

Guinness Global Innovators Fund

Innovation | Quality | Growth | Conviction

INVESTMENT COMMENTARY – February 2020

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	£205m
AUM in strategy	£343m
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 31.01.20

Cumulative % total return (GBP)	1 year	3 years	5 years	10 years
Strategy*	23.0	39.6	83.9	316.3
Index	17.5	32.1	75.3	211.5
Sector	16.8	29.6	63.2	159.3
Position in sector	65 /326	67 /288	51 /251	5 /177

Annualised % total return from strategy inception (GBP)

Strategy*	12.57%
Index	9.94%
Sector	9.10%

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 the month of January, the Guinness Global Innovators Fund provided a total return of 0.27% (in GBP) against the MSCI World Index net total return of -0.11%. Hence the fund outperformed the benchmark by 0.38%.

As they made a strong finish to 2019, equity markets seemed likely to continue their form into the new year. The signing of the long-awaited 'Phase One' agreement between the US and China and the UK's official departure from the EU were catalysts for the strength in the first couple of weeks. However, an outbreak of a new coronavirus originating from China dampened further optimism and caused investors to favour 'risk-off' assets for the rest of the month. Although the fund has an overweight exposure to Asia Pacific stocks relative to the MSCI World, the underlying holdings have held up well. The fund has no exposure to travel and tourism, but has long-term innovative themes underpinning its investment theses. In fact, the fund's Asia Pacific exposure was the second-largest regional contributor to the fund's outperformance, due to strong stock selection. It is pleasing to see the fund outperform during a weak period, owing to good stock selection and a discipline for quality companies which, we believe, should fare better in times of uncertainty.

	YTD	1yr	3yr	5yr	10yrs
Fund	0.27	22.98	39.59	83.85	316.31
Index	-0.11	17.49	32.13	75.34	211.45
IA sector average	0.25	16.76	29.58	63.22	159.30
Rank vs peers	174/337	65/326	67/288	51/251	5/177
Quartile	3rd	1st	1st	1st	1st

Figure 1: Global Innovators strategy total return, % in GBP, Financial Express (data as at 31.01.2020)

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January in review

January brought an outbreak of a new coronavirus that originated in the Chinese city of Wuhan. While the Chinese government has restricted movement in and out of the region, the outbreak coincided with the Chinese lunar new year and the increase in tourism may have aided its spread to different regions including the US and UK. By the end of the month, over 17,000 cases have been confirmed globally with 362 confirmed fatalities – a mortality rate of around 2.7%. By comparison, the SARS outbreak of 2003 affected over 8,000 people and resulted in the death of 774 – a mortality rate of around 10% and significantly greater than that of the new coronavirus. While we are still in the early stages of the outbreak, China, and indeed the rest of the world, are keen to manage the situation more effectively than that the SARS outbreak: the lunar new year holiday has been extended around China, many flights have been cancelled to and from China and the Chinese government has responded by cutting the repo rate by 10bps and injecting \$174bn into money markets to ensure sufficient liquidity in the banking system.

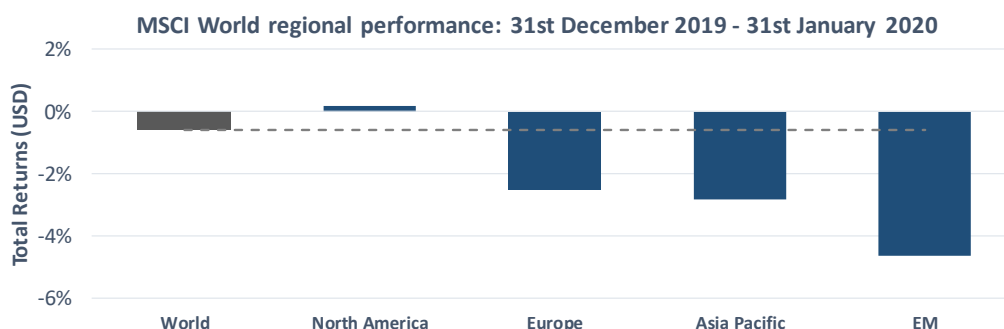
While the outbreak will undoubtedly cause short-term disruption to travel & tourism, consumer purchases, supply chains and economic growth in China, we believe the fund is well positioned to weather this uncertainty:

- We do not own any stocks with revenue exposed to travel & tourism.
- We only own two domestically focused Chinese holdings: Anta Sports and New Oriental Education.
 - Anta Sports (down 2% vs MSCI China down 5.1% in USD over the month) has direct exposure, being in the consumer sector. However, with 25% of revenue derived from online, this is likely to help dampen the negative effects.
 - New Oriental Education (up 0.3% in USD over the month), the provider of private tutoring services, will likely see disruption in their offline classes, however, should make use of their online portals of which they have been investing heavily in over the past few years.
- Indirect effects of the outbreak may include a slowdown in global growth, which may affect more cyclical industries such as industrials and IT components. However, we reiterate that the investment theses for these holdings are underpinned by innovative themes including robotics & automation and big data, which we believe are likely to outperform in the longer term.
- The fund invests in high-quality companies with high returns on capital and low levels of debt, features which are likely to help in times of uncertainty.

Unsurprisingly, Asia Pacific and emerging markets were the worst-performing regions over the month. However, despite the fund's overweight exposure to Asia Pacific relative to the benchmark, strong stock selection from holdings including Catcher Technology (up 6.4% in USD over the month) and New Oriental (up 0.3% in USD over the month) when most Asia Pacific stocks were in the red, resulted in an overall positive contribution from the Asia Pacific region.

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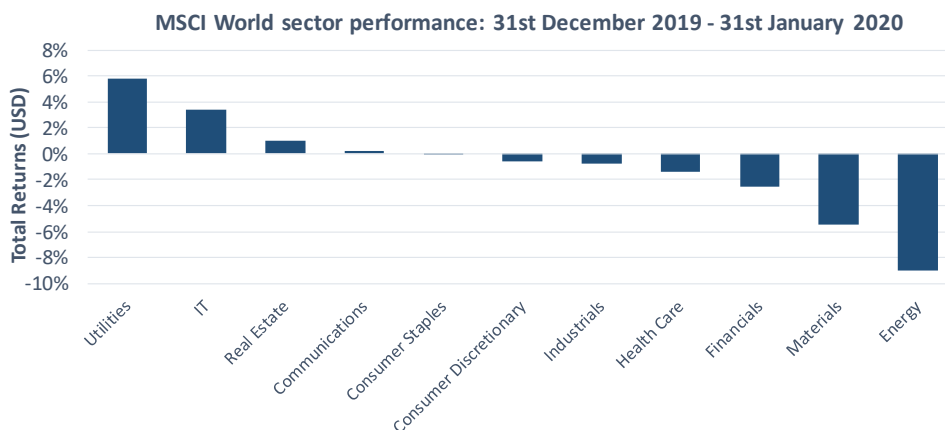
Guinness Global Innovators Fund



Source: Bloomberg, as of 31st January 2020

For US markets the signing of the ‘Phase One’ agreement between the US and China came as welcome news. Although the agreement does not eliminate all tariffs, it is a step in the right direction, with partial rollbacks in existing tariffs and China’s commitment to increasing its imports from the US, allowing greater access to its markets and better intellectual property protections. Economic news from the US continued to suggest robust backdrop: GDP grew at 2.1% over Q4 2019 and consumer confidence was up, while growth in jobs moderated but remained at a healthy level. The generally positive news enabled the US Federal Reserve to leave the interest rate unchanged, to little surprise from markets. The US ended the month as the best-performing region and was the largest regional contributor to fund performance versus the benchmark. Good stock selection was the main reason, with Intercontinental Exchange (up 7.8% in USD over the month) benefitting from increased volatility, and some positive earnings results from holdings including Amazon (up 8.7% in USD) and Roper Technologies (up 7.9% in USD).

In Europe, mixed economic news left the region down 2.3% (MSCI Europe in USD) over the month. Contractions in the second and third-largest economies within the Eurozone (France down 0.1% and Italy down 0.3%) left the eurozone GDP growth at just 0.1% for the last quarter. On the other hand, unemployment fell to its lowest level in almost 12 years and consumer confidence rose, which reflected improving sentiment in the industrial and construction sectors. Europe was the largest regional drag on performance after broadly weak economic data and possible disruptions to supply chains as a result of the coronavirus. Indeed, a weak month for Continental (down 11.9% in USD) was the main contributor as investors digested possible implications to the company’s sales growth from China, the world’s largest auto market.



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Source: Bloomberg, as of 31st January 2020

On a sector level, our overweight exposure to IT stocks was the largest drag on fund performance. Microsoft was one of the largest stock-specific drags, as the company performed well over the month and is the second-largest weighting in the benchmark but is not currently owned in the fund. In addition, there were some weaker performances from our semiconductor holdings after the coronavirus outbreak created greater short-term uncertainty for the more cyclical industries. However, these holdings did recover somewhat towards the end of the month as broadly positive earnings releases from holdings such as Lam Research (up 2.0% in USD) and industry peers including Intel lifted the industry as a whole. The fund's underweight exposures to Financials and Energy were the largest positive contributors with the sectors two of the worst performers over the month.

The best-performing stock over the month was Amazon (up 8.7% in USD).



Amazon's stellar quarterly results lifted the stock more than 10% on the night of release and took the company back into the \$1tn club to join Apple and Microsoft. Amazon's results for the festive period far exceeded analyst expectations, with net income of \$3.3bn vs forecasts of \$2.0bn. The results came as prime memberships rose to 150m globally and the number of items delivered to US customers with prime's free one-day and same-day delivery more than quadrupled in the quarter compared to last year. The company was also boosted by news that its continued investment into one-day shipping, which had looked to cost more than \$1.5bn and would put pressure on margins, had come in under budget. We like Amazon as it continues to think long-term and is not afraid to invest heavily in the short term for long-term benefits.

The worst-performing stock over the month was Continental (down 11.7% in USD).



Continental's underperformance can be attributed to generally weak Eurozone economic data and possible implications for short-term sales in the Chinese auto market – the largest in the world – after the coronavirus outbreak. Although Continental has struggled in recent times with a slowing auto market, we believe too much pessimism is now priced in. In addition, once the powertrain business has been spun out later this year, the company will be left with a high return on capital software business (named 'Continental Automotive') focused on autonomous driving and vehicle networking technologies, together with an oligopolistic position in the tyre business. Trading on 5-year low multiples with the possibility of new strength from a more refined business model, we continue to see good upside from Continental.

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*

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Guinness Global Innovators Fund

PORTFOLIO

31/01/2020

Fund top 10 holdings

Amazon.com	3.6%
Intercontinental Exchange	3.5%
Adobe Systems Inc	3.4%
Check Point Software	3.4%
Danaher Corp	3.4%
Paypal	3.4%
Roper Industries Inc	3.4%
Alphabet	3.4%
Nvidia Corp	3.3%
Fanuc Corp	3.3%
% of Fund in top 10	34.2%
Total number of stocks	30

Sector analysis

Information Technology	39.0%
Industrials	19.9%
Consumer Discretionary	16.0%
Communication Services	12.9%
Health Care	6.7%
Financials	3.5%
Cash	2.0%

Geographic allocation

USA	56.5%
Germany	12.4%
China	9.3%
Israel	3.4%
Japan	3.3%
France	3.3%
Switzerland	3.3%
South Korea	3.2%
Taiwan	3.2%
Cash	2.0%

31/01/2020

Annualised % total return from strategy inception (GBP)

Guinness Global Innovators strategy*	12.57%
MSCI World Index	9.94%
IA Global sector average	9.10%

Discrete years % total return (GBP)

	Jan '16	Jan '17	Jan '18	Jan '19	Jan '20
Guinness Global Innovators strategy*	-2.2	34.6	20.8	-6.0	23.0
MSCI World Index	0.5	31.9	11.3	1.0	17.5
IA Global sector average	-4.8	32.1	13.2	-2.0	16.8

Cumulative % total return (GBP)

	1 month	Year-to-date	1 year	3 years	5 years	10 years
Guinness Global Innovators strategy*	0.3	0.3	23.0	39.6	83.9	316.3
MSCI World Index	-0.1	-0.1	17.5	32.1	75.3	211.5
IA Global sector average	0.3	0.3	16.8	29.6	63.2	159.3

RISK ANALYSIS

31/01/2020

Annualised, weekly, 5 years, in GBP	Index	Sector	Strategy*
Alpha	0	1.06	-0.19
Beta	1	0.78	1.13
Information ratio	0	-0.22	0.15
Maximum drawdown	-14.03	-17.08	-19.65
R squared	1	0.79	0.85
Sharpe ratio	0.62	0.58	0.57
Tracking error	0	6.06	6.50
Volatility	13.09	11.54	16.08

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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, 18 Smith Square, London SW1P 3HZ.

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

This is an advertising document. 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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