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 - February 2013

Fund size (31.1.13) **£16.4m**

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.

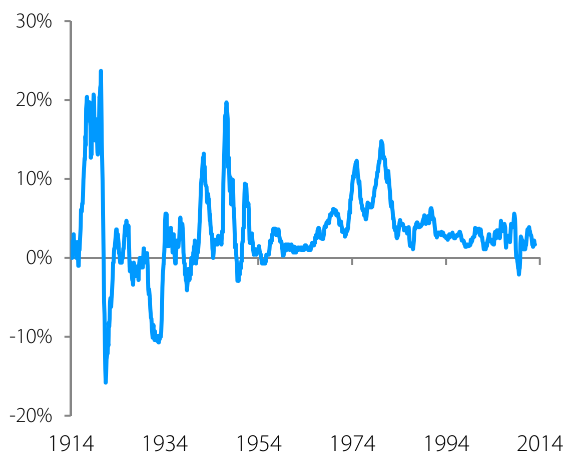
"It's a rare achievement for a company to meet our investment criteria – 10% cash flow return on investment every year for ten years is a mark of genuine quality. That's where our portfolio starts – persistent cash generation before yield."

Some thoughts on inflation

Two months ago, in our December Manager's Update for the Fund, we discussed our outlook for bonds versus equities. This was prompted by analysis showing that retail sales of bond funds far outstripped those of equity funds over the prior twelve months, and that government bond yields were hitting historic lows. In 2013, the trend of investor flows appears to have swung in the opposite direction, with equity fund sales now turning positive. Much has been made in the media of this 'great rotation' and the subsequent asset price inflation that will surely follow this 'wall of money'. January equity market performance was said to be a case in point, with the MSCI World Index rallying an impressive 7.56% in the month. We think there is some merit in this idea, but that basing one's whole investment thesis on it is likely foolhardy; indeed the thesis may be quite the opposite, with good equity performance driving investor flows, rather than the other way around. More likely, we think, is that improving economic indicators such as US housing data, better than expected China GDP, and an improving Eurozone PMI boosted investor confidence in the short term and overshadowed any lingering doubts surrounding the on-going US debt ceiling debates or the European growth outlook.

One subject that has received relatively little attention in the media, however, is the outlook for inflation; despite the vast amount of quantitative easing employed since the financial crisis and the extraordinary government intervention into markets we have witnessed in recent years, inflation has remained fairly stable. Looking at the year-on-year change in the consumer price index (CPI) in the US as an example, we can see it has been running at 2.15% over the past year, and just 2.29% over the past three years, on average.

Year-on-year change in US consumer price index (CPI)



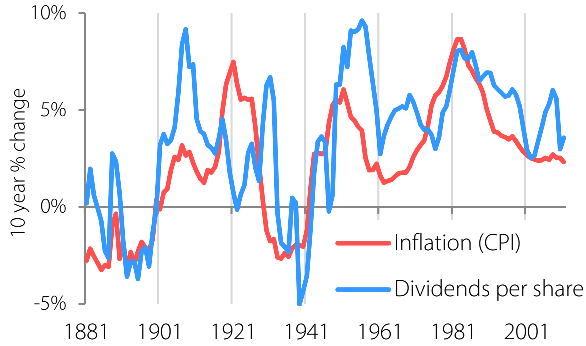
Source: Bloomberg, Guinness Asset Management

At the same time we have seen yields in the index-linked bond markets pushed into negative territory, suggesting investors fear that the extreme monetary policies enacted in recent times could result in significant increases in inflation in the future. Perhaps the consequences of the extended period of high inflation in the 1970s are not so far in the past as to be forgotten in the memories of investors today.

The large overhang of public sector debt in many developed countries can also be used as a potential indicator of higher inflation in the future; inflation may be seen as a useful tool to help 'solve' such overhangs in terms on nominal debt levels. It is interesting to note central banks have recently been moving away from inflation-targeting as the main anchor of monetary policy – a policy route that only became popular in the last two decades. In December the US Federal Reserve stated that it would keep interest rates at or below 0.25% until unemployment falls to "at least" 6.5%. Mark Carney, the new Bank of England Governor, suggested targeting nominal GDP rather than consumer prices alone; and in Japan Prime Minister Shinzo Abe has forcefully launched an unprecedented fiscal and monetary policy which includes the Bank of Japan setting a 2% inflation target with the aim of ending the near two decades of deflation. All such policy amendments suggest to us that central banks are setting out their stall to give themselves room to continue reviving growth even if inflation begins to move above target. The presumption being that any rise in inflation above target would only be temporary in any case; a presumption we would be extremely cautious of, if history is anything to go by.

So what does this mean for investors? In an inflationary environment the outlook for bonds, and in particular long duration bonds, would be very negative. If investors require an income stream from their investments, we believe they would be better placed investing in well capitalised companies, and focus on those companies that pay a sustainable and growing dividend. We have shown before in previous updates that equity dividend growth and inflation are actually well correlated over the long term, which means investors can give themselves some protection in the purchasing power of that dividend stream into the future. If the company also has the ability to pass on costs to their consumers then their margins and earnings should also be better able to defend against the creeping effects of inflation.

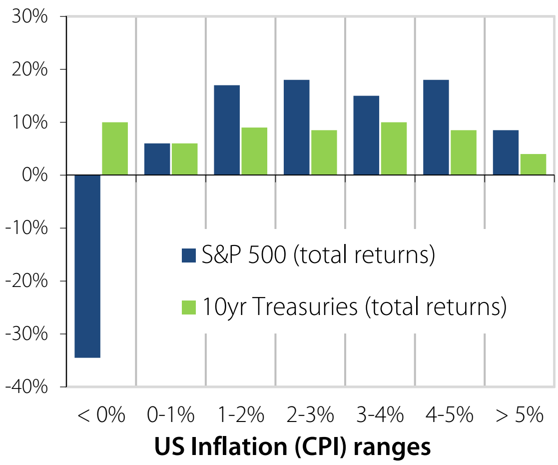
Rolling 10-year growth in inflation (CPI) and S&P500 dividends per share



Source: Robert J Shiller, stock market data used in "Irrational Exuberance", Princeton University Press, Guinness Asset Management

Bank of America Merrill Lynch also released an interesting chart recently looking at returns of bonds and equities (represented by 10 year Treasuries and the S&P500, respectively) in different inflationary environments, which show equities outperforming bonds in all cases where inflation trends above 1%.

US Equity versus US Treasury total returns in different inflationary environments



Source: BofA Merrill Lynch Global Research, Bloomberg

Like all outlooks, our view may well be incorrect, and the ability of the market to maintain 'unsustainable' levels for far longer than one might expect never ceases to surprise, but we believe inflation may well be a risk that investors have not yet fully appreciated.

Portfolio

Equity markets started 2013 with a bang. In January the Fund delivered a total return of 7.13% (in GBP) versus the MSCI World Index total return of 7.56% (in GBP). The Fund therefore underperformed the Index by 0.43% over the month.

The Fund's focus on quality companies with high cash flow returns on investment and bias towards value tends to mean (in broad terms) that the Fund does not capture the full upside when markets move sharply upwards in a short period; in sharp rallies investors tend to buy more growth-orientated and cyclical stocks. The fact that the Fund kept up with the broad market rally in January is therefore quite interesting, but more than likely explained by its performance in December. That is, in December the Fund was down 1.53% (in GBP) versus the MSCI World Index total return of up 0.64% (in GBP). The underperformance in December was driven by weak returns from the more defensive 'blue chip' stocks we own in the US such as Walmart and CocaCola, which appeared to be sold down by the market in anticipation of changing rules regarding dividend taxes. In the end dividend taxes were increased only modestly for US investors, and at a rate much lower than feared. The stocks that underperformed in December therefore bounced back in January, gaining not only the lost ground but their share of the market exuberance as well.

In January the Fund paid a dividend of 17.64 pence per share (C class in GBP) for the accumulated income for the second half of 2012. Year-on-year the Fund has increased the dividend payout per share by 4.5% in 2012 compared to 2011 (C class in GBP).

Dr. Ian Mortimer & Matthew Page

Co-managers,
Guinness Global Equity Income Fund

February 2013

PORTFOLIO (31.1.13)

Fund top 10 holdings (%)

Willis Group Holdings	3.6%
H & R Block	3.4%
Aberdeen Asset Management	3.1%
Deutsche Boerse	3.1%
Mondelez International	3.0%
Meggitt	3.0%
ICAP	3.0%
Danone	2.9%
Pfizer	2.9%
Procter & Gamble	2.9%
% of Fund in top 10	31.0%
Total number of stocks in Fund	36

Geographic allocation (%)

United States	53.4%
Great Britain	29.3%
France	5.8%
Germany	3.1%
Netherlands	2.9%
Italy	2.9%
Hong Kong	2.7%
Cash	0.1%
	100.0%

Sector analysis (%)

Consumer Staples	27.9%
Financials	18.3%
Health Care	14.2%
Industrials	11.2%
Consumer Discretionary	8.7%
Energy	8.6%
Information Technology	5.6%
Telecoms	5.5%
Cash	0.1%
	100.0%

PERFORMANCE

12 months to month end:	Jan '09	Jan '10	Jan '11	Jan '12	Jan '13
Guinness Global Equity Income Fund	-	-	-	2.8	11.5
MSCI World Index	-19.2	22.9	19.3	-1.5	15.4
IMA Global Equity Income sector average	-16.4	19.7	17.7	1.0	16.0

Cumulative % total return

31/01/2013	1 month	3 months	6 months	1 year	From launch
Guinness Global Equity Income Fund	7.1	6.7	7.1	11.5	14.4
MSCI World Index	7.8	10.2	12.1	15.4	13.6
IMA Global Equity Income sector average	7.6	9.1	11.2	16.0	15.7

Annualised % total return from launch 31/01/2013

Guinness Global Equity Income Fund	**6.66%**
MSCI World Index	**6.27%**
IMA Global Equity Income sector average	**7.23%**

Risk analysis - Annualised, weekly, from launch on 31.12.10

31/01/2013	Index	Sector	Fund
Alpha	0	2.23	1.90
Beta	1	0.75	0.76
Information ratio	0	0.11	0.11
Maximum drawdown	-18.26	-15.50	-16.40
R squared	1	0.80	0.90
Tracking error	0	7.08	5.44
Volatility	15.75	13.28	12.64

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, 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. 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.

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.

GUINNESS
FUNDS
Guinness Asset Management Ltd is authorised and regulated by the Financial Services Authority

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