Guinness Global Equity Income Fund

Why Buy the Fund?

GUINNESS GLOBAL INVESTORS

This is a marketing communication. Please refer to the prospectus and KIID for the Fund, which contains detailed information on the Fund's characteristics and objectives before making any final investment decisions.

1 Our aim is dividend growth rather than high yield

We invest in dividend-paying companies, but **we don't select companies for high yield.**

In fact, we avoid screening for yield to construct our investment universe and focus instead on identifying quality, well run, profitable companies.

The Fund aims to deliver long-term capital growth, a moderate yield and a growing income stream.

We buy good companies at attractive valuations, rather than just companies that are cheap.

Avoid value traps – why high yield can hurt

"The risk of paying too high a price for good quality stocks – while a real one – is not the chief hazard... Observation over many years has taught us that the chief losses to investors come from the purchase of low quality securities at times of favourable business conditions."

Benjamin Graham

2 Our investment process specifically targets quality companies first

Although the Fund invests in dividend-paying companies, we select companies on the basis of quality rather than yield. We look for companies that have achieved top quartile return on capital in each of the previous ten years. These companies make up our investment universe.

Specifically, we look at the world's 16,000 listed companies, and identify only those that have achieved **a 10% return on capital in each and every year** over the last **ten years**.

It is a rare achievement for a company to meet these criteria, and we think it shows real quality. On average, only 3% of global listed companies achieve our threshold.

As it happens, our screening identifies an abundance of companies with attractive dividend yields. On average since 2000, over 50% of companies in our investment universe have yielded over 2%. This means we can build a sensible portfolio with a moderate yield and good potential for dividend growth.

It also enables us to take a buy-and-hold approach and avoid a 'barbell' portfolio or short-term, dividend capture trades.

Why 10% return on capital?

10% is well above the average real cost of capital. These companies are truly creating value.

Why every year?

This excludes highly cyclical companies or those with high but declining or volatile earnings.

Why ten years?

Business cycles tend to last less than ten years. The companies in our universe have shown they can weather most economic environments.

Good companies stay good

A decade of high return on capital is a powerful indicator of future success. History shows there's a 95% chance these companies achieve a return on capital over 10% the following year, and an 80% chance they'll still be doing it four years later.

3 Our portfolio is different to others

With quality rather than yield as our starting point, we identify many well-known blue-chip companies, but we also find a broad range of companies that are less well-known and may be outside the traditional dividend-paying regions and sectors.

We avoid companies that look good in yield terms but don't pass our return-on-capital requirements. This means we don't invest in companies that might be cheap for good reasons (so-called "value traps").

Differentiation

Unlike other equity income funds, the Fund holds no utilities, no REITs and no MLPs. This makes it quite different from funds which just screen for stocks on the basis of overall dividend yield.

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Why Buy the Fund... Continued

4 Our equally weighted portfolio balances concentration and risk

✓ **High active share**

A concentrated portfolio with stock weights that are not driven by the benchmark will – by design – have a high active share.

Since launch our portfolio's active share has been around 90% or more versus the MSCI World Index.

✓ **Rebalancing effect**

Sensible periodic rebalancing forces us to go against market movement and (assuming our original rationale still stands) buy more of a company that has underperformed and trim our holdings in companies that have outperformed. If our longer-term conviction proves correct, the Fund will benefit materially.

Loss aversion is one of the key behavioural biases that portfolio managers must confront. The discipline of equal weighting counteracts it. We can never grow a long tail of 'legacy losers' which we no longer have conviction in.

✓ **One in, one out**

It's often easier to identify companies we'd like to buy than finding something we already own that we should be selling. The portfolio's fixed number of positions forces us to consider which we like the least.

When we identify a company to buy, we can't just add another position – we also have to sell something. This keeps the portfolio up-to-date with our current best ideas.

✓ **Limited stock-specific risk**

Having an equally weighted portfolio limits stock-specific risk to a reasonable level. Index-weighted portfolios will have higher weightings in large-cap companies, and therefore higher stock risk.

Large-cap companies can make up a significant proportion of index-weighted portfolios. There are many examples of larger companies that didn't turn out to be good investments.

✓ **Conviction in every position**

Some argue that by equally weighting the portfolio we are limiting the scale of conviction in any one company. We believe it shows higher conviction to have equal weights in all our 35 holdings than larger weights in a few and small weights in the rest.

Our equally-weighted portfolio means we have the same weight in a £1 billion company as a £100 billion company. In our minds that demonstrates high conviction.

5 Growing fund with an experienced team

Team

Begun in 2010, the partnership of managers Ian Mortimer and Matthew Page is one of the longest among peers.

Proprietary investment process

The Fund's investment process was developed in-house by its managers. The objective of their research was how to identify successful companies with unusually persistent competitive strengths, and then how to invest in this type of company at valuations that will maximise long-term returns.

Independent fund group

Guinness Global Investors is an independent fund group wholly owned by its directors and staff.

Growing Fund

Fund size in GBP (m)