Guinness Global Innovators Fund

Innovation | Quality | Growth | Conviction

INVESTMENT COMMENTARY – April 2018

About the Fund

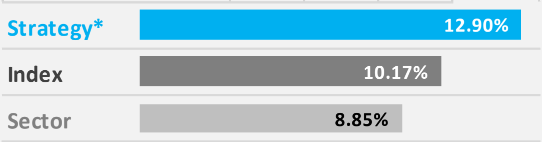
The Fund is a global growth fund designed to provide exposure to companies benefiting from innovations in technology, communication, globalisation or innovative management strategies. The Fund holds a concentrated portfolio of large and medium-sized companies in any industry and in any region.

Fund size	$178m
AUM in strategy	$410m
Fund launch date	31.10.14
Strategy launch date	01.05.03
Managers	Dr. Ian Mortimer, CFA Matthew Page, CFA

Performance 31.03.18

Cumulative % gross total return (GBP)	1 year	3 years	5 years	10 years
Strategy*	10.8	46.6	119.4	282.1
Index	1.8	35.5	76.8	166.1
Sector	2.7	27.5	57.4	110.9
Position in sector	**26** /280	**19** /250	**4** /224	**2** /151

Annualised % gross total return
from strategy inception (GBP)



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 the month of March the fund was down 3.72% (in GBP), versus the benchmark MSCI World Index down 3.86%. The fund therefore outperformed the index by 0.14% over the month.

Year-to-date the fund is now down 2.33% (in GBP), versus the benchmark MSCI World Index down 4.68%, an outperformance of 2.35%.

Despite the weaker markets seen over the first quarter of 2018, the short-term and long-term performance of the strategy remains very strong versus both the index and the IA Global Sector; its performance versus the sector places it in the top decile over one, three, five and ten years.

Fund Y-class, GTR in GBP to 31.03.18	1yr	3yr	5yr	10yr
Fund	**10.76**	**46.57**	**119.37**	**282.12**
MSCI World	1.80	35.47	76.84	166.10
IA sector average	2.66	27.54	57.44	110.86
Rank vs peers	26/280	19/250	4/224	2/151

Source: Financial Express. Cumulative Total Return in GBP, as of 31st March 2018

Quarter in Review

Global markets started the year strongly, but from late January onwards heightened volatility plagued the markets, with periods of weakness and periods of recovery. Overall in the quarter the MSCI World Index finished down 1.2% (total return in USD).

The ascent of major equity markets in January was led by emerging Asia and the US. However, the tranquillity was disrupted as a sell-off led by the US began on the 26th January, after the January US jobs report indicated an acceleration in US wage growth, with average hourly wages climbing at a year-on-year rate of 2.9 per cent in January and 2.7 per cent

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the previous month. This led to rising bond yields and a sell-off in global equity markets into February. Investors were concerned that the return of inflation and higher rates could erode the profitability of companies trading at elevated valuations. By the end of January, many companies had reported earnings and out of around 400 companies that are tracked by 5 or more analysts, 70.5% had their price targets upgraded. Generally, reported earnings beat expectations.

After more than a year of equity markets trending higher, volatility returned abruptly in February. Global equity markets fell back over the month, giving up almost all the gains made in January. The MSCI World Index was back at 0% (total return, USD) for the year at the end of February, having been up as much as 7% in January. Despite the return of market volatility, underlying economic and corporate data continued to indicate robust economic growth conditions. The strong global macro data may have played a role in preventing a more sizable market correction. The Eurozone's real GDP was up 2.7% (YoY, Q4 2017), with broad-based growth across the region, and the Purchasing Managers' Index (PMI) remained at elevated levels. The US also posted a healthy real GDP annualized growth rate of 2.5% (QoQ, Q4 2017), in line with market expectations. Asia underperformed during February's global correction. Despite this, the region's good fundamentals remain intact and Chinese growth was stronger than expected, at 6.8% year-on-year, for the fourth quarter. Europe was not immune to the global equity market sell-off with all sectors falling in the month. The Technology sector outperformed the broader market, since the prospect of rising debt costs would relatively favour the strong cash positions of many Technology firms, both in Europe and globally, and we saw continued strong earnings reports from companies in the sector.

March saw a Technology-led sell-off, which led the wider market lower, driven by speculation over regulatory pressure from privacy and anti-trust issues following company-specific news about Facebook. As March drew to a close global equity markets were unnerved by fears of a trade war. This escalated after the US first announced tariffs on steel and aluminium then continued with proposed tariffs on a further $50bn of Chinese imports, raising concerns that this could impede global growth. The year had begun with the worst quarter for global equities in more than two years.

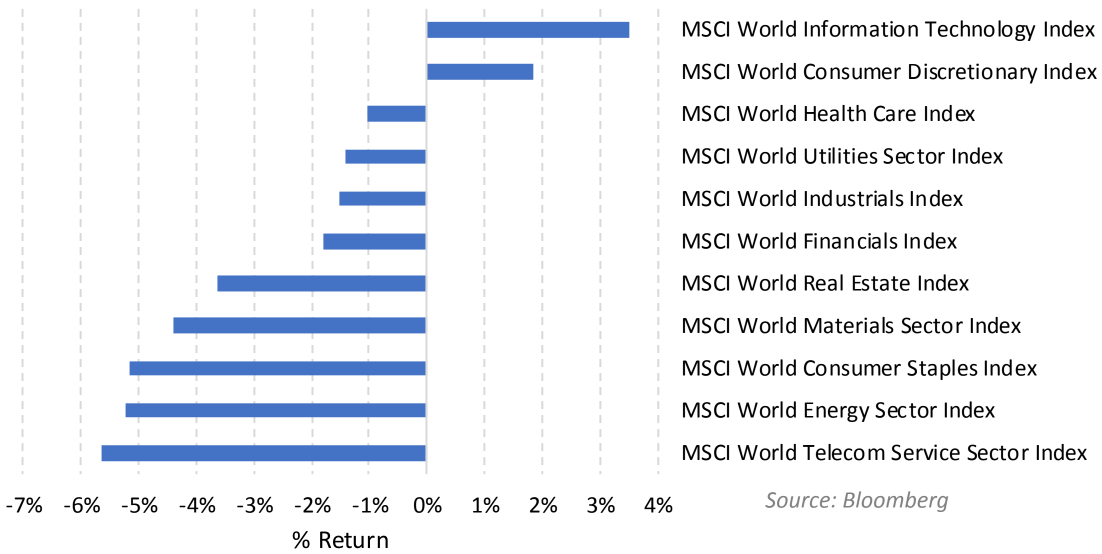

Figure 2: Sector performance in Q1 2018 (all TR in USD)

Figure 2 above illustrates the individual sector performances of the MSCI World Index over Q1 2018. Despite IT companies posting weaker performance in March, over the quarter IT was the best-performing sector, followed in performance by Consumer Discretionary companies. All other sectors posted negative performance over the period.

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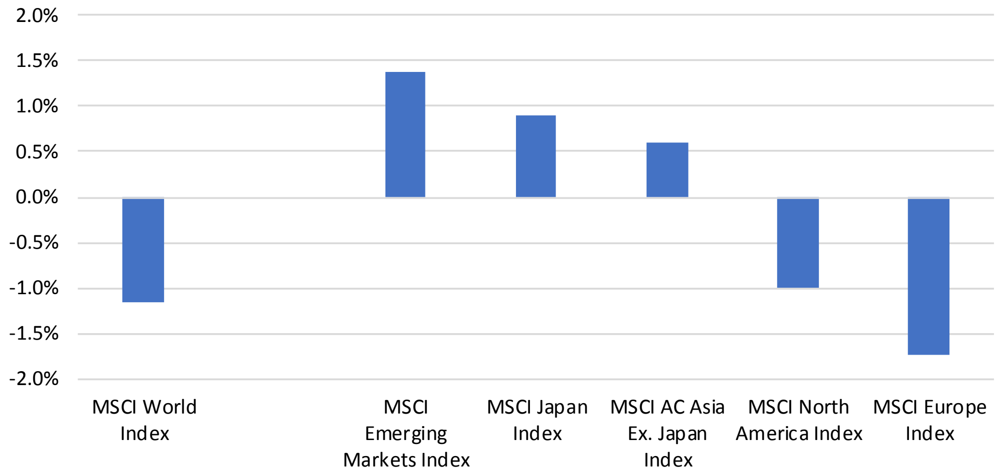
Geographically, Asia and Emerging Markets were the best-performing regions (in USD terms), as Figure 3 highlights. Returns from Europe and the US were weaker and generally performance was subdued across all regions.



Source: Bloomberg **Figure 3: Regional performance in Q1 2018 (all TR in USD)**

Performance drivers

Figure 4 shows the over and underweight positioning of the fund by sector. Our overweight relative to the benchmark in Information Technology (c.36% overweight as at 31.03.2018) and our underweight positioning in Consumer Staples (c.9% underweight) were positives during the quarter.

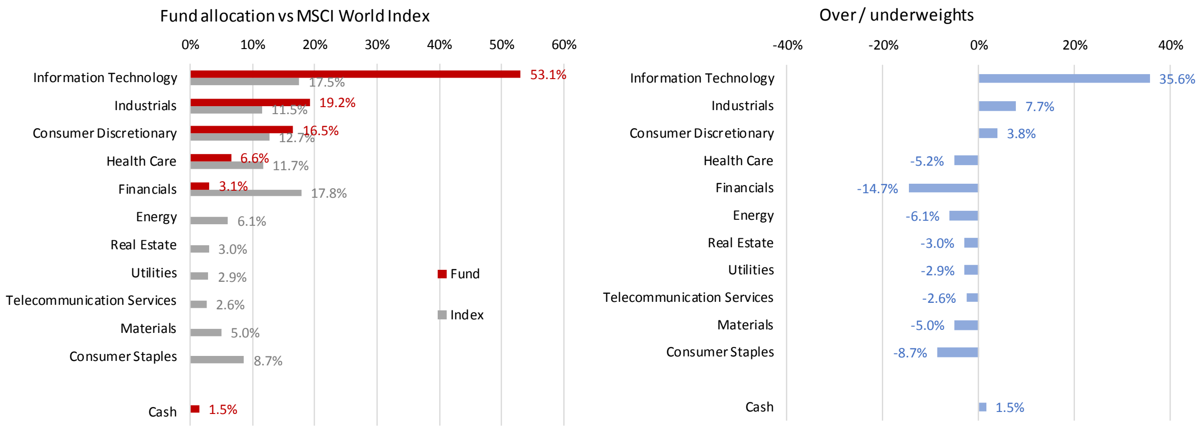


Figure 4: Sector breakdown of the fund versus MSCI World Index. Guinness Asset Management, Bloomberg (data as at 31.03.2018)

In geographic exposure, the fund is slightly underweight the US when compared to the benchmark (56% vs 62%, as measured by country of domicile). This underweight made no significant difference to performance last quarter. Our overweight relative to the benchmark in Asia Pacific excluding Japan (c.16% overweight as at 31.03.2018) and our underweight positioning in Europe (c.8% underweight) contributed positively to performance during the quarter.

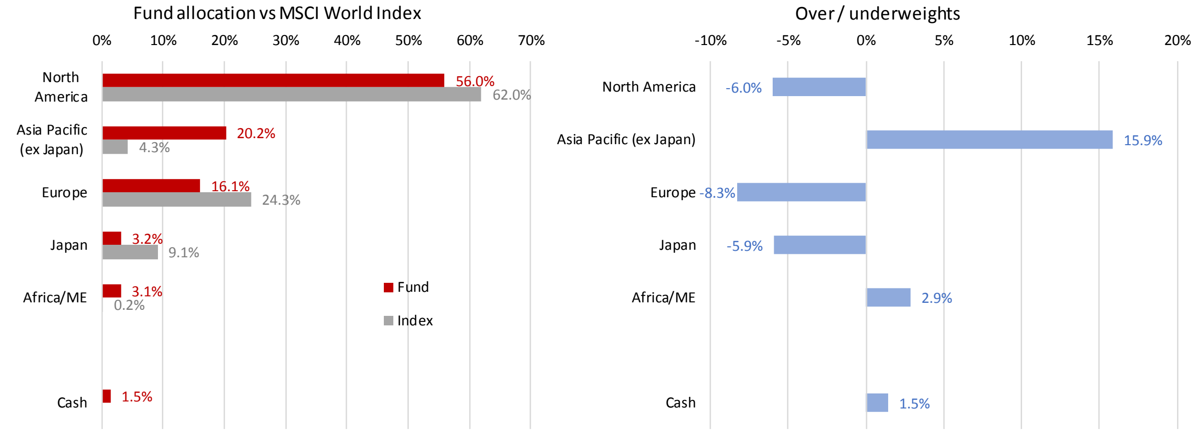


Figure 5: Geographic breakdown of the fund versus MSCI World Index. Guinness Asset Management, Bloomberg (data as at 31.03.2018)

As we have highlighted in previous reviews, historically the Global Innovators Fund has tended to outperform in months when the index performance has been positive and underperform in months when the index performance has been negative. In a quarter where markets have seen high volatility and have been weak overall, it was pleasing to see the fund outperform the index in each month.

Individual companies that performed well over Q1 were Nvidia (+19.8% total return in USD), Cognizant Technology (+13.6% total return in USD) and Cisco Systems (+12.8% total return in USD).
Nvidia continues to see strong demand for their graphics processing unit chips from computer gaming, datacentres (the machines driving the analysis behind big data), artificial intelligence and machine learning. Their chips are also key to the development of autonomous vehicles, giving the company an exciting avenue for future growth. Earnings were reported in early February and exceeded analyst estimates by 10.14%, the largest earnings surprise since February 2011.

Cognizant Technology, the custom IT consulting and technology services company, has seen improving profitability as it continues to undertake strategic changes amid activist pressure. Its focus on expanding emerging IT products to capture growing demand for cloud, analytics and security services has been well received by investors.

Last year, Cisco Systems was in the middle of making the transition to a business model based on software and recurring revenue. This took longer than expected and in June it lowered sales and earnings forecasts. This transition is now nearing completion and is benefiting Cisco in terms of profitability and strength of balance sheet. Cisco has had three consecutive positive earnings surprises since June 2017. The company aims to derive 50% of sales from software by 2020, as opposed to nearly 100% derived from hardware in the recent past. Several high-growth products, including programmable switches, security and collaboration products, are helping to offset the weakness in legacy product sales.

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Individual companies that underperformed over Q1 were Comcast (-14.4% total return in USD) and Facebook (-9.5% total return in USD).

Comcast, the US media and television broadcasting services company, made a $31bn proposal for Sky, a UK satellite TV provider. The offer represents a 16% premium to 21st Century Fox's planned takeover of the company and is part of Comcast's plan to use Sky as a launchpad to expand its European presence. Market sentiment over the proposal was negative, with doubts regarding growth prospects and the business models of legacy satellite players in a market with rising competitive threats.

Facebook has had a weak quarter while at the centre of a storm over data use and anti-trust issues. Large Technology stocks have seen a broad sell-off due to speculation over regulatory pressure on these issues. We continue to hold Facebook in the fund. We expect strong Facebook user growth from non-US markets, as well as an increase in average revenue per user. Applications such as WhatsApp and Facebook Messenger are currently unmonetised, while Instagram has only recently begun a monetisation programme. We believe the combination of strong user growth and potential for monetisation of these apps is undervalued in the market. From a fundamentals viewpoint the company remains in a strong position. Facebook's cash flow return on investment has been trending upwards for the previous six years, posting 25% for 2017. The company has no debt, spends a good amount on R&D for future IP creation and is currently trading at historic lows in terms of valuation metrics. We are following any further developments closely, especially with regard to any additional regulation that may be implemented. We expect some increased costs due to further regulation, but we still believe Facebook can achieve a desirable investment return from a mix of cash-flow growth and from a re-rating. Due to the recent sell-off the company now trades on only 15x 2019 earnings estimates with expected y-o-y earnings growth of ~20%.

One factor that explains in part the good relative performance of the fund over the beginning of this year is that the outperformance of growth stocks which began in earnest in January 2017 continued in Q1 overall, despite value taking a lead in March 2018.

Figure 6: Value vs growth index performance since January 2017 (all TR)

Changes to the portfolio

We made three changes to the portfolio in the quarter: we bought KLA Tencor, Lam Research and Baidu and sold Intel, Verifone and WisdomTree.

Intel has been held in the fund since February 2011 and performed well over the holding period, with particularly strong performance in 2017. Earnings released in October 2017 exceeded market expectations but we did not see strong growth continuing throughout 2018 and beyond. Cash flow return on investment has also been declining in recent years, adding to the potential risks.

Verifone provides the technology and infrastructure that allow merchants to offer a variety of payment options including chip and pin, contactless card payments and apps such as Apple Pay and Google Wallet. The company was bought on the original thesis that it would benefit from the rollout of chip and pin technology in the US which was being driven by a shift in card fraud liability to merchants without the technology. Adoption has remained slow and demand for Verifone's payment terminals has slowed, while softer card-network rules regarding fraud liability for non-chip terminals have reduced the urgency to upgrade in certain merchant segments. This, combined with a declining cashflow return on investment profile and increasing debt on the balance sheet, contributed to our decision to sell Verifone.

WisdomTree, an ETF provider, sold off due to weaker Q4 2017 earnings, which were reported in early February amid weaker markets. Their business suffered outflows in Europe while inflows slowed in its Canadian operations. WisdomTree has been struggling to capture market share from larger passive rivals in the US market. This has contributed to a decreasing CFROI and lowered growth expectations.

KLA Tencor, a US-based supplier of semiconductor process control and yield management solutions, is at the forefront of improving yields and reducing failure rates in the semiconductor industry. The company's products include defect inspection and calibration products. We see potential for the industry to expand, with the key market drivers being data centres, high performance computing, autonomous driving and artificial intelligence. KLA Tencor offered an attractive valuation of 14.4x with a strong cash flow return on investment profile and well-covered debt. We think the company is in a strong position to meet our return requirements at a valuation which provides some downside protection.

Lam Research, the US manufacturer of semiconductor processing equipment, is a leader in innovative wafer fabrication. Wafer manufacturing has been integral to a range of secular trends within the Information Technology sector. On a company level, Lam Research has seen improving cashflow return on investment while maintaining a strong balance sheet. The company has continually invested in R&D to help preserve its competitive edge. Recently earnings and margins have been trending upwards. On a valuation basis it appears attractively priced versus its own history, trading below its long-term average forward P/E and cheaper than most of its peers.

Baidu, a China-based search engine internet company has been strengthening its core online marketing business by using AI and big-data technology to enhance its search, news feed and video products. Its margins are expected to improve with the sale of non-core business and a focus on investment in core products. The recent spin-off in the US of iQiyi, its streaming platform, is a good example of this process. In the period of market uncertainty at the end of January the share price dropped almost 20% and far more than the market,

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which provided us with a favourable entry point to a company with a strong balance sheet, a good level of CFROI, a reasonable valuation, and potential to grow its revenue and earnings.

Portfolio characteristics

The chart below shows the geographic weighting of the portfolio by company domicile and by origin of revenues – which can often be more illuminating.

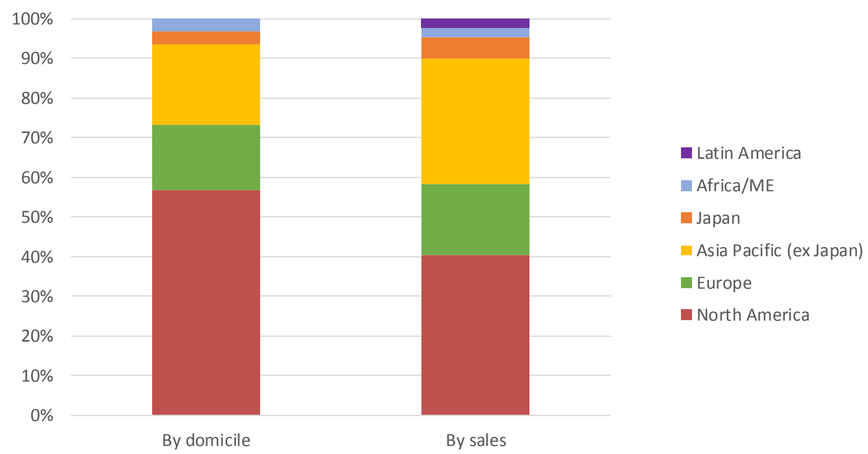

Figure 7: Geographic breakdown of the fund. Guinness Asset Management, Bloomberg (data as at 31.03.2018)

We would note (i) the lower exposure to the US by revenues (c.40%) versus by domicile (c.56%), which arises because some companies are domiciled in the US but have large global exposure (such as Applied Materials); and (ii) the larger exposure to Asia by revenues (c.37%) than by domicile (c.23%).

In terms of sector weightings, the fund has zero weighting to Utilities, Materials, Telecoms, Consumer Staples and Real Estate. The largest overweight positions are in Information Technology and Industrials. The fund's large overweight position to Information Technology is well spread between the three subsectors, semiconductors (c.17% of the portfolio), software and services (c.22%), and technology hardware (c.14%).

To put this data into a historical context, the two charts below show how the exposure of the fund has evolved since we launched the strategy in 2003.

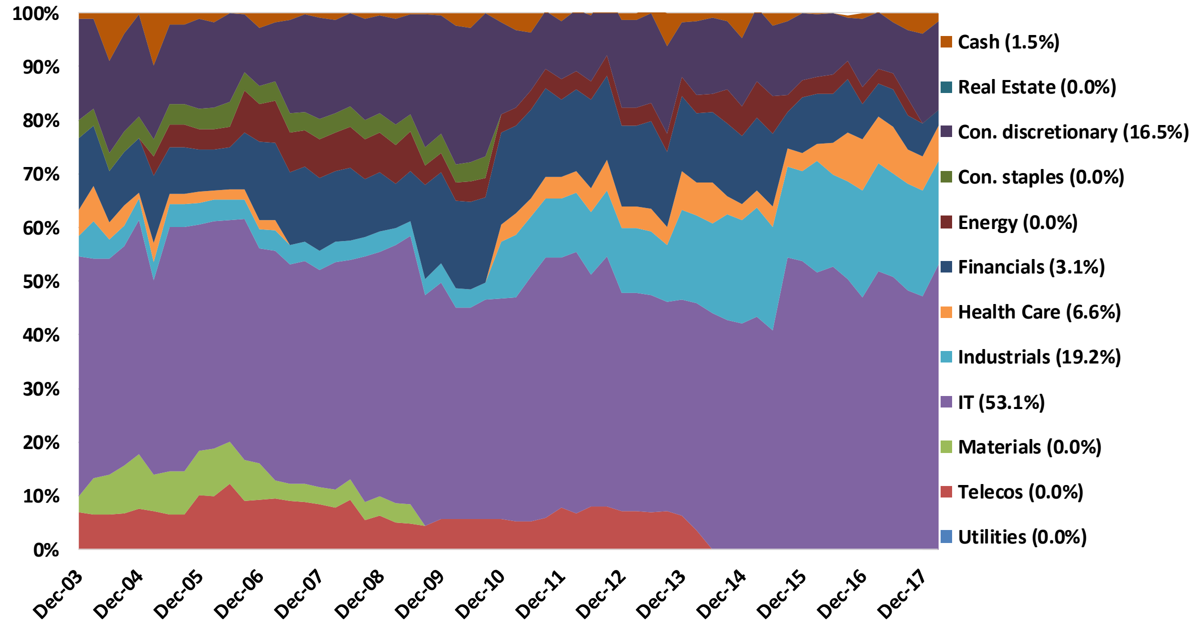

Figure 8: Portfolio sector breakdown. Guinness Asset Management, Bloomberg (31.03.2018)

From a sector perspective, the three changes we made last quarter reduced our exposure to Financials by 3.3% and increased our exposure to Information Technology by an equivalent amount.

From a geographic point of view, the purchases and sales made in Q1 both increased our Asia exposure and decreased our US exposure by 3.3%.

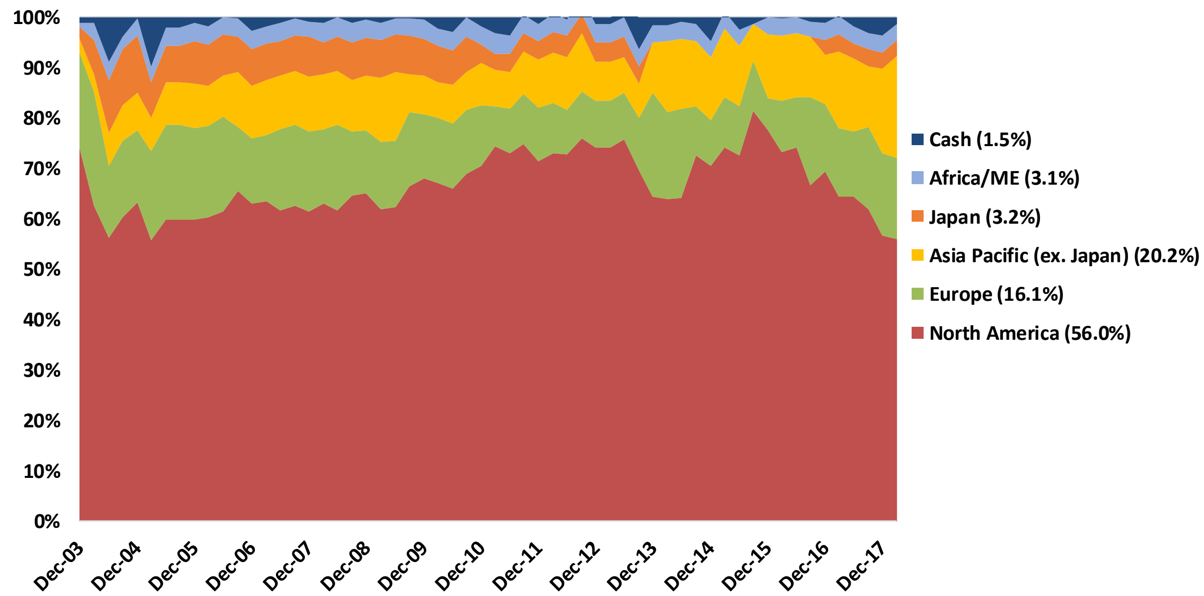

Figure 9: Portfolio geographic breakdown. Guinness Asset Management, Bloomberg (31.03.2018)

Key fund metrics today

The four key tenets to our approach are innovation, quality, growth, and conviction.

		Fund	MSCI World Index
Innovation	R&D / Sales	8%	6%
	CAPEX / Sales	7%	10%
Quality	CFROI (2016)	17%	12%
	Weighted average net debt / equity	-7%	62%
Growth (& valuation)	Last 3-year sales growth (annualised)	14%	6%
	Estimated earnings growth (2018 vs 2017)	12%	10%
	FCF yield	5%	4%
	PE (2017e)	17.0	15.7
Conviction	Number of stocks	30	1649
	Active share	94%	-

Figure 10: Portfolio metrics versus index. Guinness Asset Management, Credit Suisse HOLT, Bloomberg (data as at 31.03.2018)

As the table above shows, the fund still has superior characteristics to the broad market; higher spend on intellectual property, less capital intensiveness, far higher cash flow returns on investment, net cash, with higher growth prospects, at only a modest premium in terms of valuation.

Outlook

Generally speaking, the fund has outperformed in periods of rising markets and underperformed slightly in periods of falling markets. It is orientated towards growth, but not at any price. Therefore, its recent outperformance in weaker markets is very pleasing to see considering the fund has a long-term beta of 1.1.

As a result of the outperformance seen at the start of this year, the fund is now trading at an 8.1% premium to the broad market on a P/E basis (at 17.0x 2018 expected earnings vs MSCI World Index at 15.7x). The longer-term premium of the fund over the broader market has been 10-20%, and so we still believe the portfolio offers good value relative to the market today. We also note the FCF yield of the fund is higher than the benchmark (4.9% vs 4.3%). Moreover, when we look at the portfolio on an expected earnings growth basis the portfolio is expected to have higher earnings growth relative to the index (with 12% vs MSCI World Index at 10%).

We thank you for your continued support.

Portfolio Managers
Dr Ian Mortimer, CFA
Matthew Page, CFA

Analysts
Joshua Cole
Sagar Thanki

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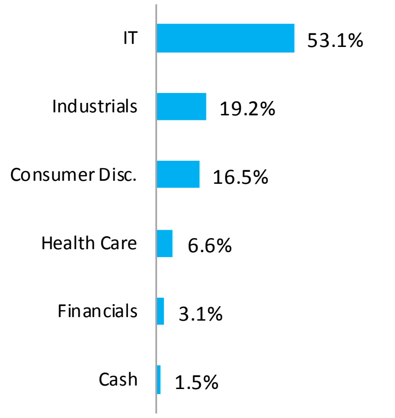
PORTFOLIO **31/03/2018**

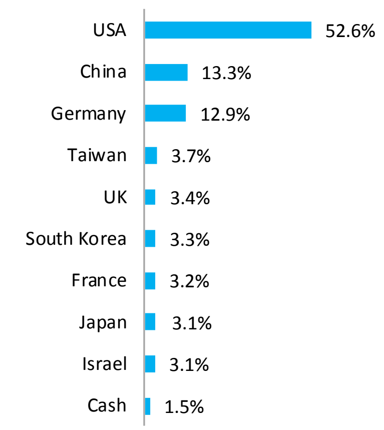
Fund top 10 holdings

Catcher Technology	3.7%
AAC Technologies	3.6%
Anta Sports Products	3.6%
Nvidia Corp	3.6%
Lam Research	3.4%
Cognizant Tech Solutions	3.4%
Shire	3.4%
Applied Materials	3.4%
Facebook	3.4%
Alphabet	3.3%
% of Fund in top 10	34.7%
Total number of stocks in Fund	30

Sector analysis



Geographic allocation



31/03/2018

Annualised % gross total return from strategy inception (GBP)

Guinness Global Innovators strategy*	12.90%
MSCI World Index	10.17%
IA Global sector average	8.85%

Discrete years % gross total return (GBP)

	Mar '14	Mar '15	Mar '16	Mar '17	Mar '18
Guinness Global Innovators strategy*	21.5	23.2	-2.2	35.3	10.8
MSCI World Index	9.0	19.7	0.3	32.7	1.8
IA Global sector average	7.1	15.3	-3.4	28.6	2.7

Cumulative % gross total return (GBP)

	1 month	Year-to-date	1 year	3 years	5 years	10 years
Guinness Global Innovators strategy*	-3.7	-2.3	10.8	46.6	119.4	282.1
MSCI World Index	-3.9	-4.7	1.8	35.5	76.8	166.1
IA Global sector average	-4.3	-5.0	2.7	27.5	57.4	110.9

RISK ANALYSIS

31/03/2018

Annualised, weekly, 5 years, in GBP	Index	Sector	Strategy*
Alpha	0	0.33	4.11
Beta	1	0.80	1.12
Information ratio	0	-0.32	0.95
Maximum drawdown	-14.03	-17.08	-17.14
R squared	1	0.79	0.88
Sharpe ratio	0.67	0.56	0.95
Tracking error	0	5.80	5.48
Volatility	12.64	11.43	15.06

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Source: Financial Express, bid to bid, gross total return, in GBP

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) Ltd, 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.

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 may be recorded and monitored.