Guinness Global Innovators Fund

INVESTMENT COMMENTARY - February 2017

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	£66m
AUM in strategy	£200m
Fund launch date	31.10.14
Strategy launch date	01.05.03
Managers	Dr. Ian Mortimer, CFA Matthew Page, CFA

Performance 31.01.17

Cumulative % gross total return (GBP)	1 year	3 years	5 years	10 years
Strategy*	35.1	59.7	142.6	234.1
Index	32.8	58.0	106.5	142.6
Sector	32.2	41.8	75.6	93.5
Position in sector	71 /266	26 /238	3 /205	1 /138

Annualised % gross total return
from strategy inception (GBP)

Strategy*	12.79%
Index	10.57%
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, bid to bid, gross total return, in GBP.

Summary performance

In January the Guinness Global Innovators Fund produced a total return of 1.43% (in GBP) versus the MSCI World Index return of 0.61%. The fund therefore outperformed the index by 0.82% in the month.

Over a one-year period to the end of January the fund is now ahead of the benchmark, up 35.05% (in GBP) versus the MSCI World Index return of 32.80%.

January in review

Once again, markets were dominated by President Trump as investors looked to his inauguration on January 20th and the potential for swift action on his campaign promises concerning trade, tax reform, infrastructure spending, immigration and healthcare.

Markets began the year in positive mood, buoyed by a good start to the US earnings season and signals of economic growth. Consumer confidence was up in Europe, China and the US and the manufacturing purchasing managers indices (PMI) in Europe and the US both continued to strengthen. The Dow Jones Industrial Average finally closed above the 20,000 mark on January 25th and this was widely publicised as a mark of how far the equity markets had come since the financial crisis. The seemingly chaotic roll-out of the new US administration's executive order essentially banning entry into the US from seven Muslim-majority countries caused markets to pause, and in some cases retreat, into the month end. Investors not only had to assess quickly the implications of this order but to try and infer what it may mean for the execution of future executive orders.

Overall, however, markets continued to support the 'inflation trade' with growth stocks outperforming value stocks and more economically sensitive sectors such as materials, information technology and consumer discretionary outperforming more defensive sectors such as telecoms, consumer staples and utilities. The one exception was the energy sector as oil prices stabilised and the market reassessed the response of US shale drillers to the improved oil price environment.

Going 'against' this narrative, however, emerging markets outperformed developed markets (MSCI Emerging Markets up 5.5% versus the MSCI World up 2.2%, both total return in USD) in January. However, this was from a lower base as emerging markets underperformed in December. It also coincided with the weakening dollar over the month as the sharp rally seen since the election result in early November retraced its peak from year end.

A keenly debated topic, and one that has significant implications for markets, is the outlook for the US dollar. Despite the myriad changes mooted across all aspects of US domestic and foreign policy it is arguably on trade where the new administration has been most consistent. Trump has already walked away from the Trans-Pacific Partnership and complained loudly about almost all trade agreements the US is currently party to. Whether this rhetoric plays out as a broad-based 'trade war' or more selectively against certain imports that compete directly with US production remains to be seen. Either way, it is highly likely that any trade restrictions would be met with a response in kind or otherwise, which would clearly have an effect on currencies.

House Republicans are also keenly debating a proposed destination-based taxation system which attempts to levy taxes with reference to the place of sale of goods, rather than their place of manufacture. This would be a boon for exporters and put importers at a distinct disadvantage. It has been suggested this would have the consequence of a sharp appreciation in the dollar, although this is hotly debated.

All of the above must also be put in context of a more hawkish Federal Reserve. Following Janet Yellen's latest remarks, markets have begun to price in just under three 25bps rate rises over the next twelve months. As unemployment continues to come down, wages begin to rise and the prospect emerges of significant fiscal stimulus, the Fed has become more focussed on the prospect of sharply rising inflation and how to manage that rise effectively.

The US debate has generally dominated headlines but we must not forget about Europe, not least its political uncertainty but also the recurring issues of the capitalisation of the Italian banking system and the looming Greek debt repayment requirement. On the political front, French election expectations have been thrown into turmoil because of the Francois Fillon 'fake job' scandal, Dutch elections are due in mid-March and Germany is already looking towards its elections in September. And despite Theresa May's overwhelming majority in the most recent parliamentary vote on enacting Article 50 we still have the reality, and uncertainty, of Britain's exit from the European Union to contend with.

So how best to navigate? The Global Innovators Fund is at heart a growth fund and as such is potentially more exposed to market movements, for better and for worse. However, we seek to invest in quality growth companies, by which we mean companies that are reasonably asset light and thus do not require large amounts of outside capital to grow, companies that have strong and ideally growing return on capital, and companies that have good operating margins. These companies typically are at the forefront of their industries or have unique or innovative products that allow them to protect against a deterioration in their return on capital, which should mean they are better placed relative to peers to navigate different market environments. However, we recognise that these businesses are still more susceptible to the overall economic environment than, say, consumer staples businesses, so we also try to the avoid those that have taken on too much debt or that trade at extreme valuations, as these factors can amplify stock moves during a slowdown in growth (or market sell-off).

Portfolio update

We made no changes to the portfolio in January.

Individual stock performance in the month broadly followed the market trends outlined above. Checkpoint (+16.9% total return in USD), the Israeli-listed cyber security company, posted better than expected results mid-month and was up over 7% on the day. Fanuc, the Japanese robotics company, continued to benefit from an improvement in manufacturing sentiment. Samsung (+13.9%), AAC Technologies (+13.5%) and New Oriental Education (+12.9%) all benefitted from the rally in emerging and Asian equity markets.

Qualcomm (-18.1%) suffered as Apple accused it of monopolizing the market for chips and wireless devices. WisdomTree (-7.5%) sold off in unison with Japanese Yen strength as one of the ETF provider's largest products is a Yen-hedged equity fund. H&R Block (-6.7%) declined as the market continued to worry about prospects for the upcoming tax season. Cognizant (-6.1%) shares were sold as concerns mounted over the future use and availability of H1B professional services visas for the US for which Cognizant utilises for many of its workers. Shire (-4.8%) shares weakened along with the wider healthcare sector mid-month as Trump said he thought there needed to be more competitive drug bidding.

We thank for you continued support.

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

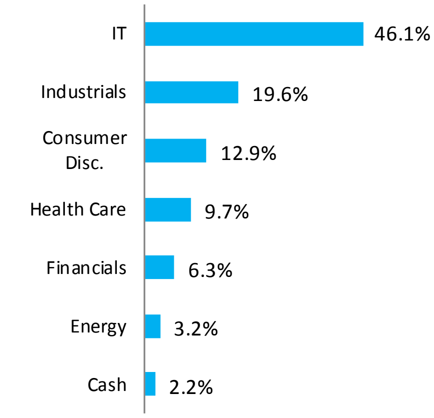
PORTFOLIO

31/01/2017

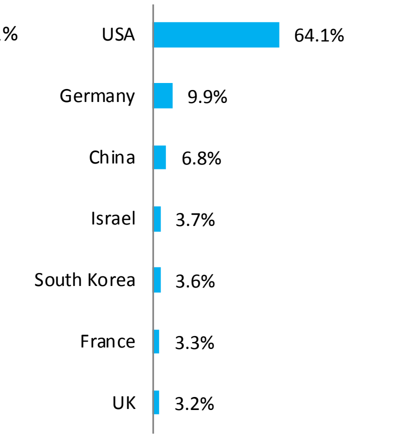
Fund top 10 holdings

Check Point Software	3.7%
AAC Technologies	3.7%
Comcast Corp	3.6%
Samsung Electronics GDR	3.6%
Applied Materials	3.6%
Boeing	3.5%
SAP AG	3.4%
Nvidia Corp	3.4%
Danaher Corp	3.4%
Intercontinental Exchange	3.3%
% of Fund in top 10	35.1%
Total number of stocks in Fund	30

Sector analysis



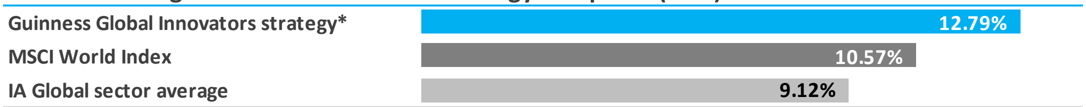
Geographic allocation



PERFORMANCE *(composite simulation - see below)*

31/01/2017

Annualised % gross total return from strategy inception (GBP)



Discrete years % gross total return (GBP)	Jan '13	Jan '14	Jan '15	Jan '16	Jan '17
Guinness Global Innovators strategy*	17.7	29.0	20.7	-2.0	35.1
MSCI World Index	16.0	12.6	17.7	1.1	32.8
IA Global sector average	13.1	9.5	12.6	-4.8	32.2

Cumulative % gross total return (GBP)	1 month	Year-to-date	1 year	3 years	5 years	10 years
Guinness Global Innovators strategy*	1.4	1.4	35.1	59.7	142.6	234.1
MSCI World Index	0.6	0.6	32.8	58.0	106.5	142.6
IA Global sector average	1.4	1.4	32.2	41.8	75.6	93.5

RISK ANALYSIS

31/01/2017

Annualised, weekly, 5 years, in GBP	Index	Sector	Strategy*
Alpha	0	0.18	2.53
Beta	1	0.81	1.11
Information ratio	0	-0.44	0.69
Maximum drawdown	-14.03	-17.08	-17.14
R squared	1	0.78	0.86
Sharpe ratio	0.95	0.78	1.09
Tracking error	0	5.84	5.73
Volatility	12.38	11.31	14.88

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Source: Financial Express, bid to bid, gross 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'Ile, 1204 Geneva, Switzerland.

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