

Guinness Global Innovators Fund

INVESTMENT COMMENTARY - August 2016

About the Fund

The Fund is a large cap. 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	£61m
AUM in strategy	£181m
Fund launch date	31.10.14
Strategy launch date	01.05.03

Managers Dr. Ian Mortimer, CFA
Matthew Page, CFA

Performance 31.07.16

Cumulative %	1 year	3 years	5 years
Strategy*	18.5	48.4	124.3
Index	17.0	38.3	80.9
Sector	12.5	28.4	54.4
Position in sector	52 /253	18 /224	6 /194

Annualised % total return from strategy inception (GBP)

Strategy*	12.15%
Index	9.52%
Sector	8.69%

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, total return, in GBP.

Performance

In the month of July the fund was up 6.5% (in GBP) versus the MSCI World Index up 4.9%, an outperformance of 1.6%.

Year to date the fund is now up 13.5% (in GBP) versus the MSCI World Index up 16.5%.

Update

July saw the market focus once again on risk assets. Many equity indices, most notably in the US, reached new highs as investors looked past the turmoil caused by the UK voting to leave the European Union at the end of June and instead focused on improvements in various economic indicators such as the improved PMI readings and a return to above-trend job creation in the US. New stimulus announcements in Japan and a well flagged expectation of similar from the Bank of England (which turned out to be even more dovish than expected when announced in early August) also served to buoy markets in the month. We also saw a notable rally in emerging market equities which appeared to be driven by increased fund inflows into that region, with emerging market bonds also being well bought.

Growth stocks generally outperformed value stocks suggesting a potentially greater risk appetite from investors, but alongside this we witnessed government and investment grade bond yields reach new lows which might instead suggest investors are continuing to invest for yield where they can find it.

The VIX – the so called ‘fear index’ – dropped to below 12 in the month which many commentators took to indicate complacency in investors’ views. While the swift rally from the

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selloff in June, or indeed that of February, was not necessarily driven by an improvement in company fundamentals or the wider economy, assets have rallied regardless. We have also begun to see a focus on 'crowding' risk in certain sectors; namely in the higher dividend yielding consumer staples and utilities sectors as investors seek the income they desire, with this trend then heightened further by buyers looking for low volatility of returns – with many companies that historically demonstrate volatility falling in the same sectors.

All of this must be balanced against a background of a continued drop in earnings expectations since the start of the year. Sharp falls can be seen in all of the US, Europe and Asia, with Japan the only major region showing some signs of stabilisation (albeit from a rather low base). But as is often the way, company management has generally played the game of 'lower expectations and then beat' once again in the Q2 earnings season with those companies surprising to the upside rewarded handsomely and vice versa for those that disappointed.

This played out in the top performing stocks in the portfolio in the month with good earnings results driving prices (all in USD) for State Street (+22.0%), Qualcomm (+16.8%), SAP (+16.5%), and Alphabet (+12.5%). The other holding in the top five performing stocks was NVIDIA (+21.5%), the graphics card designer, which does not

report until August but has continued to grow at a rapid rate.

It was noticeable that all three industries in the IT sector (semiconductors, software & services, and technology & hardware) were in the top four best performing industry groups for the month. The IT sector remains the largest overweight in the portfolio (at approximately 50%) and we benefitted significantly from this in the month. We still see particularly good value in many of the companies in this sector as their high margins, good cash flow, and typically low leverage are not highly rated (in multiple terms at least) by the broader market. Historically these businesses have tended to pay little in the way of dividends – instead using excess cash to reinvest and grow or to buy back shares – which may, in light of the comments made above, be part of the reason they have underperformed. We see good indications that many of the more mature businesses in these areas are starting to focus more on shareholder returns which may be an added incentive for investors to start to rerate their stock values, as well as the good fundamentals we see them offering.

Thank you for your continued support.

Dr. Ian Mortimer & Matthew Page
Co-managers, Guinness Global Innovators Fund

Guinness Global Innovators Fund

PORTFOLIO

31/07/2016

Fund top 10 holdings	Sector analysis	Geographic allocation
Nvidia Corp 4.7%		USA 72.5%
Samsung Electronics GDR 4.2%		Germany 6.5%
Applied Materials 4.0%		South Korea 4.2%
Danaher Corp 3.7%		Taiwan 3.5%
Comcast Corp 3.6%		France 3.2%
Boeing 3.6%		Israel 2.9%
Intel Corp 3.5%		Hong Kong 2.7%
Taiwan Semiconductor ADS 3.5%		China 2.2%
Oracle Corp 3.5%		Cash 2.30%
Schlumberger 3.5%		
% of Fund in top 10 37.7%		
Total number of stocks in Fund 30		

PERFORMANCE *(composite simulation - see below)*

31/07/2016

Annualised % total return from strategy inception (GBP)

Guinness Global Innovators strategy*	12.15%
MSCI World Index	9.52%
IA Global sector average	8.69%

Discrete years % total return (GBP)

	Jul '12	Jul '13	Jul '14	Jul '15	Jul '16
Guinness Global Innovators strategy*	9.7	37.7	15.1	8.8	18.5
MSCI World Index	2.7	27.4	4.1	13.5	17.0
IA Global sector average	-3.0	24.0	4.3	9.4	12.5

Cumulative % total return (GBP)

	1 month	Year-to-date	1 year	3 years	5 years
Guinness Global Innovators strategy*	6.5	13.5	18.5	48.4	124.3
MSCI World Index	4.9	16.5	17.0	38.3	80.9
IA Global sector average	6.6	13.8	12.5	28.4	54.4

RISK ANALYSIS

31/07/2016

Annualised, weekly, 5 years, in GBP	Index	Sector	Strategy*
Alpha	0	-0.61	3.04
Beta	1	0.81	1.11
Information ratio	0	-0.51	0.71
Maximum drawdown	-14.03	-17.08	-17.14
R squared	1	0.78	0.87
Sharpe ratio	0.82	0.60	0.99
Tracking error	0	6.31	6.10
Volatility	13.49	12.32	16.16

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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, 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.

Telephone calls may be recorded and monitored.

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