

Guinness Global Innovators Fund

Innovation | Quality | Growth | Conviction

INVESTMENT COMMENTARY – August 2017

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	\$109m
AUM in strategy	\$308m
Fund launch date	31.10.14
Strategy launch date	01.05.03

Managers Dr. Ian Mortimer, CFA
Matthew Page, CFA

Performance 31.07.17

Cumulative % gross total return (GBP)	1 year	3 years	5 years	10 years
Strategy*	27.1	64.0	159.9	243.1
Index	17.6	58.0	111.9	152.1
Sector	17.8	45.0	87.5	98.6
Position in sector	13 /266	32 /235	5 /204	5 /133

Annualised % gross total return from strategy inception (GBP)

Strategy*	13.14%
Index	10.62%
Sector	9.31%

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

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*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, gross total return, in GBP.

Summary performance

In July, the Guinness Global Innovators Fund produced a total return of 2.2% (in GBP), versus the MSCI World Index return of 0.9%. The Fund, therefore, outperformed the index by 1.3% in the month.

Year-to-date the Fund is now up 12.8%, outperforming the MSCI World Index, up 6.6%.

Over a one-year period to the end of July, the Fund is ahead of the benchmark, up 27.1% (in GBP) versus the MSCI World Index return of 17.6%.

July in Review

July and the dog days of summer were once associated with fever and mad dogs. Anyone reading the headlines throughout the last month might find it hard to disagree with the ancients' interpretation. Amongst the political infighting, wars of words between countries and displays of military might, we do see positive signals from a strong US earnings season.

On the whole, US companies beat earnings expectations. According to Thomson Reuters, 77.8 per cent of US S&P 500 companies to have reported so far have exceeded consensus earnings expectations, while the historic average is 63 per cent. This is set to be the most positively surprising earnings season since the third quarter of 2009, when 78.9 per cent of companies managed to surprise the Street amid the first rebound from the crisis.

The Fed's Open Market Committee (FOMC) left interest rates unchanged. The markets, however, focussed on the omission of "somewhat" from the description of inflation being "below" target. The dollar fell sharply and Treasury prices and gold rose. The FOMC said nothing that changed its policy strategy, which remains in a tightening cycle, but some investors speculate the Fed will change its

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stance to take a dovish turn. At the Fed's June meeting, conversely, policymakers appeared ready to start the unwinding of quantitative easing within months, despite several weak inflation readings. In addition, several officials warned that allowing unemployment to fall too low could lead to the US economy overheating or the emergence of risks to financial stability. The change in language in July's FOMC meeting caused the subsequent market volatility.

In mid-July, the Bank of Canada lifted its benchmark lending rate for the first time since 2010, reacting to rapid job growth and buoyant property prices in the latest sign that global policymakers feel comfortable peeling away stimulus measures.

Donald Trump and his entourage continued to dominate headlines around the globe. It emerged that his eldest son enthusiastically welcomed a purported offer of Russian government assistance to undermine Hillary Clinton's campaign in the middle of the 2016 presidential race, according to an email exchange that was released. The Republicans' seven-year battle to repeal Obamacare appeared almost fruitless after party leaders lost a Senate vote. President Donald Trump suffered arguably the biggest legislative blow to date when Republican John McCain cast the decisive vote to kill off his party's last-gasp effort at health care reform. The President's lack of control over Washington undermines the hopes for tax cuts and fiscal stimulus. This resulted in broad downward pressure on the Dollar, with the dollar index hitting a 10-month low.

The rate of growth in the US economy picked up in the second quarter, gross domestic product climbed to an annualised rate of 2.6 per cent over the period from 1.2 per cent in the first quarter. This was slightly below Wall Street forecasts of 2.7 per cent.

Chinese president Xi Jinping acknowledged the recent cooling of the US-Chinese relationship, warning Donald Trump in a phone call of "negative factors" emerging in their bilateral relationship. Mr Xi's message came after the White House made several moves that angered Beijing, including agreeing to a \$1.4bn arms sale to Taiwan and imposing sanctions on a Chinese bank for doing business with North Korea. China analysts view the developments as an end to the 'honeymoon' period between Mr Xi and Mr Trump after the two leaders' Mar-a-Lago summit in April.

Relationships were further strained by North Korea's claim of its first intercontinental ballistic missile test on the eve of America's July 4 Independence Day celebrations. On July 28, North Korea launched a ballistic missile which, according to state media, North Korean leader Kim Jong Un claimed could hit anywhere on the US mainland. Donald Trump said he would no longer allow China to "do nothing" on North Korea.

A welcome distraction in China was news that the economy expanded 6.9 per cent in the second quarter, the same as the previous three months but still comfortably above the government's target. Unexpected strength in the real estate market kept growth humming. The economy is on track for its first year-on-year acceleration in growth since 2010.

Europe was host to the G20 in early July, but as the countries wrapped up the summit, all but the US signed a joint agreement on climate change, to the dismay of other world leaders. To move on from the white-knuckled first meeting between Donald Trump and Emmanuel Macron, Trump visited Paris for two days to celebrate Bastille Day. The two leaders looked for common ground on terrorism and defence policy.

After all that, the small issue of Brexit marches on. UK Prime Minister Theresa May promised business leaders that there will be no Brexit 'cliff edge' for companies and that she is aiming for a transition deal.

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Market Movements

In July, all sectors saw positive returns. Cyclical stocks outperformed defensive stocks on average. The sectors with the strongest performance were Materials, Telecoms and Information Technology. Health Care and Consumer Staples were the worst performing sectors in the month. The Global Innovators Fund's current overweight position in Information Technology contributed positively to the fund's performance over the month.

Asia lost ground in the first week of July but rallied thereafter and outperformed both Europe and North America over the full month.

In July, the trade-weighted EUR was up +3.6% and GBP up +1.5%. USD fell the most last month with -1.5%.

Portfolio update

Individual stock performance in the month largely followed these market movements and some companies reported earnings. Key idiosyncratic stock movements are highlighted below.

Boeing (+22.6% total return in USD) reported strong second-quarter results and boosted its core earnings per share forecast for the full year, with the new guidance exceeding the highest analyst estimate. Even though sales were lower than expected, the shares rose strongly. The profitability of its 787 Dreamliner contributed to strong cash flow. The world's biggest plane maker is focusing on streamlining production of the new 737 MAX models and finishing development of other forthcoming planes. The company also benefited from cost-cutting.

New Oriental Education (+13.0% total return in USD), a private education provider, made early gains in July off the back of a positive research note and positive sentiment. Later in the month the company reported fourth-quarter earnings, beating the average analyst earnings estimate by 4%. Despite this robust performance the stock lost some of its gains towards the end of the month due to slightly weaker revenue guidance, against investors' high expectations.

Nvidia (+12.4% total return in USD) continued to rally due to its exposure to several growth areas that received positive news throughout the month. As cars become more complex there is increasing semiconductor sales to the auto industry. There has been strong computing demand from a resilient gaming sector and the new impact of cryptocurrency mining requiring intensive processing power. Tailwinds continue for cloud computing and the related impact on data centres.

Catcher Technology (-3.9% total return in USD) was mainly effected by weaker Taiwan tech sales, which were below street expectation for 2Q17. However, losses seen towards the second half of the month were reversed in the first two days of August by news of plans to expand its manufacturing capabilities. There are also renewed expectations of strong iPhone demand following positive earnings from Apple.

Qualcomm (-3.7% total return in USD) continues to suffer uncertainty from a long-running legal tussle with smartphone giant Apple. Apple accuses Qualcomm of overcharging for the technology Apple uses in some iPhones, and of non-competitive licensing. Qualcomm, meanwhile, asserts that Apple offered it an unrealistically low price to license its patents. More positively, Qualcomm beat fiscal Q3 revenue expectations and the company's chipset business is doing better than expected.

Looking further at the portfolio, 18 companies reported earnings in July (including Nike at the very end of June), with 16 showing positive surprises, reiterating the strengthening corporate earnings environment.

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Guinness Global Innovators Fund

Company	Date of announcement	Period	Estimated earnings (Local currency)	Actual earnings (Local currency)	Surprise
Samsung	07/07/2017	Q1 17	68650.40	82652.22	20.40%
Nike	06/29/2017	Q4 17	0.50	0.60	19.94%
Gilead Sciences	07/26/2017	Q2 17	2.14	2.56	19.57%
Schlumberger	07/21/2017	Q2 17	0.30	0.35	17.65%
Alphabet	07/24/2017	Q2 17	4.45	5.01	12.58%
Boeing	07/26/2017	Q2 17	2.30	2.55	10.92%
Comcast	07/27/2017	Q2 17	0.48	0.52	7.84%
PayPal	07/26/2017	Q2 17	0.43	0.46	7.83%
Intel	07/27/2017	Q2 17	0.68	0.72	5.93%
New Oriental Education	07/25/2017	Q4 17	0.39	0.41	4.06%
FANUC	07/28/2017	Q1 18	204.04	210.65	3.24%
Check Point	07/20/2017	Q2 17	1.22	1.26	2.94%
Qualcomm	07/19/2017	Q3 17	0.81	0.83	2.79%
Danaher	07/20/2017	Q2 17	0.97	0.99	2.17%
Roper	07/31/2017	Q2 17	2.22	2.24	0.99%
Schneider Electric	07/27/2017	S1 17	1.78	1.79	0.85%
SAP	07/20/2017	Q2 17	0.95	0.94	-0.90%
WisdomTree	07/28/2017	Q2 17	0.07	0.06	-11.76%

Table 1: Portfolio holdings that reported earnings in July (Source: Bloomberg)

We made no changes to the portfolio in July.

Generally speaking, the fund has outperformed in periods of rising markets and underperformed slightly in periods of falling markets. It is orientated towards growth, but not at any price. Therefore, its recent outperformance is what we might have expected as the more cyclical parts of the market, and in particular Information Technology, have performed well.

Thank you for your continued support.

Portfolio Managers

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Analysts

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PORTFOLIO

31/07/2017

Fund top 10 holdings	Sector analysis	Geographic allocation
Boeing 3.9%	IT 49.0%	USA 62.1%
Paypal 3.7%	Industrials 19.2%	Germany 9.3%
AAC Technologies 3.7%	Consumer Disc 10.0%	China 7.0%
Samsung Electronics GDR 3.5%	Health Care 9.7%	South Korea 3.5%
Gilead Sciences Inc 3.4%	Financials 6.7%	Taiwan 3.3%
Nvidia Corp 3.4%	Energy 3.0%	UK 3.2%
Wisdomtree Investments 3.4%	Cash 2.5%	Japan 3.2%
NIKE INC -CL B 3.4%		France 3.1%
New Oriental Education & Tech 3.3%		Israel 3.0%
Comcast Corp 3.3%		Cash 2.5%
% of Fund in top 10 35.0%		
Total number of stocks in Fund 30		

31/07/2017

Annualised % gross total return from strategy inception (GBP)

Guinness Global Innovators strategy*	13.14%
MSCI World Index	10.62%
IA Global sector average	9.31%

Discrete years % gross total return (GBP)

	Jul '13	Jul '14	Jul '15	Jul '16	Jul '17
Guinness Global Innovators strategy*	37.7	15.1	8.8	18.5	27.1
MSCI World Index	28.1	4.7	14.1	17.6	17.6
IA Global sector average	24.0	4.3	9.4	12.4	17.8

Cumulative % gross total return (GBP)	1 month	Year-to-date	1 year	3 years	5 years	10 years
Guinness Global Innovators strategy*	2.2	12.8	27.1	64.0	159.9	243.1
MSCI World Index	0.9	6.6	17.6	58.0	111.9	152.1
IA Global sector average	1.5	8.7	17.8	45.0	87.5	98.6

RISK ANALYSIS

31/07/2017

Annualised, weekly, 5 years, in GBP	Index	Sector	Strategy*
Alpha	0	0.99	3.40
Beta	1	0.81	1.10
Information ratio	0	-0.30	0.85
Maximum drawdown	-14.03	-17.08	-17.14
R squared	1	0.80	0.87
Sharpe ratio	0.96	0.89	1.18
Tracking error	0	5.50	5.46
Volatility	12.35	11.21	14.57

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Source: Financial Express, bid to bid, gross 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: 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'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 may be recorded and monitored.

GUINNESS

ASSET MANAGEMENT LTD

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