

# Guinness Global Equity Income Fund

## INVESTMENT COMMENTARY – August 2019

### About the Fund

The 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** £785m

**Launch date** 31.12.10

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

**Analysts** Sagar Thanki  
Joseph Stephens

### Performance 31.07.19

	1 year	3 years	From launch
<b>Fund</b>	12.1	38.7	158.3
<b>Index</b>	11.0	46.0	160.3
<b>Sector</b>	8.8	32.1	113.0

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

<b>Fund</b>	<b>11.7%</b>
<b>Index</b>	<b>11.8%</b>
<b>Sector</b>	<b>9.2%</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. Y Class 0.99% OCF. Please refer to 'Performance data notes' for full details



### Summary performance

In July, the Guinness Global Equity Income Fund produced a total return of 4.25% (TR in GBP) versus the MSCI World Index return of 4.46%. The Fund therefore underperformed by 0.21%.

The Fund's underperformance comes as a result of the persistent outperformance of cyclical sectors, as positive economic and corporate releases in the US continued into July 2019 – the month that officially made the current market expansion the longest in history.

Nonetheless, it is pleasing to see that both the short and long-term performance of the Fund's strategy remain very strong versus the MSCI World Index and IA Global Equity Income sector peers.

	YTD	1yr	3yr	5yr	Since Launch*
<b>Fund</b>	19.6%	13.7%	40.7%	87.7%	158.3%
<b>Index</b>	22.3%	11.0%	46.0%	93.9%	160.3%
<b>IA sector average</b>	18.8%	9.1%	32.4%	59.8%	113.3%
<b>Rank vs peers</b>	24/55	16/53	10/47	7/40	2/17
<b>Quartile</b>	<b>2<sup>nd</sup></b>	<b>2<sup>nd</sup></b>	<b>1<sup>st</sup></b>	<b>1<sup>st</sup></b>	<b>1<sup>st</sup></b>

Source: Financial Express. Cumulative Total Return in GBP as of 31<sup>st</sup> July 2019

### July in Review

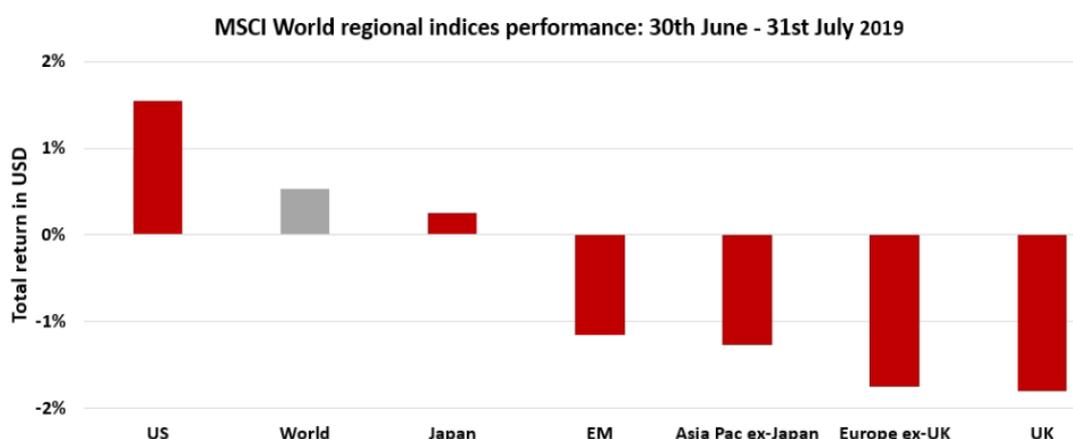
Investors were forced to wait until the last day of July for the main event, when the Fed reduced US interest rates by 0.25% – the first reduction in 11 years. In his press conference, Fed Chair, Jerome Powell, called this rate cut a “mid-cycle adjustment” to combat current risks to the economic outlook, citing three main threats: weakening global growth, trade policy

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## Guinness Global Equity Income Fund

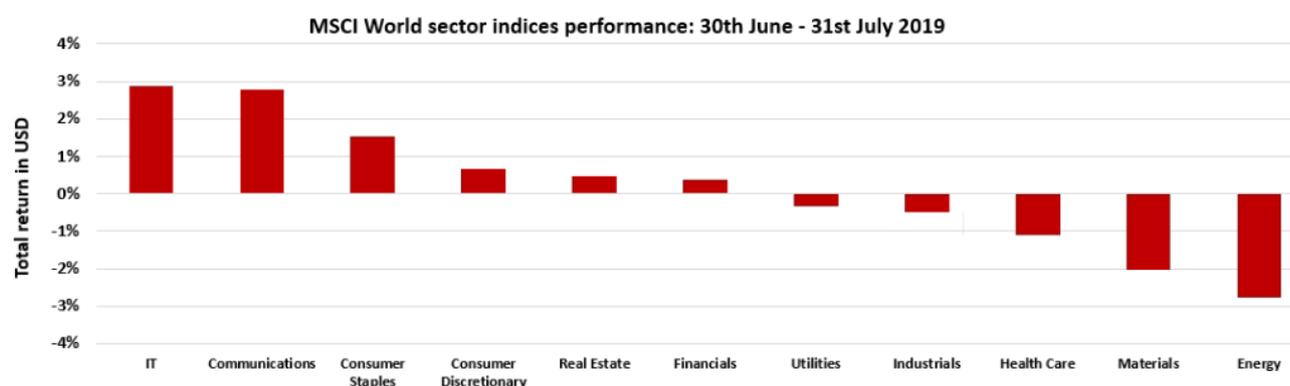
developments and inflation running below target. The immediate market reaction implied that some investors had been hoping for more stimulus, and they were therefore disappointed by Powell's suggestion that the move in interest rates did not signal the start of a "lengthy cutting cycle". This is perhaps warranted given that economic growth is slowing, not stalling, and there is also moderate domestic inflation. In fact, parts of the US economy have been showing tentative signs of improvement, with the jobs market bouncing back from an especially weak print in June, and second-quarter GDP growing at 2.1% (quarter-on-quarter annualised), marginally beating analyst expectations by 0.1%. Manufacturing remains a weak spot, with a July purchasing managers' index (PMI) data reading of 51.6 indicating that manufacturing is only narrowly still in expansion territory.

Alongside positive economic data, corporate earnings season also aided US equities, which outperformed versus other regions.



Source: Bloomberg, as of 31st July 2019

Regionally, the Fund's underweight positioning to the US, and overweight positioning to Europe and the UK, was a drag on performance, though this was somewhat offset by our sector allocation. Defensive groups of stock that are less sensitive to the business cycle, such as Utilities and Health Care saw declines, as did Energy and Material stocks, which continued to be impacted by falling oil prices driven by concerns over global demand. Underexposure in these sectors, bar Health Care, benefitted the Fund's performance.



Source: Bloomberg, as of 31st July 2019

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## Guinness Global Equity Income Fund

IT and Communication services were the best performing sectors and led the market higher, primarily on better-than-expected earnings results from Texas Instruments and Alphabet (not held in the Fund). A further boost for chipmakers and tech more broadly came after it emerged that US officials were seeking to reignite trade talks with China. Semiconductor exposure in the Fund comes via our holdings in Broadcom and Taiwan Semiconductor Manufacturing Company (TSMC), and both stocks benefitted from the news.

In Europe, July was a busy month for European leaders as nominations for many of the top jobs in Brussels were decided. After several days of tense talks, the most important outcome for investors was the nomination of Christine Lagarde to take over from Mario Draghi as ECB leader at the start of November. Lagarde was one of the most dovish options out of the potential candidates, and has previously been vocal in her support for Draghi's accommodative stance on monetary policy. The ECB used its July meeting to send strong signals to the market that a stimulus package is coming either in the form of interest rate cuts (into deeper negative territory) or new rounds of asset purchases. Data showed the eurozone economy expanded by just 0.2% in Q2, slowing from a growth rate of 0.4% in Q1.

In the UK, Boris Johnson was appointed as the new prime minister after his victory in the Conservative party leadership contest with roughly two-thirds of the vote. The British pound came under pressure during July – reaching lows versus the US dollar last seen in 2017 – as markets became increasingly jittery about the potential for the UK to leave the European Union without a deal come the deadline date of 31<sup>st</sup> October 2019. The currency depreciation means that in local currency terms the UK was the best performing region, whereas in Dollar terms, it was the worst. A sharp fall in Sterling provided a boost in earnings for the FTSE 100 companies which operate in overseas markets.

In terms of stock selection, individual companies that performed well over the month included Anta Sports (+9.4% in USD) and Imperial Brands (+9.1% in USD), whereas the worst performer over the month was Randstad (-7.8% in USD).

**ANTA Sports** has been the best performing stock in the Fund this year, up 57.5% in USD. The company generates revenue through the manufacture and trading of sporting goods, including footwear, apparel and accessories. ANTA is poised for greater market share in China as it seeks to woo affluent shoppers with pricier athletic gear. This includes popular brands such as Fila and Descente, as well as Salomon and Arc'teryx – both owned by Amer Sports, who ANTA recently acquired. Going premium should make up for less-robust gains at its lower-priced namesake brand, which sells at half the price of Nike and Adidas products. The move to acquire a European company gives ANTA Sports scale to expand geographically, as well as launch new products in China. The company's growing product offering could well fuel earnings and revenue growth and the shrewd move into winter sport clothing and equipment comes well-timed ahead of the next Winter Olympics in 2022 in Beijing.



**Imperial Brands** also performed well in July, after having weaker performance over the last quarter. The traditional tobacco company which has been developing its alternative e-cigarette business is seeking final bids of about £1.5 billion for its cigar business Tabacalera, which would sensibly help reduce net debt and raise investment in reduced-risk products. Imperial intends to raise £2 billion from asset sales, including its 50% stake in Logista, worth £1.2 billion. Tabacalera and Logista were part of the £10.6 billion Altadis deal completed in 2007.



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Imperial Brands is rebuilding its business on key franchises to maximize growth amid tightening global regulation. The company's restructuring efforts seek to streamline the business so that its focus is on the most profitable brands. This strategy maximizes cash generation to fund investment in next-generation products such as medical cannabis: last month, Imperial Brands spent \$123m to pick up a 20% stake in Auxly Cannabis Group. The Canadian company's vision is "to be a global cannabis leader focused on providing branded cannabis products backed by science and innovation." Imperial's investment, which was in the form of a debenture convertible security, gives the FTSE 100 company the right to convert it into Auxly shares at any time during the three-year term of the debenture.

**Randstad** – the Dutch recruitment firm – is the second largest temporary staffing and employment services agencies in the world (behind Adecco). It operates primarily in Europe, but also in Asia and North America, under the Randstad brand and several others, including Monster (US), Yacht (industrial staffing), and Tempo-Team (general staffing). Randstad supplies temporary workers for small assignments as well as large-scale deployments. It also offers permanent placement and HR project management and consultancy services. Weak stock performance in the month comes after quarterly earnings results revealed a larger decline in revenues than analysts expected. This comes as a result of the slowdown in continental Europe, with Germany being a poor contributor for the company. Further, Randstad management guided lower citing that they expect European weakness to continue for the second half of the year. Longer term, the company aims for mid-single-digit growth and its integrated-technology focus is a key advantage versus rivals.



### **We made no changes to the portfolio in July.**

We thank you for your continued support.

#### **Portfolio Managers**

Matthew Page, CFA

Dr Ian Mortimer, CFA

#### **Analysts**

Joseph Stephens

Sagar Thanki

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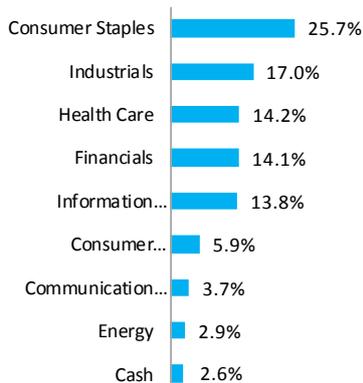
**PORTFOLIO**

31/07/2019

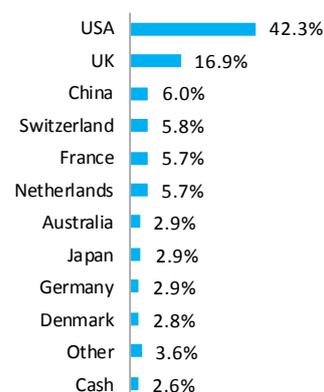
**Fund top 10 holdings**

Anta Sports Products	3.1%
Procter & Gamble	3.0%
Hengan International Group	2.9%
Sonic Healthcare	2.9%
Nestle	2.9%
Danone	2.9%
Eaton	2.9%
WPP	2.9%
BAE Systems	2.9%
Unilever	2.9%
% of Fund in top 10	29.2%
Total number of stocks held	35

**Sector analysis**



**Geographic allocation**



**PERFORMANCE**

31/07/2019

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

<b>Fund</b> (Y class, 0.99% OCF)	<b>11.7%</b>
<b>MSCI World Index</b>	<b>11.8%</b>
<b>IA Global Equity Income sector average</b>	<b>9.2%</b>

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

	Jul '15	Jul '16	Jul '17	Jul '18	Jul '19
<b>Fund</b> (Y class, 0.99% OCF)	10.3	21.0	9.9	12.7	12.1
MSCI World Index	13.5	17.0	16.9	12.4	11.0
IA Global Equity Income sector average	6.3	13.6	13.9	6.6	8.8

**Cumulative % total return (GBP)**

	1 month	Year-to-date	1 year	3 years	5 years	From launch
<b>Fund</b> (Y class, 0.99% OCF)	4.3	19.6	12.1	38.7	85.0	158.3
MSCI World Index	4.5	22.3	11.0	46.0	93.9	160.3
IA Global Equity Income sector average	4.0	18.7	8.8	32.1	59.5	113.0

**RISK ANALYSIS**

31/07/2019

<b>Annualised, weekly, from launch on 31.12.10, in GBP</b>	<b>Index</b>	<b>Sector</b>	<b>Fund</b>
Alpha	0	0.26	1.46
Beta	1	0.75	0.86
Information ratio	0	-0.40	-0.02
Maximum drawdown	-18.26	-15.50	-16.34
R squared	1	0.80	0.89
Sharpe ratio	1	0.49	0.66
Tracking error	0	6.05	4.52
Volatility	13.83	11.30	12.19

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Source: Financial Express, bid to bid, total return. Fund launch date: 31.12.10. Fund Y class (0.99% OCF): 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: Link Fund Administrators (Ireland) Ltd, 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.

#### Singapore

The Fund is not authorised or recognised by the Monetary Authority of Singapore ("MAS") and shares are not allowed to be offered to the retail public. The Fund is registered with the MAS as a Restricted Foreign Scheme. Shares of the Fund may only be offered to institutional and accredited investors (as defined in the Securities and Futures Act (Cap.289)) ('SFA') and this material is limited to the investors in those categories.

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

**GUINNESS**

ASSET MANAGEMENT

Guinness Asset Management Ltd is authorised and regulated by the Financial Conduct Authority

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