

# Guinness Global Equity Income Fund

## INVESTMENT COMMENTARY – July 2016

### 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** £144m

**Launch date** 31.12.10

**Managers** Dr. Ian Mortimer, CFA  
Matthew Page, CFA

**Performance** 30.06.16

	1 year	3 years	From launch
<b>Fund</b>	18.9	36.4	79.9
<b>Index</b>	14.4	38.8	70.0
<b>Sector</b>	9.6	25.3	53.1

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

<b>Fund</b>	<b>11.3%</b>
<b>Index</b>	<b>10.1%</b>
<b>Sector</b>	<b>8.1%</b>

**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.



Guinness Global Equity Income Fund passed its fifth anniversary on 31<sup>st</sup> December 2015. For our full review of the Fund's history, visit [guinnessfunds.com](http://guinnessfunds.com)

## Performance

In the second quarter of 2016 financial markets have been dominated by events surrounding the UK vote to leave the European Union. This led to increased volatility and a move away from risk assets as political uncertainty clouded future economic prospects. It is therefore pleasing that the fund held up well during such a difficult and volatile time. In the month of June the fund was up 9.14% (in GBP) versus the MSCI World Index up 7.66%, an outperformance of 1.48%.

This continues the good performance of the fund for the year, having outperformed the index by 3.64% in the first quarter – the majority of which was generated by the fund during the sharp selloff in the first six weeks of 2016.

Year to date the fund is now up 15.63% (in GBP) versus the MSCI World Index which is up 10.98%, an outperformance of 4.65%.

Versus peers in the IA Global Equity Income sector the fund ranked in the top quartile for both Q1 and Q2 2016. The longer term performance of the strategy also remains strong with the fund top quartile versus peers over 1yr, 3yr, 5yr and since our launch at the end of 2010.

	YTD	1 Year	3 Years	5 Years	Since launch
<b>Fund</b>	<b>15.63%</b>	<b>18.94%</b>	<b>36.39%</b>	<b>68.87%</b>	<b>79.87%</b>
<b>MSCI World</b>	10.98%	14.38%	38.79%	65.52%	69.96%
<b>IA Global Equity Income sector average</b>	9.19%	9.60%	25.29%	48.90%	53.07%
<b>Quartile rank vs peers</b>	<b>1<sup>st</sup></b>	<b>1<sup>st</sup></b>	<b>1<sup>st</sup></b>	<b>1<sup>st</sup></b>	<b>1<sup>st</sup></b>

Source: Financial Express, Total Return in GBP

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## Update

On the 23rd June the UK voted to leave the European Union. The result was remarkable in terms of both its political significance and the apparent inability of anyone, not least the market, to predict such a result could be possible.

The 'leave' vote triggered a sharp selloff in the UK equity market, but also weighed heavily on European equities, and in particular the European periphery. Currency markets witnessed historic moves as sterling weakened against the dollar to levels not seen for decades, the Euro declined versus a basket of global currencies, and 'safe havens' such as the US dollar and Japanese Yen strengthened considerably. Similarly other assets seen as sanctuaries in uncertain times such as gold and government bonds rose in value as investors flocked to them for their perceived safety.

With Europe having already been on a fairly fragile path, the increased political uncertainty around a UK exit from the European Union sparked fears that the nascent economic recovery could be easily derailed. The exact process for how the UK could extract itself was never clearly articulated by the 'Brexiters' in the run up to the vote and the infighting we have seen over recent days in the leading political parties in the UK has left that critical question in the air.

Considering the UK stock market specifically for a moment, the sectors most affected in the aftermath of the vote to leave were unsurprisingly those most sensitive to the economic environment; namely the banks, the asset managers and the housebuilders. The sectors which rallied after the vote were stocks linked to a rising gold price such as speciality miners, less economically sensitive consumer staples businesses, and those with significant earnings generated outside the UK.

However, in the days after the vote we have seen equity markets recover most of their losses; the FTSE 100 for example finished the month 4.71% (in GBP) higher than at the start of the month and 2.65% (in GBP) higher than on June 23rd, the night before the results were announced. This is a

somewhat rosy, and potentially skewed, analysis however due to the heavy weighting in the index to globally diversified tobacco, pharmaceutical, consumer staples, and oil companies, all of which held up well in the selloff. The FTSE 250 index, which is a better proxy for 'UK plc', was down 6.05% (in GBP) between June 23rd and the end of the month – having been down over 14% two days after the vote.

In local currency terms global equities followed a similar path to the FTSE 100; the MSCI World Index was down 2.23% (in USD) between June 23rd and the end of the month, and down 1.07% (in USD) for the month as a whole. When considered in GBP terms, however, it is a very different picture; the index was up 9.14% (in GBP) between the eve of the vote and month end, and finished up 8.22% (in GBP) for the month as a whole.

This highlights the magnitude and swiftness of the currency moves seen and what a significant effect they had on investor returns over the period in question. It also highlights the potential benefits of taking a more global view when considering your investments as currency movements can be dampened through diversification. Over the past few years we have seen significant and sudden moves in currencies across the globe: the Swiss franc, Australian dollar, and the South African rand to name but three.

Considering the difficult markets we have seen over the past week we have been pleased that the fund has once again shown its defensive qualities and outperformed in an uncertain environment.

Our approach has always been to focus on high quality, globally diversified businesses, with low leverage, that have a demonstrated ability to continue to generate economic profits regardless of the economic environment. We have seen time and again since we launched the strategy back in 2010 the value these companies can provide in difficult markets and thus the powerful compounding effect that can be achieved over long periods.

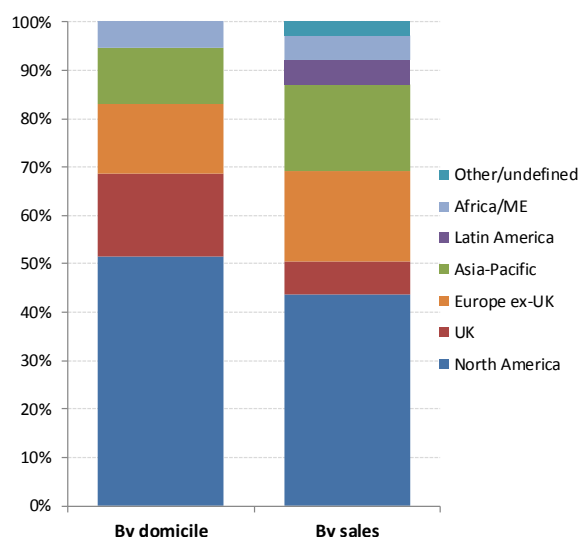
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## Positioning

In terms of geographic weighting the fund today has 14% of the portfolio in UK-listed companies and 14% in continental European businesses. The remainder of its holdings are 55% in the US, 11% in Asia Pacific (including Japan), and 6% in emerging markets. Of the London-listed companies in the fund all have a majority of their revenues generated outside the UK and in fact most of them generate less than 20% of sales from the UK. The five London-listed companies held in the fund today are WPP, Imperial Brands, Unilever, ICAP, and BAE Systems.

The chart below highlights the exposure of the fund by revenues versus by domicile and highlights the importance of considering the economic exposure of companies and not just where they happen to be listed.

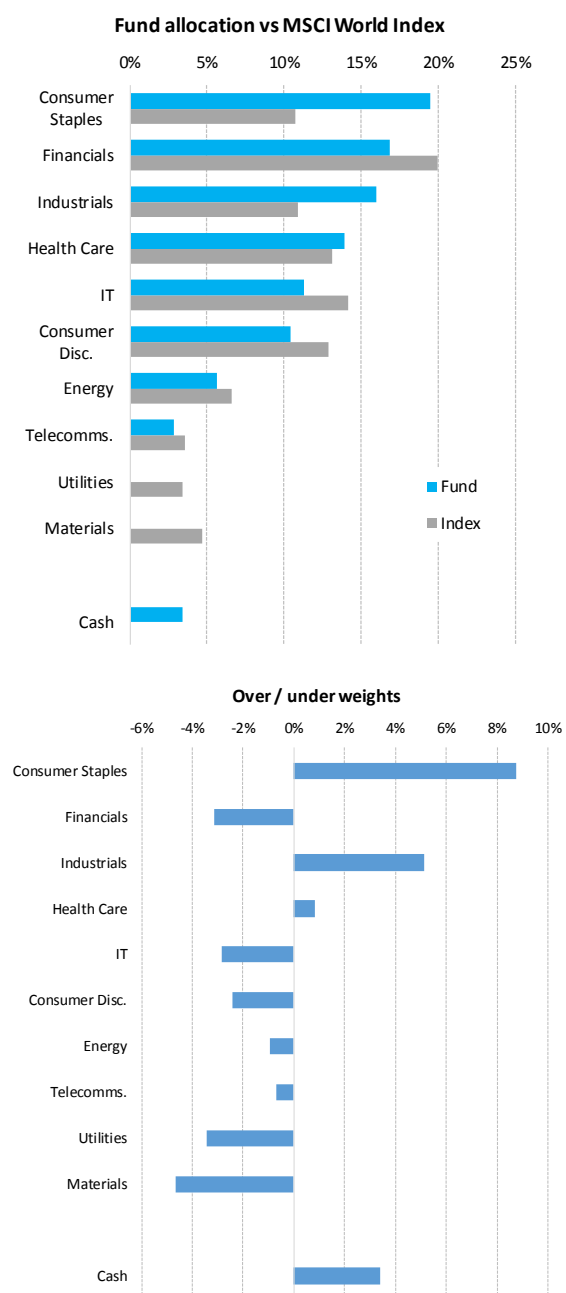


**Chart 1: Geographic breakdown of the fund. Guinness Asset Management, Bloomberg (data as at 30.06.2016)**

In terms of sector weightings the fund continues to have a zero weighting to banks, asset managers or indeed the UK housebuilders. Banks tend not to pass our initial screening process due to their inherent leverage and housebuilders because of their highly cyclical nature. We have owned asset managers in the past and can see the attraction of these asset-light and potentially highly cash-generative businesses. However, we sold our only company in this sector – Aberdeen

Asset Management – in January to purchase a position in Walmart. We will monitor closely these types of business in the coming weeks and months as the general market sell-off and uncertain regulatory environment may present some interesting opportunities from a valuation perspective.

The chart below shows the sector breakdown of the fund in absolute terms and also relative to the benchmark to highlight any over/underweights.



**Chart 2: Sector breakdown of the fund. Guinness Asset Management, Bloomberg (data as at 30.06.2016)**

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## Guinness Global Equity Income Fund

### Conclusion

The political process for a UK exit from the EU is far from certain and the economic consequences for such an exit are equally unknown. We have seen further indication from central banks across the globe that this additional uncertainty, when placed in context of the stuttering global economy more generally, could require further easing – or at least a pause in any tightening measures. The market is therefore starting to price in interest rate decreases in the UK, the US not raising rates until at least 2017, and further stimulus from the Bank of Japan in light of the strengthening yen.

All of which suggests bond yields will continue to stay low for a prolonged period, meaning the dividend yields on offer from high quality equities will be all the more desirable. In light of the above we believe the Guinness Global Equity Income Fund is particularly well placed to navigate the uncertain waters that may lie ahead whilst still providing a healthy, and growing, dividend payment in the meantime.

We thank you for your continued support.

**Dr. Ian Mortimer & Matthew Page**  
**Co-managers, Guinness Global Equity Income Fund**  
**July 2016**

#### Data sources

Fund performance: *Financial Express, total return in GBP*

Index and stock data: *Bloomberg*

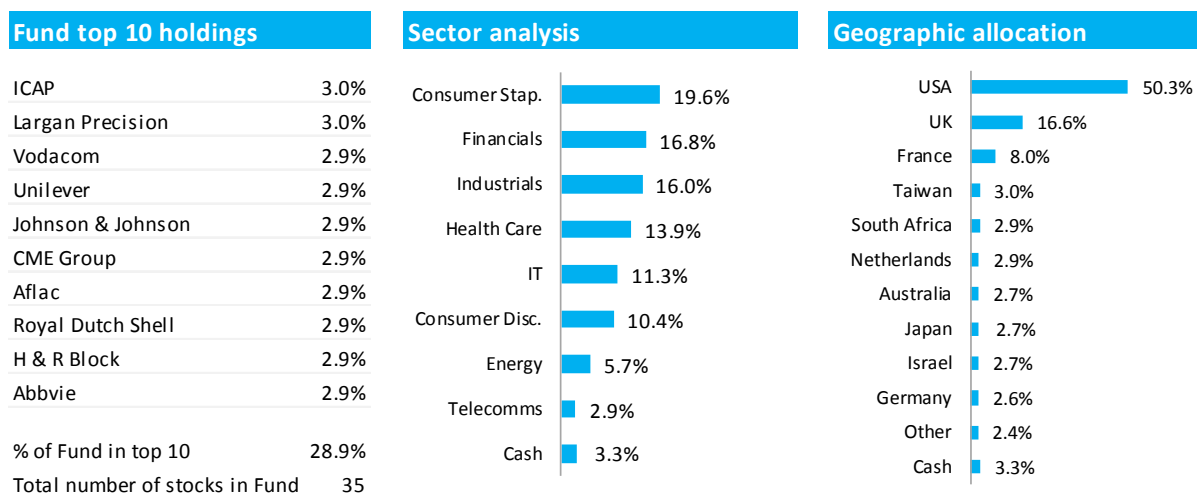
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## Guinness Global Equity Income Fund

### PORTFOLIO

30/06/2016



### PERFORMANCE

30/06/2016

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

Fund (Y class, 0.99%OCF)	11.3%
MSCI World Index	10.1%
IA Global Equity Income sector average	8.1%

#### Discrete years % total return (GBP)

	Jun '12	Jun '13	Jun '14	Jun '15	Jun '16
Fund (Y class, 0.99%OCF)	-0.3	24.2	8.5	5.7	18.9
MSCI World Index	-2.7	22.6	10.0	10.3	14.4
IA Global Equity Income sector average	-1.9	21.1	9.6	4.3	9.6

#### Cumulative % total return (GBP)

	1 month	Year-to-date	1 year	3 years	5 years	From launch
Fund (Y class, 0.99%OCF)	9.1	15.6	18.9	36.4	68.9	79.9
MSCI World Index	7.7	11.0	14.4	38.8	65.5	70.0
IA Global Equity Income sector average	5.7	9.2	9.6	25.3	48.9	53.1

### RISK ANALYSIS

30/06/2016

Annualised, weekly, from launch on 31.12.10, in GBP	Index	Sector	Fund
Alpha	0	0.33	2.16
Beta	1	0.76	0.86
Information ratio	0	-0.27	0.20
Maximum drawdown	-18.26	-15.50	-16.19
R squared	1	0.80	0.89
Sharpe ratio	0	0.32	0.53
Tracking error	0	6.23	4.57
Volatility	13.74	11.73	12.49

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Source: Financial Express, bid to bid, total return. Fund launch date: 31.12.10. **Fund Y class:** Composite simulated performance based on actual returns of E share class (available from Fund launch), calculated in GBP.

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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 Y class was launched on 11.03.15. The performance shown is a composite simulation for Y class performance being based on the actual performance of the Fund's E class, which has an annual management charge 0.75%, 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.

### 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](http://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. 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](http://www.carnegie-fund-services.ch). The paying agent is Banque Cantonale de Genève, 17 Quai de l'Île, 1204 Geneva, Switzerland.

**Telephone calls** may be recorded and monitored.

**GUINNESS**

ASSET MANAGEMENT LTD

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