Guinness Global Innovators Fund

Innovation | Quality | Growth | Conviction

INVESTMENT COMMENTARY – March 2018

About the Fund

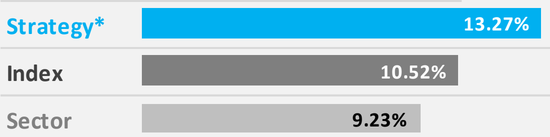
The Fund is a global growth fund designed to provide exposure to companies benefiting from innovations in technology, communication, globalisation or innovative management strategies. The Fund holds a concentrated portfolio of large and medium-sized companies in any industry and in any region.

Fund size	$177m
AUM in strategy	$412m
Fund launch date	31.10.14
Strategy launch date	01.05.03
Managers	Dr. Ian Mortimer, CFA Matthew Page, CFA

Performance 28.02.18

Cumulative % gross total return (GBP)	1 year	3 years	5 years	10 years
Strategy*	18.1	54.2	137.1	290.0
Index	6.6	44.5	88.3	174.5
Sector	8.5	37.1	67.5	112.4
Position in sector	18 /279	27 /248	4 /222	2 /149

Annualised % gross total return
from strategy inception (GBP)



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 February, the Guinness Global Innovators Fund produced a total return of 1.1% (in GBP), versus the MSCI World Index return of -1.0%. The Fund therefore outperformed the Index by 2.1% in the month.

Over a one-year period to the end of February, the Fund is ahead of the benchmark, up 18.1% (in GBP) versus the MSCI World Index return of 6.6%.

Year-to-date, the Guinness Global Innovators Fund is up 1.5% (total return in GBP), which is ahead of the MSCI World, down 0.9% over the same period.

February in Review

After more than a year of equity markets trending higher, volatility returned abruptly in February. Global equity markets fell back over the month, giving up almost all the gains made in January. The MSCI World Index is back at 0% year-to-date (total return, USD), having been up as much as 7% at the end of January. Despite the return of market volatility, underlying economic and corporate data continue to indicate robust economic growth conditions.

The sell-off began in late January with a stronger-than-expected wage growth figure in the US, which suggested a pick-up in inflation could be on the horizon and the possibility that interest rates may increase faster than anticipated. This caused uncertainty and worry surrounding the impact higher interest rates would have on both the broader economy and on equity valuations.

The strong global macro data may have played a role in preventing a more sizable market correction. The Eurozone's real GDP was up 2.7% (YoY, Q4 2017), with broad-based growth across the region. The Purchasing Managers' Index (PMI) remained at elevated levels. The US also posted a healthy real

GDP annualized growth rate of 2.5% (QoQ, Q4 2017), in line with market expectation.

In the US, the inflation reading for January came out higher than expected, with CPI rising 2.1% from a year earlier, exceeding forecasts of 1.9% and adding to signs of an inflation pickup. The Chair of the Federal Reserve, Jerome Powell, indicated there may be four rather than three rate rises in 2018 in his testimony to Congress.

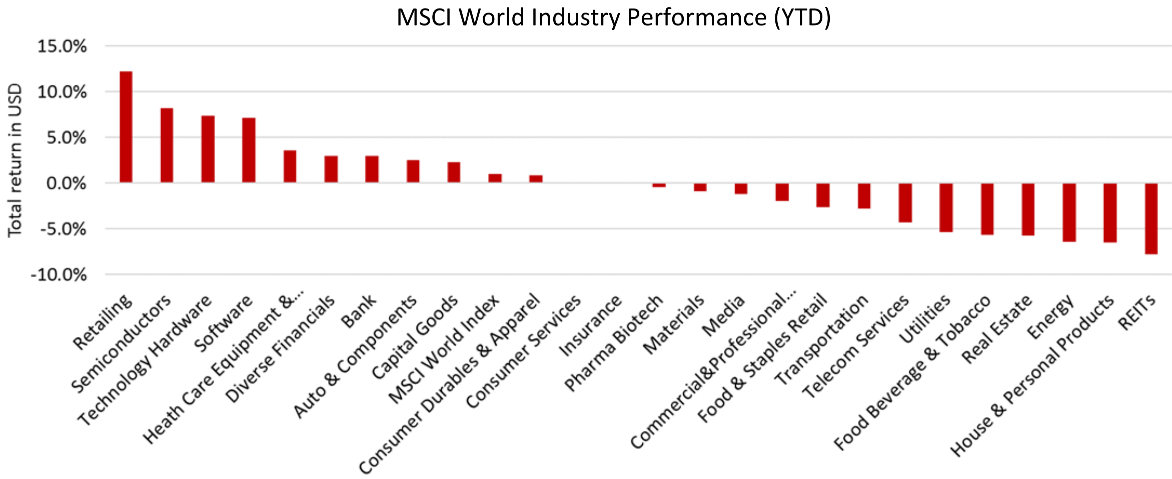
Asia underperformed during February's global correction. Despite this, the region's good fundamentals remain intact and Chinese growth was stronger than expected, at 6.8% year on year for the fourth quarter.

Europe was not immune to the global equity market sell-off with all sectors falling in the month. The Technology sector outperformed the broader market as the prospect of rising debt costs would relatively favour the strong cash positions of many technology firms both in Europe and globally, and we saw continued strong earnings reports from companies in the sector. Macroeconomic fundamentals remain strong, with unemployment continuing to trend downwards in Eurozone countries, supporting consumption and domestic demand. With the early signs of wage and price growth there is an expectation of a pick-up in inflation. This has yet to come through in the Eurozone headline and core (excluding food and energy) inflation figures, however.

Market Movements

In February, all major markets fell in the sell-off, with the MSCI World down 4.1% (total return, USD) over the month. The S&P 500 ended the month 3.7% lower, the FTSE 100 was down 6.1% and the Euro STOXX fell 6.2%. MSCI Asia-Pacific ex Japan and MSCI EM fell 4.7% and 4.6% respectively (all in total return, USD).

Over 2018 so far, the IT sector has continued to be the best-performing sector globally along with Consumer Discretionary. On an industry basis, however, Retailing is top, with Semiconductors, Technology Hardware and Software taking 2nd, 3rd, and 4th positions. Amazon and Netflix account for more than 90% of the total return for Retailing and could arguably be reclassified as Tech sector stocks.



The Global Innovators overweight position in Information Technology contributed the most to performance over the month. The underweight positions in Energy, Consumer Staples, Materials, Real Estate, Telcos and Utilities all contributed positively to performance.

Despite being orientated towards growth, the Fund performed very well during what were very weak markets. In the market sell-off (Jan 26th to Feb 8th) it was down 9.5% while the benchmark was down 9.0% – a pleasing result considering the Fund has a beta of 1.1 versus the benchmark (monthly returns over 5 years). In the subsequent recovery (Feb 8th to the end of the month) it outperformed significantly, rising 6.7% while the market was up 3.8%.

We believe the Fund's focus on identifying *quality* growth companies, and particularly those trading at reasonable valuations, has helped it during the recent market gyrations. The companies we own have strong balance sheets and often large cash piles, which has meant they have avoided the market worries regarding potentially higher interest rates. And our focus on high return on capital and asset-light business models mean they have a better chance of continuing to grow into the future.

Portfolio update

Individual stock performance in the month followed, in general, the market movements described above. Key stock movements are highlighted below.

AAC Technologies (+19.1% total return in USD), a smartphone lens and acoustics manufacturer, continues to see strong revenue growth from its new camera lenses and higher-priced speakers. This should help the company meet its 25% revenue growth target for 2018. However, it should be noted that sluggish global smartphone shipments, which fell 8.5% in 4Q 2017 (source: IDC) could be a headwind, but AAC's expertise in mass-producing glass-plastic hybrid lenses, which are on average three times the price of their plastic counterparts, means this could be offset by expectations of higher margins.

Comcast (-14.9% total return in USD), the US media and television broadcasting services company, made a $31bn proposal for Sky, a UK satellite-TV provider. This represented a 16% premium to 21st Century Fox's planned takeover of the company and is part of Comcast's plan to use Sky as a launchpad to expand its European presence. Market sentiment over the proposal was negative over doubts regarding growth prospects and the business models of legacy satellite players in a market with rising competitive threats.

We made one change to the portfolio in February. We bought Baidu and sold WisdomTree.

WisdomTree, an ETF provider, sold off due to weaker Q4 2017 earnings which were reported in early February amid weaker markets. The business suffered outflows in Europe and inflows slowed in its Canadian operations. WisdomTree has been struggling to capture market share from larger passive rivals in the U.S. market. This has contributed to a decreasing CFROI and lowered growth expectations.

Baidu, a Chinese-based search engine internet company has been strengthening its core online marketing business using AI and big-data technology to enhance its search, news feed and video products. Its margins are expected to improve with the sale of non-core businesses and greater focus on investment in core products. It plans to spin off and list iQiyi, its live streaming platform, in the U.S. this year. It is expected that Baidu will remain iQiyi's controlling shareholder. In the recent period of market uncertainty the share price dropped almost 20% and far more than the market, which provided us a favourable entry point to a company with a strong balance sheet, good level of CFROI at a reasonable valuation and potential to grow its revenue and earnings.

The overall effect on the portfolio was to reduce our exposure to the U.S. and the Financials sector, and increase our exposure to Asia and IT. The Fund remains at approximately a 50% allocation to the IT sector.

Outlook

As we reflect on February, there is more uncertainty in the market, although underlying economic and corporate data continue to indicate robust economic growth conditions. Our investment process has never been one in which we position the portfolio based on our macro view or to attempt to capture any short-term trends.

Instead, we will continue to focus on looking for companies that can avoid the competitive threat of their peers, have healthy balance sheets, are earning returns on capital above their cost of capital and growing their economic profit, and can reinvest their cash flows in profitable projects that can grow their business sustainably in the future. The fact that the portfolio as a whole remains at only a slight premium to the broad market on a PE basis despite the companies we hold having, we believe, superior fundamentals is at least some demonstration that there still exist good opportunities in the market today. Given this reasonable valuation, we are pleased to see an expected earnings growth of the portfolio in 2018 of 12%, approximately 25% higher than the MSCI World Index.

Thank you for your continued support.

Portfolio Managers
Dr Ian Mortimer, CFA
Matthew Page, CFA

Analysts
Joshua Cole
Sagar Thanki

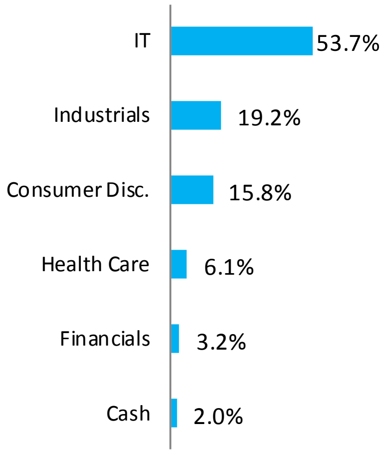
PORTFOLIO

28/02/2018

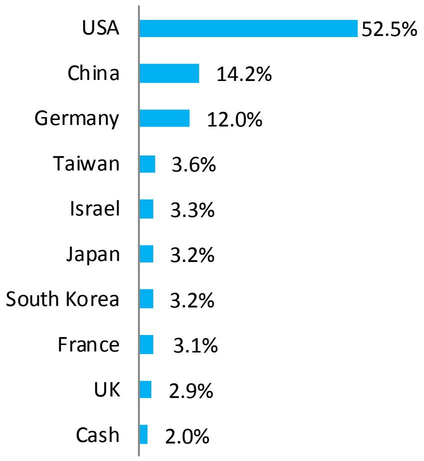
Fund top 10 holdings

AAC Technologies	4.0%
Nvidia Corp	3.7%
Boeing	3.7%
Catcher Technology	3.6%
Anta Sports Products	3.5%
Applied Materials	3.5%
Cisco Systems	3.5%
Cognizant Tech Solutions	3.5%
Baidu	3.4%
KLA-Tencor	3.4%
% of Fund in top 10	35.8%
Total number of stocks	30

Sector analysis



Geographic allocation



28/02/2018

Annualised % gross total return from strategy inception (GBP)

Guinness Global Innovators strategy*	13.27%
MSCI World Index	10.52%
IA Global sector average	9.23%

Discrete years % gross total return (GBP)

	Feb '14	Feb '15	Feb '16	Feb '17	Feb '18
Guinness Global Innovators strategy*	25.8	22.2	-3.5	35.4	18.1
MSCI World Index	10.8	17.6	-0.7	36.6	6.6
IA Global sector average	9.3	11.8	-3.7	31.2	8.5

Cumulative % gross total return (GBP)

	1 month	Year-to-date	1 year	3 years	5 years	10 years
Guinness Global Innovators strategy*	1.1	1.5	18.1	54.2	137.1	290.0
MSCI World Index	-1.0	-0.9	6.6	44.5	88.3	174.5
IA Global sector average	-1.4	-0.7	8.5	37.1	67.5	112.4

RISK ANALYSIS

28/02/2018

Annualised, weekly, 5 years, in GBP	Index	Sector	Strategy*
Alpha	0	0.23	4.13
Beta	1	0.82	1.11
Information ratio	0	-0.34	0.97
Maximum drawdown	-14.03	-17.08	-17.14
R squared	1	0.80	0.87
Sharpe ratio	0.74	0.61	1.02
Tracking error	0	5.58	5.46
Volatility	12.34	11.35	14.73

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Source: Financial Express, bid to bid, gross 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: Link Fund Manager Solutions (Ireland) Ltd, 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.

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.