Guinness Global Equity Income Fund

INVESTMENT COMMENTARY - July 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	£58.4m
Launch date	31.12.10
Managers	Dr. Ian Mortimer, CFA Matthew Page, CFA

Performance — 30.06.14

	1 year	3 years	From launch
Fund	8.3	33.5	42.2
Index	10.0	31.2	34.8
Sector	9.6	30.2	33.9

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

Monthly update

In June the Fund produced a total return of 0.17%, compared to the MSCI World Index return of -0.15%. Over the first half of the year the Fund returned 3.83%, compared to the MSCI World Index's 2.85%. The Fund therefore outperformed by 0.98% over this period.

We are pleased to say the Fund has now reached the milestone of assets under management of $100 million.

We made one change to the portfolio in June. We decided to sell our position in tobacco company Reynolds American and bought Cisco. Reynolds American has been a company we have owned since the launch of the Fund in 2010, and it has provided a good return to the Fund, more than doubling in value over this period (119.4% in USD).

The consensus bear case on tobacco companies over this period has always focused on falling volumes because of campaigns against smoking, the threat of plain packaging, and the tax burden on consumers. We don't disagree with any of these specific threats, but we did also observe that tobacco companies in general were able to offset falling volumes with an increase in price.

Growth has clearly been an attractive prospect over the last five years given the modest rate of global GDP growth, but when considering the growth of a company it would be too simplistic purely to consider growth as a function of volumes or revenues. What we are focussed on is growth in cashflow, and this can clearly come from a number of sources. If all else were equal, we would find a company that has zero revenue growth opportunities, but improving margins and improving working capital more attractive than a company that has revenue growth expectations but at lower margins and cannot internally finance their increasing working capital burden.

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When you look at Reynolds American specifically, the expectation for revenues this year (2014) is only around 2% lower than the company's reported revenues in 2010. Over this period the company has also managed to grow gross, operating and net margins quite substantially, leading to a healthy growth in cash flow. Net income has grown by 23% (in USD) over our holding period. When combined with an 8% reduction in shares outstanding through share buybacks, this translates into 33% earnings per share growth.

When we initially bought the company back in 2010, it was trading on a modest one-year forward P/E ratio of 13.0x, whereas by June of this year it was trading on 17.7x. Therefore we have certainly seen a sentiment improvement towards the business, and the return due to multiple expansion equates to 36%.

We also received a healthy growing dividend stream over our holding period, with the company expected to pay out $2.68 in 2014 vs $2.15 in 2011, representing a growth of 25%. Dividends represented 20.6% of the total return.

In the end we decided to sell the position largely on the rerating of its valuation, which has coincided with merger and acquisition activity in the sector. The risks to the business remain the same as when we bought it, but the potential for upside from here is, in our opinion, much reduced, despite the prospect for a steady dividend (but with likely lower growth going forward).

Reynolds American – source of returns

Total Return	Return from dividends	Price Return	
119.4%	**20.6%**	**81.9%**	
		Multiple Expansion	Earnings Forecast Growth
		36%	**33%**

Reynolds American – proportion of returns

Total Return	Proportion from dividends	Proportion from Price Return	
119.4%	**22.8%**	**77.2%**	
		Multiple Expansion	Earnings Forecast Growth
		40.2%	**37.0%**

In place of Reynolds American we bought a position in Cisco. Cisco only started paying a dividend in 2011 and is an interesting example of what has historically been considered a growth company morphing into more of a steady state. Like many large-cap IT companies, Cisco is awash with cash and short-term investments – over $50 billion as of their last interim report, which compares to the company's market capitalisation of $126 billion (when we initiated our position).

We also like the company's geographic diversification, with 59% of revenues coming from North America, 25% from Europe and 16% from Asia-Pacific.

Its balance sheet also looks extremely healthy with a (gross) debt to equity ratio of just 27%, total debt to EBIT of just 2.1x, and interest cover of over 19x. The company has just over $3 billion of debt due to be refinanced this year, but this is unlikely to present any problems should management wish to refinance rather than simply retire the debt through excess free cash flow.

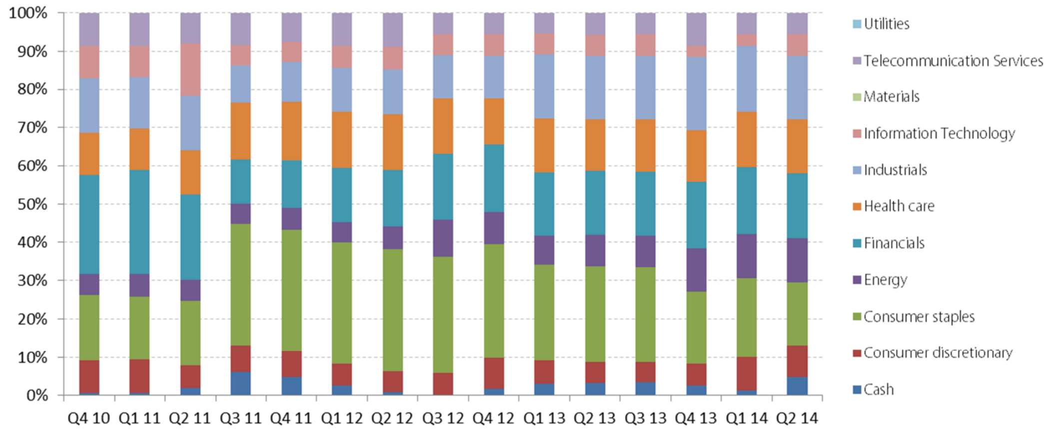
Revenue has been growing modestly over the last few years, and margins are stable. Acquisitions have been a significant part of how Cisco has managed to maintain its edge over the last 10 years, and it has largely financed these through free cash flow generation. Given the amount of cash on the balance sheet and the steady, but not spectacular growth prospects, we believe there is scope for a very reliable dividend, with potential growth. The payout ratio is around 35% and the company currently offers a prospective yield for 2015 of 3.2%.

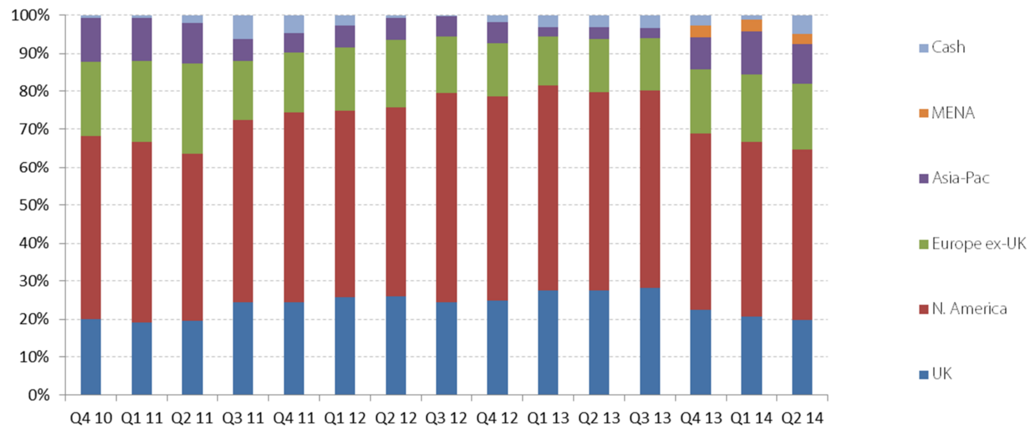
Most importantly, the valuation is attractive, with the company trading on a one-year forward P/E ratio of 12.1x, which is certainly cheap relative to its historical range, its peers, and the broad market.

Time will tell where the total return from this position will come from. But we feel very confident that if we look back in three years' time we will have received a very healthy proportion of the total return from the dividend. The multiple looks attractive even when you take the cash into consideration, and there is still opportunity for earnings growth, but how the proportion of any future total return will split between these two is uncertain.

Portfolio breakdown evolution

The effect of selling Reynolds American and buying Cisco has reduced our exposure to the consumer staples sector to 16.6%. This is the lowest exposure we have ever had to the sector, but remains an overweight relative to the Index. Our exposure to the consumer staples sector was highest in the summer of 2011, as can be seen from the chart below. Adding Cisco to the portfolio has increased our exposure to the IT sector, which has always been an area where dividend paying companies are few and far between. The effect on the geographic exposure was neutral.





Thank you for your continued to support.

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

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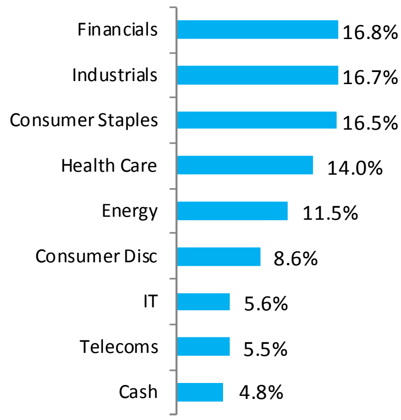
PORTFOLIO (30.06.14)

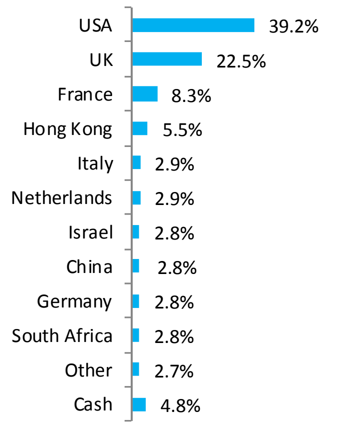
Fund top 10 holdings

H & R Block	3.1%
Aberdeen Asset Management	3.0%
ENI	2.9%
Meggitt	2.9%
Royal Dutch Shell	2.9%
Abbvie	2.9%
Coca-Cola	2.9%
Johnson & Johnson	2.9%
Teva Pharmaceutical	2.8%
Willis Group Holdings	2.8%
% of Fund in top 10	29.2%
Total number of stocks in Fund	34

Sector analysis



Geographic allocation



PERFORMANCE

Discrete years % total return (GBP)

12 months to month end:	Jun '10	Jun '11	Jun '12	Jun '13	Jun '14
Fund C Class (1.5% AMC)	-	-	-1.3	23.0	7.5
Fund X class (0.75% AMC)	-	-	-0.6	23.9	8.3
MSCI World Index	21.3	21.6	-2.7	22.6	10.0
IMA Global Equity Income sector average	19.7	20.9	-1.9	21.1	9.6

Cumulative % total return (GBP)

30/06/2014	1 month	Year-to-date	1 year	3 years	From launch
Fund X class (0.75% AMC)	0.2	3.8	8.3	33.5	42.2
MSCI World Index	-0.2	2.9	10.0	31.2	34.8
IMA Global Equity Income sector average	-0.4	3.5	9.6	30.2	33.9

Annualised % total return from launch (GBP) 30/06/2014

Fund X class (0.75% AMC)	10.58%
MSCI World Index	8.90%
IMA Global Equity Income sector average	8.70%

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

30/06/2014	Index	Sector	Fund
Alpha	0	1.72	3.34
Beta	1	0.77	0.78
Information ratio	0	-0.03	0.33
Maximum drawdown	-18.26	-15.50	-16.34
R squared	1	0.81	0.89
Sharpe ratio	0	0.44	0.62
Tracking error	0	5.96	4.73
Volatility	13.67	11.72	11.36

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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

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.

Telephone calls may be recorded and monitored.