

# Guinness Global Equity Income Fund

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

## INVESTMENT COMMENTARY - September 2013

**Fund size** (31.8.13) **£32.9m**

### 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."***

## Performance

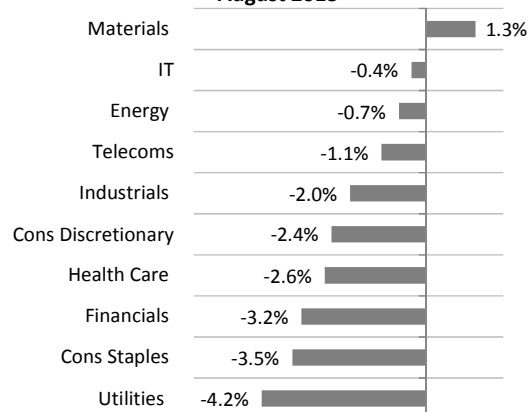
We saw continued volatility in global equities in August. The last four months have seen equities yo-yo around: we saw a rally in May, a decline in June, a rally in July and a decline in August. Much of the uncertainty in global markets is emanating from US monetary policy, with continued speculation over the future trajectory and timing of quantitative easing in the US affecting the currencies of emerging market countries. Political tensions around the world also intensified with the threat of strikes on Syria.

The Fund generated a total return of -4.61% (in GBP) in August, compared to its benchmark MSCI World Index return of -4.08%, an underperformance of 0.53%. The Fund has returned +20.58% year-to-date, versus the Index return of +17.38%. This ranks the Fund 1st in its peer group of 31 funds in the IMA Global Equity Income sector over this period.

## Update

Markets overall were weak in August, with 9 out of the 10 sectors in negative territory. The only positive sector was materials. Our Fund has no direct allocation to the materials sector (versus a benchmark weight of c.6%), which explains some of the slight underperformance in the month.

### MSCI World Index sector performance August 2013



Source: Bloomberg, Guinness Asset Management (in USD)

The largest weight in the Fund continues to be the consumer staples sector (at c.25%). Over the month we saw the consumer staples sector underperform the broad market, perhaps as investors took profits in this sector after its good run since the beginning of the year. Our overweight position also explains some of the underperformance of the Fund over the month.

Sector	Portfolio weight	MSCI World Index weight	Relative weight
Cons Staples	25.0%	10.3%	+14.7%
Industrials	16.7%	11.2%	+5.6%
Health Care	14.2%	11.3%	+2.9%
Telecoms	5.9%	3.7%	+2.2%
Energy	8.6%	9.8%	-1.3%
Utilities	0.0%	3.2%	-3.2%
Financials	17.0%	20.8%	-3.8%
Materials	0.0%	5.8%	-5.8%
IT	5.6%	11.8%	-6.2%
Cons Disc	5.5%	12.1%	-6.6%
Cash	1.5%	-	+1.5%

Source: Bloomberg, Guinness Asset Management

We recognise that the consumer staples companies in the portfolio are looking more expensive than they were when we initially purchased them back in 2011, and we have been starting to sell out of those positions we saw as too expensive over the last year or so (e.g. PepsiCo and Wal-Mart). In August we made no changes to the portfolio but we continue to be actively looking for attractively valued opportunities. With the underperformance of emerging market equities this year, the contrarian in us has prompted some consideration of what we could buy in Asia, Latin America and Africa. We have identified a shortlist of candidates that have achieved a 10 year record of high return on capital and currently appear to offer some value, and we are now in the process of performing our due diligence on these companies for potential inclusion in the Fund.

On a positive note our increased industrial allocation has worked well, with new holding Northrop Grumman being one of our best performing companies since its inclusion in the Fund. Our position in Vodafone was also boosted by the news that the sale of its stake in Verizon Wireless was finally confirmed. Our allocation to the European oil majors also provided a useful counterbalance in the portfolio during the month as oil prices rose on political concerns emanating from Syria.

When the Fund is down over the month it is easy to rue any under/overweight positions that cause a drag on performance. However, we try to remind ourselves that the only way to outperform over the long run is to have a portfolio that is meaningfully different to the benchmark. That is, have a Fund with both an active weight to the benchmark sector weightings and/or active share versus the individual company weightings in the benchmark.

Comparing the Fund to the benchmark in terms of sector weightings shows some significant differences in terms of sector allocation – with an overweight to consumer staples and industrials, and an underweight to consumer discretionary, information technology and materials.

In terms of active stock weight, all the Fund holdings have a meaningful difference to the weightings of those companies in the index. This is inherent to our portfolio construction methodology of equally weighting each company in the portfolio. With 35 stocks this means each has a weighting of just under 3%. Looking at the top ten holdings in the index we can see that Apple is the largest position with a weighting of just 1.6% - meaning even if we held Apple in the portfolio we would still have an active weight of around 1.4%.

#### MSCI World Index Top 10 Holdings

Apple Inc	1.6%
Exxon Mobil Corp	1.4%
General Electric Co	0.9%
Johnson & Johnson	0.8%
Microsoft Corp	0.8%
Chevron Corp	0.8%
Google Inc	0.8%
Nestle SA	0.8%
Procter & Gamble Co/The	0.7%
Wells Fargo & Co	0.7%

Source: Bloomberg, 31.8.13

We are firm believers in concentrated portfolios in which we have a high conviction in each of the companies we have bought. By equally weighting our positions we are also avoiding the pitfalls of associating 'risk' with size of market capitalisation and of having a long tail of small positions whose individual performance does not greatly affect the overall performance of the portfolio, and can be an unnecessary distraction.

### Assets under management

Those of you who are particularly keen eyed will have noticed the size of the Fund has been steadily growing since the start of the year. Over the summer period, however, we have seen a marked increase in that growth as new investors have bought the Fund. As I write this, the Fund size has now reached just over £35m. We would like to take the chance to welcome any new investors to the Fund and look forward to working with you in the future.

**Dr. Ian Mortimer & Matthew Page**

**Co-managers, Guinness Global Equity Income Fund  
September 2013**

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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.

## PORTFOLIO (31.8.13)

Fund top 10 holdings	Sector analysis	Geographic allocation
Vodafone 3.1%	Consumer Staples 25.5%	United States 51.4%
Royal Dutch Shell 3.0%	Financials 17.1%	Great Britain 31.6%
AstraZeneca 3.0%	Industrials 17.0%	France 5.7%
Microsoft 2.9%	Health Care 14.5%	Netherlands 3.0%
Total 2.9%	Energy 8.8%	Hong Kong 2.9%
Coca-Cola 2.9%	Telecoms 6.0%	Germany 2.8%
China Mobile 2.9%	IT 5.8%	Italy 2.8%
Pfizer 2.9%	Consumer Disc 5.7%	Cash -0.3%
Merck & Co 2.9%	Cash -0.3%	
Halma 2.9%		
% of Fund in top 10 29.4%		
Total number of stocks in Fund 35		

## PERFORMANCE

12 months to month end:	Aug '09	Aug '10	Aug '11	Aug '12	Aug '13
Guinness Global Equity Income Fund	-	-	-	11.3	19.9
MSCI World Index	-7.4	7.7	8.0	10.8	20.8
IMA Global Equity Income sector average	-5.0	9.0	8.7	11.3	17.3

## Cumulative % total return

31/08/2013	1 month	3 months	6 months	1 year	From launch
Guinness Global Equity Income Fund	-4.6	-1.4	7.5	19.9	12.3
MSCI World Index	-4.1	-1.5	4.1	20.8	15.0
IMA Global Equity Income sector average	-3.2	-2.4	3.1	17.3	12.7

## Annualised % total return from launch

31/08/2013

Guinness Global Equity Income Fund	9.94%
MSCI World Index	8.30%
IMA Global Equity Income sector average	8.09%

## Risk analysis - Annualised, weekly, from launch on 31.12.10

31/08/2013	Index	Sector	Fund
Alpha	0	1.76	3.19
Beta	1	0.76	0.78
Information ratio	0	-0.01	0.30
Maximum drawdown	-18.26	-15.50	-16.40
R squared	1	0.81	0.90
Sharpe ratio	0	0.36	0.51
Tracking error	0.00	6.57	5.13
Volatility	15.02	12.74	12.32

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.

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.

## 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. 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.

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, 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. **Documentation is also available from the website [guinnessfunds.com](http://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 Conduct 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 Conduct 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](http://www.carnegie-fund-services.ch). The paying agent is Banque Cantonale de Genève, 17 Quai de l'Île, 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.

### Sharpe ratio

This is a commonly-used measure which calculates the level of a fund's return over and above the return of a notional risk-free investment, such as cash or Government bonds. The difference in returns is then divided by the fund's standard deviation - its volatility, or risk measurement. The resulting ratio is an indication of the amount of excess return generated per unit of risk.

### 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.

**GUINNESS**  
**FUNDS**

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