

Guinness Global Innovators Fund

Innovation | Quality | Growth | Conviction

INVESTMENT COMMENTARY – September 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	\$230m
AUM in strategy	\$396m
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 31.08.19

Cumulative % total return (GBP)	1 year	3 years	5 years	10 years
Strategy*	3.3	45.9	85.0	330.1
Index	7.0	41.7	83.8	222.8
Sector	5.4	37.0	67.3	166.1
Position in sector	206 /325	59 /282	82 /248	6 /171

Annualised % total return from strategy inception (GBP)

Strategy*	12.54%
Index	10.08%
Sector	9.19%

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

For August, the Guinness Global Innovators Fund produced a total return of -1.81% (GBP) against the MSCI World Index net total return of -1.51%. The fund therefore underperformed the Index by -0.30%. Year-to-date, the fund has produced a total return of 24.89% (GBP) against the MSCI World 20.43%.

The month of August brought about the highest levels of volatility (as measured by the VIX volatility index) seen in equity markets this year, as trade talks and recession concerns sent investors into more defensive sectors such as Utilities and Real Estate and away from Asia and Emerging Market regions. Consequently, the fund underperformed the market due the lack of exposure to these defensive sectors and overweight exposure to IT stocks.

	YTD	1yr	3yr	5yr	10yrs
Fund	24.89	3.26	45.91	84.96	330.14
Index	20.43	7.00	41.69	83.76	222.81
IA sector average	19.44	5.42	37.00	67.32	166.11
Rank vs peers	66/325	206/323	59/282	82/248	6/171
Quartile	1st	3rd	1st	2nd	1st

Figure 1: Global Innovators strategy total return in GBP. Source: FE (data as at 31.08.2019)

August in review

The tone was set by Trump at the beginning of the month when he acted on his threat of further tariffs on Chinese goods, forcing retaliation from

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Chinese counterparts. Indeed, the US proposed a new 10% levy on the remaining \$300bn of Chinese goods not already affected by tariffs. China responded first by allowing its currency, the Renminbi, to weaken sharply below the key threshold of seven to the US Dollar and a few weeks later by threatening to raise tariffs on \$75bn of US imports including agricultural goods, oil and cars. The (largely expected) retaliation prompted President Trump to raise both existing and planned tariffs rates by a further 5%.



Source: Bloomberg, as of 31st August 2019

President Trump did offer some reprieve, however, by delaying the planned 15% levy on consumer goods such as laptops and smartphones until December in order to protect US shoppers before Christmas. The month ended with hopes of fresh trade talks between the US and China with Trump commenting that China had called and that they “want to make a deal”.

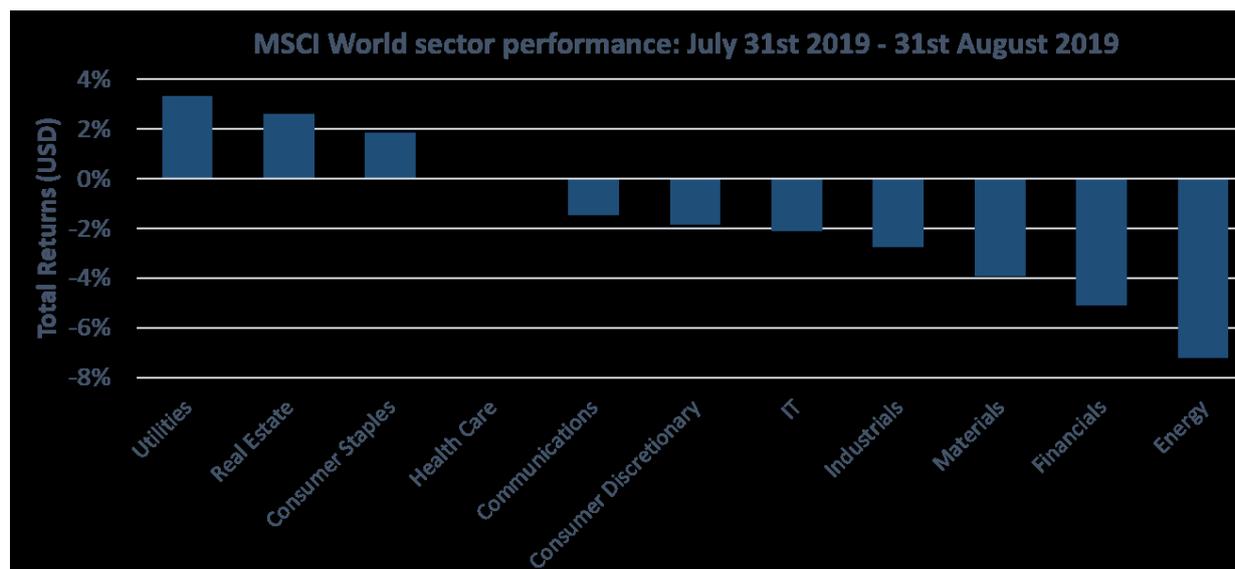
The fund currently holds an overweight position to Asia Pacific stocks and the relative underperformance by the region was a drag on the portfolio. However, this was outweighed by strong stock selection with Anta Sports (10.4% in USD) and New Oriental Education (8.7% in USD).



Source: Bloomberg, as of 31st August 2019

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Minutes released from the latest US Fed meeting, which resulted in the widely expected 25bp rate cut last month, clearly indicated dispersion of views amongst members as to the path they should take. Inflation numbers over the month remained below the Fed’s target of 2%, whilst US consumer sentiment fell the most since 2012, potentially giving the Fed further fuel for an additional interest rate cut. The relative strength in US markets over the month was a slight drag on fund performance due to the slight underweight position (c.57% vs c.61% in the MSCI World), but stock selection again outweighed this with KLA Tencor, the semiconductor equipment manufacturer, up 9.1% (in USD) and Intercontinental Exchange, which benefitted from the heightened volatility in the markets, up 6.4% (in USD) over the month.



Source: Bloomberg, as of 31st August 2019

On a sector basis, the ‘flight to safety’ mentality during the month resulted in the more defensive sectors Utilities, Real Estate, Consumer Staples and Health Care all outperforming the general market. The fund currently holds no exposure to Utilities, Real Estate and Consumer Staples and this was a relative drag on performance over the month.

ANTA Sports

ANTA Sports was the best-performing stock in the fund over the month (10.4% in USD) and has been one of the best performers this year (up 73.9% in USD). The latest month of strong performance follows a positive set of results which were in line with the positive profit alert announced in July. The results showed first half sales up 40% YoY (in Rmb), with the Fila brand a key driver, up 80% YoY.



What does Anta Sports do?

Anta Sports is the largest domestic sportswear clothing brand in China, trailing the western brands Nike and Adidas. The company has a portfolio of brands targeted at different areas of the Chinese market including its namesake brand Anta Sports, aimed at the mass market, in addition to more premium brands Fila and Descente. Anta has recently acquired Amer Sports, a Finnish manufacturer

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of higher-premium products through leading brands such as Salomon, Arc'teryx and Wilson. Going premium should make up for less-robust gains at its lower-priced namesake brand, which sells at half the price of Nike and Adidas products. The move to acquire a European company gives ANTA Sports scale to expand geographically, as well as launch new brands within China. The company's growing product offering could well fuel earnings and revenue growth and the shrewd move into winter sport clothing and equipment comes well-timed ahead of the next Winter Olympics in 2022 in Beijing.



Why we like it

Anta has exhibited a return on capital above 10% for the last 10 years, has grown its gross margin from 42% in 2014 to 53% in 2019 and has shown earnings growth above 20% in nine of the last 14 years. Whilst Anta does face intense competition from western competitors Nike and Adidas, it has built strong intangibles with a portfolio of leading brands which has and should continue to enable them to capitalise on the structural growth in Chinese sportswear. Whilst the company does appear to trade on a premium versus its own history at 28 times next year's earnings (compared with Nike (30x) and Adidas (28x)) the valuation seems justified, especially given Anta's higher expected growth rates and superior margins. In light of the on-going trade dispute between the US and China it is worth pointing out that Anta currently generates all its revenue from China alone, and so in theory should be unaffected by US-China tariffs. Hence any short-term share price weakness due to more general tariff rhetoric we see as a good opportunity to top up our existing holding.

Portfolio Managers

Dr Ian Mortimer, CFA
Matthew Page, CFA

Analysts

Joseph Stephens
Sagar Thanki

Data sources

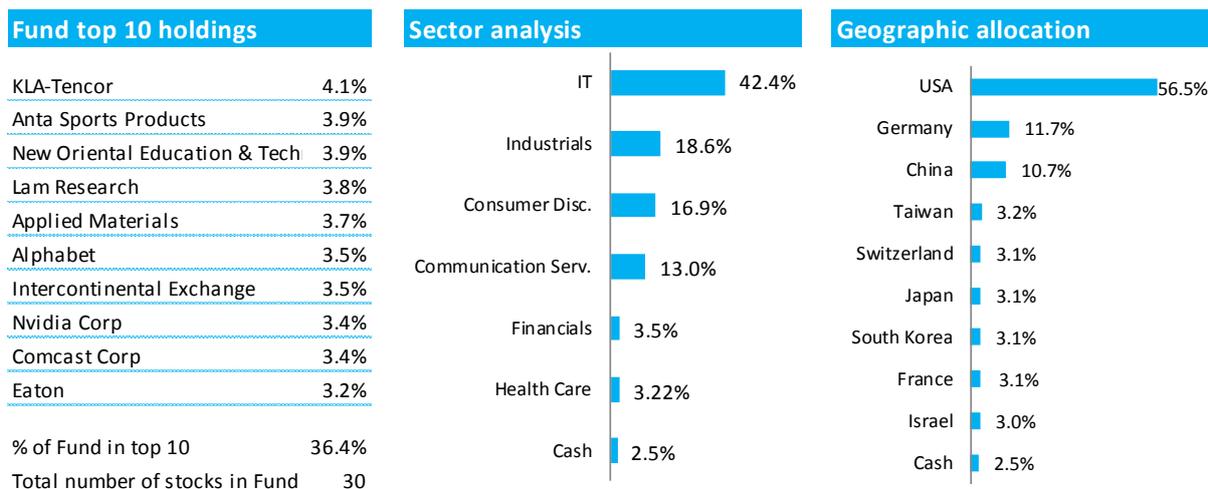
Fund performance: *Financial Express, Total return in GBP*

Index and stock data: *Bloomberg*

Guinness Global Innovators Fund

PORTFOLIO

31/08/2019



31/08/2019

Annualised % total return from strategy inception (GBP)

Guinness Global Innovators strategy*	12.54%
MSCI World Index	10.08%
IA Global sector average	9.19%

Discrete years % total return (GBP)

	Aug '15	Aug '16	Aug '17	Aug '18	Aug '19
Guinness Global Innovators strategy*	-2.2	29.5	26.2	12.0	3.3
MSCI World Index	3.5	25.2	18.1	12.1	7.0
IA Global sector average	1.5	20.3	17.6	10.5	5.4

Cumulative % total return (GBP)

	1 month	Year-to-date	1 year	3 years	5 years	10 years
Guinness Global Innovators strategy*	-1.8	24.9	3.3	45.9	85.0	330.1
MSCI World Index	-1.5	20.4	7.0	41.7	83.8	222.8
IA Global sector average	-2.5	19.4	5.4	37.0	67.3	166.1

RISK ANALYSIS

31/08/2019

Annualised, weekly, 5 years, in GBP	Index	Sector	Strategy*
Alpha	0	0.72	-0.82
Beta	1	0.78	1.14
Information ratio	0	-0.29	0.07
Maximum drawdown	-14.03	-17.08	-19.65
R squared	1	0.79	0.85
Sharpe ratio	0.68	0.59	0.58
Tracking error	0	6.20	6.56
Volatility	13.35	11.81	16.43

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

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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

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