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 - March 2013

Fund size (28.2.13)	**£17.1m**

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."

Better than expected

The Fund was up 4.75% in February, compared to the MSCI World Index up 4.78%. This was the second month in a row where we saw strong performance in global equities. Historically this Fund has tended to lag in sharp rallies and outperform in sharp down periods. So far this year we have seen two months of strong performance for global equities; rather than underperform during this period, the Fund has kept up with the Index. Why have we kept up with the Index during this year's sharp rally?

A key contributor to the strong performance is one of the companies we bought in October. H&R Block is a mid cap company; its $6.8 billion dollar market capitalisation puts it at the smaller end of the spectrum of our investable universe. Its core business is filing tax returns; one in six Americans uses their service. Given the need to file a tax return annually we like the steady recurring nature of the company's revenues. Their main competition is "mom and pop" accountants, and their scale gives them pricing power, brand awareness, ease of access, sophisticated software etc. We like companies that have a diversified rather than concentrated customer base. A business that has 20 million customers each spending $100 every year is more attractive to us than a business that has 100 customers each spending $20 million, and far more attractive than a company with two customers each spending $1billion.

We had sold our position in Pepsi in order to buy H&R Block. Pepsi was trading on 18x projected earnings, which made it one of our more expensive holdings, analysts were reducing their earnings estimates, and it had taken on more debt; and while the company remains suitably robust we couldn't justify continuing to own it when we saw H&R Block trading on 10x earnings, 4.5% dividend yield, and a recent debt refinancing strengthening their balance sheet. The contrarian in us liked that the company was not well covered by the analyst community (only three analysts were covering the company) and unloved due to the threat of tax simplification in any potential budget deal to avoid the fiscal cliff.

We thought this company had the potential to double in value if we held it for 3-5 years. In fact we have seen strong performance quite quickly. Since we bought the stock it has produced a total return of approximately 48% (in USD), with 34% total return year-to-date. A useful start to the year.

Whilst our investment process is not thematically driven, one theme which we find interesting is the media/analysts' love of using the word cliff, i.e. patent cliff, fiscal cliff. It's rather an emotive word and it potentially creates some attractive buying opportunities if everyone gets scared away from stocks associated with the idea. The idea behind patent cliffs is that pharmaceutical companies were all going to suffer because all their blockbuster drugs were going to come off patent. This would allow other companies to start producing the generic equivalents at lower cost, and the company holding the original patent would no longer be able to maintain their premium pricing, meaning their margins would erode over time.

Many of these companies were really beaten up a couple of years ago and valuations started to look really attractive as the market continued to extrapolate further bad news. We bought a number of pharmaceutical companies back in 2011 when they were still beaten up as we felt the valuations had all this bad news baked in and concern had gone too far. In reality the “cliffs” associated with patents, when considered at company level, are more like very gentle downward slopes over a prolonged period of time. Large, high quality companies often seem to find a way to deal with these issues. It might take years for any strategies to have any effect but if your holding period is long enough and you buy at the right valuation you can make decent returns. We are no experts on analysing the potential for new drugs, so we aren’t going to add any value by trying to understand whether drugs in the development cycle are going to be successful or not. We simply saw these stocks as unloved, beaten up, cheap in absolute terms, and cheap relative to their own valuation histories, and they have performed well over the last couple of years.

At the end of last year everyone was and generally remains particularly worried about the US fiscal cliff. The issue of the fiscal cliff has been looming for years, but the failure of policymakers in the US to avert the automatic budget cuts has brought it into the spotlight. The market is concerned that US government spending on defence is going to be significantly reduced and this is going to have a meaningful effect on the revenues and margins of defence companies. As a consequence, defence stocks are now looking cheap on our screens and consequently we are looking at them quite closely. A number of companies in the sector are now looking particularly cheap relative to their historic valuations, and relative to other companies in our investable universe, suggesting perhaps this negative sentiment has gone too far and may provide an opportune entry point.

Dr. Ian Mortimer & Matthew Page

Co-managers,
Guinness Global Equity Income Fund

March 2013

PORTFOLIO (28.2.13)

Fund top 10 holdings (%)	
Willis Group Holdings	3.9%
H & R Block	3.8%
Aberdeen Asset Management	3.2%
Meggitt	3.0%
Mondelez International	3.0%
Johnson & Johnson	3.0%
Procter & Gamble	3.0%
Danone	2.9%
Pfizer	2.9%
Mattel	2.9%
% of Fund in top 10	31.6%
Total number of stocks in Fund	36

Geographic allocation (%)	
United States	54.5%
Great Britain	29.1%
France	5.6%
Germany	2.9%
Netherlands	2.7%
Hong Kong	2.7%
Italy	2.6%
Cash	-0.1%
	100.0%

Sector analysis (%)	
Consumer Staples	28.1%
Financials	18.3%
Health Care	14.1%
Industrials	11.3%
Consumer Discretionary	9.4%
Energy	7.9%
Information Technology	5.7%
Telecoms	5.3%
Cash	-0.1%
	100.0%

PERFORMANCE

12 months to month end:	Feb '09	Feb '10	Feb '11	Feb '12	Feb '13
Guinness Global Equity Income Fund	-	-	-	4.2	14.7
MSCI World Index	-26.2	44.5	13.9	0.1	16.5
IMA Global Equity Income sector average	-25.4	36.5	13.3	4.1	15.1

Cumulative % total return

28/02/2013	1 month	3 months	6 months	1 year	From launch
Guinness Global Equity Income Fund	4.8	10.5	11.6	14.7	19.8
MSCI World Index	4.6	13.2	16.0	16.5	18.8
IMA Global Equity Income sector average	3.2	11.6	13.8	15.1	19.4

Annualised % total return from launch

	28/02/2013
Guinness Global Equity Income Fund	8.72%
MSCI World Index	8.28%
IMA Global Equity Income sector average	8.55%

Risk analysis - Annualised, weekly, from launch on 31.12.10

28/02/2013	Index	Sector	Fund
Alpha	0	2.25	2.26
Beta	1	0.75	0.76
Information ratio	0	0.07	0.12
Maximum drawdown	-18.26	-15.50	-16.40
R squared	1	0.80	0.90
Tracking error	0	6.99	5.38
Volatility	15.56	13.10	12.54

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, 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. **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.