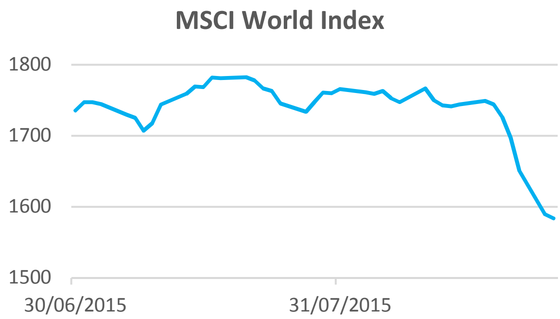
Guinness global equity funds

GUINNESS
ASSET MANAGEMENT LTD

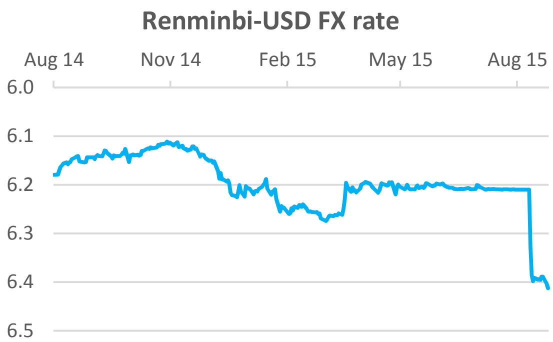
Managers	Funds
Dr. Ian Mortimer, CFA	**Guinness Global Equity Income Fund** Invests in companies with persistently high return on capital, that are well placed to pay a sustainable dividend into the future
Matthew Page, CFA	**Guinness Global Innovators Fund** Invests in companies benefiting from innovations in technology, communication, globalisation or innovative management strategies

Opportunities from chaos

Equity markets have experienced a sharp and rapid decline in August due to concerns over the effect of a slowdown in Chinese economic growth. This has affected the value of shares globally as China is the second largest economy in the world and has been the main driver of global growth since Western economies slowed after the financial crisis of 2008.



A catalyst for this decline was the small devaluation of the Chinese currency on August 11th.



The effect of this was twofold:

1) It created some uncertainty in markets as to whether the Chinese currency could be further devalued in the future - which would have implications for the competitiveness of exports of other countries in the Asian region and beyond; and,

2) It has been interpreted by some analysts as tacit recognition by the government that the Chinese economy was not as strong as the official GDP growth figures have shown. Indeed, other economic indicators in China (such as electricity demand) have been indicating a slowdown since the start of the year.

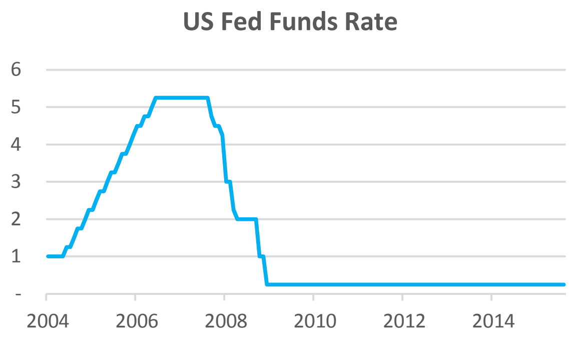
In parallel with this we have seen rapid declines in the value of the Chinese A-share market since its peak mid-June.

This market is generally open only to Chinese investors, and is largely driven by speculative investors (many of whom borrow to invest in the market). The A-share market has historically shown very little correlation to real economic activity in China and has been described by some as more of a casino. To put the recent declines in context, it must be noted that from the beginning of this year to its recent peak in mid-June the Shanghai Composite had risen 60%.

Whilst the decline in the Chinese A-share market has been the most extreme and has generated many of the headlines, equity markets in other regions have been declining instead due to global economic growth concerns.

Slower economic growth in China has the most direct impact on countries in emerging markets, particularly in the Asia region and in those countries that rely heavily on exporting commodities.

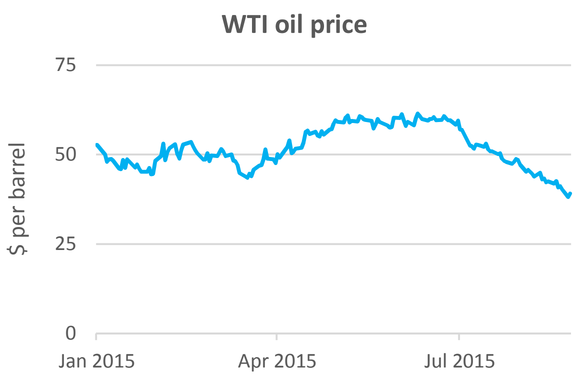
This slowdown in Chinese growth has coincided with the expectation of an imminent interest rate rise in the US as the US economy has regained strength after a prolonged period of near zero interest rates.



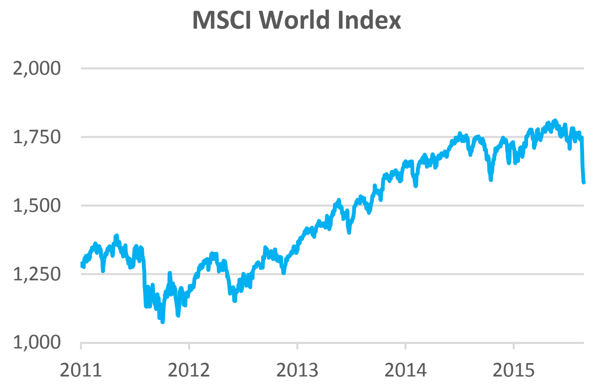
Any interest rate rise in the US will affect the ability of emerging market economies to borrow and invest for growth in the future.

This expectation of interest rate rises and evidence of slower growth in China has led analysts to reduce their expectations of global GDP growth in the near term. Many western companies have been investing for growth in these faster growing emerging economies, so the future growth in profitability of these companies is now less certain.

On a more positive note, the fall in commodity prices, and the oil price in particular, should provide some positive stimulus to global growth.



Western equity markets, and in particular the US, have shown strong performance since the end of the financial crisis, and valuations in the US have looked full (but not extreme). The recent c.10% correction in the US market is not surprising given valuation levels, and the fact that we have not seen a correction of a similar magnitude since the euro crisis of 2011.



Guinness Global Equity Income Fund

As we write, the Global Equity Income Fund has fallen 9.6% (in GBP) so far this month (to the 25th August), versus the benchmark MSCI World Index fall of 10.5%. The Fund has therefore outperformed the Index by just under 1%.

This Fund invests in high quality companies that have generated consistently high return on capital in every year for the last decade. The last decade obviously includes the period of the financial crisis in 2008, which was a much more difficult environment for these companies to generate profits. We do not invest in small companies or companies that have stretched balance sheets. Our analysis of these high quality companies has shown that they often outperform in times of economic uncertainty and distress, and therefore it was pleasing to see the Fund outperform the benchmark during the volatility this August.

The Fund owns three Chinese companies that are listed in Hong Kong (as opposed to the domestic Chinese A-Shares); together they make up less than 9% of the Fund. One of these companies, China Mobile, has actually been one of the best performing companies in the portfolio so far this year. Another company which we own in Hong Kong is Li & Fung, which derives more than 80% of its revenues from the US and Europe. So the impact on the portfolio of recent concerns in China has been minimal.

With the fear in markets in August, opportunities have arisen for us to take of advantage of some indiscriminate selling. In some cases, great businesses with strong balance sheets, defendable market positions and profitable growth opportunities have been sold down to the same extent as weaker, poor quality companies. We have taken this opportunity to sell two positions that have performed well, and reinvested this cash in companies that offer more attractive valuations and a better dividend yield. We sold our holdings in Reckitt Benckiser, which we had held since 2011 and was the most expensive company in the portfolio at almost 25x expected earnings. We also sold L-3 Communications, the US defense company, which we had held in the Fund since launch (December 2010) and which had returned over 70%, but whose return on capital profile appeared to be declining. In their places we bought new positions in WPP, the global advertising business, and Eaton, a US-listed diversified industrial. These changes served to increase the quality of the portfolio of businesses we hold, lower the valuation of the Fund, and increase the overall dividend yield – the three elements we focus on for this strategy.

Guinness Global Innovators Fund

The Global Innovators Fund has fallen 11.2% (in GBP) so far this month (to the 25th August), versus the benchmark MSCI World Index fall of 10.5%. The Fund has therefore underperformed the Index by 0.7%.

The Global Innovators strategy is orientated towards growth, rather than income. Historically, the Fund has generally underperformed in sharply down markets, whereas it has generally outperformed in rising markets. It is therefore not surprising that the Fund has slightly underperformed the MSCI World Index during the recent market volatility (coinciding with worries surrounding global growth, as discussed above). However, the Fund is not a 'high growth' portfolio, and instead looks to invest in companies with moderate profitable growth opportunities, and which are trading at attractive valuations. This means we avoid companies with expectations of high growth in the future which have not yet demonstrated their ability to achieve this. These companies often have the most exciting stories and wide coverage in the media, and often extreme valuations to match. If markets trend downwards it is often these types of company that can be hit the hardest. We also do not invest in small cap. companies or those with excessive leverage.

The Fund owns four companies in Asia, making up approximately 12% of the portfolio: Lenovo, Li & Fung, Taiwan Semiconductor and Samsung. As we discussed above, Li & Fung is listed in Hong Kong but has the majority of its revenue exposure outside the region. The other three companies are more directly affected by the recent downturn in China as they are all cyclical in nature, and their prospects are intrinsically linked to global economic growth. Unsurprisingly these companies have performed poorly within the Fund through August. But as they only make up 12% of the portfolio they have not significantly influenced the overall performance of the Fund.

Similarly to the Global Equity Income Fund we have taken advantage of the recent sell off to make a number of changes to the portfolio. For example, we sold our position in Ultra Electronics, a UK-listed defense company which had held its value remarkably well in the last few weeks and had also performed strongly for the Fund over the long term. We also initiated a position in Google. In the turmoil of the last week, Google had been sold down with the rest of the market despite the recent run up in its share price (following the announcement of its corporate restructuring and strong results which indicated further good earnings into the future).

Outlook

While the recent volatility in equity markets has been difficult, we do not believe the current environment is anything like what we experienced in the financial crisis of 2008. Generally speaking companies have stronger balance sheets and less debt. At the same time, within the global funds we run we always aim just to own the highest quality companies, that are well capitalised, and offer attractive valuations – and in the case of the Global Equity Income Fund an above market dividend yield.

Today the Global Equity Income Fund trades at a valuation discount of almost 10% versus the MSCI World Index, with a dividend yield almost 25% higher and better prospects for dividend growth.

The Global Innovators Fund trades at a valuation discount of over 10% versus the MSCI World Index, and consists of good quality companies, with low levels of debt, and good prospects for profitable growth in the future.

We thank you for your continuing support.

Matthew Page, CFA
Dr Ian Mortimer, CFA

August 2015

All data sourced from Bloomberg.

Guinness Global Equity Income Fund

31/07/2015

Annualised % total return from launch (GBP)

Discrete years % total return (GBP)	Jul '11	Jul '12	Jul '13	Jul '14	Jul '15
Guinness Global Equity Income Fund	-	4.8	26.4	0.7	9.4
MSCI World Index	13.6	4.2	22.1	5.1	6.3
IA Global Equity Income sector average	0.0	5.6	27.4	1.4	10.2

Cumulative % total return (GBP)	1 month	Year-to-date	1 year	3 years	From launch
Guinness Global Equity Income Fund	2.7	2.0	9.4	39.2	53.8
MSCI World Index	1.6	4.4	6.3	36.4	52.4
IA Global Equity Income sector average	2.7	2.8	10.2	42.3	41.9

Guinness Global Innovators Fund

31/07/2015

Annualised % total return from strategy inception (01.05.2003) (GBP)

Discrete years % total return (GBP)	Jul '11	Jul '12	Jul '13	Jul '14	Jul '15
Guinness Global Innovators strategy*	25.0	2.4	31.8	21.5	9.7
MSCI World Index	21.6	-2.7	22.6	10.0	10.3
IA Global sector average	19.1	-7.4	21.4	9.0	8.4

Cumulative % total return (GBP)	1 month	Year-to-date	1 year	3 years	5 years
Guinness Global Innovators strategy*	-6.4	-1.4	9.7	75.7	125.0
MSCI World Index	-5.2	1.8	10.3	48.8	76.0
IA Global sector average	-5.1	2.8	8.4	43.4	58.0

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 launch date: 31.12.10.

The Funds are equity funds. 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 Funds' documentation, available on our website. Guinness Global Equity Income Fund 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.

*Composite simulation of performance. Guinness Global Innovators Fund (UCITS) launched on 31.10.14. Performance data prior to this date is based on the actual returns of a US mutual fund managed by the same investment team using the same investment process as applied to the UCITS version. The past performance of the US mutual fund is not indicative of the future performance of Guinness Global Innovators Fund.

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- 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.

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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.