Guinness Global Equity Income Fund

INVESTMENT COMMENTARY – February 2016

About the Fund

Guinness Global Equity Income Fund is designed to provide investors with global exposure to dividend-paying companies.

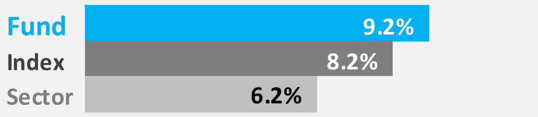
The Fund is managed for income and capital growth and invests in profitable companies that have generated persistently high return on capital over the last decade, and that are well placed to pay a sustainable dividend into the future.

Fund size	£97m
Launch date	31.12.10
Managers	Dr. Ian Mortimer, CFA Matthew Page, CFA

Performance **31.01.16**

	1 year	3 years	From launch
Fund	0.0	34.1	56.6
Index	0.5	31.8	49.6
Sector	-4.5	17.4	35.8

Annualised % total return from launch (GBP)



Benchmark index	MSCI World Index
IA sector	Global Equity Income

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.

Guinness Global Equity Income Fund passed its fifth anniversary on 31st December 2015. For our full review of the Fund's history, visit **guinnessfunds.com**

Fund review

In January the Guinness Global Equity Income Fund produced a positive total return of 0.65%, versus the MSCI World Index return of -2.31%. The Fund therefore outperformed the benchmark by 2.96%. This outperformance is particularly satisfying coming in a month which saw US equities produce the worst start to a year on record.

Equity markets started the year with a sharp decline in reaction to further declines in the oil price, redemptions of liquid assets from sovereign wealth funds of oil producing countries, and continued concerns regarding economic growth in China and other emerging markets.

Amongst this backdrop we saw central banks around the world attempt to provide some reassurance to markets. In the UK Bank of England Governor Mark Carney recognised "the world is weaker and UK growth has slowed", while lower oil prices and slower growth in China were likely to keep inflation low. Expectations for the first rise in UK interest rates have now moved out to the beginning of 2018.

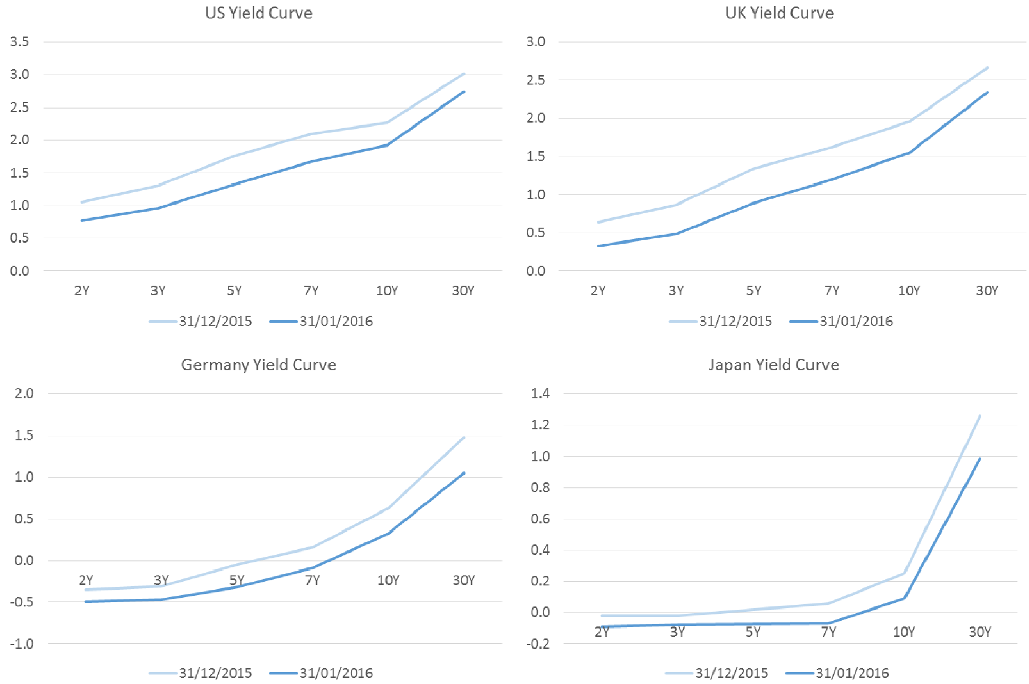
Mario Draghi said the ECB will "review and possibly reconsider" monetary policy at its next meeting in March, while maintaining "there are no limits how far we are willing to deploy our policy instruments". The US Federal Reserve also commented that they were monitoring global turbulence and the implications for US policy.

The most surprising news came from Japan, where the Bank of Japan cut interest rates to minus 0.1%. The ECB was of course the first major central bank to initiate negative rates in June 2014, charging banks 0.3%.

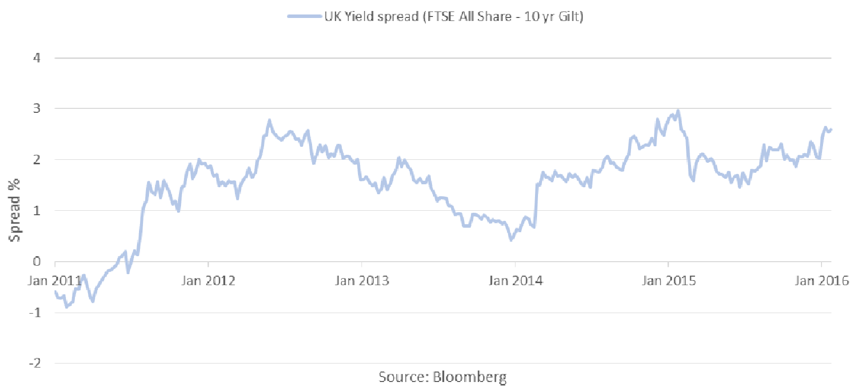
Past performance should not be taken as an indicator of future performance. The value of investments and any income arising from them can fall as well as rise as a result of market and currency fluctuations.

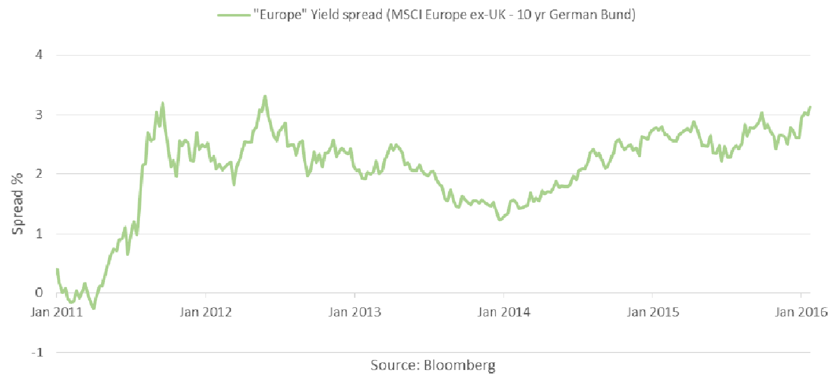
Global equities managed to stage a small recovery in the last week of the month on the back of this reassurance.

We saw a flight to safety over the month, with marked declines in government bond yields (see chart below). The yield on US 10 year Treasuries fell 0.35% from 2.27% to 1.92%, while the 10 year government bonds of the UK, Germany and Japan all saw a similar decline.



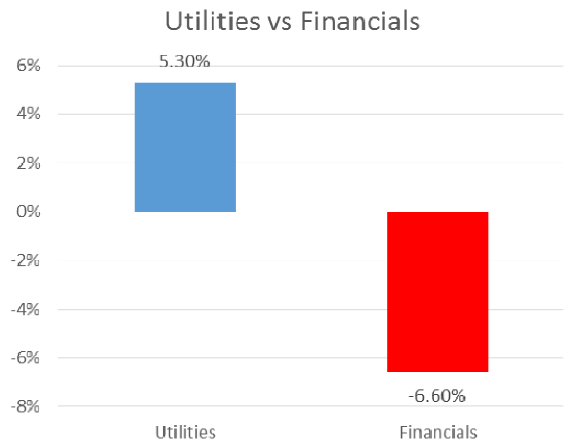
It is interesting to look at the current level of dividend yields compared to the yields of 10 year government bonds. Whether we look at the US, UK or Europe the picture is clear: the spread between the dividend yield of equities relative to the yield of government bonds is approaching the highs we have seen over the last five years.





This does not mean these spreads cannot go wider: a further decline in bond yields, a decline in equity valuations or dividend growth would all act to widen this spread. It does, however, show the market is preferring safety and certainty ("risk-off") today.

If we just look at equities over the last month, then we see a similar "risk-off" strategy, with defensive sectors outperforming cyclical sectors: the MSCI World Utilities Index outperformed the MSCI World Financials Index by 11.9%.



Within the portfolio it was pleasing to see that a number of recent additions to the portfolio performed particularly well in January. Our top three performing positions over the month were Largan Precision, Japan Tobacco (both of which we added to the portfolio in December) and Wal-Mart which we purchased early in January to replace a sale of Aberdeen Asset Management.

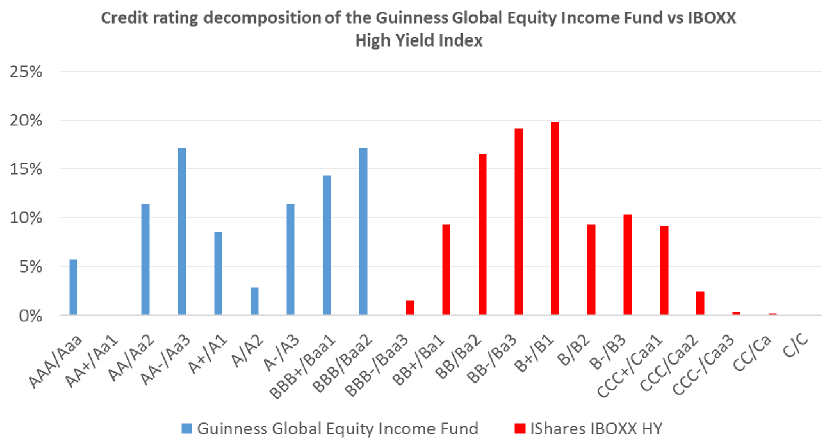
We had owned Aberdeen Asset Management since we launched the Fund in 2010 but we decided to sell due to a combination of three factors – a poor outlook for emerging markets, large outflows from sovereign wealth funds of oil producing countries and declining performance of their funds. We will continue to monitor the company and look for a change in fortunes but we decided it made more sense to sell, replacing it with a company that we had owned previously and had continued to monitor in the form of Wal-Mart.

We held Wal-Mart from December 2010 to March 2013, and decided to take a profit after we saw a significant valuation rerating and compression in the dividend yield we were receiving.

Since then Wal-Mart has been facing significant challenges, including the increasing threat of Amazon, wage inflation and FX headwinds. We have seen margins decline over the last few years as the company has been investing to catch up in e-commerce and expanding its online grocery pickup offering, which should start to have an impact this year. Last year we saw a significant decline in the valuation the market has been willing to pay. At the beginning of 2015 the company was trading towards the peak of its 10 year historical multiple and by the beginning of 2016 it was trading around one standard deviation below its 10 year average multiple.

By January this year the dividend yield was the highest it has been for the last 10 years. We also note that Wal-Mart has grown its dividend every year that we have been alive! Dividend growth over the last five years has been particularly impressive at an average rate of 10% per year. Whether this level of dividend growth is achievable in the next five years is hard to predict but the dividend certainly looks very safe; the company is generating a high return on capital well above its cost of capital, its dividend represents a modest payout ratio of 40%, it has a Debt to EBITDA ratio of 1.5x and a AA credit rating.

More broadly the nature of the companies that we like to invest in mean they tend to have very good credit ratings. The chart below shows the distribution of our portfolio by credit rating versus that of the iShares IBOXX high yield bond ETF. While the high yield bond ETF will offer a higher yield than our Fund, the credit risk is considerably higher and there is no scope for growth in the bond coupons, while the dividend we have distributed has grown at an average rate of 4.1% over the life of the Fund.



The last two weeks in January saw ten of our holdings publish earnings releases. Pleasingly all of them beat analyst forecasts. For all the macro malaise that exists, our portfolio of high return-on-capital companies continue to do what they do best, which is generate economic profits despite what the macro environment may throw at them, unlike many of the companies that issue high yield bonds!

We have just published a 50 page report reviewing our approach to investing in these high return-on-capital companies in our Global Equity Income Fund over each of the last five years. A lot has happened in the world in that time, but our approach has remained the same from one year to the next. If you would like to receive a copy please let us know.

Thank you for your continued support.

Dr. Ian Mortimer & Matthew Page
Co-managers, Guinness Global Equity Income Fund

February 2016

Data sources

Fund performance: *Financial Express, total return in GBP*

Index and stock data: *Bloomberg*

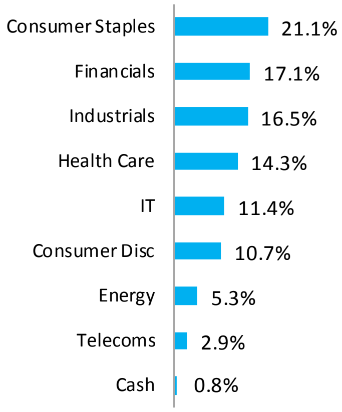
PORTFOLIO

31/01/2016

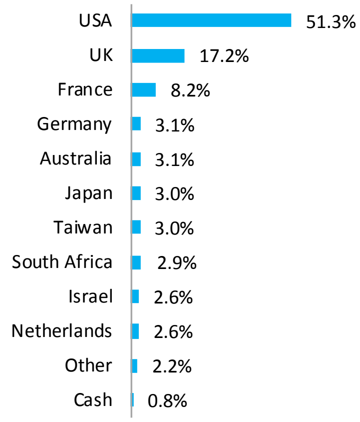
Fund top 10 holdings

Unilever	3.3%
Deutsche Boerse	3.1%
Sonic Healthcare	3.1%
Japan Tobacco	3.0%
Procter & Gamble	3.0%
Johnson & Johnson	3.0%
Danone	3.0%
CA Inc	3.0%
Aflac	3.0%
Largan Precision	3.0%
% of Fund in top 10	30.4%
Total number of stocks in Fund	35

Sector analysis



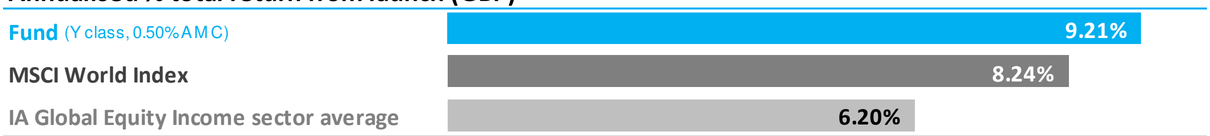
Geographic allocation



PERFORMANCE

31/01/2016

Annualised % total return from launch (GBP)



Discrete years % total return (GBP)	Jan '12	Jan '13	Jan '14	Jan '15	Jan '16
Fund (Y class, 0.50% AMC)	3.8	12.6	12.7	18.9	0.0
MSCI World Index	-1.5	15.4	12.0	17.1	0.5
IA Global Equity Income sector average	1.0	16.0	7.9	14.0	-4.5

Cumulative % total return (GBP)	1 month	Year-to-date	1 year	3 years	5 years	From launch
Fund (Y class, 0.50% AMC)	0.7	0.7	0.0	34.1	56.7	56.6
MSCI World Index	-2.3	-2.3	0.5	31.8	49.7	49.6
IA Global Equity Income sector average	-3.1	-3.1	-4.5	17.4	37.5	35.8

RISK ANALYSIS

31/01/2016

Annualised, weekly, from launch on 31.12.10, in GBP	Index	Sector	Fund
Alpha	0	0.02	1.99
Beta	1	0.76	0.86
Information ratio	0	-0.30	0.20
Maximum drawdown	-18.26	-15.50	-16.19
R squared	1	0.81	0.89
Sharpe ratio	0	0.23	0.45
Tracking error	0	6.04	4.49
Volatility	13.62	11.50	12.39

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

Performance data notes

1) The performance numbers displayed on the previous page are calculated in GBP (Sterling). Please note: The Fund's Y class was launched on 11.03.15. The performance shown is a composite simulation for Y class performance being based on the actual performance of the Fund's E class, which has an annual management charge 0.75%, 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.

2) The performance of the IA 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

Issued by Guinness Asset Management Limited, authorised and regulated by the Financial Conduct Authority.

This report is primarily designed to inform you about Guinness Global Equity Income Fund. It may provide information about the Fund's portfolio, including recent activity and performance. It contains facts relating to the equity markets and our own interpretation. Any investment decision should take account of the subjectivity of the comments contained in the report.

This document is provided 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 contents of the document should not therefore be relied upon. It should not be taken as a recommendation to make an investment in the Fund or to buy or sell individual securities, nor does it constitute an offer for sale.

Risk

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 an investment and the income from it can fall as well as rise as a result of market and currency movement, and you may not get back the amount originally invested. Details on the risk factors are included in the Fund's documentation, available on our website. 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.

Documentation

The documentation needed to make an investment, including the Prospectus, the Key Investor Information Document (KIID) and the Application Form, is available from the website www.guinnessfunds.com , or 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.

Residency

In countries where the Fund is not registered for sale or in any other circumstances where its distribution is not authorised or is unlawful, the Fund should not be distributed to resident Retail Clients.

NOTE: THIS INVESTMENT IS NOT FOR SALE TO U.S. PERSONS.

Structure & regulation

The 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, which operates under EU legislation. If you are in any doubt about the suitability of investing in this Fund, please consult your investment or other professional adviser.

Switzerland

The prospectus and KIID for Switzerland, the articles of association, and the annual and semi-annual reports 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, www.carnegie-fund-services.ch. The paying agent is Banque Cantonale de Genève, 17 Quai de l'Ile, 1204 Geneva, Switzerland.

Telephone calls may be recorded and monitored.