

# Guinness Global Equity Income Fund

## INVESTMENT COMMENTARY – April 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** £110m

**Launch date** 31.12.10

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

### Performance 31.03.16

	1 year	3 years	From launch
<b>Fund</b>	2.8	30.0	65.0
<b>Index</b>	-0.3	28.8	56.5
<b>Sector</b>	-1.8	18.5	44.5

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

<b>Fund</b>	10.0%
<b>Index</b>	8.9%
<b>Sector</b>	7.3%

**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)

## Month and Quarter in review

In March the fund was up 1.76% (in GBP) versus the benchmark MSCI World Index up 3.54%. The fund therefore underperformed the index by 1.78%.

Over the quarter as whole, which was somewhat volatile to say the least, the fund posted a positive return of 6.08% (in GBP). This was 3.89% ahead of the benchmark which was up 2.19% over the quarter.

Pleasingly this places the fund in the top quartile of the IA Global Equity Income peer group for the quarter and also continues to demonstrate the benefits of our approach of placing the quality of a business first and foremost in our selection criteria.

	Total return in GBP				
	Year-to-date	1 year	3 years	5 years	Since launch*
<b>Fund</b>	6.08%	2.83%	30.01%	61.64%	65.01%
<b>IA Global Equity Income sector average</b>	3.07%	-1.79%	18.45%	42.34%	44.48%
<b>Quartile rank in sector</b>	1st	1st	1st	1st	1st

Source: Financial Express

We see time and again that companies who have demonstrated their ability to earn significantly above cost of capital returns on investment for long periods are well placed to weather whatever economic environments they find themselves in. This ability to generate economic profits also allows these companies to continue to grow (albeit at potentially more modest levels compared to the "FANGs" (Facebook, Amazon, Netflix and Googles) of this world). This is usually well rewarded when market sentiment turns and investors begin to monitor cash flows and earnings results more closely than they might have when markets were rallying.

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By maintaining a valuation discipline we hope to avoid chasing the crowd into momentum stocks when markets are bullish. This was certainly the case in 2015 when just a handful of companies accounted for the majority of index returns for the year, almost none of which we owned. The first few weeks of 2016, however, was a case in point for how quickly these ‘market darlings’ can lose their lustre.

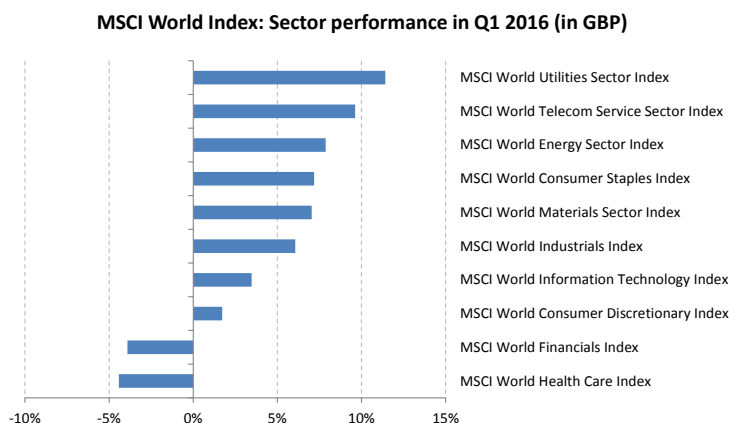
It is quite remarkable how market sentiment turned on a sixpence in the middle of the quarter. At the low on February 11th the MSCI World index was down 9.77% (in GBP) from the start of the year, the S&P500 was down 8.55% (in GBP), and the MSCI Emerging Markets Index was down 8.44% (in GBP). Yet these benchmarks ended the quarter up 2.17%, 3.74%, and 8.19% respectively since the start of the year.

Once again we saw fears stemming from uncertainty surrounding the state of the global economy allayed by the intervention of central banks. After the sharp selloff in the first six weeks of the year we saw further supportive measures from Japan, Europe, and the US Federal Reserve. Which, when combined with strengthening oil and commodity prices and a weaker US dollar, led to a quick recovery in share prices more generally.

## Performance drivers

In the month of March the recovery in share prices was driven in large part by the strengthening price of oil and other commodities more broadly. This then fed in to a recovery in emerging market listed companies. The fund generally does not have a large weighting to these parts of the market and this lack of exposure held back performance relatively in the month. The energy exposure of the fund today is from two holdings which make up approximately 6% of the portfolio; Royal Dutch Shell and Total. We believe these are two of the higher quality names in the sector but with their integrated business models they are not as ‘levered’ to oil prices as the exploration and production companies, for example.

Looking at the individual performances of the ten sectors in the MSCI World Index only two posted negative performance in the quarter; financials and healthcare. Banks were a drag within the broader financials sector and the continued selloff of biotech companies kept returns in the healthcare sector low.



Source: Bloomberg

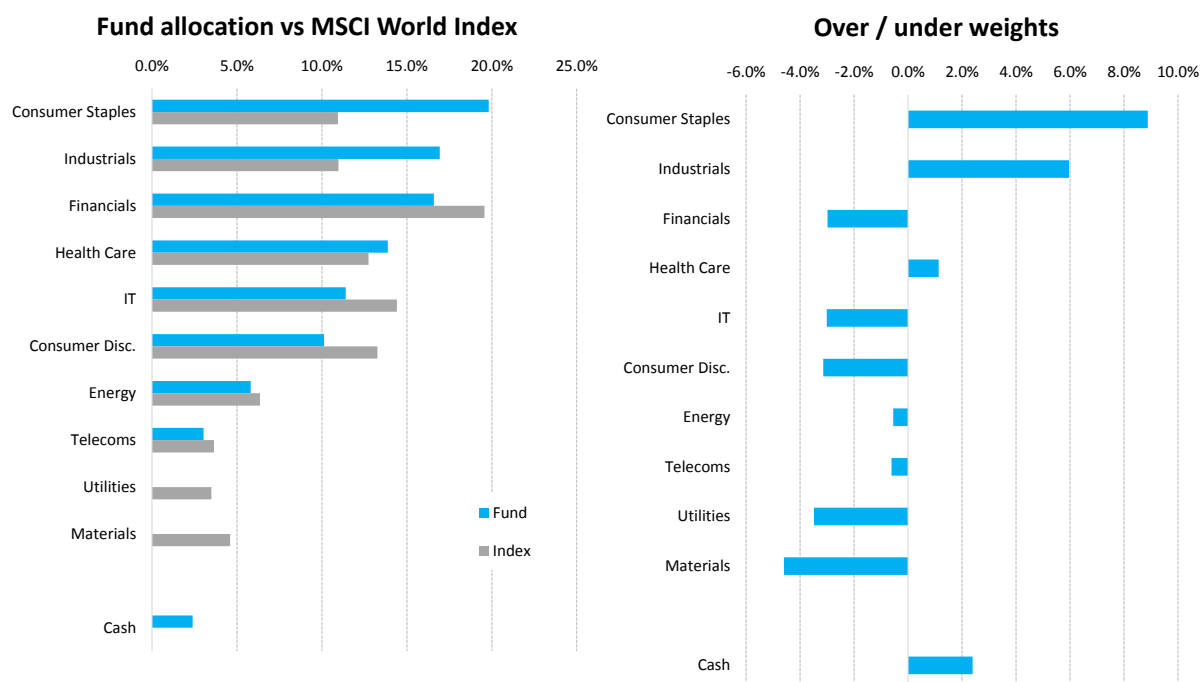
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## Guinness Global Equity Income Fund

The higher dividend yielding parts of the market (namely utilities and telcos) posted the best performance in the quarter as investors search for income intensified as bond yields dropped to ever lower levels following a reduced expectation of interest rate rises in the near term. We wrote last month about the concentration risks present in a high dividend yield approach, and we would reiterate this point again today.

Materials and energy, as we mentioned above, also posted good returns over the quarter.

When we consider the position of the fund relative to the benchmark it is pleasing that the fund performed as well as it did in the first three months of the year.



Source: Bloomberg

As the charts above show, the fund has no exposure to either the utilities or materials sector. This has been the case since we launched the strategy back in 2010 as these types of business do not meet the criteria we look for in a good business; namely a persistently high return on capital, and a not overly burdened balance sheet. We therefore did not get the ‘benefit’ of the sharp rallies seen in these two sectors.

Our largest overweight remains the consumer staples sector. This part of the portfolio is one that had been reducing over the past few years as we took profits on companies which we worried had started to look overvalued. However, the addition of Walmart back into the portfolio reversed this trend as it increased our staples allocation by approximately 3%. This shows that we believe parts of this sector can still provide a reasonable valuation and a good dividend and that we should not dismiss it out of hand as ‘expensive’.

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## Changes made in the portfolio

In the quarter we made one change to the portfolio. In January we sold our position in Aberdeen Asset Management and replaced it with a new position in Walmart, a company that we had previously owned in the portfolio and sold in March 2013.

## Outlook

The fund at the end of the quarter was trading on 15.9X 2016 earnings; a discount of 1.8% to the broad market. This discount has closed somewhat since the start of the year as the fund has outperformed the benchmark by almost 4% in the first quarter.

We feel the fund is well placed to continue its good performance. With valuation levels rising, the potential for continued volatility around increases in interest rates, and plenty of geopolitical uncertainty around the globe, our approach of focusing on the quality of the underlying companies we own and not chasing high dividend yields should stand us in good stead.

Thank you for your continued support.

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

### April 2016

#### Data sources

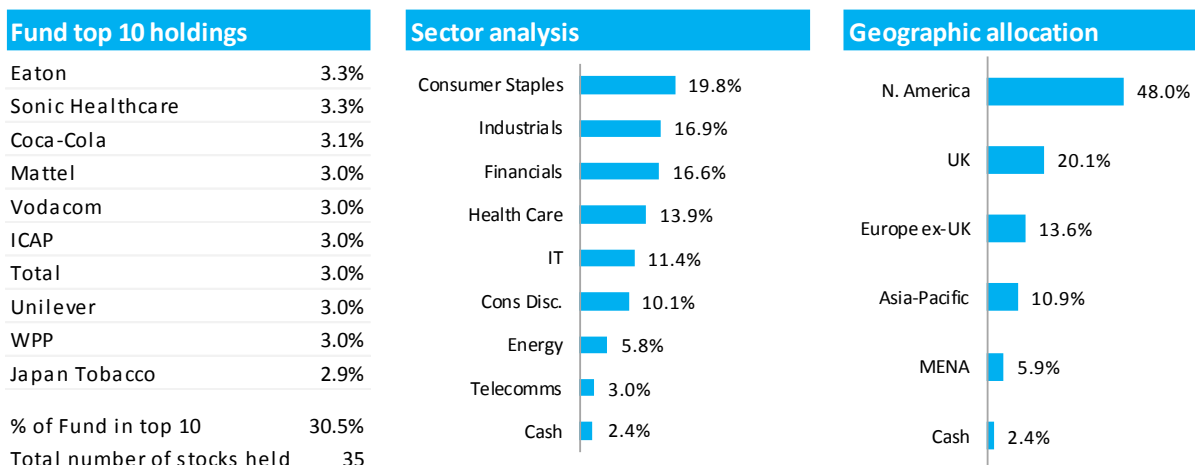
Fund performance: *Financial Express, total return in GBP*

Index and stock data: *Bloomberg*

## Guinness Global Equity Income Fund

### PORTFOLIO

31/03/2016



### PERFORMANCE

31/03/2016

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



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

	Mar '12	Mar '13	Mar '14	Mar '15	Mar '16
Fund (Y class, 0.50%AMC)	4.6	18.9	8.9	16.1	2.8
MSCI World Index	0.9	17.7	8.5	19.1	-0.3
IA Global Equity Income sector average	1.6	18.3	7.1	12.6	-1.8

#### Cumulative % total return (GBP)

	1 month	Year-to-date	1 year	3 years	5 years	From launch
Fund (Y class, 0.50%AMC)	1.8	6.1	2.8	30.0	61.6	65.0
MSCI World Index	3.5	2.2	-0.3	28.8	52.9	56.5
IA Global Equity Income sector average	2.6	3.1	-1.8	18.5	42.3	44.5

### RISK ANALYSIS

31/03/2016

Annualised, weekly, from launch on 31.12.10, in GBP	Index	Sector	Fund
Alpha	0	0.54	2.20
Beta	1	0.76	0.85
Information ratio	0	-0.23	0.21
Maximum drawdown	-18.26	-15.50	-16.19
R squared	1	0.80	0.89
Sharpe ratio	0	0.32	0.51
Tracking error	0	6.27	4.62
Volatility	13.88	11.80	12.55

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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. **IA sector** performance based on highest fee share classes for each fund (C Class (1.5% AMC) for Guinness Global Equity Income). **See Notes overleaf.**

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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.

2) The performance of the IA Global Equity Income sector is based on the average of the highest fee share class of each constituent fund, e.g. C class for the Guinness Global Equity Income Fund, with an annual management fee of 1.5%.

### 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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