Guinness Global Equity Income Fund

INVESTMENT COMMENTARY - April 2014

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	£47.9m
Launch date	31.12.10
Managers	Dr. Ian Mortimer, CFA Matthew Page, CFA

Performance 31.3.14

	1 year	3 years	From launch
Fund	8.7	34.5	37.3
Index	8.5	28.8	31.8
Sector	7.1	28.7	30.7

Annualised % total return from launch (GBP)

Benchmark index	MSCI World Index
IMA 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.

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Guinness Global Equity Income
BEST FUND OVER 3 YEARS
EQUITY GLOBAL INCOME

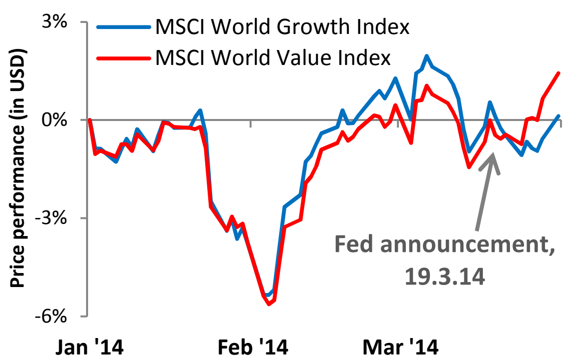
Portfolio review

The Fund generated a total return of 1.65% (in GBP) in March compared to its benchmark MSCI World Index total return of 0.67%, thereby outperforming by just under 1%.

Over the quarter the Fund generated a total return of 0.26% (in GBP), compared to the Index return of 0.60%, thereby slightly under-performing but ending in positive territory for the year to date.

Since launch the Fund is up 37.29%, versus the MSCI World Index up 31.80%. *(All returns in GBP.)*

The actions of the Federal Reserve continue to reverberate across markets, but lately they have served to aid the performance of value stocks, whose performance has really picked up in the last couple of weeks. On 19th March this year Janet Yellen, the new Federal Reserve chairman who took over from Ben Bernanke, announced that QE would most likely be finished by the Autumn, and that an interest rate hike could come as early as 2015 – earlier than the market had anticipated. This almost perfectly coincides with the resurgence of value stocks, versus both the broad market and momentum or growth stocks. We try not to dwell on the short term, but it is interesting to note the clear divergence between the relative performance of the MSCI World Value Index and the MSCI World Growth Index since Yellen's announcement.



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The stimulus for this appears to be quite similar to what we saw on 21st May last year when Ben Bernanke announced the imminent tapering of QE, prompting increases in real interest rates. Value stocks went on to have very strong relative performance over the rest of May and June in 2013.

But why does momentum/growth underperform in a rising interest rate environment? A lot of the supposed value of these growth/momentum companies is derived from future estimates of cash flows. Rising interest rates potentially threaten these companies' long-term margins, as higher interest rates can push up their cost of capital. Higher interest rates will also increase the discount rate at which these companies' future cash flows are valued today.

By contrast, a lot of 'quality' companies have been able to refinance their long-term debt at exceptionally low levels. Microsoft, for example, last year sold $750 million of 10-year bonds with a coupon of 2.125%, and $900 million of 30-year bonds at 3.5%. Considering that 10-year US government Treasuries were trading with a yield of 1.6% at the time, it implied a credit spread of just 0.525% for Microsoft's 10-years bonds. Locking in such good terms should provide some protection in the event of rising rates, and may potentially give them an advantage over their competitors. Any impact of rising interest rates on these high quality companies is going to be very modest.

Our approach in the Guinness Global Equity Income Fund, which combines quality and value, is to focus on companies that achieve top quartile returns on capital every year throughout an entire business cycle – this is our definition of 'quality'. We then seek to narrow down this list further to identify those companies that we believe offer good value, and in particular where valuations sit relative to industry peers, relative to their own historic valuations, and to the broad market in general.

The table below shows the Fund valuation in terms of historical and forward price/earnings ratios (analysts' consensus estimates) versus the MSCI World Index.

PE ratios at 31.3.14	2012	2013	2014e	2015e
Guinness Global Equity Income Fund	14.2	14.3	13.9	12.8
MSCI World Index	15.7	19.0	15.3	13.7
Fund premium/(discount)	-9.4%	-24.7%	-9.3%	-6.8%

Source: Bloomberg; Guinness Asset Management Ltd. 2014 & 2015 consensus estimates.

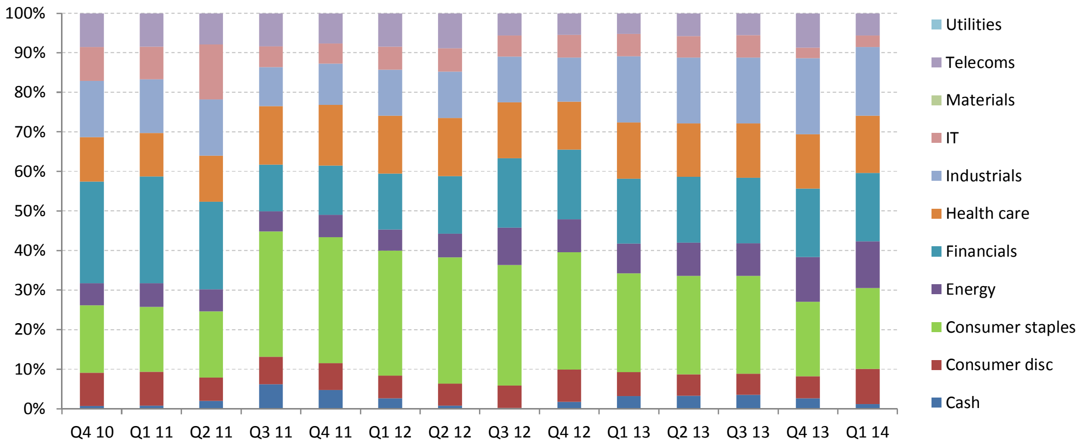
The Fund at the end of the quarter was trading on 13.9X 2014 earnings, and 12.8X 2015 earnings, a discount of 9.3% and 6.8% respectively to the broad market. We therefore see the portfolio as providing good value to our investors on these simple metrics, which is particularly pleasing in light of the strong performance of the Fund over the last year.

During the quarter we made four changes to the portfolio. In February we sold our holdings in Vodafone and Verizon (the Fund had received an allocation in Verizon shares following Verizon's acquisition of Vodafone's stake in the Verizon Wireless business it did not already own). We had owned Vodafone in the Fund for just over three years, and had benefitted from the substantial increase in share price over the period, and also the good dividend stream it provided. Verizon did not fit the type of company we typically like to own as its return on capital had oscillated around its cost of capital for a number of years. Equally, we were not certain about the prospects for Vodafone post the Verizon Wireless sale, and decided to sell the 'rump' of shares we were left with in the portfolio.

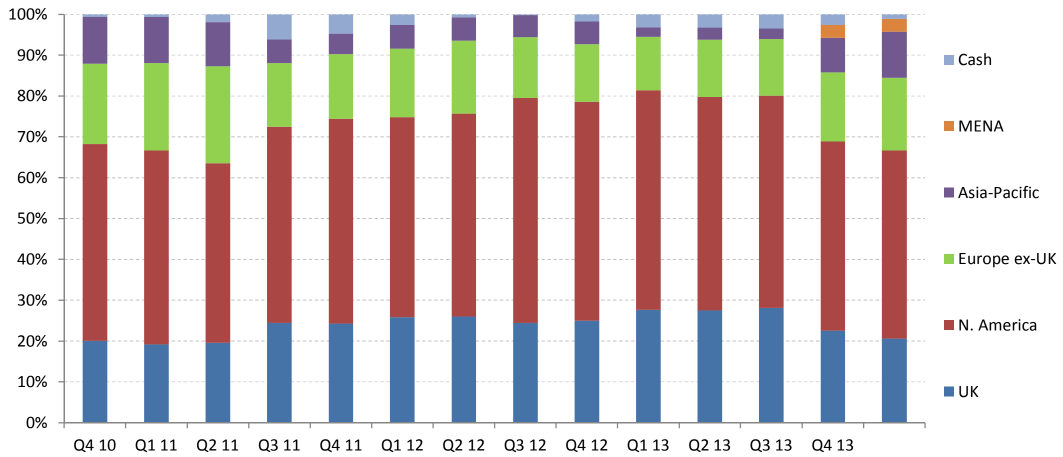
As reported last month, we also sold our position in Northrop Grumman in February. Sentiment towards the US defence sector was particularly weak when we bought the company in March last year, and we have been surprised by the rapidity of how that has changed over the last 12 months. Indeed, the stock's total return over our holding period was over 80%. This left the company trading at much higher multiples, despite also having good earnings growth over the period, and a much lower margin of safety in terms of valuation.

Finally, we purchased a new position in Li & Fung in early March. Li & Fung is a global outsourcing company and provides an interesting example of a company that is listed in Asia but the majority (over 80%) of its revenues come from outside Asia. It was trading at the low end of its 10 year valuation range but had a ten year history of generating top quartile return on capital. It had therefore weathered the financial crisis extremely well, and was potentially being punished by the market because of its regional listing, rather than its underlying business potential.

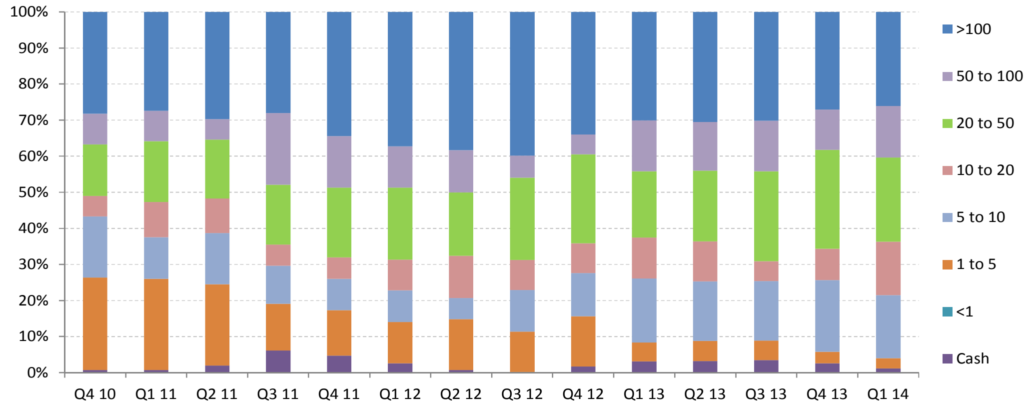
In terms of sector allocation, the stock changes made in the Fund over the quarter reduced the exposure slightly to industrials and telecoms, and increased our exposure to consumer discretionary. The highest weighting in the Fund is to the consumer staples sector (at 20.5%), but this is well below the 30% weighting we had at the end of 2012.



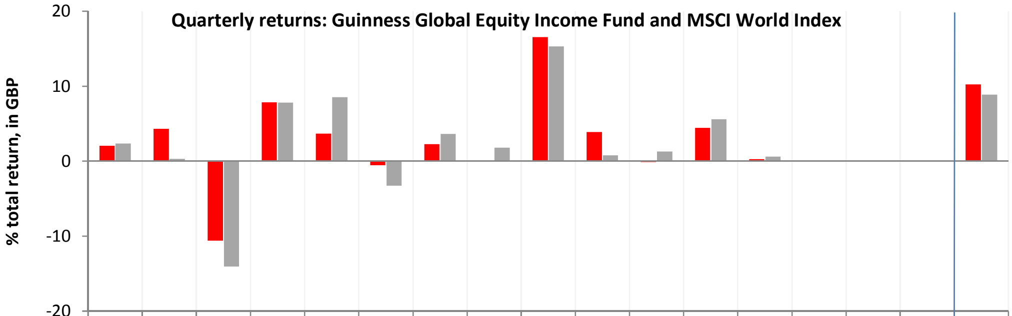
The geographic weighting by domicile has increased slightly towards Asia after our purchase of Li & Fung, but when we analyse this on a revenue basis the Fund's geographic exposure has remained largely stable as the bulk of Li & Fung's revenues are generated outside Asia.



In terms of market capitalisation distribution, the Fund has remained stable, with 60% of companies with a market cap greater than $20bn, and 40% of companies in the $1 to $20bn range.



Markets were quite volatile over the quarter, and the Fund reflected this; down 4.5% in January, up 3.3% in February, and up 1.7% in March for a combined return of 0.3%.



	2011				2012				2013				2014				From launch
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Ann
Fund	2.08	4.34	-10.60	7.87	3.70	-0.56	2.29	0.03	16.54	3.90	-0.11	4.46	0.26				10.25
Index	2.36	0.31	-14.06	7.85	8.52	-3.29	3.64	1.81	15.33	0.76	1.32	5.60	0.60				8.87

Emerging markets were the stand out poor performer regionally in the market downturn in January and early February. Some of the worst performing stocks in the Fund were, unsurprisingly, those most exposed to this region, in particular: CNOOC, the Hong Kong-listed Chinese oil company; China Mobile; and Aberdeen Asset Management, whose underlying funds are closely linked to performance in the region. Because of this relative underperformance we took the opportunity in early March to top up our holdings in these companies (realigning our portfolio weights), as we thought that the market moves were potentially overdone.

The strongest sector in the portfolio in the quarter was healthcare, with Teva Pharmaceutical, Merck, and Sonic Healthcare up more than 10% in the quarter in USD terms. Teva Pharmaceutical was the strongest performer, rising over 30% as the market continued to re-rate the company. When we bought it in October last year Teva was trading at just over 7 times 2014 expected earnings and was in the bottom decile of its peers as the threat of generic competition to its patented multiple sclerosis drug loomed. Since that time the company has successfully established new patents on the drug, which allow the patient to take the drug more efficiently by using fewer dosages a week, and in doing so has seemingly fended off the generic competition and protected its future cash flows.

We thank you again for your continued support and look forward to updating you on the Fund's progress throughout the remainder of 2014.

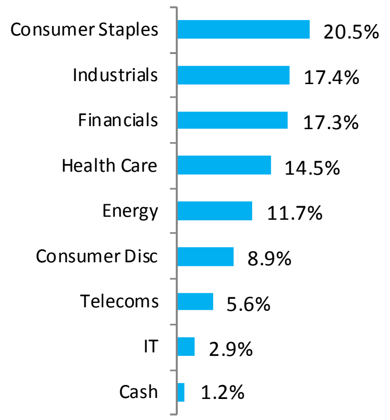
Dr. Ian Mortimer & Matthew Page
Co-managers, Guinness Global Equity Income Fund
April 2014

PORTFOLIO (31.03.14)

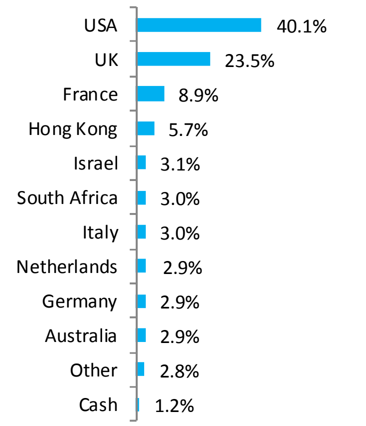
Fund top 10 holdings

Aberdeen Asset Management	3.1%
Unilever	3.1%
Teva Pharmaceutical	3.1%
Li & Fung	3.1%
Vodacom	3.0%
Total	3.0%
ENI	3.0%
Johnson & Johnson	3.0%
Meggitt	3.0%
Danone	3.0%
% of Fund in top 10	30.2%
Total number of stocks in Fund	34

Sector analysis



Geographic allocation



PERFORMANCE

Discrete years % total return (GBP)

12 months to month end:	Mar '10	Mar '11	Mar '12	Mar '13	Mar '14
Fund C Class (1.5% AMC)	-	-	3.6	17.7	7.9
Fund X class (0.75% AMC)	-	-	4.3	18.6	8.7
MSCI World Index	44.0	7.4	0.9	17.7	8.5
IMA Global Equity Income sector average	38.7	9.1	1.6	18.3	7.1

Cumulative % total return (GBP)

31/03/2014	1 month	Year-to-date	1 year	3 years	From launch
Fund X class (0.75% AMC)	1.7	0.3	8.7	34.5	37.3
MSCI World Index	0.7	0.6	8.5	28.8	31.8
IMA Global Equity Income sector average	1.0	1.0	7.1	28.7	30.7

Annualised % total return from launch (GBP) 31/03/2014

Fund X class (0.75% AMC)	10.25%
MSCI World Index	8.87%
IMA Global Equity Income sector average	8.58%

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

31/03/2014	Index	Sector	Fund
Alpha	0	1.68	3.08
Beta	1	0.77	0.79
Information ratio	0	-0.02	0.29
Maximum drawdown	-18.26	-15.50	-16.34
R squared	1	0.81	0.89
Sharpe ratio	0	0.40	0.56
Tracking error	0	6.08	4.82
Volatility	13.98	12.02	11.66

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.**

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

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 energy market 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. The Fund has been approved by the Financial Conduct Authority for sale in the UK. 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.

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