# Guinness Global Equity Income Fund

## INVESTMENT COMMENTARY – February 2017

### 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.

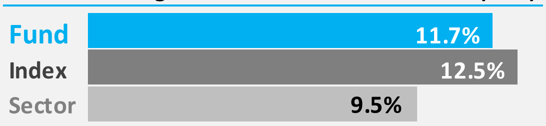
| | |
|---|---|
| **Fund size** | £251m |
| **Launch date** | 31.12.10 |
| **Managers** | Dr. Ian Mortimer, CFA<br>Matthew Page, CFA |

### Performance

**31.01.17**

| | 1 year | 3 years | From launch |
|---|---|---|---|
| **Fund** | 25.6 | 49.4 | 96.6 |
| **Index** | 32.8 | 58.0 | 104.4 |
| **Sector** | 28.0 | 39.3 | 73.9 |

**Annualised % gross 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, gross total return.


**Guinness Global Equity Income Fund** passed its fifth anniversary on 31st December 2015. For our full review of the Fund's history, visit **guinnessfunds.com**

## Monthly update

In January the Guinness Global Equity Income Fund produced a total return of -0.38% (in GBP) and the MSCI World Index was up 0.61%. The fund therefore underperformed the index by 0.99%.

Cyclical sectors again led the market and this was the main drag on the fund's performance. Materials, IT and consumer discretionary were the strongest areas of the market while the defensive and higher yielding sectors of telecoms, utilities and real estate lagged. An exception to this general theme was energy, which was the worst performing sector.

Asia and emerging markets outperformed while the UK and Europe lagged.

Looking at the portfolio, our best performing positions in January were in European financials, namely NEX, Deutsche Boerse and TP ICAP, while three US holdings, Teva, H&R Block and Mattel, were the laggards.

January's most notable event was of course the inauguration of President Trump. Back on the morning of November 9th when we woke up to hear the election result, our immediate thought was: is President Trump going to be the same as candidate Trump? That morning we wrote to our investors with our immediate thoughts in "Implications of the US election result".

We wrote:

*"How this will play out over the next four years is hard to tell. Will the headline grabbing policies of Trump really be enacted? Does populist rhetoric get converted into policy or is it diluted with the responsibility of power? Is*

*President Trump the same as Trump the candidate? Only time will tell.*

*One of the broad policies that Trump has focussed on has been to "put America first". He is likely to seek to introduce protectionist policies that would have an impact on global trade. He wants to renegotiate the North American Free Trade Agreement with Canada and Mexico and cancel participation in the Trans-Pacific Partnership. He has cited a desire to introduce a 35% import tariff on Mexican goods and 45% on Chinese goods. Protectionism is most likely to have an impact on companies in export nations in Asia and emerging markets."*

Trump's inauguration speech gave an early indication that President Trump was going to follow through on candidate Trump's pledge to "put America first". He said:

*"For many decades, we've enriched foreign industry at the expense of American industry; subsidized the armies of other countries while allowing for the very sad depletion of our military; we've defended other nation's borders while refusing to defend our own; and spent trillions of dollars overseas while America's infrastructure has fallen into disrepair and decay.*

*We've made other countries rich while the wealth, strength, and confidence of our country has disappeared over the horizon.*

*…*

*From this moment on, it's going to be America First.*

*Every decision on trade, on taxes, on immigration, on foreign affairs, will be made to benefit American workers and American families. We must protect our borders from the ravages of other countries making our products, stealing our companies, and destroying our jobs. Protection will lead to great prosperity and strength."*

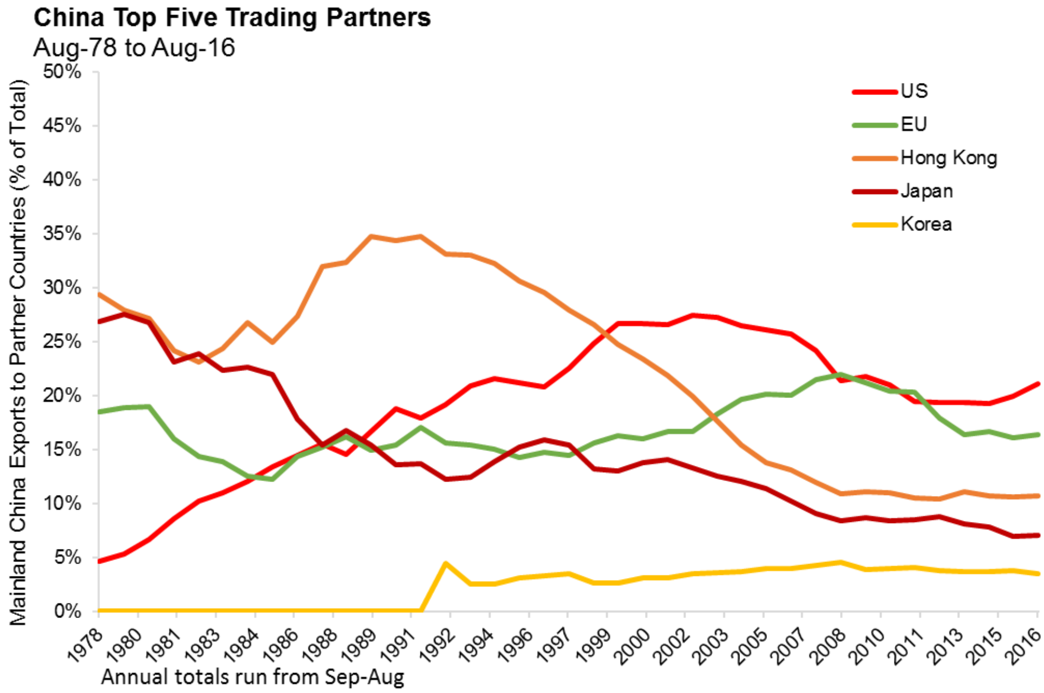
Over the following ten days President Trump started to sign a series of executive orders that resonated with elements of what he had promised in his Contract with the American Voter.

In this document's section titled 'Seven actions to protect American workers', the first two were:

1. *I will announce my intention to renegotiate NAFTA or withdraw from the deal under Article 2205*
2. *I will announce our withdrawal from the Trans-Pacific Partnership*

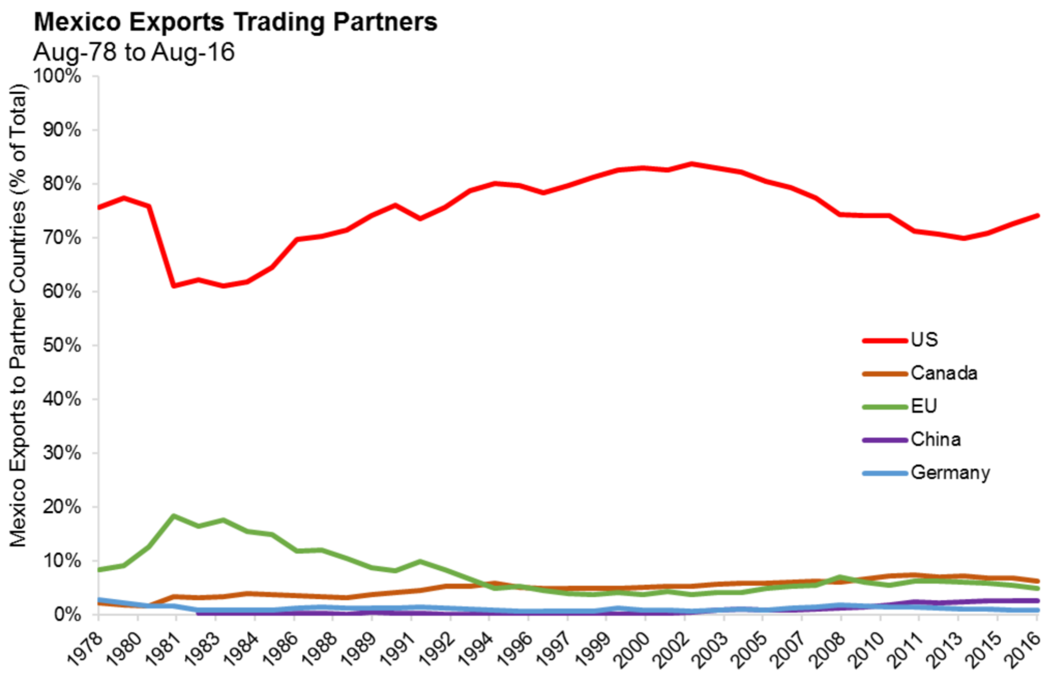
In terms of trade, perhaps the most significant announcement Trump has made as president was to follow through with point 2. Trump signed an executive order withdrawing the US from the Trans-Pacific Partnership (TPP), a trade deal negotiated by Obama but never ratified by a Republican-controlled Congress. It was meant to strengthen trading cooperation between the US and some of the main trading nations in the Asia-Pacific region. TPP did not include China and was therefore going to act as a counterbalance to Chinese influence in the region. The US withdrawal therefore could actually benefit China and some countries have even suggested including China in a renegotiated version of TPP.

While the US is China's largest export market, a new TPP which included China and created lower barriers for trade in the region could potentially be a missed opportunity for the US.




***Source: Guinness Asset Management, Bloomberg, IMF***

Whilst we have not yet seen anything formal, Trump's intention to renegotiate the North American Free Trade Agreement (NAFTA) will be a huge undertaking and will require the cooperation of both Canada and Mexico. While the latter is highly dependent on exports to the US (which takes 80% of them – see chart below) it is unlikely it will agree to any deal that makes it worse off. It would likely be political suicide for Mexico's already deeply unpopular president to be seen to concede anything to Trump given the rhetoric he has used against Mexican people and his intention to make Mexico pay for a border wall.




***Source: Guinness Asset Management, Bloomberg, IMF***

Will Trump therefore seek simply to withdraw the US from NAFTA if he does not get the concessions that he desires? Under the terms of NAFTA any party to the agreement can withdraw six months after written notice has been given. Our initial reaction to this was to assume it was unlikely to occur, as Congress would be unlikely to approve it. However, by exercising authority over foreign affairs, the president does have the right to serve notice of cancellation of the agreement.[1]

If this did occur, then the president also has the powers to impose trade tariffs to the levels specified by the World Trade Organisation (WTO) for 'most favoured nations' without Congressional approval. The president could go even further by pulling out of the WTO and imposing even higher tariffs.

Whilst any imposition of trade tariffs by Trump would be met very quickly by affected companies seeking court injunctions and citing 'irreparable harm' due to the disruption of supply chains and large financials losses on contracted imports, these injunctions are unlikely to be granted given that these powers have been conferred on the president by Congress. Affected countries would be unlikely to wait for courts to respond but would more likely retaliate by imposing their own tariffs, kicking off a trade war.

It is comforting to argue that Trump would not follow through with these threats, despite the fact he has highlighted them in his Contract to the American Worker. Certainly, that appears to have been the way that equity markets have interpreted his trade policy intentions given the rally we have seen globally since the election. The market appears to have been more focussed on the potential benefits to corporate America from significant tax cuts and increased spending on ageing US infrastructure.

However, the early indications are that President Trump is no different to candidate Trump. We have certainly not seen a scaling back of his rhetoric, and in certain elements we have seen an escalation, particularly with regards to the press.

The risk of Trump's trade policy is therefore potentially more real than the market is currently pricing in.

The companies in our portfolio have been in existence for 89 years on average, so have endured their fair share of shocks and changes to trade policy. They have all adapted to the threats and risks of the time. Indeed, there have been 16 US presidents over the last 89 years, from Calvin Coolidge to Donald Trump. Our companies are likely to be able to weather the next four years as well, but it may turn out to be a choppy journey.

Thank you for your continued support.

**Dr. Ian Mortimer & Matthew Page**
**Co-managers, Guinness Global Equity Income Fund**
**February 2017**

**Data sources**

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

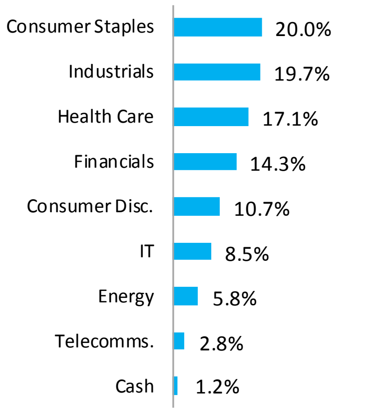
Index and stock data: *Bloomberg*

[1] Assessing Trade Agendas in the US Presidential Campaign. Marcus Noland, Gary Clyde Hufbauer, Sherman Robinson, and Tyler Moran

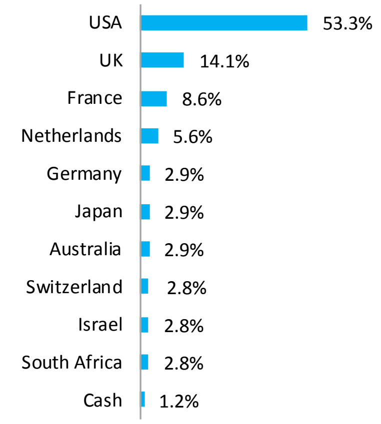
## Fund top 10 holdings

| | |
|---|---|
| General Dynamics | 3.0% |
| Deutsche Boerse | 2.9% |
| Procter & Gamble | 2.9% |
| Danone | 2.9% |
| Merck & Co | 2.9% |
| Japan Tobacco | 2.9% |
| Total | 2.9% |
| Royal Dutch Shell | 2.9% |
| Sonic Healthcare | 2.9% |
| Microsoft | 2.9% |
| % of Fund in top 10 | 29.0% |
| Total number of stocks in Fund | 36 |

## Sector analysis



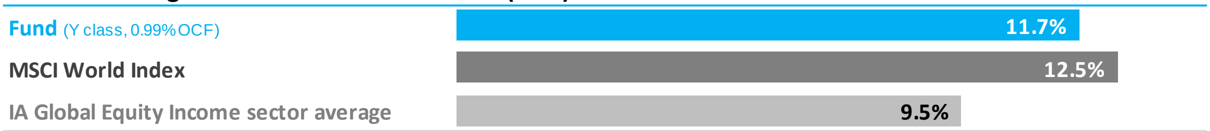

## Geographic allocation




## PERFORMANCE

31/01/2017

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




| Discrete years % gross total return (GBP) | Jan '13 | Jan '14 | Jan '15 | Jan '16 | Jan '17 |
|---|---|---|---|---|---|
| **Fund** (Y class, 0.99% OCF) | 12.6 | 12.7 | 18.9 | 0.0 | 25.6 |
| MSCI World Index | 16.1 | 12.6 | 17.7 | 1.1 | 32.8 |
| IA Global Equity Income sector average | 16.0 | 7.9 | 14.0 | -4.5 | 28.0 |

| Cumulative % gross total return (GBP) | 1 month | Year-to-date | 1 year | 3 years | 5 years | From launch |
|---|---|---|---|---|---|---|
| **Fund** (Y class, 0.99% OCF) | -0.4 | -0.4 | 25.6 | 49.4 | 89.5 | 96.6 |
| MSCI World Index | 0.6 | 0.6 | 32.8 | 58.0 | 106.5 | 104.4 |
| IA Global Equity Income sector average | 0.7 | 0.7 | 28.0 | 39.3 | 74.3 | 73.9 |

## RISK ANALYSIS

31/01/2017

| Annualised, weekly, from launch on 31.12.10, in GBP | Index | Sector | Fund |
|---|---|---|---|
| Alpha | 0 | 0.38 | 1.37 |
| Beta | 1 | 0.77 | 0.87 |
| Information ratio | 0 | -0.35 | -0.02 |
| Maximum drawdown | -18.26 | -15.50 | -16.19 |
| R squared | 1 | 0.80 | 0.89 |
| Sharpe ratio | 1 | 0.50 | 0.65 |
| Tracking error | 0 | 6.27 | 4.55 |
| Volatility | 13.90 | 11.96 | 12.75 |

**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, gross 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.

## 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 , 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. The paying agent is Banque Cantonale de Genève, 17 Quai de l'Ile, 1204 Geneva, Switzerland.

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