

# Guinness Global Innovators Fund

Innovation | Quality | Growth | Conviction

## INVESTMENT COMMENTARY – September 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	\$114m
AUM in strategy	\$314m
Fund launch date	31.10.14
Strategy launch date	01.05.03
Managers	Dr. Ian Mortimer, CFA Matthew Page, CFA

### Performance 31.08.17

Cumulative % gross total return (GBP)	1 year	3 years	5 years	10 years
Strategy*	26.5	61.1	165.6	249.0
Index	18.8	55.8	114.6	156.6
Sector	17.6	43.6	88.6	104.7
Position in sector	13 /271	38 /240	4 /210	4 /138

#### Annualised % gross total return from strategy inception (GBP)

Strategy*	13.30%
Index	10.75%
Sector	9.36%

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, gross total return, in GBP.

### Summary performance

In August, the Guinness Global Innovators Fund produced a total return of 3.1% (in GBP), versus the MSCI World Index return of 2.5%. The Fund, therefore, outperformed the index by 0.6% in the month.

Year-to-date the Fund is now up 16.3%, outperforming the MSCI World Index, up 9.3%.

Over a one-year period to the end of August, the Fund is ahead of the benchmark, up 26.5% (in GBP) versus the MSCI World Index return of 18.8%.

### August in Review

August gave a sense of déjà vu. President Trump continues to battle on through controversies, this time failing to specifically condemn white supremacists at the fatal Charlottesville clashes. North Korea riled both its main ally, China, and foes alike as it continued to test ballistic and nuclear weaponry. Another terrorist attack brought grief to Barcelona, with a further attack thwarted by Spanish authorities.

In Asia, North Korea tested the world's patience by firing a ballistic missile directly over Japan. This was followed by what was suspected to be the largest North Korean nuclear test yet. China says the North Korean missile threat is reaching 'crisis point'. A war of words broke out, spearheaded by Donald Trump's warning to North Korea that if its threats to the US continue, the nation will be "met with the fire and the fury like the world has never seen". North Korea spurned a new round of sanctions imposed by the UN Security Council and pledged to continue to press forward with development of nuclear weapons that could reach the US mainland. As a result, haven assets such as the Yen, Swiss franc and gold were up. Stocks slid mid-month in US and Europe, with sharper falls in Asia, although there was some recovery by the end of the month.

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Abu Dhabi launched an informal boycott of western banks with significant Qatari shareholders, broadening the impact of the Arab quartet's two-month embargo against the gas-rich state. The quartet includes UAE, Saudi Arabia, Egypt and Bahrain.

In the US, Donald Trump is attempting to get a stalled legislative agenda back on track. He is to launch a major push on tax reform. Gary Cohn, head of the White House national economic council, said the President will focus on fiscal policy in an effort to secure a first big legislative victory by the end of the year.

The fatal demonstrations in Charlottesville appeared to present a distraction to this aim. After the President's controversial response, several business leaders stepped from the administration's business advisory groups and urged others to follow suit. In the end, Trump dissolved three of these groups: his manufacturing and jobs council, his strategy and policy forum and the presidential advisory council on infrastructure.

US hiring remained strong last month, with 209,000 jobs created, according to the labour department. Wall Street's expectation was for 180,000. June's non-farm payrolls growth was revised to 231,000 from 222,000.

Minutes of the Fed's July rate-setting meeting revealed differences of opinion on when to begin the shrinking of the Fed's balance sheet, together with growing concern among some policymakers over low inflation, which bolsters the case against quick tightening. The dollar subsequently pulled back. There was, however, consensus on starting to reduce the Fed's balance sheet "relatively soon", although the committee did not explicitly agree on an announcement date.

Hurricane Harvey caused havoc in southern Texas and the Houston area. Preliminary estimates of the economic losses are between \$70 and \$190 billion.

In the European Central Bank's July policy vote, there appeared to be concern over the strength of the euro. In August, the single currency hit a two-and-a-half year high against the dollar. The ECB is looking to decide on tapering its €2trn quantitative easing programme. A strong euro complicates the ECB's efforts to hit its inflation goal of just under 2 per cent by making imports cheaper and weighing on export growth.

Emmanuel Macron celebrated his first hundred days as President of France amid an improving economy but decreasing approval ratings. He has drawn criticism for his love of pomp and a series of missteps, including a spat over the military budget that led to the resignation of a highly regarded general. Popular support for the 39-year-old centrist has melted away, and his approval ratings have decreased from two-thirds to 36 per cent – 10 percentage points lower than his deeply unpopular predecessor, François Hollande, at the same point in his tenure.

In the German election on 24 September, Angela Merkel is expected to succeed in remaining as Chancellor for a fourth term. In the UK, the march towards Brexit continues and as MPs return from holiday, Mark Carney, Governor of the Bank of England, has warned that uncertainty is holding back investment.

## Market Movements

In August, there were mixed returns across sectors. Defensive stocks outperformed cyclical stocks. The sectors with the strongest performance were Utilities and Information Technology. Energy, Financials and Telecoms were the worst performing sectors in the month. The Global Innovators Fund's current overweight position in Information Technology contributed positively to its performance.

In August, Asia and North America performed marginally better than Europe. The trade-weighted EUR was up +0.6%. The trade-weighted GBP fell the most, with -2.2%, and the trade-weighted USD was down -0.4%.

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## Portfolio update

Individual stock performance in the month largely followed these market movements. Key idiosyncratic stock movements are highlighted below.

AAC Technologies (+35.5% total return in USD), manufacturer of acoustic components for smartphones, has seen a boost in sales following their Q2 2017 earnings release in late August. It also reported improved diversification across product lines and achieved a high gross profit margin of over 40%.

Catcher Technology (+10.8% total return in USD), manufacturer of aluminium and magnesium casings for notebook computers and smartphones, had a weak July due to poor Taiwan tech sales. In early August, Catcher recovered July's losses and continued to rally as there was renewed expectation of strong iPhone demand, following positive earnings from Apple. Catcher reported earnings which failed to meet this expectation, and the rally ended.

Shire (-12.0% total return in USD), the UK-listed biopharmaceutical company, beat 4Q revenue estimates. However, the share price suffered with negative sentiment, staff dissatisfaction and the loss of its CFO and Head of Research. Shire continues to face challenges over its merger with US-based Baxalta.

WisdomTree (-11.5% total return in USD), the US asset management firm specialising in ETFs, reported earnings at the very end of July. The company experienced its strongest net flow quarter since 3Q15 and diversity of growth in multiple segments. In August, sentiment turned negative as investors were not convinced by WisdomTree's new products and recent investments in technology and solutions.

We made two changes to the portfolio in August: we bought Facebook and Continental and sold Gilead and Qualcomm.



Gilead, the US-based biopharmaceutical company has been held in the fund since October 2010. It has done well from its innovative Hepatitis C and HIV drugs, but is losing market share due to competition and pricing from generic products, in part due to the expiration of a patent for a key active ingredient in some of its key drugs. This has started to erode revenues and earnings and the amount of debt has been rising. We therefore decided to sell our full position in Gilead.

Qualcomm, the US multinational semiconductor and telecommunications equipment company, designs chips for 3G and next-generation mobile technologies. The company has been held in the Global Innovators Fund since October 2013. Qualcomm's sales may be impacted by lawsuits against its royalty model from Apple and stressed by a falling share of the smartphone chip market. Qualcomm also faces revenue pressures as smartphone shipments slow and prices for its chips drop amid rising competition among the chip manufacturers. In addition, we believe over the next few years we will see more in-house chips from the major smartphone manufacturers. For these reasons, in combination with a declining cash flow return on investment, we decided it was time to sell our entire position in Qualcomm.



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## Guinness Global Innovators Fund

We bought Facebook, the social media company, on the prospect of continued strong earnings growth which the market is not appreciating. The company generates revenue through targeted advertising to over 2 billion users who regularly use its social media platform. There is significant earnings potential in Facebook's unmonetized apps such as WhatsApp and Messenger, which each have significant user bases. There is upside potential in the average revenue per user (ARPU) growth in the US, as Facebook still accounts for a relatively small percentage of the total revenue spend per person in the US. There is also upside potential in ARPU in the rest of the world, especially Europe and Asia. In our upside case we note that user growth could accelerate in Asia, especially in India. Facebook's cash flow return on investment has grown considerably over the last few years. Combined with a strong balance sheet (with no debt) and stable-to-growing margins, this makes Facebook a good addition to the portfolio.

We bought Continental, the German automotive manufacturing company traditionally known as a tyre manufacturer. Today, over half its revenue comes from automotive systems, which cover a range of innovative technologies set to improve the automotive industry. Continental has expertise in safety technologies, efficiency improvement in internal combustion engines, battery management systems, comfort and security. It is well positioned to take advantage of a shift towards smarter and connected cars and autonomous driving. Continental has a stable and high cash flow return on investment, fairly low debt and margins which are higher than its peers, indicating its leading position in the tyre and automotive industry.

The effect of these switches on the portfolio has been to improve average balance sheet quality and increase expected growth for the portfolio. Facebook has no debt and Continental has a debt-to-equity ratio of just 34%, whereas Qualcomm and Gilead had much higher levels of debt. Both Facebook and Continental have exposure to some exciting innovation themes and are spending their cash to exploit them through investment in research and development. Facebook and Continental are expected to grow their earnings this year by 19% and 10% respectively, whereas both Qualcomm and Gilead have seen their growth opportunities decline over the last 12 months.

Thank you for your continued support.

### **Portfolio Managers**

Dr Ian Mortimer, CFA  
Matthew Page, CFA

### **Analysts**

Joshua Cole  
Sagar Thanki

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## Guinness Global Innovators Fund

### PORTFOLIO

31/08/2017

Fund top 10 holdings	Sector analysis	Geographic allocation
AAC Technologies 4.8%		USA 59.9%
Paypal 3.8%		Germany 9.4%
Boeing 3.7%		China 8.0%
Catcher Technology 3.5%		Taiwan 3.5%
Nvidia Corp 3.4%		Israel 3.4%
Check Point Software 3.4%		South Korea 3.2%
Facebook 3.4%		France 3.0%
Infineon Technologies 3.3%		Japan 2.9%
New Oriental Education & Research Institute 3.3%		UK 2.7%
Cognizant Tech Solutions 3.2%		Cash 4.0%
% of Fund in top 10 35.6%		
Total number of stocks 30		

31/08/2017

### Annualised % gross total return from strategy inception (GBP)

Guinness Global Innovators strategy*	13.30%
MSCI World Index	10.75%
IA Global sector average	9.36%

### Discrete years % gross total return (GBP)

	Aug '13	Aug '14	Aug '15	Aug '16	Aug '17
Guinness Global Innovators strategy*	31.9	25.0	-2.0	29.8	26.5
MSCI World Index	21.5	13.4	4.1	26.0	18.8
IA Global sector average	19.2	10.1	1.5	20.3	17.6

### Cumulative % gross total return (GBP)

	1 month	Year-to-date	1 year	3 years	5 years	10 years
Guinness Global Innovators strategy*	3.1	16.3	26.5	61.1	165.6	249.0
MSCI World Index	2.5	9.3	18.8	55.8	114.6	156.6
IA Global sector average	1.4	10.2	17.6	43.6	88.6	104.7

### RISK ANALYSIS

31/08/2017

Annualised, weekly, 5 years, in GBP	Index	Sector	Strategy*
Alpha	0	0.88	3.69
Beta	1	0.81	1.10
Information ratio	0	-0.33	0.91
Maximum drawdown	-14.03	-17.08	-17.14
R squared	1	0.80	0.87
Sharpe ratio	0.96	0.87	1.20
Tracking error	0	5.50	5.43
Volatility	12.34	11.17	14.55

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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](http://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](http://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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