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 2014

Fund size (31.01.14)	**£45.6m**

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.

Process

Quality before yield

We buy companies that have generated at least 10% return on investment every year for 10 years.

"It's a rare achievement for a company to meet our investment criteria – 10% 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."

LIPPER
FUND AWARDS 2014
SWITZERLAND

Guinness Global Equity Income

BEST FUND OVER 3 YEARS

EQUITY GLOBAL INCOME

Performance

The Fund generated a total return of -4.49% in January (in GBP) compared to its benchmark MSCI World Index total return of -3.04%, thereby underperforming by 1.45%.

Update

The start of 2014 has seen a marked change to the benign equity markets witnessed over the latter part of 2013. So what happened?

In the US market the healthcare and utilities sectors outperformed, with returns in positive territory for both sectors over the month. All other sectors ended in the red, with the energy sector posting the weakest returns (down 6.1%). Overall the MSCI US Index was down 3.4% in the month. Europe showed a similar profile across sectors, with healthcare and utilities outperforming (although in negative territory in absolute terms); energy was the second worst performer behind IT. Overall, the MSCI Europe Index slightly underperformed the US, down 3.7% in the month. The MSCI Asia Index was down 4.5% in the month, with only the healthcare sector posting positive performance (up 1.3%). The energy sector was particularly hard hit (-9.4%). *(All returns in USD.)*

However, emerging markets were the stand out poor performer regionally in January, with the MSCI Emerging Markets Index down 6.6% in USD over the month. All ten sectors had negative returns, with five sectors down greater than 6%.

In the summer of 2013 we saw a swift sell-off in emerging market equities and bonds as investors worried about the consequences of reduced quantitative easing by the Federal Reserve. Emerging markets recovered somewhat towards the end of the year but were still down 2.3% in 2013 versus the MSCI World Index up 27.5%f – significant underperformance. Over-leveraged emerging market countries that had relied too heavily on capital inflows from developed countries saw their currencies weaken, putting further pressure on their economies and governments. There appeared to be some hope in the market at the beginning of the year that the Federal Reserve may acknowledge these issues in emerging markets, and slow the pace of 'tapering'. This turned out not to be the case. The sell-off continued, exacerbated by weaker economic indicators such as the contraction in the Chinese Purchasing Managers' Index (PMI), which indicated a slowdown in growth. Governments in emerging markets have reacted to their weakening currencies with rate hikes seen in Turkey, India, Indonesia, and South Africa. Only time will tell whether this results in an orderly slowdown of these economies.

As an aside, John Authers wrote an interesting article in *The Financial Times* recently which examined the role of ETFs in the recent turmoil in emerging markets. He questioned whether the ability to allocate and remove capital from these regions so quickly (via ETFs which trade on exchange) has had a detrimental effect and in essence created a boom and bust cycle. He also looked closely at the methodology behind how these investment vehicles allocate capital and whether it makes sense in these markets, noting for example that weighting by capitalisation results in more money going into the largest firms in that market, which can often be former nationalised utilities and resources groups. His other conclusion is that investments in emerging markets require patience as they are volatile and it may take some time for their value to shine through.

In light of the turmoil we have seen over the past month, Authers' final point served as a useful reminder to Matt and myself regarding how we should view our investments in emerging market-focused companies.

Any month the Fund is down is obviously disappointing and this month is no exception. With such a good year behind us and with volatility at such low levels, perhaps a correction should not come as a great surprise. Looking at the portfolio, unsurprisingly the worst performing stocks over the month were those most exposed to emerging markets. Worst hit were CNOOC, the Hong Kong-listed Chinese oil company, and Aberdeen Asset Management, whose underlying funds are closely linked to performance in the region. Both stocks were down over 15% in local currency terms in January.

We have written in previous updates about Aberdeen, and in particular how it fared during the previous market correction we saw in May-June 2013. The pattern over the past month is strikingly similar to that seen just under a year ago, with the stock retreating from a high around £5 per share to a low of around £3.50 per share, before rebounding quickly back to the previous high over subsequent months. We remain comfortable with our holding, and note that its recent well-publicised acquisition of Scottish Widows Investment Partnership should broaden the asset base beyond its historic Asian and emerging market focus. The company has a proven record of capital discipline. In our opinion, it remains a good long-term proposition trading at reasonable valuation multiples, which do not reflect over-extended growth targets. The ride may continue to be bumpy, but we think Aberdeen still represents a good long-term investment, and now one at an even better valuation.

CNOOC, the Chinese National Offshore Oil Corporation, disappointed the market when it announced its 2014 strategic review. Slightly lower production targets and higher capex expectations (combined with a weak Hong Kong market) sent the shares lower. Management estimated production growth between 1-4% in 2014 (excluding the Nexen acquisition completed in early 2013). This meant the five year (2011-2015) estimated organic production CAGR of 6-10% (as management had predicted) could potentially be towards the low end. However, the company has a long list of new production coming on stream in the next two years; the results of these wells will be closely watched. The company now trades on a large discount to its peers on almost all metrics, and well below its historic valuation. After its explosive production and reserve growth of the last decade, the slower and more steady development of the company may mean it does not deserve its previous high multiples. But at such lowly valuations today, we think the company offers good value and appears now to have more bad news priced in than it fully deserves.

Positive contributors to performance came from the healthcare sector, where the Fund remains overweight relative to the benchmark. Merck was a strong performer, up 5.8% in January. Management's focus on improving returns and the pipeline of potential drugs (particularly in the oncology segment) started to be recognised in the market. The company also acknowledged approaches of interest from some large consumer companies regarding the sale of its consumer care segment, noted in the past as sub-scale compared to its main pharmaceutical business. Teva Pharmaceutical also started the year well, rising over 11% in January. When we purchased the company for the Fund in October 2013, we described it as deep value due to the almost universally negative market sentiment. The company had several pressing issues, with the two most important being the sudden departure of its CEO, and a threat of generic competition to its patented multiple-sclerosis drug Copaxone. The company has taken steps to address both issues, appointing Erez Vigodman as CEO-elect, and securing a new patent for a multiple-sclerosis drug that can be taken three times weekly, preferable to the daily dose required using Copaxone.

The industrial stocks in the defence sector held in the portfolio continued their good performance through the second half of 2013. General Dynamics, L-3 Communications and Northrup Grumman all delivered positive performance, up 6.6%, 3.9% and 0.8% respectively. Due to their strong performance, and renewed interest in the US government's budget debate and debt ceiling, we are looking carefully at these holdings in the portfolio; their stand out value is not necessarily as strong as it once was.

We thank you for your continued support and look forward to some interesting discussions in the coming year as the market begins to assimilate the changing economic environment.

Dr. Ian Mortimer & Matthew Page

Co-managers,
Guinness Global Equity Income Fund

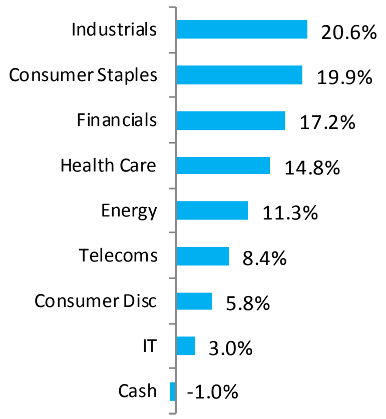
February 2014

PORTFOLIO (31.12.13)

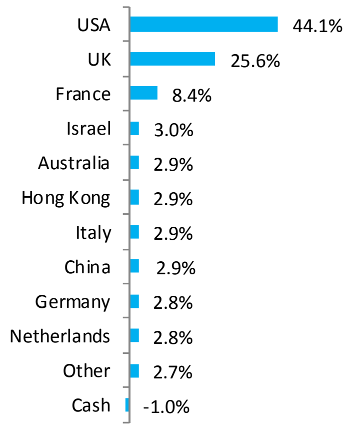
Fund top 10 holdings

H & R Block	3.2%
General Dynamics	3.1%
Merck & Co	3.0%
Teva Pharmaceutical	3.0%
Microsoft	3.0%
L-3 Communications	3.0%
Abbvie	3.0%
Aberdeen Asset Management	2.9%
Reynolds American	2.9%
Northrop Grumman	2.9%
% of Fund in top 10	30.2%
Total number of stocks in Fund	35

Sector analysis



Geographic allocation



PERFORMANCE

Discrete years % total return (GBP)

12 months to month end:	Jan '10	Jan '11	Jan '12	Jan '13	Jan '14
Fund C Class (1.5% AMC)	-	-	2.8	11.5	11.7
Fund X class (0.75% AMC)	-	-	3.6	12.3	12.6
MSCI World Index	22.9	19.3	-1.5	15.4	12.0
IMA Global Equity Income sector average	19.7	17.7	1.0	16.0	7.9

Cumulative % total return (GBP)

31/01/2014	1 month	Year-to-date	1 year	3 years	From launch
Fund X class (0.75% AMC)	-4.5	-4.5	12.6	30.9	30.8
MSCI World Index	-3.0	-3.0	12.0	27.2	27.1
IMA Global Equity Income sector average	-3.5	-3.5	7.9	26.4	24.8

Annualised % total return from launch (GBP) 31/01/2014

Fund X class (0.75% AMC)	9.08%
MSCI World Index	8.09%
IMA Global Equity Income sector average	7.45%

Risk analysis - Annualised, weekly, from launch on 31.12.10, in GBP

31/01/2014	Index	Sector	Fund
Alpha	0	1.24	2.49
Beta	1	0.77	0.78
Information ratio	0	-0.07	0.19
Maximum drawdown	-18.26	-15.50	-16.34
R squared	1	0.81	0.90
Sharpe ratio	0	0.32	0.46
Tracking error	0	6.22	4.88
Volatility	14.24	12.20	11.80

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. Fund launch date: 31.12.10. **Fund X class**: Simulated performance based on actual returns of E share class (available from Fund launch), calculated in GBP. **IMA sector** performance based on highest fee share classes for each fund (C Class (1.5% AMC) for Guinness Global Equity Income). **See Notes overleaf.**

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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 IMA 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

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 Conduct Authority for sale in the UK. The Company and the Fund have been recognised in the UK by the FCA pursuant to section 264 of the FSMA. Guinness Asset Management Ltd is authorised and regulated by the Financial Conduct Authority.

Telephone calls to Guinness Asset Management may be recorded.

The prospectus for Switzerland, the KIID 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.