

Guinness Global Innovators Fund

Innovation | Quality | Growth | Conviction

INVESTMENT COMMENTARY – December 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.

Fund size	£205m
AUM in strategy	£343m
Fund launch date	31.10.14
Strategy launch date	01.05.03

Managers Dr. Ian Mortimer, CFA
Matthew Page, CFA

Analysts Sagar Thanki
Joseph Stephens

Performance 30.11.19

Cumulative % total return (GBP)	1 year	3 years	5 years	10 years
Strategy*	20.1	44.2	81.0	335.6
Index	13.0	37.0	75.8	209.9
Sector	12.6	33.8	63.0	157.4
Position in sector	20 /323	54 /282	57 /246	4 /172

Annualised % total return from strategy inception (GBP)

Strategy*	12.64%
Index	10.01%
Sector	9.12%

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 0.99% OCF, bid to bid, total return, in GBP.

Summary performance

For the month of November, the Guinness Global Innovators Fund provided a total return of 2.86% against the MSCI World Index net total return of 2.82% (in GBP). Hence the fund outperformed the benchmark by 0.04%. Year-to-date, the fund has produced a total return of 30.54% against the MSCI World 22.05% (in GBP).

With central banks largely mute and the 'Phase One' trade deal between the US and China still in negotiation but with no escalation, equity markets performed well over the month with growth stocks again taking the lead. The fund's overweight position to IT and Industrials drove performance, while good stock selection in European holdings also aided the fund's relative performance.

The fund positioning versus peers remains very strong on a short and long-term basis, ranking top quartile over all periods below.

	YTD	1yr	3yr	5yr	10yrs
Fund	30.54	20.07	44.24	81.01	335.55
Index	22.05	12.97	36.98	75.83	209.88
IA sector average	20.70	12.60	33.81	63.04	157.39
Rank vs peers	8/321	20/323	54/282	57/246	4/172
Quartile	1st	1st	1st	1st	1st

Figure 1: Global Innovators strategy total return, % in GBP, Financial Express (data as at 30.11.2019)

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November in review

Equity markets continued their ascent into November, led by the US with the S&P 500 Index on track for another strong year. Indeed, data out of the US continues to look healthy (at least on a relative basis) with the third quarter GDP growth figure revised up from its initial 1.9% to 2.1% and an increase on the prior quarter's 2.0% growth. Additionally, the so-called 'Phase One' trade deal being negotiated between the US and China continues to be a factor for equity market sentiment, with the absence of escalation seemingly taken as a small positive over the month. Nevertheless, a conclusion still seems distant with America's decision to sign the Hong Kong Human Rights and Democracy Act a possible cause for further tension. The act, signed by President Trump, requires the US secretary of state to decide every year whether the 'one country, two systems' formula that guarantees Hong Kong's independent legal system and civil liberties is intact. If it is determined to be otherwise, the US could revoke special economic and commercial privileges that it extends to Hong Kong. Although North America is the fund's largest regional exposure, our underweight position versus the MSCI World (c.55% vs MSCI World 65%) was a drag on the portfolio's relative performance vs the benchmark over the month.



Source: Bloomberg, as of 30th November 2019

Asia and emerging markets ended the month as the weakest regions as Hong Kong protests continued and investors braced for any retaliation by China to the US's signing of the Hong Kong bill. News out of China wasn't all bad, however, with the Caixan Manufacturing PMI hitting its highest level in three years – despite the US-China trade dispute – while China also showed some willingness to adapt to key US concerns by issuing guidelines for improving intellectual property protection aimed at speeding up the introduction of an actual system to protect patents – a key demand from the US in trade talks. Overall, fund constituents such as Anta Sports (down 4.1% USD), Catcher Technologies (down 3.5% USD) and New Oriental Education (down 0.8% USD) gave up some of the strong gains they had made over recent months. The fund currently holds an overweight position to Asia Pacific, which was a drag on performance due to the weakness from the region.

Germany narrowly avoided a technical recession with 0.1% GDP growth in the third quarter. However, this was indicative of a month of 'not-so bad' data out of Europe with improvements in the manufacturing PMI (in particular from Germany) whilst Eurozone factory output for September recorded growth for its second consecutive month – although only at 0.1% – led by solid growth in consumer products. The fund's exposure to Europe is broadly similar to that of the MSCI World,

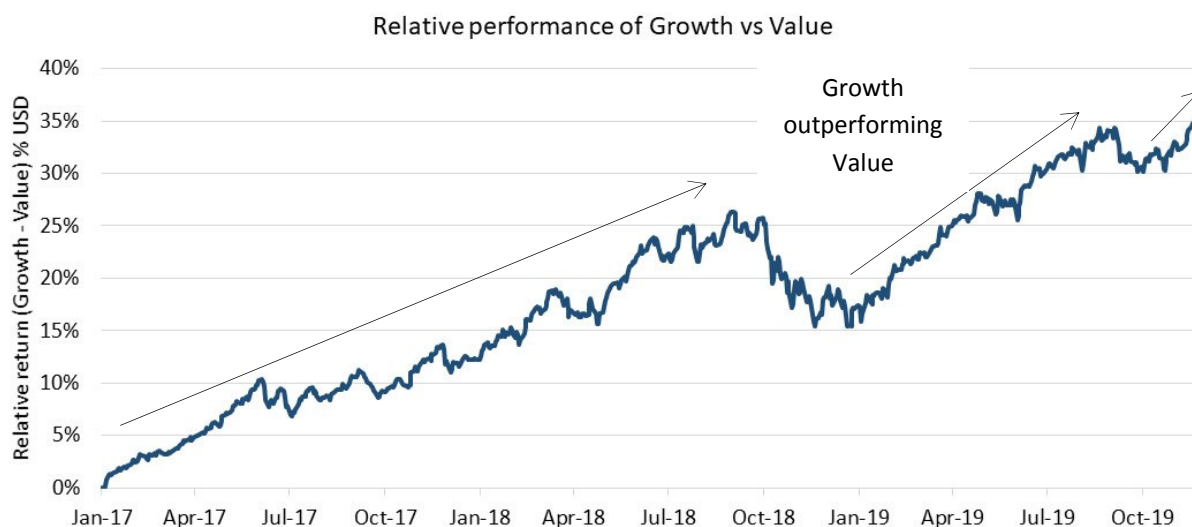
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although strong stock selection with Siemens (up 12.0% in USD) and Infineon (up 10.3% in USD) over the month made Europe the largest regional contributor to outperformance.



Source: Bloomberg, as of 30th November 2019

On a sector basis, IT, the best-performing sector this year, continued its fine run with the software industry up 6% over the month. Semiconductors, although strong with returns of 4.4% over the month, were a slight drag to the broader IT sector. This was represented by a dispersion in the performances of the fund’s semiconductor names; equipment manufacturers were weaker after UBS gave a more bearish view (Applied Materials, Lam Research and KLA Tencor down 3%, 3% and 5% on the day respectively), whilst fabless chip designers Nvidia and Infineon were two of the fund’s top five performers over the month. Applied Materials did end the month as one of the top five performers after rising c.9% on strong quarterly results. Defensive sectors Consumer Staples, Real Estate and Utilities all underperformed over the month as growth once again outperformed (MSCI Growth Index up 3.5% vs MSCI Value Index up 2.1% in USD) after the value rotation experienced in September. The fund holds no exposure to these three sectors, which contributed positively to its relative performance.



Source: Bloomberg, as of 30th November 2019

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Cisco – a deeper look

Cisco was the fund's largest underperformer in November (down 4.6% in USD) after reporting solid quarterly results but guiding weaker-than-expected for the coming quarter as management pointed to macro headwinds such as weakness in China. However, having bought the company back in 2014 and having seen its price increase 114% (USD), we continue to see good upside on our investment.



What is the business model?

Cisco Systems is the world's largest hardware and software supplier within the networking solutions sector. Cisco designs and sells networking hardware such as routers and switches that facilitate the connection to the internet, as well as the software which optimises the data flow. Cisco commands a market-leading position in almost all end-markets versus such peers as Arista, F5 Networks and Juniper.

Why is it innovative?

Cisco is directly exposed to the proliferation in data traffic stemming from such drivers as the expansion of mobile devices, the trend towards video streaming and the explosion of cloud-based services. Indeed, Cisco's hardware – the switches and routers – is a direct beneficiary of the increase in volume of traffic, but coming with it is the trend towards innovative software as opposed to innovative hardware in order to optimise data flow. This is the area in which Cisco has been increasingly focused, with software now estimated to contribute over 30% of total revenue – the highest amongst peers. Consequently, not only does Cisco derive a strong competitive advantage from the high switching costs (no pun intended) associated with the volume of switches and routers embedded in customer applications, but also the innovative software that comes alongside it. Further, this software is increasingly sold as subscription packages (currently subscriptions account for 71% of software sales) which in turn is increasing the proportion of recurring revenue Cisco receives and which should give Cisco better insights into customer spending habits.

Why do we still like Cisco?

We see Cisco as a quality company with sustainable competitive advantages derived from its brand recognition and high switching costs. The company sits in a favourable position given the growth in data traffic and the shift to software offerings and, while many IT names (and in particular software companies) trade at elevated levels, we view Cisco's 14x P/E valuation as modest given the good end-market growth potential and shift to software offerings.

Thank you for your continued support.

Portfolio Managers

Dr Ian Mortimer, CFA
Matthew Page, CFA

Analysts

Joseph Stephens
Sagar Thanki

Data sources

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

Index and stock data: *Bloomberg*

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Guinness Global Innovators Fund

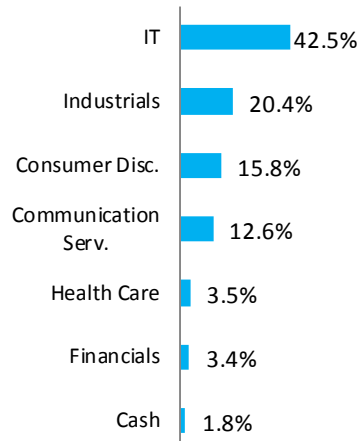
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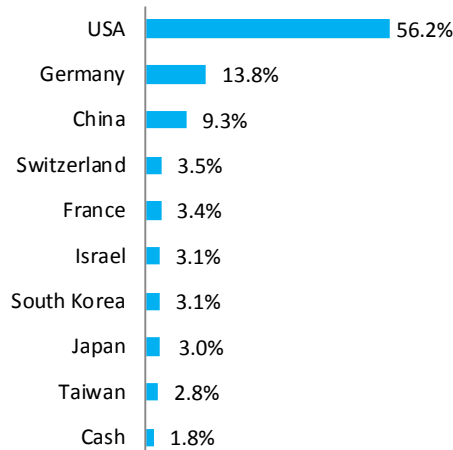
Fund top 10 holdings

Infinion Technologies	3.7%
Siemens	3.6%
Nvidia Corp	3.5%
Danaher Corp	3.5%
ABB	3.5%
Eaton	3.5%
SAP AG	3.5%
Paypal	3.5%
Roper Industries Inc	3.4%
Lam Research	3.4%
% of Fund in top 10	35.1%
Total number of stocks	30

Sector analysis



Geographic allocation



30/11/2019

Annualised % total return from strategy inception (GBP)

Guinness Global Innovators strategy*	12.64%
MSCI World Index	10.01%
IA Global sector average	9.12%

Discrete years % total return (GBP)

	Nov '15	Nov '16	Nov '17	Nov '18	Nov '19
Guinness Global Innovators strategy*	2.7	22.2	24.3	-3.3	20.1
MSCI World Index	3.3	24.2	14.1	6.2	13.0
IA Global sector average	2.1	19.3	15.7	2.7	12.6

Cumulative % total return (GBP)

	1 month	Year-to-date	1 year	3 years	5 years	10 years
Guinness Global Innovators strategy*	2.9	30.5	20.1	44.2	81.0	335.6
MSCI World Index	2.8	22.1	13.0	37.0	75.8	209.9
IA Global sector average	3.0	20.7	12.6	33.8	63.0	157.4

RISK ANALYSIS

30/11/2019

Annualised, weekly, 5 years, in GBP	Index	Sector	Strategy*
Alpha	0	1.07	-0.39
Beta	1	0.78	1.13
Information ratio	0	-0.23	0.12
Maximum drawdown	-14.03	-17.08	-19.65
R squared	1	0.78	0.85
Sharpe ratio	0.64	0.59	0.57
Tracking error	0	6.19	6.52
Volatility	13.16	11.59	16.19

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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. Fund returns are for share classes with a current Ongoing Charges Figure (OCF) stated above; returns for share classes with a different OCF will vary accordingly

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, 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, 18 Smith Square, London SW1P 3HZ.

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 will be recorded and monitored.

GUINNESS

ASSET MANAGEMENT

Guinness Asset Management Ltd is authorised and regulated by the Financial Conduct Authority

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