

Guinness Global Innovators Fund

INVESTMENT COMMENTARY - September 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	£60m
AUM in strategy	£182m
Fund launch date	31.10.14
Strategy launch date	01.05.03

Managers Dr. Ian Mortimer, CFA
Matthew Page, CFA

Performance 31.08.16

Cumulative %	1 year	3 years	5 years
Strategy*	29.9	59.2	146.5
Index	25.3	46.3	95.8
Sector	20.3	34.5	70.6
Position in sector	20 /254	13 /228	4 /199

Annualised % total return from strategy inception (GBP)

Strategy*	12.37%
Index	9.57%
Sector	8.76%

Strategy	Guinness Global Innovators*
Index	MSCI World Index
Sector	IA Global

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*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 August the Guinness Global Innovators Fund produced a total return of 3.65% compared to the MSCI World Index of 1.46%. The fund therefore outperformed the benchmark by 2.19%.

Update

During the month the fund benefitted from having an overweight position to the IT and Industrial sectors. Within those sectors we saw strong earnings announcements from companies such as Applied Materials, Siemens and Nvidia to which the market reacted positively.

The fund also benefitted from having zero exposure to Utilities and Consumer Staples, which lagged the market.

Asia and emerging markets were the strongest regions while the US and Japan lagged. However, despite our overweight position in the US this was not a significant drag on performance.

Nvidia has been a strong contributor to the fund's performance over the last 12 months. Analysts have regularly upgraded their earnings estimates for the company over this period. For example, its consensus earnings per share (EPS) estimate for the current fiscal year-end was \$1.50 on 31/8/15 whereas today it is \$2.33, which represents a 55% increase.

Over the same period we have also seen the market reward the company with a higher valuation. The one year forward price-earnings

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ratio for the company was 16.9 on 31/8/15 but has expanded to 28.2 today. Combined with a small dividend this earnings growth and multiple expansion has generated a total return over the 12 months to 31/8/16 of 176%.

Nvidia is well positioned within a number of Innovative growth themes including Artificial Intelligence, Autonomous Vehicles and Virtual Reality.

The company was one of the early developers of the Graphics Processing Unit (GPU), which is essentially the chip within a computer that is responsible for the conversion of code into the graphics on the screen. The GPU is different to the Central Processing Unit (CPU) in that while the CPU can process long lines of code to calculate an output, it can't process lots of small bits of information all at the same time like the GPU can.

Nvidia were quick to adapt their GPU technology to provide computing power for other applications that could be accelerated with the use of parallel processing, such as data analysis, computer aided design or computational fluid dynamics.

More recently Nvidia's GPUs have been used in Artificial Intelligence applications whereby deep learning neural networks have been taught to recognise images without any specific computer vision code. It is this technology that is being used to teach automated vehicles to recognise obstacles across a huge array of different road, lighting and weather conditions and driving speeds. It is also this same deep learning approach that is being used to recognise the voice via Apple's Siri.

As GPUs become more and more powerful so does the potential of virtual reality (VR). High quality virtual reality is now available in the home, via first generation units such as Facebook's Oculus Rift or HTC's Vive. While there is certainly a lot of hyped up expectation

surrounding VR, the technology is extremely impressive. Time will tell whether it will become the 'future of entertainment' as some have claimed but it is certainly an exciting engine of growth for companies like Nvidia.

Although the story around Nvidia is interesting and compelling, we are always cautious about getting too caught up in a good narrative. In our experience, companies are far more likely to have growth which is part of a cycle rather than straight-line secular growth. We therefore need to be cautious about the amount we are willing to pay for a company such as this, especially given Nvidia now trades at its highest multiple for six years.

However, on looking at its financials we find many of the characteristics we like to see in a growth company. We have always had a strong preference for companies that can grow profitably without the need to draw on external sources of financing. Nvidia has certainly done this historically and on the balance sheet today it has relatively little debt which is more than offset by a comfortable cash pile.

The demands for working capital and capital expenditure as a company grows can be a significant drag in converting growth into profitability, whilst also being a distraction to management. When a recession hits, fast-growing companies often find that orders dry up, the cash pile disappears into financing high levels of inventory, debt markets shut and consequently they have to resort to dilutive rights issues. In order to weather any economic downturn we are therefore focussed on the balance sheets of the companies we own. Nvidia has sufficient balance sheet strength to weather a recessionary shock.

We also like the fact that Nvidia's growth in revenues over recent years is also translating into higher margins. At the same time, working capital demands have been relatively stable and the capital expenditure budget is not growing

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markedly. The result is growth in free cash flow, which can be a powerful driver of valuation. Given these characteristics of strong, profitable growth and a sound balance sheet translating into free cash flow growth, we feel comfortable continuing to own Nvidia in the portfolio for now. However, given our equally weighted portfolio construction methodology, we have been intermittently rebalancing our position in Nvidia over the last 12 months by reducing the number of shares we own and thereby reducing the valuation risk of this position within the portfolio.

It is always difficult to find attractive growth companies and even more difficult to predict which of these will ultimately succeed. What we can do, however, is avoid those companies that are poorly capitalised or depend on external financing. By doing this we should be able to avoid the worst of the drawdowns and, with patience, give ourselves the best chance of seeing the strong periods of growth that can transform a company.

Thank you for your continued support.

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

Guinness Global Innovators Fund

PORTFOLIO

31/08/2016

Fund top 10 holdings	Sector analysis	Geographic allocation
Intel Corp 3.6%		USA 71.7%
Alphabet 3.5%		Germany 6.5%
Wisdomtree Investments 3.5%		China 3.5%
Lenovo 3.5%		France 3.4%
Schneider Electric 3.4%		Hong Kong 3.3%
Intercontinental Ex. 3.4%		Taiwan 3.3%
Cisco Systems 3.4%		South Korea 3.2%
Verifone Systems 3.4%		Israel 3.0%
State Street 3.3%		Cash 2.0%
Comcast Corp 3.3%		
% of Fund in top 10 34.4%		
Total number of stocks 31		

PERFORMANCE *(composite simulation - see below)*

31/08/2016

Annualised % total return from strategy inception (GBP)

Guinness Global Innovators strategy*	12.37%
MSCI World Index	9.57%
IA Global sector average	8.76%

Discrete years % total return (GBP)

	Aug '12	Aug '13	Aug '14	Aug '15	Aug '16
Guinness Global Innovators strategy*	17.3	31.9	25.0 -	2.0	29.9
MSCI World Index	10.8	20.8	12.8	3.5	25.3
IA Global sector average	6.4	19.2	10.1	1.5	20.3

Cumulative % total return (GBP)

	1 month	Year-to-date	1 year	3 years	5 years
Guinness Global Innovators strategy*	3.7	17.7	29.9	59.2	146.5
MSCI World Index	1.5	18.2	25.3	46.3	95.8
IA Global sector average	1.6	15.6	20.3	34.5	70.6

RISK ANALYSIS

31/08/2016

Annualised, weekly, 5 years, in GBP	Index	Sector	Strategy*
Alpha	0	-0.71	3.79
Beta	1	0.82	1.10
Information ratio	0	-0.53	0.83
Maximum drawdown	-14.03	-17.08	-17.14
R squared	1	0.79	0.86
Sharpe ratio	0.87	0.64	1.09
Tracking error	0	5.98	6.01
Volatility	13.11	12.05	15.61

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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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ASSET MANAGEMENT LTD

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

Tel: +44 (0) 20 7222 5703

Email: info@guinnessfunds.com

Web: guinnessfunds.com