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# Inflation Managed Dividends *brief*



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**Commentary and Review by co-portfolio managers  
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## Manager's Review

Global equities were mostly positive in July, with most developed markets up strongly, compared to a more mixed bag for emerging market economies<sup>1</sup>. So called 'cross-asset correlations' reduced from their July highs. In plain English; when Fed chairman Bernanke hinted towards a tapering of the \$85 billion (bn) in monthly bond purchases back in May, markets took fright and were sold down fairly indiscriminately, meaning the correlations between these asset classes during that period were quite high. In the ensuing rally in July, the different asset classes didn't all recover equally well - meaning correlations between the different asset classes were lower. Conventional wisdom, and indeed empirical evidence over at least the last decade, suggests that all asset classes should not fall in-step unless there is a large external shock to markets, such as the financial crisis or 9/11. The prevailing relationship seen over the last decade or so has generally seen a negative correlation between stocks and bonds, for example. So, what happened?

<sup>1</sup>. As measured by the MSCI Emerging Markets Index and MSCI World Index (developed)

## Performance of our holdings

In his May testimony, Chairman Bernanke signalled that the Fed would begin to withdraw stimulus as certain economic indicator levels were met. The market then immediately sold off. This obviously was not the desired effect Mr. Bernanke, or indeed the Fed, were looking for – as Bernanke himself, along with an assortment of other Fed officials, frantically took to talking down the ‘taper’ in the business and wider press throughout the following weeks, causing markets to rally again. But ultimately, Bernanke and the Fed have largely achieved what they set out to do: use low rates and Quantitative Easing to coerce investors into bidding up assets.

Perhaps the result of this unprecedented monetary policy has been to raise asset prices by pushing some investors into riskier positions than they would normally like to hold – if the return on cash has been telegraphed to be extraordinarily low and for an extraordinarily long period of time, then it may give you no choice. This might then mean that the good performance in markets has not been entirely a result of improved sentiment and confidence, but rather helped by investors taking positions through gritted teeth. If the status quo then changes, as was hinted at the end of May, some of these ‘nervous’ investors might then be happy to sell down their positions, regardless of where they were invested. The next few months will therefore be a particularly interesting time as all eyes will be on US payroll numbers before the next Fed meeting in September. And we will have to wait and see whether the Fed can adroitly extract themselves from their asset purchases without further spooking the market.

Our belief remains, and apologies if we are starting to sound like a broken record, that investors should concentrate on the quality of the underlying businesses they are invested in first and foremost. Time and again we have seen over the year and a half since we launched the fund, that our performance has been the strongest, relative to the broad market, when markets have taken a tumble. For example, in the spring of 2012 when the European crisis bubbled to the surface once more, and in the May 22 to June 24 period we have just witnessed.

We only look for companies that have a long track record of consistently high returns on capital, and then we consider the dividend – we try to avoid the trap of buying higher-yielding companies where the core business is actually rather poor and could do even worse if the rising tide of cheap capital and easy monetary policies turns. Companies that tick all our boxes, and specifically those that tick all our boxes and are also cheap, are proving harder to come by. That does not mean they no longer exist, but it may mean that we have to move into more ‘unloved’ areas of the market – something we started to do in March with sales of Walmart and VF Corp and purchases of Northrop Grumman and BAE Systems. This is necessary, however, if we want to avoid getting swept up with the crowd in unsustainable price rises in select parts of the market.

**Portfolio Performance**

July saw a strong rebound in global equities, as measured by the MSCI World Index, following the decline in markets from the local peak on May 22nd to the end of June. The Fund generated a total return of +5.19% in July, compared to its MSCI World Index benchmark return of +5.31%. The Fund has returned +19.05% year-to-date versus the Index return of +14.59%.

as of 6/30/13	YTD	1 YR	Since Inception (3/30/12)
<b>Inflation Managed Dividend Fund</b>	13.16%	21.29%	14.67%
<b>MSCI World Index</b>	8.82%	19.41%	13.65%

as of 7/31/13	YTD	1 YR	Since Inception (3/30/12)
<b>Inflation Managed Dividend Fund</b>	19.05%	25.33%	24.84%
<b>MSCI World Index</b>	14.59%	24.11%	19.68%

The expense ratio is 7.05% (gross), 0.68% (net)

*Performance data quoted represent past performance and does not guarantee future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance of the Fund may be lower or higher than the performance quoted. For most recent month-end and quarter-end performance, visit [http://www.gafunds.com/IMD\\_performance](http://www.gafunds.com/IMD_performance) or call (800) 915-6566. The Fund imposes a 2% redemption fee on shares held for less than 30 days. Performance data does not reflect the redemption fee and, if deducted, the fee would reduce the performance noted.*

The Advisor has contractually agreed to reduce its fees and/or pay Fund expenses (excluding Acquired Fund Fees and Expenses, interest, taxes, dividends on short positions and extraordinary expenses) in order to limit the Fund's Total Annual Operating Expenses to 0.68% through March 31, 2015.

Opinions expressed are subject to change, are not guaranteed and should not be considered investment advice.

*This information is authorized for use when preceded or accompanied by a prospectus for the Guinness Atkinson Inflation Managed Dividend Fund. The prospectus contains more complete information, including investment objectives, risks, charges and expenses related to an ongoing investment in The Fund. Please read the prospectus carefully before investing.*

**Mutual fund investing involves risk and loss of principal is possible. Investments in foreign securities involve greater volatility, political, economic and currency risks and differences in accounting methods. These risks are greater for emerging markets countries. The Fund also invests in smaller companies, which will involve additional risks such as limited liquidity and greater volatility. The Fund may invest in derivatives which involves risks different from, and in certain cases, greater than the risks presented by traditional investments.**

For a list of current holdings, [click here](#). Fund holdings and/or sector allocations are subject to change at any time and are not recommendations to buy or sell any security.

The MSCI World Index (MXWO) is a capitalization weighted index that monitors the performance of stocks from around the world.

The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets. The MSCI Emerging Markets Index consists of the following 21 emerging market country indices: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Morocco, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand, and Turkey.

One cannot invest directly in an index.

Correlation is a statistical measure of how two securities move in relation to each other and is used in advanced portfolio management.

Cross-Asset Correlation is the average correlation between asset classes.

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