GUINNESS

Global Equity Income Fund

INVESTMENT PROCESS

Dr Ian Mortimer, CFA

&

Matthew Page, CFA

- **Investing in companies that have generated persistently high return on capital over the last decade.**
- **A high conviction, equally weighted, low turnover portfolio of consistently profitable dividend-paying companies.**
- **Focus on dividend growth rather than high yield**

GUINNESS
ASSET MANAGEMENT LTD

guinnessfunds.com

Investment philosophy

Although the Fund is designed to invest in dividend-paying companies, our starting point in selecting our investment universe is to identify quality, well run, and profitable companies – rather than just looking for companies with high dividend yields. Specifically we look for companies that have top quartile return on capital in each and every one of the previous ten years – it is these companies that make up our investment universe.

Specifically, we look at the 14,000 or so companies that are listed around the globe and identify only those that have achieved a **10% return on capital in each and every year over the last decade**.

10% return on capital...	10% is well above the average real cost of capital of 6%. This means companies who achieve this level are truly creating value for their shareholders.
every year...	Consistency each year excludes highly cyclical companies or those with high but declining or volatile earnings.
for ten years...	Because business cycles tend to last less than ten years, the companies in our investible universe have shown they can weather most economic environments.

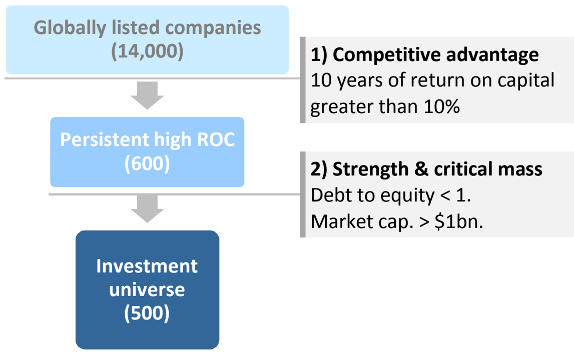
It is a rare achievement for a company to meet these criteria, and we think it shows a mark of genuine quality. On average, only 3% of global listed companies achieve our threshold.

Even though we are analysing historic (or 'backward looking') data, we find that a decade of high return on capital is a powerful indicator that the company will continue to achieve these high returns in the future. In fact, we calculate a 95% chance that a company with a decade long record will continue to achieve greater than 10% return on capital in the following year, and an 80% chance they'll still be doing it four years hence.

This forms the basis of our investment thesis: good companies tend to stay good. We use the filter of persistently high return capital to help us identify those companies with a high chance of being able to generate value for shareholders regardless of where we are in the business cycle. Not only does this mean these companies can reinvest in their businesses and compound their equity growth, but it coincides often with an ability to pay a sustainable dividend and, more importantly, a growing dividend in the future.

Balance sheet strength and critical mass

To highlight stable companies and avoid those using excessive leverage to achieve high but unsustainable returns, we exclude companies with a debt to equity ratio greater than 1 from our investment universe. We also exclude companies with a market capitalisation less than $1 billion. This means we avoid very small companies that can potentially be more risky investments and focus instead on more mature companies and those with better market liquidity.

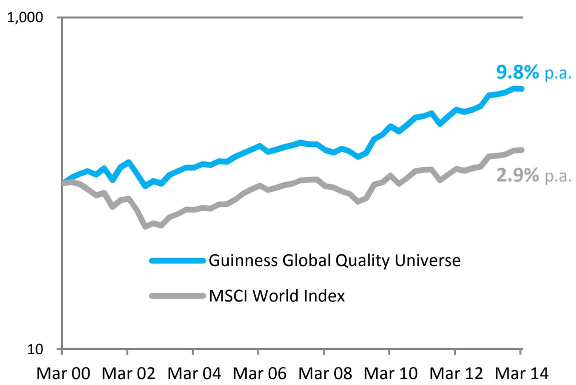


After applying these additional thresholds of balance sheet strength and critical mass, we are left with a pool of around 500 companies today from which to build our portfolio.

How have these high quality stocks performed?

We have applied these screens to the full range of globally listed companies each year back to 2000 to deliver an annual universe of high return on capital companies (our investment universe). The graph below shows the performance of a simple strategy of buying all companies that qualify for the universe each year. The performance is based on an equally weighted portfolio, total return with quarterly rebalancing, and does not include the costs of dealing.

This analysis gives us confidence in our belief that quality companies ultimately outperform over the long term.



Source: Bloomberg and Guinness Asset Management, total return in GBP, 31.3.00 to 31.3.14, log scale. The performance of the Guinness Global Quality Universe is not indicative of the future performance of the Guinness Global Equity Income Fund. The value of investments and the income from them can fall as well as rise.

Characteristics of our investment universe

'Quality' is an overused phrase in the investment world, and can mean different things to different people. Our definition is persistently high return on capital. On first thoughts one might imagine only companies in sectors such as consumer staples and healthcare can achieve this persistency, but we have found that a very diverse range of companies have this ability, and that they can be found across almost all sectors. What we have discovered is that there is always a small subset of companies in every industry that have some advantage over their peers which enables them to fend off competition and maintain their high returns on their investments.

We have analysed the evolution of our investment universe since 2000, and have noted the following trends and characteristics:

1. Turnover

The process identifies persistent high return on capital companies, so the universe's turnover is correspondingly low. Excluding the impact of new entrants in a growing universe, the average fall out rate is just 5% p.a.

2. Sectors

There is good sector diversity and weights in the universe have been reasonably constant. Sectors that are more cyclical (e.g. energy and commodities) tend to have a lower weighting, as do sectors that lack pricing power, such as utilities.

3. Geography

The geographic split of the universe has evolved over time. While the number of qualifying companies from developed markets has grown, qualifying Asian and other emerging market companies have increased in number much faster. So the proportional make-up of the universe has shifted; while North American companies made up 76% in 2000, they comprised only 54% in 2013.

4. Market capitalisation

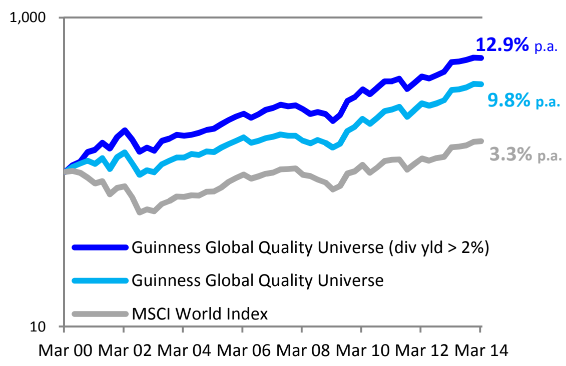
As well as a good range of large and mega cap. stocks, a healthy number of mid-sized companies deliver the consistency of return on capital we look for. Over 50% of companies in the investment universe have a market cap. less than $10 billion, and at least 90% are less than $50 billion.

These characteristics combined (good diversification across sector, market cap., and geography) mean we are not constrained when selecting companies for the final portfolio.

What about yield?

The aim of the Guinness Global Equity Income Fund is to provide investors with both long-term capital growth and a reasonable and growing income stream. Our process deliberately ignores dividend yield in selecting our investment universe. However, our screening for persistent high return on capital companies identifies an abundance of high yielding companies. On average since 2000, over 50% of qualifying companies have yielded over 2%.

Taking a simple example of selecting only companies from our universe with a yield over 2% delivers a significant enhancement to the performance of the universe, as illustrated here.



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Investment process

How do we select stocks from our investment universe?

The Guinness Global Equity Income Fund invests in 35 companies from the group of c. 500 persistent high return on capital companies in our investible universe. As a group, these companies have clearly outperformed in the past. We believe they will continue to do so in the future.

The first step in our investment process is 'idea generation'. We regularly seek to generate ideas for further due diligence by screening the universe for different combinations of factors. The screens are designed to focus our minds towards those companies that either offer exceptional value relative to their own history, attractive value with improving sentiment, or companies that have underperformed their peers.

Fundamental analysis

Once ideas have been generated, we subject these companies to a thorough due diligence process. We construct models to understand how the company has evolved over the previous 15 years (if possible). Covering factors including: growth, margins, uses of cash amongst capital expenditure, acquisitions, share buybacks, repayment of debt, balance sheet evolution, drivers of return on capital, key geographic regions, valuations relative to peers and the company's own history, earnings sentiment and dividend cover.

We also seek to understand what the analyst community is forecasting for the company, and understand the drivers behind this. We will seek to form an opinion on subjective factors surrounding industry trends and company-specific issues.

Meeting the management of companies we are researching is not a prerequisite for investment. We prefer attractive metrics over good themes (or catalysts), as we think informational advantage is of diminishing value. Identified themes or catalysts are often priced into the valuations of companies, with commensurate stretched expectations of growth leading to higher risk than is often perceived.

How do we construct the portfolio?

The Guinness Global Equity Income Fund is a concentrated portfolio of typically 35 equally weighted stocks selected from our investible universe. This provides a number of useful attributes:

1. It reduces stock-specific risk as we cannot be overweight in a small number of favourite companies.
2. We cannot run a portfolio with a long tail of small holdings which can be a distraction and drag on performance.
3. It instills a strong sell discipline as we must typically sell a position in order to make way for a new one; this provides an additional benefit in that we must constantly assess the companies we own in the portfolio in comparison to the rest of the universe available to us.

4. We are truly index independent; we are unconcerned by the weightings of the benchmark index as we cannot adjust the fund weightings beyond the set limits defined by the equal weighting.

How do we identify stocks to sell?

It is often easier to find companies that look cheap and that you would like to buy rather than identify those companies you own which should be sold. We consider sell discipline as important as selecting companies for purchase, and we continuously monitor companies we own. There are four key considerations as to why we may sell a company:

1. **Quality**.
   If the quality of the business deteriorates in terms of its return on capital, its balance sheet, growth opportunities.
2. **Valuation.**
   If the valuation anomaly we initially identified no longer exists or has diminished.
3. **Dividend.**
   If there is a change in capital budgeting approach or dividend policy.
4. **Conviction.**
   If the original subjective reasons for purchase no longer hold true or we have a better idea.

Summary

We like to distil our investment philosophy and process into four key tenets that describe the way we invest and what are aiming for in our management of the portfolio:

	Philosophy	Process
Quality	*Over the long term quality companies outperform; good companies stay good, poor companies stay poor.*	We focus on companies with a long history of persistent high return on capital. We avoid highly leveraged companies.
Value	*Over the long term, value outperforms growth. We do not want to over-pay for future expected growth.*	We try to identify companies that are cheap versus the market, peers, and their own history. Our investment process is fundamentally driven from the bottom-up.
Dividend	*Over the long term, dividend paying companies outperform. We believe high yield is not necessarily a good indicator of value.*	The Fund targets a moderate dividend yield (we do not screen for high dividend yield companies). The Fund aims to grow the dividend stream year-on-year.
Conviction	*To outperform, a portfolio must be significantly different from benchmark We believe all positions should be able to meaningfully add to performance.*	The Fund typically has 35 equally weighted positions. We target a low turnover, with an average investment horizon of 3 – 5 years.

Fund managers

The Fund is managed by Dr. Ian Mortimer and Matthew Page using their proprietary investment process for equity income portfolios.

Dr. Ian Mortimer, CFA, joined Guinness Asset Management in 2006. He co-manages Guinness Global Equity Income Fund and Guinness Global Innovators Fund.

Prior to joining Guinness, Ian completed a D.Phil. in experimental physics at Christ Church, University of Oxford, and graduated in 2006. He graduated from University College London with a First Class Honours Master's degree in Physics in 2003. Ian is a CFA charterholder.

Matthew Page, CFA, joined Guinness Asset Management in 2005. He co-manages of Guinness Global Equity Income Fund and Guinness Global Innovators Fund.

Prior to starting at Guinness, Matthew joined Goldman Sachs on the graduate scheme in 2004 working in Foreign Exchange and Fixed Income. He graduated from New College, University of Oxford with a Master's Degree in Physics. Matthew is a CFA charterholder.

Guinness Asset Management

Guinness Asset Management provides a range of long-only actively managed funds to individual and institutional investors. Founded in 2003, Guinness is independent and is wholly owned by its employees.

We believe in in-house research, intelligent screening for prioritisation of research and well-designed investment processes. We manage concentrated, high conviction portfolios, with low turnover and no benchmark constraints.

Since our establishment we have developed a variety of specialisms in global growth and dividend funds, global sector funds and Asian regional and country funds.

At heart Guinness Asset Management is a value investor.

None of our funds are benchmark-constrained, which means we can select stocks without the influence of index weightings. We believe investment managers should have a high conviction about the stocks in their portfolio. We have found this approach provides an excellent balance between the benefits of diversification and the risk of diluting investment returns.

The Guinness equity funds sit within an Irish-listed OEIC. They are managed alongside a range of mirror SEC-registered funds offered to US investors by our US sister company, Guinness Atkinson Asset Management Inc.

We also offer an Enterprise Investment Scheme (EIS service) investing in UK-based renewable energy projects and AIM-listed companies.

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. Any investment decision should take account of the subjectivity of the comments contained in the report. It 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 guinnessfunds.com, or free of charge from:-

- the Manager: Capita Financial Managers (Ireland) Limited, 2 Grand Canal Square, Grand Canal Harbour, Dublin 2, Ireland;
- 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. **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.