

Guinness Global Innovators Fund

Innovation | Quality | Growth | Conviction

INVESTMENT COMMENTARY – February 2019

About the Fund

The Fund is a global growth fund designed to provide exposure to companies benefiting from innovations in technology, communication, globalisation or innovative management strategies. The Fund holds a concentrated portfolio of large and medium-sized companies in any industry and in any region.

Fund size	\$187m
AUM in strategy	\$374m
Fund launch date	31.10.14
Strategy launch date	01.05.03

Managers Dr. Ian Mortimer, CFA
Matthew Page, CFA

Analysts Sagar Thanki
Joseph Stephens

Performance 31.01.19

Cumulative % total return (GBP)	1 year	3 years	5 years	10 years
Strategy*	-6.0	52.9	80.3	370.9
Index	1.0	48.5	74.7	225.8
Sector	-2.0	46.8	57.3	174.8
Position in sector	251 /304	63 /272	45 /240	2 /166

Annualised % total return from strategy inception (GBP)

Strategy*	11.92%
Index	9.46%
Sector	8.62%

Strategy Guinness Global Innovators*
Index MSCI World Index
Sector IA Global

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. *Composite simulation of performance. Guinness Global Innovators Fund (UCITS) launched on 31.10.14. Performance data prior to this date is based on the actual returns of a US mutual fund managed by the same team using the same investment process as applied to the UCITS version. Source: Financial Express 0.99% OCF, bid to bid, total return, in GBP.

Summary performance

In the month of January, the Guinness Global Innovators Fund provided a total return of 7.06% (in GBP) against the MSCI World Index net return of 4.35%. Hence the fund outperformed the benchmark by 2.71%.

During January, dovish tones from the US Federal Reserve on future interest rate hikes and the absence of any deterioration in trade talks gave some welcome relief to global markets. Indeed, the Guinness Global Innovators Fund, which at the end of 2018 was trading at a discount to the MSCI World, performed strongly over the month as its most notable overweight exposures – IT and Chinese stocks – produced strong returns following significant multiple contraction over 2018.

Despite the headwinds experienced last year, 2019 has begun very positively, leaving the portfolio's performance ranking in the top quartile over 3, 5 and 10 years against the IA Global Sector.

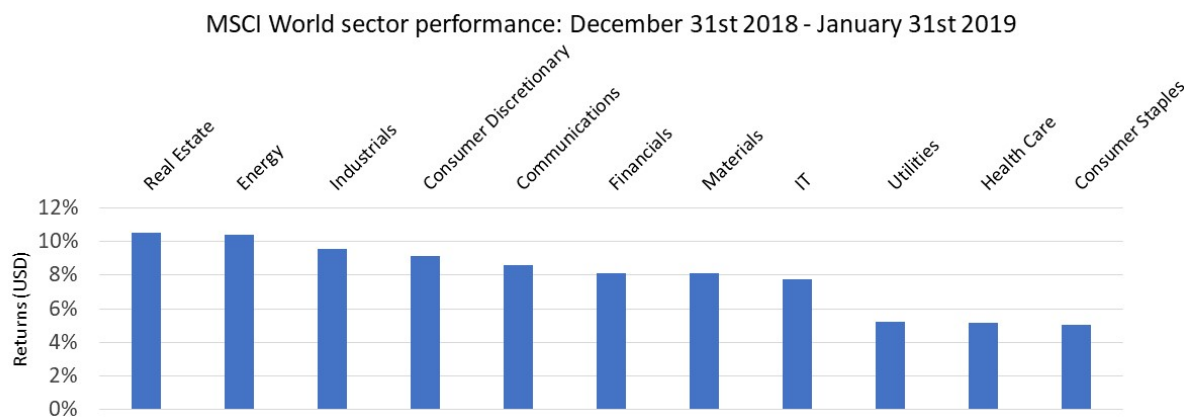
	3yr	5yr	10yrs
Fund	52.91%	80.30%	370.89%
Index	48.50%	74.74%	225.75%
IA sector average	46.75%	57.34%	174.79%
Rank vs peers	63/272	45/240	2/166

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

Much of the outperformance over the month was due the fund's overweight position to IT, and in particular semiconductor stocks such as

Past performance should not be taken as an indicator of future performance. The value of investments and any income arising from them can fall as well as rise as a result of market and currency fluctuations.

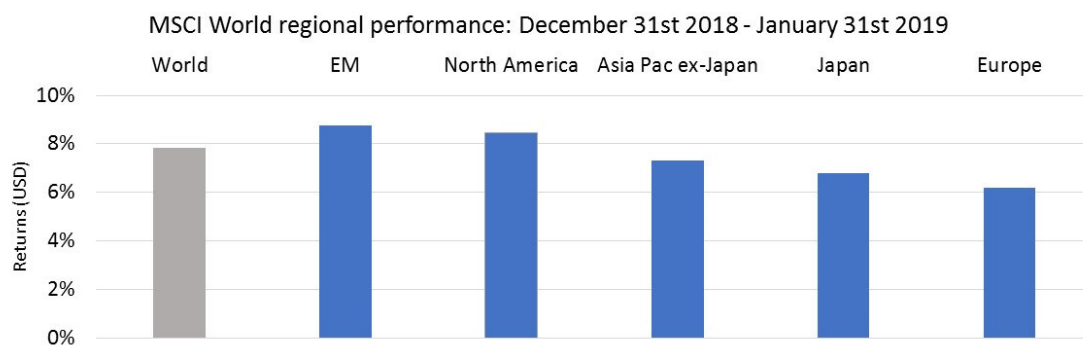
LAM Research (up 24.5% in USD) and KLA-Tencor (up 19.0% in USD), which rallied strongly on upbeat outlooks going into the second half of 2019. Additionally, strong stock selection within the Consumer Discretionary sector resulted in the fund’s biggest outperformance on a sector basis as New Oriental Education, a Chinese private tutoring company, beat earnings forecasts, sending the stock price up 40.6% (in USD) over the month.



Source: Bloomberg, as of 31st January 2019

The fund’s overweight position to Asia Pacific and more specifically China, which was a drag on the portfolio over the fourth quarter, rebounded strongly as positive – or a lack of completely negative – noise from US-China trade talks emerged. With investors looking for signals to try and ease worries and dampen volatility, any concrete agreement on Washington’s main sticking points still seems some way off. There was some relief as China pledged to buy significant amounts of agricultural, manufacturing and other US products to begin rebalancing the trade deficit. However, since the meeting, mixed messages have been released from each side with the US rejecting a meeting for further talks from two Chinese vice-ministers and the US commerce secretary stating that on trade they were “miles apart”.

The news comes as economic data coming out of China shows a continued slow-down with annualised real GDP growth for the fourth quarter down to 6.4% and export growth falling 4.4%. This in turn has been cited as a reason for corporate earnings slow-down with Apple reporting a 27% fall in Chinese revenues in the most recent quarter.



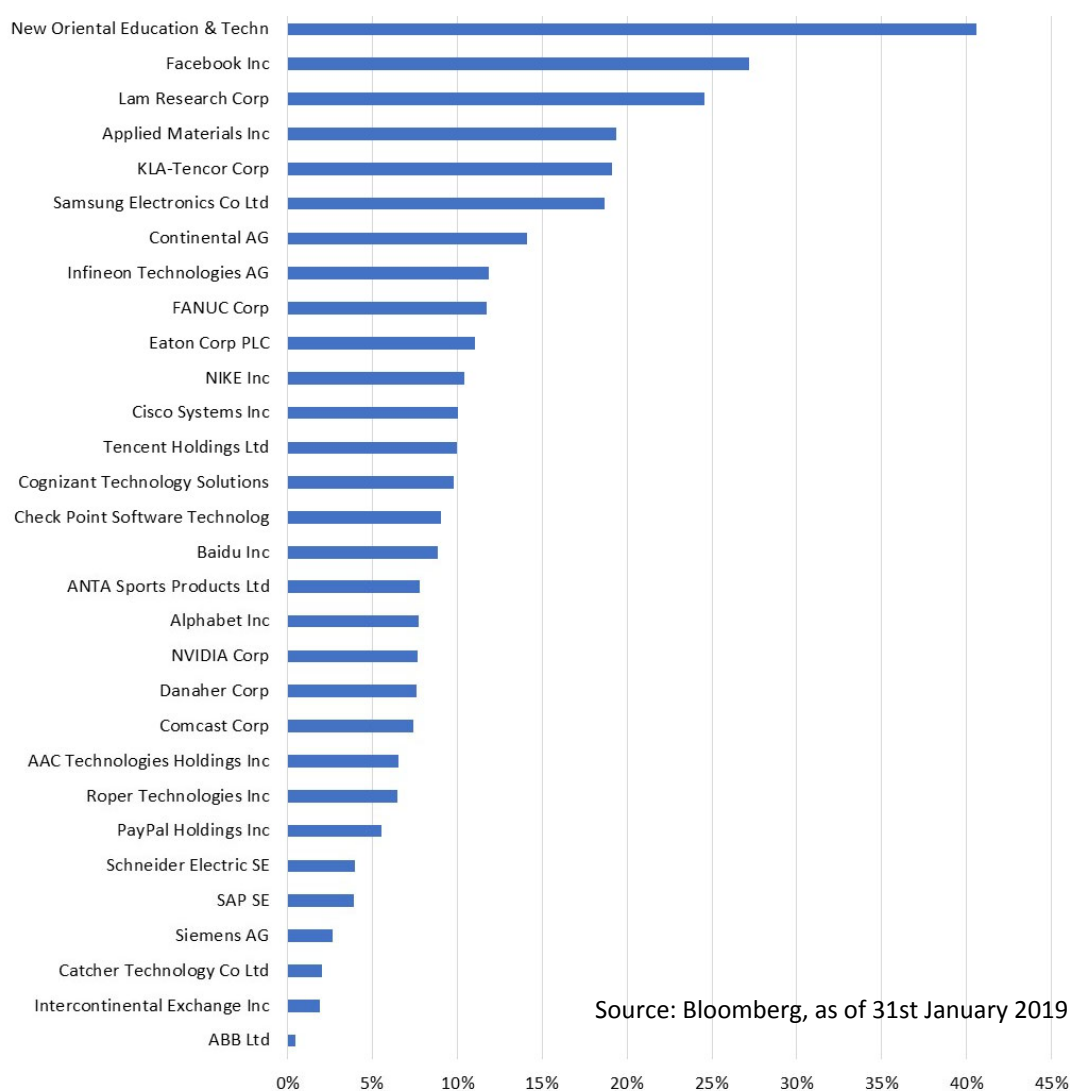
Source: Bloomberg, as of 31st January 2019

Past performance should not be taken as an indicator of future performance. The value of investments and any income arising from them can fall as well as rise as a result of market and currency fluctuations.

In an unexpected reversal US Fed Chairman Jerome Powell signalled that slowing growth from China and Europe as well as the US government shut-down was enough to warrant the possibility of no further interest hikes this year. This comes in stark contrast to the tone set by the Fed only a few months ago when the interest rate path was set to ‘autopilot’. The news, coupled with China trade commentary, enabled the US equity market to rise some 8.5% over the month with the portfolio benefitting as a result (the US is the fund’s largest regional exposure).

Within Europe, mixed data continued to be released as manufacturing PMIs for the Eurozone came in below expectations, Italy experienced its second consecutive quarter of GDP contraction – taking it into a technical recession – and slowing momentum from the ‘yellow vests’ in France was not enough to stem its composite PMI falling further to 47.9. However, unemployment in Europe continued to fall to 7.9% and the European Central Bank signalled it would continue to re-invest the proceeds from maturing investments as part of its quantitative easing programme whilst also implying any interest rate hike would be further out than previously expected. The slowing data points did have an effect on ABB Ltd, the fund’s industrial robotics manufacturer, over fears that slower capex spending would lead to a deterioration in demand.

Individual stock performance over January (total returns USD):



Source: Bloomberg, as of 31st January 2019

Past performance should not be taken as an indicator of future performance. The value of investments and any income arising from them can fall as well as rise as a result of market and currency fluctuations.

Individual companies that performed well over the month included New Oriental Education (40.6% in USD) and Facebook Inc (27.2% in USD).



New Oriental Education, the provider of private tutoring services in China, reported top and bottom-line figures that beat analysts' forecasts, propelling its stock price higher. The stock had been one of the fund's largest underperformers of 2018, mainly due to increased regulation in private tutoring services in China. We felt the stock's fall was overdone, given that increased regulation and standardisation of the industry should benefit the larger players in the long term as smaller players are squeezed out. New Oriental Education last year announced an expansion effort to gain a greater share of the largely fragmented private tutoring market. In its latest earnings report, the company reported expansion efforts were on track, with total schools and learning centres up 20% YoY, whilst announcing a new initiative named "3S" – Standardisation, Streamlining and Systematization – dedicated to improving efficiency. The fund's equally weighted portfolio structure, which ensures we periodically trim the outperforming stocks and top up the underperformers, has meant we were able to lock in profits as the stock fell during 2018 and similarly when the stock subsequently rose during January.

Plenty of eyes were on **Facebook's** latest earnings report released in January. The company, which owns the 'family of services' Facebook, WhatsApp and Instagram, has faced significant scrutiny over the last year surrounding data privacy. However, Facebook posted results that beat estimates across the board, citing revenue growth of 28% YoY and EPS growth of 56% YoY. Mark Zuckerberg, Facebook's founder and CEO, also announced proposals to increase payment services through WhatsApp, build out Instagram's shopping capabilities and link the messaging technology behind Facebook Messenger, WhatsApp and Instagram. We believe the monetarisation capabilities of Facebook continue to grow as connectivity between apps enables Facebook to target more specific advertising and increasing capabilities within the apps makes consumers more reliant on its ecosystem.

Individual companies that underperformed over the month were ABB Ltd (0.45% in USD) and Intercontinental Exchange Inc (1.90% in USD).



ABB, the provider of power and automation technologies, announced in December the sale of its power grid business to Hitachi in order to focus its efforts on industrial automation via the production of robotics. Over the last month, analysts have continued to downgrade their estimates over worries of slow late-cycle capex spending. ABB currently derives around 37% of its revenues from Asia, the Middle East and Africa and 35% from Europe – regions which are currently experiencing slowing manufacturing PMIs. Whilst we acknowledge these short-term headwinds, we believe the company will benefit from the longer-term secular shift toward automated production lines and a more focused platform after splitting off its power grid business.

Intercontinental Exchange (ICE), the operator of global commodity and financial security exchanges, returned 1.9% over the month. This came after an announcement from Morgan Stanley, Fidelity and Citadel Securities, among others, that they have plans to form their own exchange. The new exchange,

Past performance should not be taken as an indicator of future performance. The value of investments and any income arising from them can fall as well as rise as a result of market and currency fluctuations.

named Members Exchange, aims to be a low-cost alternative after complaints over high data fees. However, we believe ICE's continuing moves to diversify its business away from purely traditional exchange listings and trading into market data – which now represents 33.7% of total revenue up from 19% in 2015 – will provide robust future growth. The company now trades at 19.6x its 19Y earnings, which is around its 10-year average, even though its business model has developed more recurring revenue – offering the potential for a re-rating.

Semiconductor companies look to 2H 2019

Semiconductor companies experienced strong returns over the month as the majority reported strong top and bottom-line surprises coupled with management commentary pointing to a possible 'bottoming-out' in demand going into the second half of the year.

Looking at earnings calls from several semiconductor companies that reported over the month, we note the following commentary from management:

Samsung: *"in the second half of this year, we are expecting there to be server DRAM demand recovery together with the introduction of the new CPU. Also, we're seeing that there will be a strong server memory demand because there are companies that are preparing to adopt Edge servers in advance to prepare for the 5G network rollout after year 2020."*

Intel: *"consistent with historical patterns, we do expect the purchasing to start picking up again in the second half of the year."*

"While the first half in the cloud will be a little bit tougher, we do expect that cloud continues to grow as they start to move and to build out again in the second half."

LAM Research: *"we expect the first half of the year is going to be weighted towards foundry and logic. It will be stronger in the first half than the second half. And memory is may be a little bit stronger in the second half than the first half."* For context, LAM's revenue is 80% weighted towards memory.

KLA-Tencor: *"Though visibility in the industry today is challenging and customer plans remain fluid, particularly in memory, our current view is for the second half 2019 shipments to be greater than the first half."*

ASML: *"All this has resulted in some push-outs of planned shipments by Memory customers in the first half of 2019. Customers have indicated that they believe there will be a recovery in the second half of the year, as they expect that the inventory levels will be managed down swiftly. In Logic, while we see some softening in Deep UV demand, which is primarily driven by the mobile market, we still expect strong demand in support of the ramp of 10 and 7-nanometer nodes."*

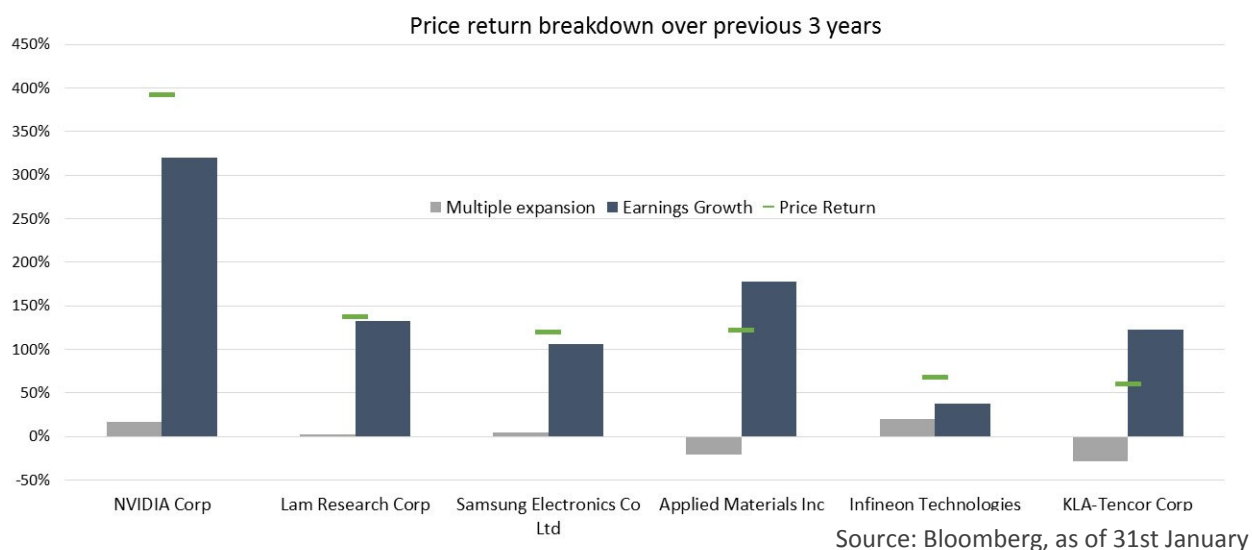
"We reiterate that we see market demand that supports yet another year of growth for ASML in 2019 with significantly stronger demand in the second half of the year."

Past performance should not be taken as an indicator of future performance. The value of investments and any income arising from them can fall as well as rise as a result of market and currency fluctuations.

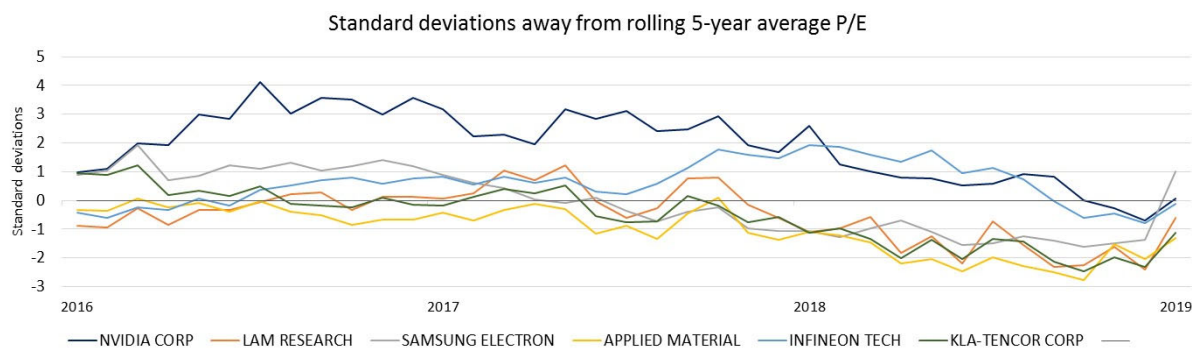
Guinness Global Innovators Fund

Within the Global Innovators Fund we currently hold six semiconductor companies: Nvidia, LAM Research, Samsung, Applied Materials, Infineon, and KLA-Tencor. Over January, five of the fund's 10 highest-performing stocks were semiconductor companies, with Nvidia the only outlier.

As the figure below shows, over the past three years semiconductor returns have been driven by substantial earnings growth as opposed to multiple expansion. In fact, when calculating the proportion of price return derived from multiple expansion across the six companies held in the fund, on average 0.4% of price returns came from PE expansion over the last three years.



Indeed, when looking at how the firms' 1-year forward P/Es have evolved over the last few years, the semiconductor names have experienced continued downward pressure on multiples despite reporting strong earnings growth. The figure below shows that, relative to their respective rolling 5-year average 1FY PE ratio, the majority of the companies now trade below their 5-year average, having reached lows of 2-3 standard deviations below averages during 2018.

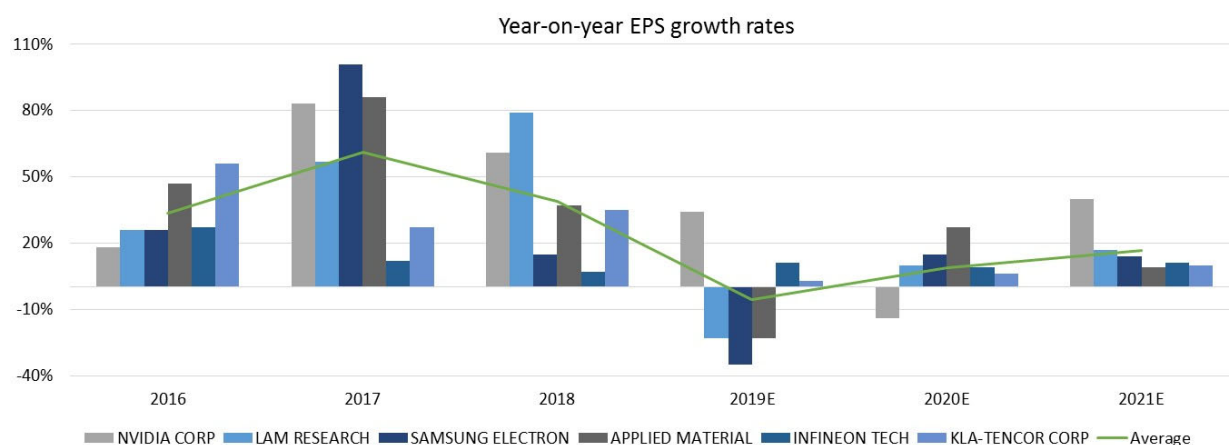


Source: Bloomberg, as of 31st January 2019

Past performance should not be taken as an indicator of future performance. The value of investments and any income arising from them can fall as well as rise as a result of market and currency fluctuations.

Guinness Global Innovators Fund

Considering the cyclical nature of these companies and the significant growth they have experienced over recent years, a slowdown is not out of the norm. Having said that, part of our investment thesis for semiconductor names was that due to their innovative nature and the increasing number of applications demanding more advanced semiconductor chips, a slowdown would be less pronounced than history would suggest. Following on from this, as the figure below shows, along with commentary from management, a sizable portion of semiconductor companies are now predicting increasing demand going into the second half of 2019, which is reflected in the increasing EPS growth figures going forward from 2019.



Source: Bloomberg, as of 31st January 2019

Thank you for your continued support.

Portfolio Managers

Dr Ian Mortimer, CFA
Matthew Page, CFA

Analysts

Joseph Stephens
Sagar Thanki

Data sources

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

Index and stock data: *Bloomberg*

Past performance should not be taken as an indicator of future performance. The value of investments and any income arising from them can fall as well as rise as a result of market and currency fluctuations.

Guinness Global Innovators Fund

PORTFOLIO

31/01/2019

Fund top 10 holdings	Sector analysis	Geographic allocation
Lam Research 3.7%	IT 42.9%	USA 48.9%
New Oriental Education & Technology Group 3.7%	Industrials 19.1%	China 16.8%
KLA-Tencor 3.5%	Communication Serv. 16.0%	Germany 12.7%
Samsung Electronics GDR 3.5%	Consumer Disc. 13.6%	South Korea 3.5%
Anta Sports Products 3.5%	Health Care 3.2%	Taiwan 3.4%
Applied Materials 3.5%	Financials 3.1%	France 3.3%
Facebook 3.4%	Cash 2.0%	Israel 3.3%
Catcher Technology 3.4%		Japan 3.1%
Eaton 3.3%		Switzerland 3.1%
Cisco Systems 3.3%		Cash 2.0%
% of Fund in top 10 34.9%		
Total number of stocks 31		

31/01/2019

Annualised % total return from strategy inception (GBP)

Guinness Global Innovators strategy*	11.92%
MSCI World Index	9.46%
IA Global sector average	8.62%

Discrete years % total return (GBP)

	Jan '15	Jan '16	Jan '17	Jan '18	Jan '19
Guinness Global Innovators strategy*	20.6	-2.2	34.6	20.8	-6.0
MSCI World Index	17.1	0.5	31.9	11.3	1.0
IA Global sector average	12.6	-4.8	32.1	13.2	-2.0

Cumulative % total return (GBP)

	1 month	Year-to-date	1 year	3 years	5 years	10 years
Guinness Global Innovators strategy*	7.1	7.1	-6.0	52.9	80.3	370.9
MSCI World Index	4.4	4.4	1.0	48.5	74.7	225.8
IA Global sector average	4.7	4.7	-2.0	46.8	57.3	174.8

RISK ANALYSIS

31/01/2019

Annualised, weekly, 5 years, in GBP	Index	Sector	Strategy*
Alpha	0	0.18	-0.10
Beta	1	0.80	1.13
Information ratio	0	-0.32	0.16
Maximum drawdown	-14.03	-17.08	-19.65
R squared	1	0.79	0.86
Sharpe ratio	0.59	0.48	0.55
Tracking error	0	6.03	6.26
Volatility	13.15	11.81	16.03

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.

*Composite simulation of performance. Guinness Global Innovators Fund (UCITS) launched on 31.10.14.

Performance data prior to this date is based on the actual returns of a US mutual fund managed by the same investment team using the same investment process as applied to the UCITS version. The past performance of the US mutual fund is not indicative of the future performance of Guinness Global Innovators Fund.

Source: Financial Express, bid to bid, total return, in GBP

Past performance should not be taken as an indicator of future performance. The value of investments and any income arising from them can fall as well as rise as a result of market and currency fluctuations.

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 Innovators 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 Innovators 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.

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: Link Fund Manager Solutions (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'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

Tel: +44 (0) 20 7222 5703

Email: info@guinnessfunds.com

Web: guinnessfunds.com