paying blue chip companies to a point above their intrinsic value. We think this is becoming true at the margins, but still see plenty of opportunities to buy well-capitalised, cash-generative businesses at reasonable valuations. Our core process is to identify only those companies that have achieved top quartile returns on capital over a ten year period. This leads us to a surprisingly well diversified group, which includes both the blue-chip companies one would expect but also many examples of companies that have similar characteristics to which the market has not yet given the justified valuation. This allows us to create a portfolio that remains good value versus the broad market, whilst still retaining the characteristics that we find attractive in the current market environment – solid balance sheets, disciplined capital structure, cash-flow generation, commitment to paying a dividend and growth of that dividend in the future, and potential for capital growth over the long term. We continue to invest by sticking to this discipline, using market volatility to enable attractive entry and exit points for the companies held in the Fund.

Dr. Ian Mortimer & Matthew Page

Co-managers, Guinness Global Equity Income Fund

October 2012

PORTFOLIO (30.9.12)

Fund top 10 holdings (%)

Gallagher & Co	3.4%
Total	3.4%
Willis Group Holdings	3.4%
ENI	3.3%
Illinois Tool Works	3.3%
Pfizer	3.0%
Procter & Gamble	2.9%
Johnson & Johnson	2.9%
Merck & Co	2.8%
China Mobile	2.8%
% of Fund in top 10	31.2%
Total number of stocks in Fund	35

Geographic allocation (%)

United States	51.6%
Great Britain	27.9%
France	6.1%
Italy	3.3%
Hong Kong	2.8%
Netherlands	2.8%
Germany	2.7%
Australia	2.6%
Cash	0.2%
	100.0%

Sector analysis (%)

Consumer Staples	30.4%
Financials	17.5%
Health Care	14.3%
Industrials	11.6%
Energy	9.5%
Consumer Discretionary	5.6%
Telecommunications	5.6%
Information Technology	5.4%
Cash	0.2%
	100.0%

PERFORMANCE

12 months to month end:	Sep '08	Sep '09	Sep '10	Sep '11	Sep '12
Guinness Global Equity Income Fund	-	-	-	-	13.0
MSCI World Index	-15.5	8.9	8.4	-3.2	17.3
IMA Global Equity Income sector average	-19.0	12.1	9.9	-0.5	15.5

Cumulative % total return

30/09/2012	1 month	3 months	6 months	1 year	From launch
Guinness Global Equity Income Fund	-0.4	2.1	1.4	13.0	7.0
MSCI World Index	1.1	3.6	0.2	17.3	3.5
IMA Global Equity Income sector average	0.8	4.8	2.6	15.5	5.8

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

30/09/2012	Index	Sector	Fund
Alpha	0	1.54	2.39
Beta	1	0.88	0.73
Information ratio	0	0.25	0.42
Maximum drawdown	-14.06	-10.95	-10.76
R squared	1	0.78	0.83
Tracking error	0	5.07	4.51
Volatility	10.52	10.53	8.43

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, 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.

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