

# Guinness Global Innovators Fund

## INVESTMENT COMMENTARY - November 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	£59m
AUM in strategy	£187m
Fund launch date	31.10.14
Strategy launch date	01.05.03
Managers	Dr. Ian Mortimer, CFA Matthew Page, CFA

### Performance 31.10.16

Cumulative %	1 year	3 years	5 years
Strategy*	26.7	57.5	147.7
Index	28.0	47.3	103.7
Sector	23.2	34.2	73.8
Position in sector	102 /264	19 /235	4 /205

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

Strategy*	12.71%
Index	9.91%
Sector	9.06%

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.

### Monthly update

In October the Guinness Global Innovators Fund produced a total return of 4.74% (in GBP) vs the MSCI World Index of 4.34%. The fund therefore outperformed the index by 0.40%.

When we look at the drivers of equity markets during October it felt very much like a “risk-on” month, even though in US dollar terms global equities actually fell around 2%. Markets were becoming more confident of a December rate rise by the Fed, yet were still anxious about the US presidential election. Small-cap companies outperformed large-cap companies, while Asia and emerging markets outperformed developed markets. The fund’s IT holdings were strong performers during the month with our positions in Check Point Software, Cognizant and Nvidia all making a significant contribution to performance. The Financials and Materials sectors were also strong in October while our small weight to Financials and our zero weight to Materials were a drag.

We made a small number of changes to the portfolio during the month. We sold our positions in Lenovo and State Street and bought new positions in New Oriental Education and Fanuc.

We decided to cut our losses on Lenovo after what has been a tumultuous period for the company, with falling global demand for notebook computers. In contrast, we decided to sell our position in State Street after a rapid rerating since the end of June.

New Oriental is a leading Chinese private education company. It is a mid-sized company with a market capitalisation of around \$8 billion. The company operates 67 schools and nearly

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800 education centres in China, a portfolio which has grown rapidly. Revenues have doubled in the last four years, driven by increasing demand for language and test preparation courses. The growth in the business is attractive and we believe it has considerable scope to continue for years to come. We also like the fact that the company generates high margins and has no debt. It is therefore highly cash generative and importantly requires a relatively modest amount of this cash to finance its organic growth. We believe the current valuation underestimates both the quality of the business model and the long-term growth opportunity.

Fanuc is a Japanese company and is one of the largest producers of industrial robots in the world. Like New Oriental, Fanuc has no debt and a large cash pile. It is geographically diversified, with around 60% of revenues coming from Asia and the balance from Europe and the US. While New Oriental Education is on a secular growth trend, Fanuc is more cyclical. Sentiment towards the company is currently quite negative, especially compared to what it was in the spring of last year, but this means we can buy the same high-quality company today at a 25-30% discount to its price in May 2015.

The overall effect of these changes was to reduce our exposure to Financials and IT and increase our exposure to Industrials and Consumer Discretionary. It also had the effect increasing our exposure to Asia and reducing our exposure to the US.

At the end of October the portfolio had 62.1% in US companies, which is down from 72.5% at the end of June.

## Impact of the US election

Since the US election on 8<sup>th</sup> November the portfolio has weathered the markets well,

comfortably outperforming the MSCI World benchmark over the course of November so far (to 23<sup>rd</sup> November). The portfolio's exposure to more cyclical parts of the market, at the expense of defensive industries, means we have benefitted from President-elect Trump's desire to kick start the American economy through fiscal stimulus. Indeed, since the election, we have seen a divergence in performance of more than 10% between the world Financials sector, which has benefitted, and the world Utilities sector, which has underperformed. On a geographic basis, US equities have outperformed emerging market equities by a similar margin. Therefore, our overweight to US equities has certainly helped performance while our relatively small weight to emerging markets has had a relatively small impact.

Another positive contributor to performance since the election has been Nvidia, which reported very strong quarterly earnings results. These surpassed analysts' expectations and sent the shares rallying almost 30% on the day. We wrote about Nvidia in our September update, "Artificial Intelligence, Autonomous Vehicles and Virtual Reality", which you can read [here](#).

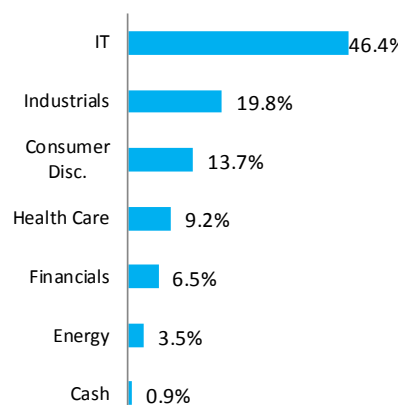
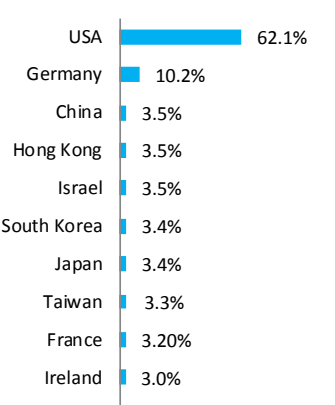
Like many people, we did not expect a Trump victory and we certainly did not position our portfolio for that outcome. Even if we had predicted it, it would not have changed the long-established characteristics we look for in companies. That has not changed since the inception of this strategy in 2003. We believe the portfolio is well positioned in quality growth companies in industries that will be driving economies forward for years to come. We have always looked for companies that can grow profitably, with disciplined capital budgeting and robust balance sheets – companies like New Oriental Education and Fanuc.

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

## Guinness Global Innovators Fund

### PORTFOLIO

31/10/2016

Fund top 10 holdings	Sector analysis	Geographic allocation																																																														
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### PERFORMANCE *(composite simulation - see below)*

31/10/2016

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

Guinness Global Innovators strategy*	12.71%
MSCI World Index	9.91%
IA Global sector average	9.06%

#### Discrete years % total return (GBP)

	Oct '12	Oct '13	Oct '14	Oct '15	Oct '16
Guinness Global Innovators strategy*	10.0	43.0	20.2	3.4	26.7
MSCI World Index	9.6	26.1	9.1	5.4	28.0
IA Global sector average	4.3	24.2	4.2	4.5	23.2

#### Cumulative % total return (GBP)

	1 month	Year-to-date	1 year	3 years	5 years
Guinness Global Innovators strategy*	4.7	25.0	26.7	57.5	147.7
MSCI World Index	4.3	25.0	28.0	47.3	103.7
IA Global sector average	4.2	21.6	23.2	34.2	73.8

### RISK ANALYSIS

31/10/2016

Annualised, weekly, 5 years, in GBP	Index	Sector	Strategy*
Alpha	0	-0.31	2.31
Beta	1	0.82	1.10
Information ratio	0	-0.49	0.62
Maximum drawdown	-14.03	-17.08	-17.14
R squared	1	0.79	0.86
Sharpe ratio	0.95	0.75	1.08
Tracking error	0	5.85	5.76
Volatility	12.59	11.65	14.99

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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](http://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](http://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.

**GUINNESS**

**ASSET MANAGEMENT LTD**

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