# Guinness Global Equity Income Fund

## INVESTMENT COMMENTARY - March 2015

### 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.

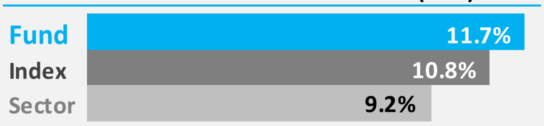
| | |
|---|---|
| **Fund size** | £85.6m |
| **Launch date** | 31.12.10 |
| **Managers** | Dr. Ian Mortimer, CFA<br>Matthew Page, CFA |

### Performance

**28.02.15**

| | 1 year | 3 years | From launch |
|---|---|---|---|
| **Fund** | 17.4 | 50.5 | 58.6 |
| **Index** | 17.0 | 50.2 | 53.2 |
| **Sector** | 11.5 | 39.0 | 44.2 |

**Annualised % total return from launch (GBP)**




| | |
|---|---|
| **Benchmark index** | MSCI World Index |
| **IA 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.

LIPPER
FUND AWARDS 2014
SWITZERLAND

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

**Special offer share class closing 30th April 2015**

Having grown the Fund to £85m, we are closing the Fund's early investor share class ('Z' class, 0.25% AMC, max 0.74% OCF) to new investment on 30th April 2015.

## Monthly update

In February the Fund provided a total return of 2.30%, versus the MSCI World index return of 2.88%. The Fund therefore underperformed by 0.58%. So far this year the Fund is ahead of the Index – up 5.21% versus the MSCI World's 4.87%.

The two main drivers of performance in February were our financial and industrial holdings, which is not necessarily that surprising in a month where markets rallied so sharply. Our UK holdings in the financial sector were amongst the strongest performing: ICAP (+14.63%), Willis Group (+7.12%), and Aberdeen Asset Management (+7.06%). ICAP is standout but we note this is from a low base – we have held this stock in the Fund since launch, and it has been quite painful as it has underperformed both the Fund and the wider market for a number of years. The recent rally, which has coincided with heightened volatility in rate expectations generally, is therefore pleasing and we are hopeful of a continued rerating.

We also saw solid returns from all six of our industrial companies. We have been increasing the industrial exposure of the Fund steadily over the last two years (mostly at the expense of our consumer staples holdings) as we perceived better valuation opportunities and also better potential for growth.

Cisco also had a good February (up 11.93%) after posting an encouraging set of quarterly results.

We bought Cisco for the Fund in June last year, having continued to chip away at our expensive consumer staples holdings by selling Reynolds American. When we considered our 3-part mantra of where returns for the Fund can come from – **Quality**, **Value**, and **Dividend growth –**

Cisco looked a much more attractive opportunity relative to Reynolds American.

In terms of quality, both companies had demonstrated an ability consistently to generate a high return on capital, and looked set to be able to continue doing so. However, Reynolds American's debt-to-equity ratio had gone from 60% to 100% in the space of three years. Cisco, on the other hand, had maintained a steady debt-to-equity ratio of less than 40%, and also had a very substantial pile of cash (more than $50 billion). This cash pile is considerably higher than their debt burden.

In terms of valuation, Cisco won again. Reynolds was trading on a PE ratio of 18.7, versus Cisco on 11.4. Relative to historical levels, Reynolds' valuation was the most expensive it had been in the last ten years, while Cisco was trading at almost one standard deviation below its historical ten year average. Our own discounted cash flow analysis suggested Reynolds was priced to grow its cash flow at 4.5% per year in perpetuity, which seemed far too optimistic. Cisco was priced as if its cash flow would decline by 1.5% per year in perpetuity, which seemed overly pessimistic.

Moving on to the dividend, Reynolds' dividend yield was higher at 4.3% compared to Cisco at 3.1%, but we are more interested in dividend growth. With Reynolds' payout ratio at 80% and tobacco volumes in continual decline, it looks fairly difficult for Reynolds to produce meaningful dividend growth over the next five years. Cisco, on the other hand, had a payout ratio of around 35%. This relatively low payout ratio in combination with a significant cash pile and modest amounts of debt suggested to us that the potential for good long-term dividend growth for Cisco was meaningful, and could be sustained even within this more economically sensitive business.

We did not seek to identify any particular catalyst, industry dynamic or story to support the investment, as we think there will be other specialist investors focused purely on the communications equipment sector who are far more likely to identify these factors before us. If we did seek to identify factors such as these they would likely be already factored into prices before we would be aware of them. We also did not seek to visit the company or meet management as generally we believe the informational advantage from doing so is very limited when weighed against the time spent on such endeavours.

Instead we prefer to take a long-term and patient view and wait for sentiment to improve, confident in the knowledge that companies with a ten year history of generating consistently high return-on-capital are highly likely to continue doing so in the future.

It was therefore pleasing to see Cisco report a good set of quarterly results in February. Revenues grew 7% compared to the same quarter in 2014, and earnings grew at a faster rate of 9%. Most pleasingly the company announced a $0.02 per share increase in its quarterly dividend, taking it from $0.19 to $0.21, an increase of over 10%. We saw a 9% rise in the share price the day of the results.

In the company's results presentation, CEO John Chambers gave a bullish outlook, saying:

*"We could not be better positioned in the market. We've worked very hard to get here, and the opportunity feels very much like it did in the 1990s when the Internet became mission-critical to our customers. We have said for several years that we believe the impact of the Internet of Everything would be five to ten times greater than that of the internet of today."*

All very encouraging.

One question we have frequently been asked by investors so far this year is the issue of whether we can continue to find attractive opportunities in the US given the collective strong performance of US equities.

If our priority was to find companies with high dividend yields (i.e. above 4%), then the opportunity set in the US outside of highly regulated industries such as utilities and telcos, or REITs and MLPs, is somewhat slim. Indeed today there are only four US consumer staples companies with a dividend yield of more than 4% and a market cap of over $1 billion, one of which is Reynolds American.

It appears the market is willing to pay the highest valuation for ten years for Reynolds due to the level of its dividend yield. It also provides a diversification to a portfolio of high yielding assets due to the fact it is less sensitive to changes in interest rates than the utilities, telcos, REITs and MLPs.

Investors must also consider, will high yielding equities be a good place to be invested when US interest rates start to rise? We have never been convinced of the merits of investing primarily on the basis of a high dividend yield, but would be particularly cautious in a rising interest rate environment. On the other hand, companies that consistently earn economic profits and are able to reinvest those economic profits at a high rate of return are likely to be less negatively impacted by rising interest rates. Indeed these companies may even benefit from rising interest rates as they will likely occur when the US economy is returning to a stable footing for steady economic growth.

The opportunity set of companies that are consistently growing their dividends in the US remains an attractive pool from which to cherry pick opportunities for our global fund. Today there are 98 companies in the US with a market cap over $1bn, yielding more than 2%, that have grown their dividend every year in each of the last ten years.

So while valuations of US equities as a whole are certainly higher today than they have been for a while, there remain attractive individual opportunities available to us.

Thank you for your continued support.

**Dr. Ian Mortimer & Matthew Page**

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

**March 2015**

## Special offer share class closing 30th April 2015

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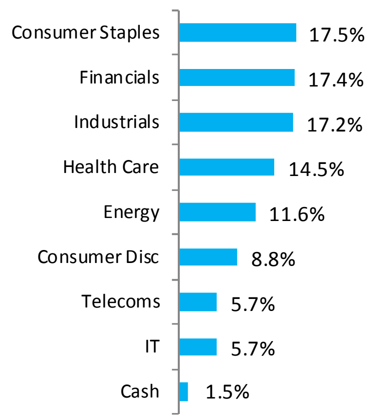
## PORTFOLIO (28/02/15)

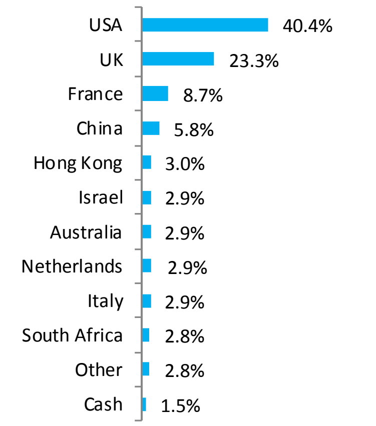
### Fund top 10 holdings

| | |
|---|---|
| Mattel | 3.0% |
| ICAP | 3.0% |
| Coca-Cola | 3.0% |
| Li & Fung | 3.0% |
| Johnson & Johnson | 2.9% |
| Danone | 2.9% |
| CNOOC | 2.9% |
| Imperial Tobacco | 2.9% |
| Reckitt Benckiser | 2.9% |
| Meggitt | 2.9% |
| % of Fund in top 10 | 29.5% |
| Total number of stocks in Fund | 34 |

### Sector analysis




### Geographic allocation




## PERFORMANCE

### Discrete years % total return (GBP)

| 12 months to month end: | Feb '11 | Feb '12 | Feb '13 | Feb '14 | Feb '15 |
|---|---|---|---|---|---|
| Fund X class (0.75% AMC) | - | 5.0 | 15.6 | 10.9 | 17.4 |
| MSCI World Index | 13.9 | 0.1 | 16.5 | 10.2 | 17.0 |
| IA Global Equity Income sector average | 13.3 | 4.1 | 15.1 | 8.3 | 11.5 |

### Cumulative % total return (GBP)

| 28/02/2015 | 1 month | Year-to-date | 1 year | 3 years | From launch |
|---|---|---|---|---|---|
| Fund X class (0.75% AMC) | 2.3 | 5.2 | 17.4 | 50.5 | 58.6 |
| MSCI World Index | 2.9 | 4.9 | 17.0 | 50.2 | 53.2 |
| IA Global Equity Income sector average | 1.4 | 4.5 | 11.5 | 39.0 | 44.2 |

### Annualised % total return from launch (GBP) 28/02/2015


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

| 28/02/2015 | Index | Sector | Fund |
|---|---|---|---|
| Alpha | 0 | 0.82 | 2.69 |
| Beta | 1 | 0.78 | 0.82 |
| Information ratio | 0 | -0.23 | 0.19 |
| Maximum drawdown | -18.26 | -15.50 | -16.34 |
| R squared | 1 | 0.81 | 0.89 |
| Sharpe ratio | 1 | 0.49 | 0.70 |
| Tracking error | 0 | 5.80 | 4.51 |
| Volatility | 13.42 | 11.64 | 11.58 |

**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. **IA 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 IA 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 equity markets 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.