

# Guinness Global Innovators Fund

Innovation | Quality | Growth | Conviction

## INVESTMENT COMMENTARY – March 2019

### 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.

<b>Fund size</b>	\$187m
<b>AUM in strategy</b>	\$374m
<b>Fund launch date</b>	31.10.14
<b>Strategy launch date</b>	01.05.03

**Managers** Dr. Ian Mortimer, CFA  
Matthew Page, CFA

**Analysts** Sagar Thanki  
Joseph Stephens

### Performance 28.02.19

Cumulative % total return (GBP)	1 year	3 years	5 years	10 years
Strategy*	-4.7	52.3	79.6	412.8
Index	4.0	49.7	72.9	265.5
Sector	1.7	44.7	55.8	204.3
Position in sector	278 /305	63 /272	42 /240	2 /166

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

Strategy*	12.03%
Index	9.54%
Sector	8.73%

<b>Strategy</b>	Guinness Global Innovators*
<b>Index</b>	MSCI World Index
<b>Sector</b>	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 February, the Guinness Global Innovators Fund provided a total return of 2.49% (GBP) against the MSCI World Index net return of 1.87%. Hence the fund outperformed the benchmark by 0.62%. Over the year to 28<sup>th</sup> February, the fund has produced a total return of 9.72% (GBP) against the MSCI World Index's 6.31%.

The resurgence of Chinese equities following positive news from US-China trade talk and strong idiosyncratic earnings results from fund constituents have aided the fund's returns over the month, putting it ahead of the MSCI World by 3.41% year-to-date. This leaves the portfolio's performance in the top quartile year-to-date and over 3, 5 and 10 years against the IA Global Sector.

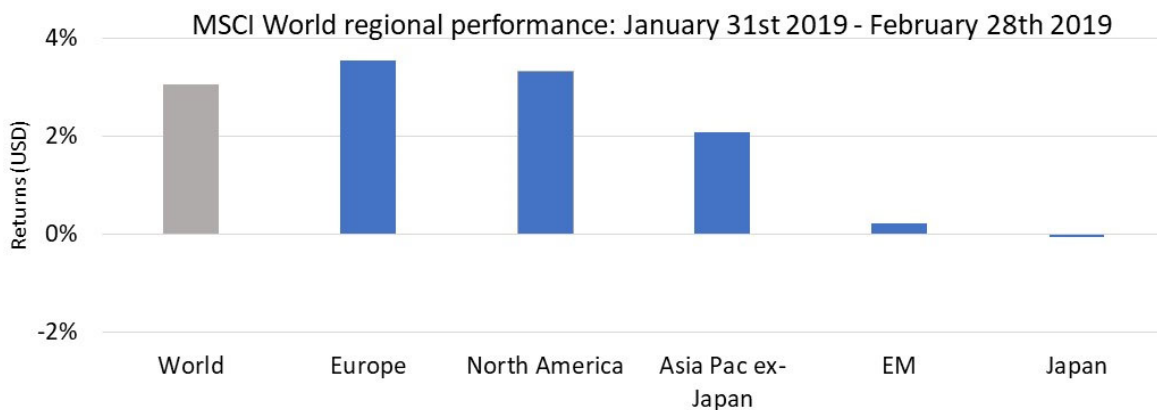
	YTD	1yr	3yr	5yr	10yrs
<b>Fund</b>	9.72	-4.69	52.32	79.58	412.78
<b>Index</b>	6.31	4.03	49.74	72.87	265.50
<b>IA sector average</b>	7.02	1.65	44.70	55.75	204.26
<b>Rank vs peers</b>	36/320	278/305	63/272	45/240	2/166
<b>Quartile</b>	1st	4th	1st	1st	1st

Source: Financial Express. Cumulative Total Return in GBP, as of 28<sup>th</sup> January 2019

The biggest story over the month was the continued surge in Chinese equities, with the CSI 300 Index up 27% (in USD) from its trough in early January. With the 1<sup>st</sup> March deadline looming – the date which Trump had set to increase tariffs on Chinese goods and services

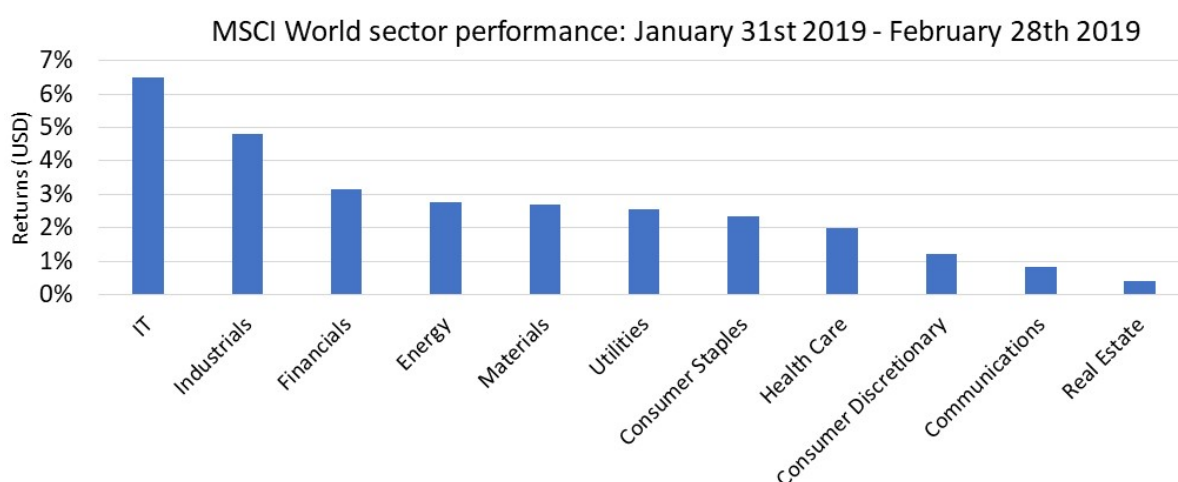
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from 10% to 25% – the president tweeted that the US would be postponing the hike in tariffs with no new deadline set. The news comes as trade talks between the two countries continue to advance, with the fund’s overweight Chinese exposure reaping the benefits – in particular, names such as Anta Sports (up 22% YTD in USD) and New Oriental Education (up 50% YTD in USD).



Source: Bloomberg, as of 28<sup>th</sup> February 2019

In a further softening of a key issue faced by global markets in 2018, US FOMC minutes released from last month’s meeting indicated that the Fed would release a plan as soon as possible to end the process of reducing the Fed’s balance sheet. This further underlined the Fed’s more dovish tones which last month indicated a more patient approach to interest rate hikes amidst global growth concerns. In addition, robust economic data out of the US helped to reassure investors as fourth quarter GDP came in at 2.6%, which although a sharp decline on last quarter’s 3.4%, beat estimates of 2.3%. This helped raise full-year GDP to 2.9%, up from 2.2% in 2017. The fund’s exposure to the US was the largest regional contributor to the outperformance over the month, mainly arising from idiosyncratic factors such as earnings surprises – for example, Alphabet, which beat 4<sup>th</sup> quarter EPS estimates by 18.0%.



Source: Bloomberg, as of 28<sup>th</sup> February 2019

With earnings season in full flow, we have seen from the 4<sup>th</sup> quarter earnings reports released that the majority of IT stocks have reported EPS data above expectations, helping the sector outperform

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## Guinness Global Innovators Fund

the wider market (up 6.5% in USD). IT is the fund's largest sector exposure. In contrast, the fund has no exposure to Real Estate, Energy, Materials or Utilities and holds only one position within Financials – five sectors which reported some of the lowest percentages of positive earnings surprises for this quarter.

Of the 30 companies within the portfolio, 25 companies have reported 4<sup>th</sup> quarter results of which 88% reported positive EPS and 88% reported positive sales surprises.

Quarterly Results		
Company	Revenue Surprise (%)	Earnings Surprise (%)
NEW ORIENTAL EDUCATION	3.37%	636.84%
ABB LTD	1.52%	163.16%
FANUC CORP	3.61%	62.35%
ALPHABET	1.64%	18.00%
NIKE	2.24%	13.13%
BAIDU	3.57%	12.14%
KLA TENCOR	4.35%	10.81%
FACEBOOK	3.14%	8.53%
INFINEON	2.85%	7.46%
LAM RESEARCH	1.11%	5.62%
COGNIZANT	0.36%	5.61%
PAYPAL	-0.22%	8.41%
ROPER TECHNOLOGIES	1.88%	2.91%
COMCAST	2.49%	2.56%
NVIDIA	0.14%	2.56%
INTERCONTINENTAL EXCHANGE	0.76%	2.31%
EATON CORP	0.64%	2.03%
CHECKPOINT SOFTWARE	2.15%	1.69%
APPLIED MATERIALS	1.17%	1.39%
CISCO	0.18%	0.83%
DANAHER	1.02%	0.63%
SAP	2.84%	-2.71%
SAMSUNG ELECTRONICS	-6.78%	-12.98%
SIEMENS	-4.11%	-30.34%
SCHNEIDER ELECTRIC	0.61%	-

Source: Bloomberg, as of 28<sup>th</sup> February 2019

### Individual stock performance over January (total returns USD)

Individual companies that performed well over the month included Danaher Corp (14.51% in USD) and Roper Technologies Inc (14.26%).



Danaher, the diversified conglomerate with products focused on life sciences, diagnostics, dental and environments solutions, announced an agreement to buy General Electric's (GE) biopharmaceutical unit, GE Life Sciences. Interestingly, the CEO of General Electric is the former chief executive of Danaher, which may have played a crucial role in securing the deal. The agreement, which is reportedly for \$21.4bn, continues Danaher's strategic acquisition process, identifying companies with

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secular growth drivers, high return-on-capital and strong market position, and leveraging its Danaher playbook, DBS, to add long-term value. Both GE's and Danaher's stock prices rose on the news as the market seemingly approved of the deal, which gives Danaher exposure to the fast-growing biopharmaceutical industry. Danaher is long-term holding of the fund, up over 300% since purchase in 2010, and has continued to show its ability to successfully acquire and integrate targeted businesses, expanding the company's return-on-capital (ROC) and margins over time.

Roper Technologies, the diversified conglomerate which specialises in businesses that design and develop software and engineered products for niche markets, reported strong earnings results over the month. The company beat 4<sup>th</sup> quarter estimates by 2.9% whilst also raising full-year guidance for 2019. Roper has exhibited stellar growth in its return on investment over the past 10 years which has fed through into growing margins.

Individual companies that underperformed over the month were Baidu Inc (-5.84% in USD) and AAC Technologies Holdings Inc (-3.85% in USD).



Baidu, often referred to as the Chinese version of Google, operates an internet search engine in China and derives most of its revenue from advertising. However, Baidu has been building out its big data and AI capabilities, integrating the technologies within its search engine whilst also giving it exposure to growing applications including Apollo, its autonomous driving platform, and DuerOS, its conversation AI platform. The company has suffered recently from slowing internet traffic in China and increased spending, putting downward pressure on margins, but the firm continues to deliver robust returns on investment and trades on a multiple which we believe does not reflect its long-term growth themes.

AAC Technologies, the lens and acoustics manufacturer for smartphones, was one of the fund's top performers until the 22nd of February before management issued a profit warning for the coming quarter. Management now expect earnings to decline 65%-75% YoY in the quarter, with margin erosion also playing a factor as the company deals with lower volume from smartphone orders. We continue to monitor AAC Technologies as Apple supply chain names have been some of the hardest hit over the past year. However, with the company now trading on a PE 1FY of 12.1x, while still maintaining a market leading position in the lens and acoustics industry, we view AAC Technologies' potential to the upside.

### **Danaher: The serial acquirer**

Danaher is a diversified conglomerate specialising in life sciences, diagnostics, dental and environment solutions. The company's business model centres around acquiring businesses with high ROC, high margins a competitive position, then using the company's playbook (the 'Danaher Business System' (DBS)) to create a lean business focusing on expanding margins, delivering strong free cash flow and investing in R&D to deliver robust revenue growth.

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## Danaher Today



Source: Danaher Investor Presentation

Management place great importance on DBS as a tried-and-tested formula for success:

*“The Danaher Business System (DBS) is a differentiated management philosophy that permeates the organization, driving both revenue growth and profit. A grasp of DBS is crucial to understanding management’s decision-making process. Danaher seeks to rapidly implement its DBS playbook at its acquired companies. Its tools focus on metrics in leadership, sales growth and lean operations, with an emphasis on continuous performance gains.”*

What is particularly impressive is Danaher’s ability to continually integrate new businesses and deliver vast improvements without giving up margins and returns. Over the last five years alone the company has engaged in over 30 acquisitions and recently announced its acquisition of General Electric’s biopharma business, GE Life Sciences.

### How We Create Value: Running the Danaher Playbook



Source: Danaher Investor Presentation

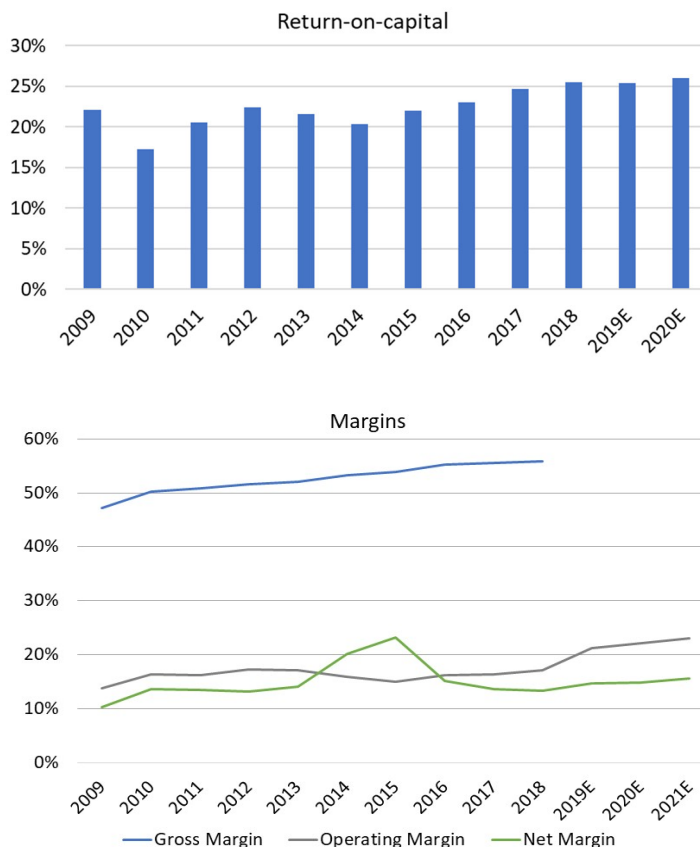
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Since the Global Innovators Fund initiated a position in 2010, Danaher's share price has risen over 300%. During that time, using the DBS, Danaher has been able to consistently grow its return on capital whilst also delivering increasing margins.

Management have shown great discipline in their use of debt to fuel acquisitions, with the company's debt/equity ratio never breaching 60%, while the interest cover ratio is currently above 20. This gives us confidence that the company is strict in its M&A process and does not take on excessive debt to fuel growth.

Management have also shown they are not afraid to exit businesses which are dragging on growth. The company recently announced the spin-off of its dental business, which has had weaker margins and growth compared to the rest of the company.



Source: Bloomberg, as of 28<sup>th</sup> February 2019

Overall, we find the investment thesis as compelling as we did back in 2010. Management have continuously delivered on their targets and have shown great discipline in their pursuit to find attractive growth opportunities. Though Danaher's price-to-earnings multiple has increased over time, we would argue that this has been warranted given the growing ROC and margins it has achieved.

Thank you for your continued support.

### Portfolio Managers

Dr Ian Mortimer, CFA  
Matthew Page, CFA

### Analysts

Joseph Stephens  
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### Data sources

Fund performance: *Financial Express, Total return in GBP*

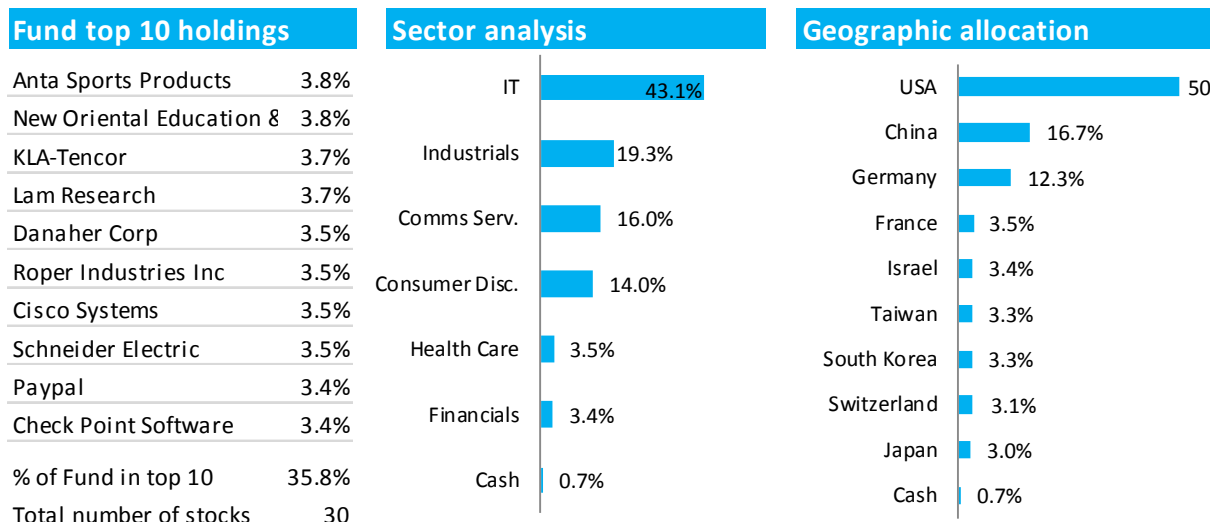
Index and stock data: *Bloomberg*

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## Guinness Global Innovators Fund

### PORTFOLIO

28/02/2019



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

Guinness Global Innovators strategy*	12.03%
MSCI World Index	9.54%
IA Global sector average	8.73%

### Discrete years % total return (GBP)

	Feb '15	Feb '16	Feb '17	Feb '18	Feb '19
Guinness Global Innovators strategy*	22.2	-3.5	35.4	18.1	-4.7
MSCI World Index	17.0	-1.3	35.8	6.0	4.0
IA Global sector average	11.8	-3.7	31.2	8.5	1.7

### Cumulative % total return (GBP)

	1 month	Year-to-date	1 year	3 years	5 years	10 years
Guinness Global Innovators strategy*	2.5	9.7	-4.7	52.3	79.6	412.8
MSCI World Index	1.9	6.3	4.0	49.7	72.9	265.5
IA Global sector average	2.2	7.0	1.7	44.7	55.8	204.3

### RISK ANALYSIS

28/02/2019

Annualised, weekly, 5 years, in GBP	Index	Sector	Strategy*
Alpha	0	0.08	0.02
Beta	1	0.80	1.13
Information ratio	0	-0.35	0.18
Maximum drawdown	-14.03	-17.08	-19.65
R squared	1	0.79	0.86
Sharpe ratio	0.63	0.50	0.60
Tracking error	0	6.04	6.27
Volatility	13.24	11.88	16.10

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Performance data prior to this date is based on the actual returns of a US mutual fund managed by the same investment team using the same investment process as applied to the UCITS version. The past performance of the US mutual fund is not indicative of the future performance of Guinness Global Innovators Fund.

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](http://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, 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** will be recorded and monitored.

**GUINNESS**

ASSET MANAGEMENT

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