Guinness Global Innovators Fund

INVESTMENT COMMENTARY - December 2016

About the Fund

The Fund is a large cap. 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	£61m
AUM in strategy	£189m
Fund launch date	31.10.14
Strategy launch date	01.05.03
Managers	Dr. Ian Mortimer, CFA Matthew Page, CFA

Performance 30.11.16

Cumulative %	**1 year**	**3 years**	**5 years**
Strategy*	22.5	55.9	143.5
Index	24.3	46.2	101.6
Sector	19.3	32.5	79.6
Position in sector	**97** /263	**12** /236	**6** /206

Annualised % total return
from strategy inception (GBP)

Strategy*	**12.61%**
Index	**9.78%**
Sector	**8.88%**

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, bid to bid, total return, in GBP.

Summary performance

In November the Guinness Global Innovators Fund produced a total return of -0.40% (in GBP) versus the MSCI World Index return of -1.36%. The fund therefore outperformed the index by 0.96% in the month.

Year-to-date the fund is up 24.50% (in GBP) versus the MSCI World Index up 23.86%. The fund is therefore ahead of the benchmark by 0.64%.

November in review

Unsurprisingly the US election dominated markets, with Donald Trump being elected as the 45th President. There were sharp moves in both equity and bond markets in the aftermath of the unexpected result. We wrote a summary of how the fund performed directly after the election in our November manager's update:

"Since the US election on 8th November the portfolio has weathered the markets well, comfortably outperforming the MSCI World benchmark over the course of November so far (to 23rd of November). The portfolio's exposure to more cyclical parts of the market, at the expense of defensive industries, means we have benefitted from the expectation of President-elect Trump's desire to kick start the American economy through fiscal stimulus. Indeed, since the election, we have seen a greater than 10% divergence in performance between the world Financial sector, which has benefitted, and the world Utilities sector, which has underperformed. Similarly, on a geographic basis US equities have outperformed Emerging Market equities by a similar margin. Our overweight to US equities has therefore certainly

helped performance while our relatively small weight to emerging markets has had a relatively small impact."

In the final week of November the fund gave up some of the outperformance versus the benchmark. The large rotations in sectors moderated slightly as markets began to digest the remarks emanating from the incoming administration's transition team.

However, today it appears that the US market is now pricing in numerous economic factors as certainties: higher inflation on the back of fiscal stimulus and infrastructure spending, a faster rate of interest rate rises, dollar strength, higher bond yields, weaker share prices for defensive sectors such as consumer staples and telcos, and stronger share prices for cyclicals and especially financials. Meanwhile, the effect of general US strength and particularly of the US Dollar has been for emerging markets to give up a lot of the strong gains they made in the first three quarters of the year. The uncertainty of how a Trump administration is going to deal with trade agreements and the more insular US-focussed policies being proposed are only adding to investor worries.

'Certainty' is usually a dangerous word when investing, however, and we will continue to try and focus on the established process we have developed for the strategy over the past thirteen years, as we wrote in last month's update.

"Like many people, we did not expect a Trump victory and we certainly did not position our portfolio for that outcome. Even if we had predicted it, it would not have changed the long-established characteristics we look for in companies. That has not changed since the inception of this strategy in 2003. We believe the portfolio is well positioned in quality growth companies, in industries that will be driving economies forward for years to come. We have always looked for companies that can grow profitably."

Changes to the portfolio

We made a small number of changes to the portfolio during the month. We sold our positions in Li & Fung and Taiwan Semiconductor and bought a new position in Nike.

We decided to cut our losses on Li & Fung, a position we bought back in 2014 and with which we ultimately got it wrong. At the time we liked the company's asset-light business model as we could see how growth would translate into significant operational leverage. Growth had been weak for some time but we thought there was a reasonable chance that it would turn around. Unfortunately, that did not occur and with the election of Donald Trump we felt the company's model of a global outsourcing business was becoming more vulnerable. We also came to the conclusion that there is now a real risk of a dividend cut, which could lead to further selling in the market.

Taiwan Semiconductor has been a very long-term holding in the strategy (since 2003) and has performed extremely well over that period, providing a total return almost five times that of the MSCI World Index. It is one of the highest quality businesses in its sector, with very steady cash flow returns on investment despite the cyclical nature of its market. The company has more recently enjoyed good share price performance with the rotation from growth to value and the re-rating of the semiconductor industry more generally. We noted, however, that this took the company's forward earnings multiple from a low of around 10x in late 2015 to around 15.5x, a high relative to where the company has traded historically. The speed and magnitude of this re-rating suggested to us that there was little further upside without significant earnings growth in the near term, which we felt was unlikely. We therefore decided to sell.

Nike is a company we have admired for some time. It has all the characteristics we seek in a business: a strong balance sheet, good returns, and a good capital allocation discipline that shows the company as selectively and profitably re-investing cash flows. However, in our view the market tended to over-reward the company for its growth and it traded on a multiple of over 30 times forward earnings at its peak at the end of 2015. At such lofty valuations the market expects perfect execution and when these expectations are not met (there are few exceptions) the share price reaction is usually stark and swift. This has been the case for Nike through 2016; slower growth has led to the share price falling 19.2% (total return in USD) from the end of 2015 to the end of November versus the S&P500 equivalent return of +9.8%, a difference of almost 30 per cent. The forward earnings multiple has fallen in unison from approximately 30x at the start of the year to just over 21x today. The threats remain – increased competition, inventory overhang, whether future lines are well received – but we believe the market has moved from overly optimistic to overly pessimistic and this presented us with the opportunity to add the company to the portfolio.

The overall effect of these changes was to reduce our exposure to Asia and slightly increase our exposure to the US, whilst also decreasing our exposure to the IT sector.
We thank for you continued support and we look forward to talking to you again in 2017.

Dr. Ian Mortimer & Matthew Page
Co-managers, Guinness Global Innovators Fund

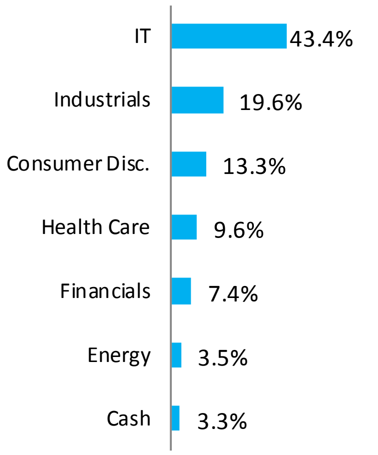
PORTFOLIO

30/11/2016

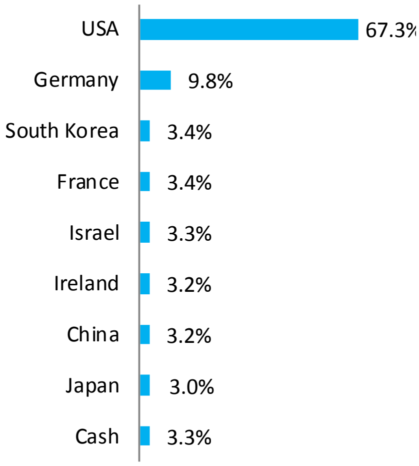
Fund top 10 holdings

Wisdomtree Investments	4.0%
Applied Materials	3.7%
Comcast Corp	3.6%
Schlumberger	3.5%
Boeing	3.5%
Intercontinental Ex.	3.5%
SAP AG	3.4%
Nvidia Corp	3.4%
Samsung Electronics GDR	3.4%
Schneider Electric	3.4%
% of Fund in top 10	35.3%
Total number of stocks	29

Sector analysis



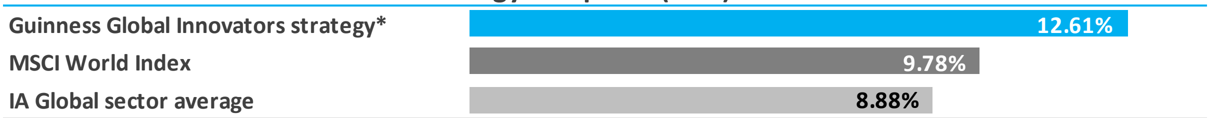
Geographic allocation



PERFORMANCE *(composite simulation - see below)*

30/11/2016

Annualised % total return from strategy inception (GBP)



Discrete years % total return (GBP)	Nov '12	Nov '13	Nov '14	Nov '15	Nov '16
Guinness Global Innovators strategy*	11.4	40.3	23.6	2.9	22.5
MSCI World Index	11.5	23.7	13.9	3.3	24.3
IA Global sector average	11.2	21.8	8.7	2.1	19.3

Cumulative % total return (GBP)	1 month	Year-to-date	1 year	3 years	5 years
Guinness Global Innovators strategy*	-0.4	24.5	22.5	55.9	143.5
MSCI World Index	-0.9	23.9	24.3	46.2	101.6
IA Global sector average	-1.7	19.6	19.3	32.5	79.6

RISK ANALYSIS

30/11/2016

Annualised, weekly, 5 years, in GBP	Index	Sector	Strategy*
Alpha	0	-0.23	2.64
Beta	1	0.81	1.11
Information ratio	0	-0.49	0.69
Maximum drawdown	-14.03	-17.08	-17.14
R squared	1	0.78	0.86
Sharpe ratio	0.94	0.73	1.09
Tracking error	0	5.84	5.79
Volatility	12.33	11.31	14.83

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

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: Capita Financial Managers (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'Ile, 1204 Geneva, Switzerland.

Telephone calls may be recorded and monitored.