Guinness Global Equity Income Fund

A high conviction equity fund managed by Dr. Ian Mortimer and Matthew Page, CFA, in accordance with their intelligent investment process for high quality income portfolios.

INVESTMENT COMMENTARY - July 2012

Fund size (30.6.12) **£15.1m**

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."

Equity markets rallied in June on the back of renewed optimism for a direct bailout of Spanish banks. The Fund delivered a total return of 3.08% (in GBP) in the month, versus the MSCI World Index total return of 3.13% (in GBP). The Fund therefore marginally underperformed the index over the month. We made no changes to the portfolio in June.

The Fund went ex-dividend on July 2nd and will be paying a dividend of 18.84 pence per share on the GBP denominated retail 'C' share class. This dividend is lower than the dividend paid for the first half of 2011 (19.65 pence) but we expect to pay a greater proportion of the total annual dividend in the second half of 2012 compared to 2011. This is due to a number of factors.

First, we made a number of switches to the portfolio last year which consequently shifted our geographical allocation to a lower weighting in European and Asian domiciled companies and increased our weighting to US domiciled companies. A number of the positions that we sold last year paid either their entire dividend or a large proportion of their dividend in the first six months of the year (e.g. Television Broadcasts, Alten), whereas the US positions which we bought to replace these (e.g. Coca-Cola, Procter & Gamble) typically pay equally-weighted quarterly dividends.

Second, the ex-dividend date of our holdings in Metcash and General Dynamics shifted from the end of June in 2011 to the beginning of July in 2012, thereby pushing the income that the Fund accrued from these two positions in to our distribution for the second half of the year.

We continue to track the income stream from our holdings very closely. Based on our current estimates, we expect to pay a total dividend on the Fund for 2012 that is greater than 2011, as per our stated aim of steady dividend growth.

The table overleaf shows all the companies held by the Fund that went ex-dividend in the first six months of 2012 and compares the dividend for the period in 2012 to that of the same period in 2011. Almost all of these companies have grown their dividend over the last 12 months, and a significant number of these have shown double digit growth (e.g. Mattel and VF Corp).

The only noteworthy exception to this was Telefonica, which had a significant cut in its dividend. Management of Telefonica decided to use some of its cash to reduce their debt burden and therefore reduce cash available to shareholders. In this case we believe this was the correct decision. In current market conditions it seemed prudent to use the cash to reduce debt in a typically highly levered telecom company, rather than rely on future growth in profitability or access to reasonable funding costs from debt markets. Telefonica is one of our positions which we used the discretion we have to invest 20% of the portfolio outside of our core investment process (please read our Investment Process white paper for more details). We took the view back in 2011 that Telefonica was offering good value for the long term given the aversion to Spanish equities that existed at the time and growth opportunities in Latin America. Clearly this was one of our more risky positions but from a portfolio perspective it had the advantage of giving us some exposure to Latin America (approximately 30% of its EBITDA) as well as providing some degree of hedge against our core economic outlook of low and volatile GDP growth in the eurozone. Since then the aversion to Spanish equities has increased, global GDP forecasts are declining and consumer confidence in its core European market is low.

Within this context the company's balance sheet continues to look quite exposed. Consequently it is one of our worst performing companies year-to-date and we will continue to monitor the situation carefully.

Across the Fund as a whole, the average year-on-year growth in dividends of all our holdings that went ex-dividend in the first six months of the year is 9%, including the effect of Telefonica's cut.

Holdings	Dividend payments (in local currency)				Percentage change	
	Q1 '11	Q2 '11	Q1 '12	Q2 '12	Q1 YoY	Q2 YoY
Abbott Labs	0.48	0.48	0.51	0.51	**6%**	**6%**
Aberdeen Asset Management		3.80		4.40		**16%**
Aflac	0.30	0.30	0.33	0.33	**10%**	**10%**
AstraZeneca	1.85		1.95		**5%**	
China Mobile		1.60		1.75		**9%**
Coca-Cola	0.47	0.47	0.51	0.51	**9%**	**9%**
Danone		1.30		1.39		**7%**
Deutsche Boerse		2.10		2.30		**10%**
General Dynamics	0.42		0.47		**12%**	
Halma	3.54		3.79		**7%**	
ICAP	5.27	14.68	6.00	16.00	**14%**	**9%**
Illinois Tool Works	0.34	0.34	0.36	0.36	**6%**	**6%**
Imperial Tobacco	60.00		67.00		**12%**	
Johnson & Johnson	0.54	0.57	0.57	0.61	**6%**	**7%**
Kraft	0.29	0.29	0.29	0.29	**0%**	**0%**
L-3 Communications	0.45	0.45	0.50	0.50	**11%**	**11%**
Mattel	0.23	0.23	0.31	0.31	**35%**	**35%**
Meggitt	6.35		7.30		**15%**	
Microsoft	0.16	0.16	0.20	0.20	**25%**	**25%**
Pepsico	0.48	0.52	0.52	0.54	**7%**	**4%**
Pfizer	0.20	0.20	0.22	0.22	**10%**	**10%**
Procter and Gamble	0.48	0.53	0.53	0.56	**9%**	**7%**
Reckitt Benckiser	65.00		70.00		**8%**	
Reynolds American	0.53	0.53	0.56	0.59	**6%**	**11%**
Royal Dutch Shell	0.30	0.29	0.32	0.35	**7%**	**20%**
Sanofi		2.50		2.65		**6%**
Telefonica		0.75		0.53		**-29%**
Total	0.57	0.57	0.57	0.57	**0%**	**0%**
Unilever	17.75	19.96	18.79	19.81	**6%**	**-1%**
VF Corp	0.63	0.63	0.72	0.72	**14%**	**14%**
Vodafone		6.05		6.47		**7%**
Wal-Mart	0.37	0.37	0.40	0.40	**9%**	**9%**
Willis Group	0.26	0.26	0.27	0.27	**4%**	**4%**

Source: Bloomberg

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.

Given the volatility seen over the first half of the year the Fund has performed as we would have expected. Our focus on companies that achieve consistently high return on capital, coupled with our somewhat bleak outlook for economic growth in the medium term, has lead us to identify companies with strong brands, scale, geographic diversification and sustainable profitability. Therefore the performance of the Fund lagged the MSCI World Index during the sharp rally at the beginning of the year and outperformed the index during the sharp decline in May. Since we launched the Fund in December 2010 our performance puts us in the top quartile of funds in our IMA Global Equity Income peer group and in the top decile when compared to the broader IMA Global Equity sector.

In many ways the first half of 2012 felt much like 2011, with initial optimism being supported by encouraging economic data from the US, only for both of these to disappear in the second quarter and market attention to focus on Eurozone sovereign debt, banking liquidity, and political responses to these issues. We discussed in our March update how the headline US unemployment numbers can mask the underlying real level of employment whilst also noting that the US needed to create around 130,000 jobs per month simply to keep up with population growth. During the first quarter, non-farm payroll numbers were well above this level, averaging 226,000, while in the second quarter they dropped well below this level to 75,000, echoing a similar picture in 2011.

What have significantly changed are economists' forecasts of GDP growth around the world. In June 2011 economists were forecasting 2012 GDP growth in the US to be 2.9%, which has since fallen to 2.2% today. 2012 GDP growth forecasts for Germany and the UK were both 2.0% while today they are flirting with recession at 0.9% and 0.2% respectively. This time last year economists were forecasting 2012 GDP growth in Spain at 1.4% while GDP forecasts have fallen 3.1% to -1.7%. Much of Europe is now clearly in a recession, which will be having a knock on effect around the world.

If we compare the positioning of the portfolio at 30th June this year compared to last year you will note a number of differences. We made a number of changes to the portfolio in August 2011 and have not changed the portfolio since. We spent some considerable time going through each of the positions in the portfolio trying to assess which businesses were most at risk from an economic slowdown in Europe and also which companies share prices were most likely to react poorly to this scenario. We increased our geographic weighting (by domicile) to North America and the UK and reduced our exposure to Europe ex-UK and Asia-Pacific. However, simply by looking at the country of domicile masks a more accurate analysis of the portfolio's geographic exposure. These switches would be best characterised as increasing our exposure to multi-national, large, blue-chip, companies (e.g. Coca-Cola) while reducing our exposure to smaller, higher beta, companies that were more dependent on regional economic growth (e.g. Alten). Taking the UK as an example, while we have 26.0% of the portfolio exposed to UK-domiciled companies, on average only around 15% of sales from these companies come from the UK, implying our exposure to the UK by sales at the portfolio level is nearer 5%.

Domicile	Portfolio weight	
	30/06/2011	30/06/2012
North America	44.0%	49.6%
Europe ex-UK	23.7%	17.9%
UK	19.6%	26.0%
Asia-Pacific	10.7%	5.7%

Our weighting to companies with a market cap greater than $50 billion increased from 35.4% to 50.0%, whilst at the lower end of our market cap range we reduced our weighting to companies with a market cap less than $10 billion from 36.8% to 19.9%.

Market cap	Portfolio weight	
	30/06/2011	30/06/2012
>$50bn	35.4%	50.0%
$10 to 50 bn	25.8%	29.3%
$1 to 10 bn	36.8%	19.9%

The 2012 price to earnings ratio (PE) on 30th June 2011 was 10.8, while the 2013 P/E today is 10.7. While this is not a significant discount to the PE of the MSCI World Index today at 10.8, it does in our minds offer good value for the benefits of the relatively steady earnings potential for this portfolio of companies.

We discussed in our May 2012 update our view that consistent high returns on capital were an important starting place for identifying companies that are able to pay a steady and, most importantly, rising dividend over time. The compounding effect of these companies' resulting economic profits is powerful and continues independently of what value the market may deem to pay for their shares at any point in time. We believe this approach of identifying stocks is well suited to current economic conditions. The characteristics of these companies should provide a reasonable degree of downside price protection to market fears, whilst at the same time being best placed to continue to generate fairly steady economic profits in times of slow economic growth and uncertainty.

Dr. Ian Mortimer & Matthew Page

Co-managers

Guinness Global Equity Income Fund

July 2012

PORTFOLIO (30.6.12)

Fund top 10 holdings

Deutsche Boerse	3.1%
General Dynamics	3.1%
China Mobile	3.0%
Total	3.0%
Sanofi	3.0%
Coca-Cola	3.0%
Reynolds American	3.0%
Abbott Laboratories	3.0%
Danone	3.0%
Aflac	3.0%
% of Fund in top 10	30.1%
Total number of stocks in Fund	34

Geographic allocation

United States	46.6%
Great Britain	29.0%
France	9.0%
Germany	3.1%
Hong Kong	3.0%
Netherlands	2.9%
Spain	2.9%
Australia	2.6%
Cash	0.8%
	100.0%

Sector analysis

Consumer Staples	31.9%
Health Care	14.7%
Financials	14.6%
Industrials	11.8%
Telecommunicatios	8.9%
Energy	6.0%
Information Technology	5.8%
Consumer Discretionary	5.6%
Cash	0.8%
	100.0%

PERFORMANCE

Discrete years' % total return

12 months to month end:	Jun '08	Jun '09	Jun '10	Jun '11	Jun '12
Guinness Global Equity Income Fund	-	-	-	-	-1.3
MSCI World Index	-15.6	-26.3	11.5	21.8	-2.3
IMA Global Equity Income sector average	-12.6	-12.3	19.7	20.9	-1.9

Cumulative % total return

30/06/2012	1 month	3 months	6 months	1 year	From launch
Guinness Global Equity Income Fund	3.1	-0.7	2.8	-1.3	4.8
MSCI World Index	3.1	-3.3	4.9	-2.3	-0.1
IMA Global Equity Income sector average	3.0	-2.1	3.0	-1.9	0.9

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

30/06/2012	Index	Sector	Fund
Alpha	0	0.73	3.15
Beta	1	0.87	0.73
Information ratio	0	0.13	0.70
Maximum drawdown	-14.06	-10.95	-10.76
R squared	1	0.79	0.85
Tracking error	0	5.31	4.63
Volatility	11.30	11.13	9.02

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.