

# Guinness Global Equity Income Fund

## INVESTMENT COMMENTARY – February 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** £536m

**Launch date** 31.01.10

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

**Analysts** Sagar Thanki  
Joseph Stephens

### Performance 31.01.19

	1 year	3 years	From launch
<b>Fund</b>	2.6	41.7	119.7
<b>Index</b>	1.0	48.5	122.2
<b>Sector</b>	-2.1	37.2	86.4

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

<b>Fund</b>	10.2%
<b>Index</b>	10.4%
<b>Sector</b>	8.0%

**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 January, the Guinness Global Equity Income Fund produced a total return of 1.8% (in GBP) versus the MSCI World Net Total Return Index return of 4.4% (in GBP). The Fund therefore underperformed the Index by 2.6% in the month. Much of the underperformance comes as a result of the defensive qualities of the Fund in the sharp market rally seen at the turn of the year.

Over 2018, the Fund produced a total return of 0.7% (in GBP), compared to the benchmark return of -3.0%. The Fund therefore outperformed the Index by 3.7%.

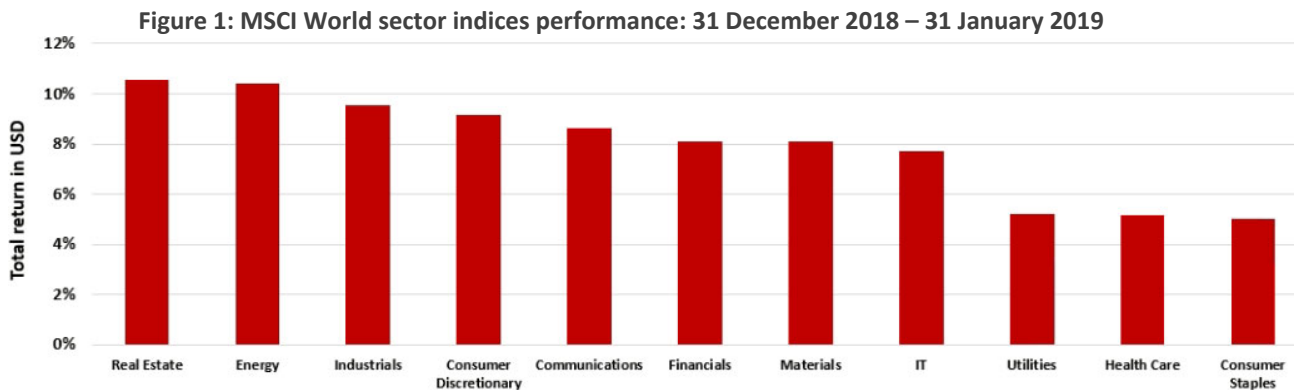
The years 2018 and 2011 were in fact the only ones since the financial crisis to have seen negative returns for the MSCI World Index. It is therefore particularly pleasing that the Guinness Global Equity Income Fund has posted positive returns (in GBP) in each of the last eight years (every year since launch), including 2011 and 2018. In the IA Global Equity Income sector, the Guinness Global Equity Income Fund is the only one to have produced positive returns in both years.

	1yr	3yr	5yr	Since Launch*
<b>Fund</b>	2.6	41.7	68.0	119.7
<b>Index</b>	1.0	48.5	74.7	122.2
<b>IA sector average</b>	-2.1	37.2	49.3	86.4
<b>Rank vs peers</b>	8/56	17/47	10/40	4/19
<b>Quartile</b>	1st	2nd	1st	1st

Source: Financial Express. Cumulative Total Return in GBP as of 31 January 2019

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## Portfolio in Review - January



Source: Bloomberg; as of 31st January 2019

Over the course of January, performance of the Fund was aided by our overweight allocation to Industrials, after several companies in the sector reported positive earnings results. Companies we own in the sector include BAE Systems, Eaton, United Technologies, Illinois Tool Works, Randstad and Schneider Electric – all of which performed well in the month, with BAE Systems being the stand-out (+15.0% in USD). The company provides some of the world’s most advanced defence, aerospace and security solutions, and recently has outperformed after releasing better-than-expected earnings results.

Real Estate and Energy were the best-performing sectors in the month and limited exposure here was a small drag on performance. We have no holdings within Real Estate and one holding within Energy: Royal Dutch Shell, which had a strong month after reporting robust earnings. Cashflows came in far ahead of expectations and the company indicated that both upstream (production) and downstream (refining) parts of the business were doing well. The Energy sector performed well as a whole as the price of WTI crude oil climbed past US\$55 a barrel to its highest level since November last year. Falling OPEC production and speculation that a growing world economy would fuel demand spurred the rise; in fact, Brent crude had its best January since 2005 and West Texas Intermediate had its best January on record. Despite recent gains, the low oil price has helped to suppress inflation levels and in turn has reduced pressure on central banks to raise interest rates to control inflation.

After faring well throughout 2018, Health Care was one of the underperformers in January. Profit-taking accelerated after the Trump administration proposed banning rebates paid by drug-makers to pharmacy benefit managers (PBMs) and health insurers. These rebates are paid in exchange for preferred status with those plans’ customers. Some of the rebate goes toward insurance premiums, while the middlemen keep some for themselves. The pharmaceutical industry has said PBMs prefer higher-priced drugs so they can negotiate bigger rebates and pocket more of the money. The Fund does not have exposure to any US PBMs or insurers so was immune in this respect.

Although drug-makers would not be directly affected by the proposals, for other reasons, the worst-performing stock in the month was AbbVie (-11.8% in USD). The pharmaceutical giant focuses on producing drugs for specialty therapeutic areas such as immunology, chronic kidney disease, hepatitis C, oncology, and neurology. We have owned the company since the end of 2012 and the stock performed very well due to the prominence of its Humira drug, which makes up 60% of total revenue. It has been described as the “world’s best-selling drug” and is an injectable therapy used to treat several autoimmune diseases, predominantly related to arthritis. Recent share price disappointment comes after the company missed earnings and revenue expectations, and also posted a loss due to a \$4.1 billion impairment charge associated with the 2016 acquisition of Stemcentrx. AbbVie decided to write-off this costly acquisition after Rova-T repeatedly failed to hit the mark as a later-line lung cancer treatment last year.

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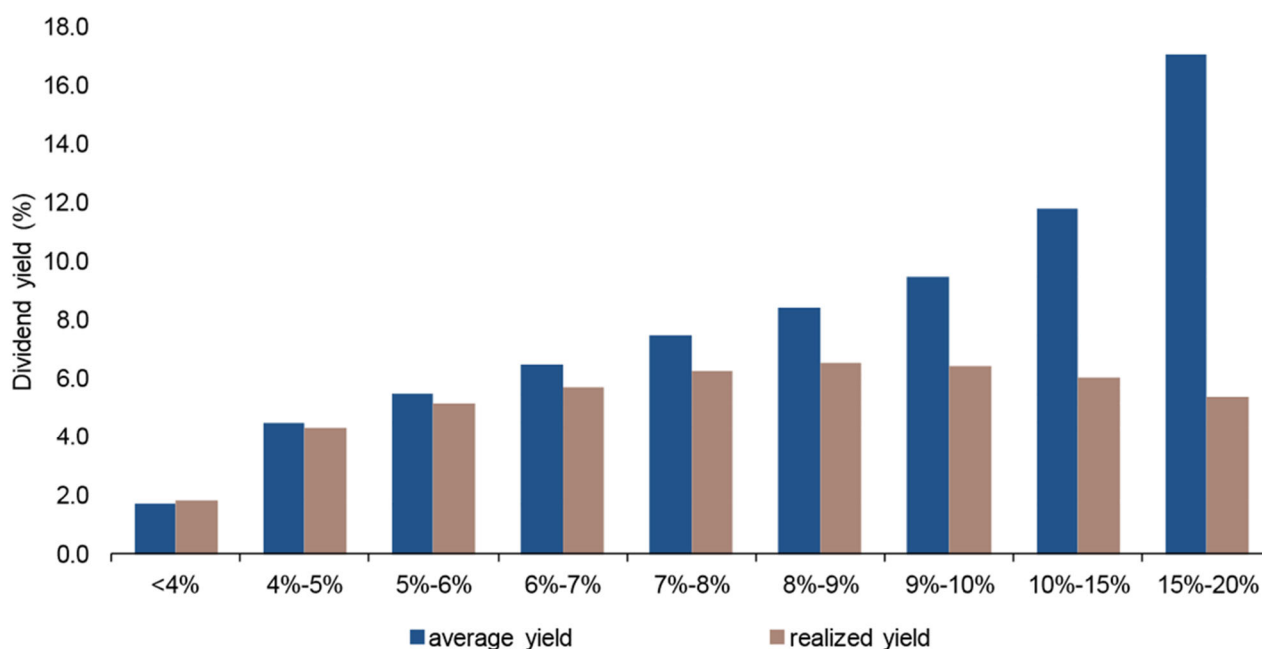
## Guinness Global Equity Income Fund

After outperforming in the last quarter of 2018, the weakest sector in January was Consumer Staples. Due to the Fund's overweight position, this was a drag on performance, although it was offset by some good selection. In particular, the tobacco companies saw a notable revival after analyst upgrades reiterated that investor's concerns may be overly pessimistic, while current valuations may already reflect the headwinds facing the tobacco industry. We outlined the issues facing a number of these companies in our annual review, released last month.

Our overweight positioning in the Consumer Staples sector is explained by our search for good quality companies that have a strong potential for dividend growth – and our findings that companies with a strong balance sheet and consistently high returns on capital are better placed to increase their dividends steadily year-on-year.

The Guinness Global Equity Income Fund's focus on chasing dividend growth, rather than the highest dividend yields, arises from the disconcerting correlation between high dividend yield and the high risk of a future dividend cut (figure 2). Companies that cut their dividend tend to perform poorly not only after the announcement is made but also in anticipation of a dividend cut (figure 3).

**Figure 2: Comparing forecast and realised dividend yields since 1995**

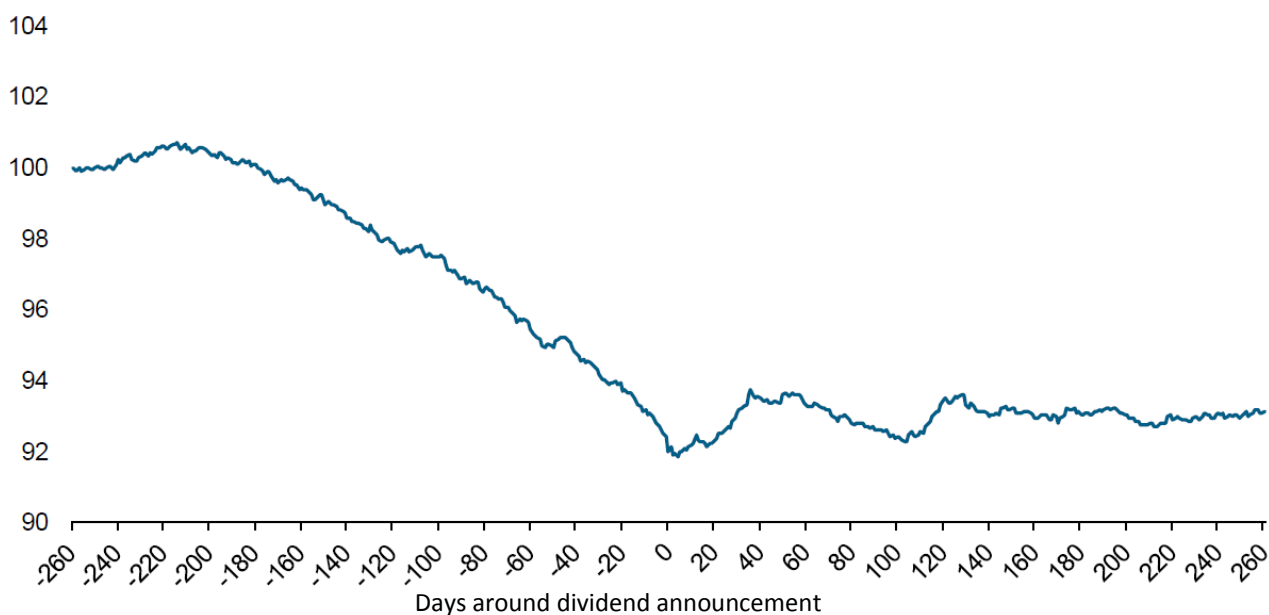


Source: SG Cross Asset Research/Equity Quant, FTSE, I/B/E/S, FactSet

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**Figure 3: Average stock returns around dividend cuts**



Source: SG Cross Asset Research/Equity Quant

In light of the above, if we analyse the companies that cut their regular dividend in 2018 (vs 2017), we begin to see some notable characteristics. Out of the 1632 companies in the MSCI World Index, 64 companies cut their dividend in 2018, i.e. paid a smaller regular dividend per share in 2018 versus 2017. If we compare this group of ‘Dividend Cutters’ to the Fund, the aggregate statistics illustrate how our process leads us away from such companies despite their ostensibly high dividend yields.

	Quality		Growth & Value		Dividend			
	Fund	Dividend Cutters	Fund	Dividend Cutters	Fund	Dividend Cutters		
Average 10yr Return on Capital	17%	6%	P/E (2018e) 1st Jan 18	17.6	19.5	Average dividend yield 1st Jan 18	2.9%	4.0%
Average net debt / equity 1st Jan 18	54%	74%	FCF Yield 1st Jan 18	6.5%	4.0%	Average payout ratio 1st Jan 18	63%	111%
			Total Return (2018, in USD)	-5.4%	-15.8%	Average Dividend Growth 31st Dec 18	11%	-27%

Source: Bloomberg PORT, Guinness Asset Management calculations

- **Quality** – the Fund holds companies that have a much higher and more persistent return on capital, whilst having 20% less net debt to equity.
- **Growth & Value** – the Dividend Cutters, on average, were punished by the market. In 2018 they had a lower total return and were in fact more expensive on a forward price-to-earnings multiple at the start of the year. Additionally, the group of Dividend Cutters had a lower free cash flow yield, indicating a weaker ability to generate sufficient cash flow to meet operating expenses.

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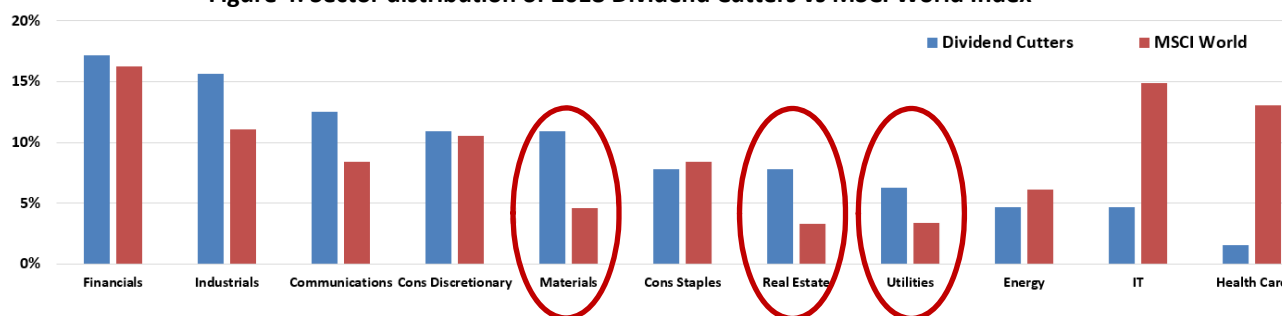
## Guinness Global Equity Income Fund

- **Dividend** – the Dividend Cutters have a higher dividend yield and significantly higher payout ratio. Naturally, as this becomes unsustainable the company is forced to cut its dividend and is then punished by the market. This then makes its realised yield much lower.

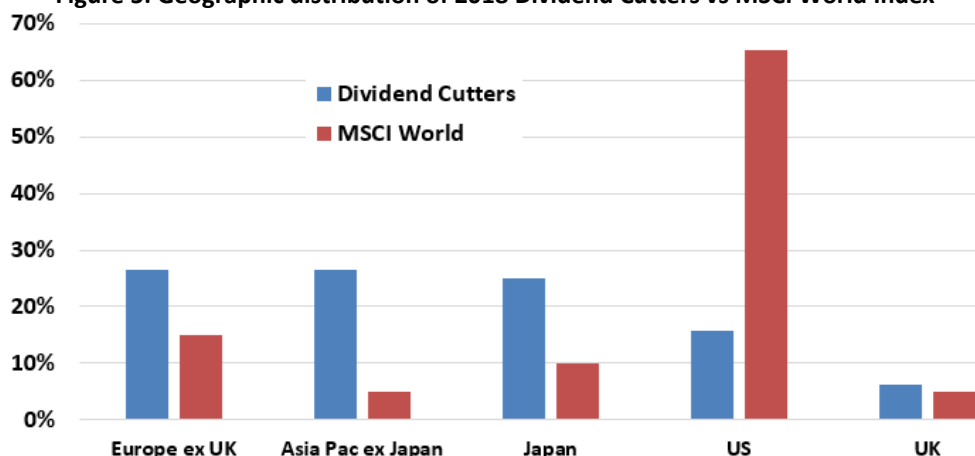
Our initial universe screening, whereby we look for companies that have above 10% cashflow return on investment for 10 consecutive years, strips out all but 8 of the 64 Dividend Cutters. Only 4 companies remain after we screen out the highly leveraged companies. This shows that our process is designed to offer protection against dividend cutters; we stringently screen for quality characteristics in the belief that companies which pass the screening are well managed and would not need to cut their dividend.

The figures below show the sector and geographic distribution of the Dividend Cutters.

**Figure 4: Sector distribution of 2018 Dividend Cutters vs MSCI World Index**



**Figure 5: Geographic distribution of 2018 Dividend Cutters vs MSCI World Index**



By sector, we see that Materials, Real Estate and Utilities have proportionally the largest number of Dividend Cutters relative to the size of their weighting in the MSCI World Index. In contrast, Healthcare and IT have the fewest cutters. The Guinness Global Equity Income Fund has no exposure to Materials, Real Estate and Utilities since in these sectors, which tend to be more regulated, we find that companies tend not to have the persistence in quality that we look for.

Geographically, US is an anomaly in that it has a large weighting in the MSCI World but proportionally fewer Dividend Cutters. We find that US companies that do pay a dividend tend to have robust balance sheets and a preference for a well-covered progressive dividend policy.

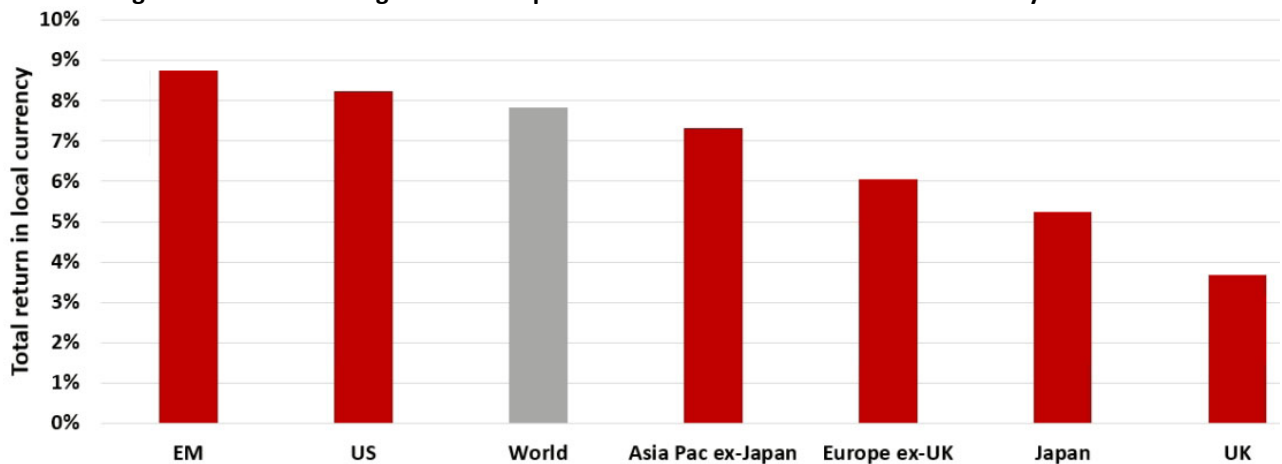
**We made no changes to the portfolio in the month.**

## January in Review

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Figure 6: MSCI World regional indices performance: 31 December 2018 – 31 January 2019



Source: Bloomberg. As of 31st January 2019

Regionally, Emerging Markets and the US were the best-performing in January, though all regions posted substantial gains. In fact, January 2019 marked the second-best monthly performance for global equity markets in over seven years. Stronger-than-expected corporate earnings results and some optimism over the US-China trade talks meant that 2019 made a flying start and somewhat reversed the large sell-off of December 2018.

US equity markets were boosted particularly by comments from the US Federal Reserve (Fed) that it would be more patient in increasing interest rates, and more flexible in reducing its balance sheet. The less aggressive statement – and sharp change in rhetoric from the previous month – helped to ease fears that policymakers would continue with plans to raise interest rates even as economic data pointed towards a ‘cooler’ economy. The Fed’s comments led bond markets to price in no further rate rises over 2019.

Broader concerns about economic growth still remain, including the potential impact on US economic activity from the recent government shutdown. President Trump’s desire to build a physical border wall between the US and Mexico can be analogised by the song lyrics bellowed by the Gallagher brothers in 1995:

*I said maybe, you're gonna be the one that saves me  
And after all, you're my wonderwall*

**From *Wonderwall*, written and produced by Oasis in 1995**

‘Wonderwall’: while there is no formal definition, scouring the web tells us it is a noun used to describe ‘someone you find yourself thinking about all the time; one you are completely infatuated with’. For example, one may be thinking about this wonder during a presidential campaign or the first two years as US President. Quite fittingly, one would also go to many extremes for this infatuation, such as shutting down US Government for 35 days – the longest shutdown in history. The roads to a solution seem to be winding; a lack of Democratic support and a defiant Republican President have led to speculation that a National Emergency to fund the wall may not be unrealistic. The effect on stock markets has been muted so far, and the biggest victims have perhaps been the US sentiment indicators. The January jobs report may well come out skewed by the shutdown but the December 2018 jobs report came in fairly strong – wage growth inched up to 3.3% year-on-year, and the unemployment rate rose to 3.9%, though this was largely explained by the increase in labour force participation.

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In other regions, EM and Asia benefited from easing trade tensions between the US and China and from the weakening of the US Dollar which accompanied lower interest rate expectations. China emerged as the best-performing market in Asia as the central government revealed plans to stimulate the slowing economy. Full-year 2018 GDP growth in China came in at 6.6%, versus 6.8% the previous year, marking the slowest pace of growth since 1990. Expectations remain high that Chinese authorities will roll out targeted stimulus measures to bolster economic growth throughout 2019 and stabilise the short-term mixed outlook.

In Europe, economic data pointed to on-going weakness. GDP figures showed growth of 0.2% quarter-on-quarter in Q4, the same as in Q3. In terms of forward-looking indicators, the flash composite purchasing managers' index fell to 50.7 in January, a 66-month low and compared to 51.1 in December, suggesting that business growth is close to stalling. The unemployment rate remained stable in December at 7.9%; this remains the lowest rate since October 2008. The European Central Bank (ECB) said the risks surrounding eurozone growth have lessened and maintained its guidance for interest rates to remain unchanged "at least through the summer of 2019". Italy seems to be worst affected in the region as it slipped into recession with two consecutive quarters of economic contraction.

UK equity markets rose over the course of January, providing the first month of positive returns since the third quarter of 2018. The heightened political tension that has characterised recent months continued into the new year, as the Brexit deadline gets ever closer. In January, the House of Commons voted twice on Prime Minister May's withdrawal agreement. In the first vote, MPs voted down the bill by a historic margin, although two weeks later the Prime Minister succeeded in securing MPs' backing, subject to material amendments. The market welcomed these political developments, and Sterling enjoyed a three-month high versus the US Dollar over the course of the month. Investors appeared to interpret the developments as supportive of moves to avoid a 'no deal' exit, as well as a general election.

At this stage in the cycle, where the macroeconomic data is more mixed and political uncertainties remain, we have seen good inflows into the Guinness Global Equity Income Fund as many investors look to make gradual shifts in their allocations towards quality, value and income.

We thank you for your continued support.

### Portfolio Managers

Matthew Page, CFA

Dr Ian Mortimer, CFA

### Analysts

Joseph Stephens

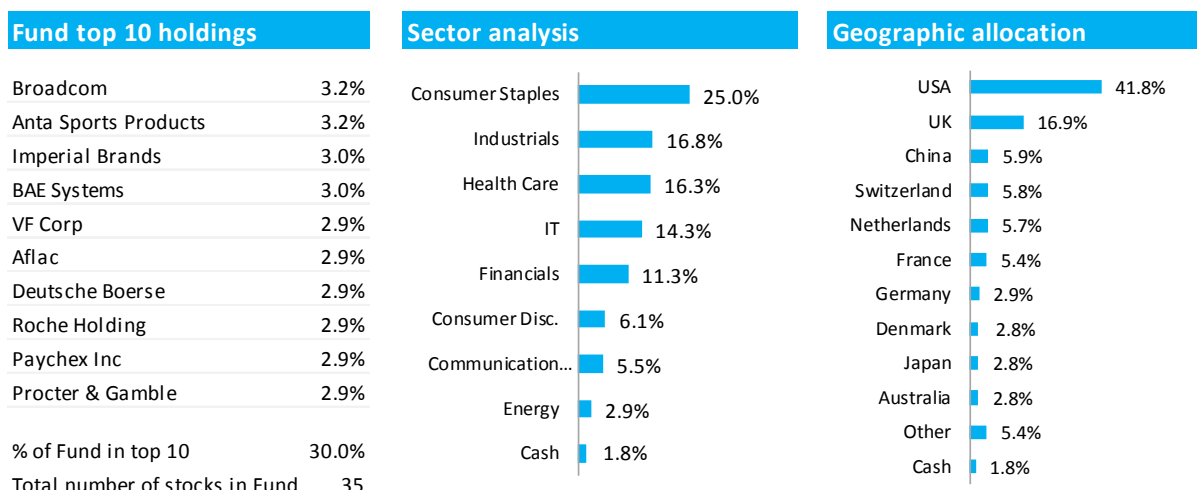
Sagar Thanki

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PORTFOLIO

31/01/2019



PERFORMANCE

31/01/2019

Annualised % total return from launch (GBP)



Discrete years % total return (GBP)

	Jan '15	Jan '16	Jan '17	Jan '18	Jan '19
Fund (Y class, 0.99%OCF)	18.6	0.0	25.6	9.9	2.6
MSCI World Index	17.7	1.1	32.8	11.9	1.6
IA Global Equity Income sector average	14.0	-4.5	28.0	9.4	-2.1

Cumulative % total return (GBP)

	1 month	Year-to-date	1 year	3 years	5 years	From launch
Fund (Y class, 0.99%OCF)	1.8	0.7	2.6	41.7	68.0	119.7
MSCI World Index	4.4	-3.0	1.0	48.5	74.7	122.2
IA Global Equity Income sector average	3.8	-5.8	-2.1	37.2	49.3	86.4

RISK ANALYSIS

31/01/2019

Annualised, weekly, from launch on 31.12.10, in GBP	Index	Sector	Fund
Alpha	0	0.20	1.16
Beta	1	0.76	0.85
Information ratio	0	-0.34	-0.05
Maximum drawdown	-18.26	-15.50	-16.34
R squared	1	0.80	0.89
Sharpe ratio	1	0.38	0.52
Tracking error	0	6.12	4.56
Volatility	13.83	11.47	12.27

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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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