

Guinness Global Innovators Fund

Innovation | Quality | Growth | Conviction

INVESTMENT COMMENTARY – May 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	\$183m
AUM in strategy	\$414m
Fund launch date	31.10.14
Strategy launch date	01.05.03
Managers	Dr. Ian Mortimer, CFA Matthew Page, CFA

Performance 30.04.18

Cumulative %	1	3	5	10
gross total return (GBP)	year	years	years	years
Strategy*	12.5	51.2	121.1	263.5
Index	6.9	41.2	81.0	159.5
Sector	7.9	33.5	63.8	108.0
Position	36	24	8	6
in sector	/284	/253	/231	/158

Annualised % gross total return from strategy inception (GBP)

Strategy*	12.9%
Index	10.3%
Sector	9.08%

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 0.99% OCF, bid to bid, gross total return, in GBP.

Summary performance

In April, the Guinness Global Innovators Fund produced a total return of 0.7% (in GBP), versus the MSCI World Index return of 3.1%. The fund therefore underperformed the index by 2.4% in the month.

Over a one-year period to the end of April, the fund is ahead of the benchmark, up 12.5% (in GBP) versus the MSCI World Index rise of 6.9%.

Over the year to 30th April, the Guinness Global Innovators Fund is down 1.6% (total return in GBP), ahead of the MSCI World, which is down 1.7% over the same period.

Underperformance in the month can be attributed to lacklustre performance from the IT and Industrials sectors, despite big tech and industrial companies generally reporting better earnings than expected. The Guinness Global Innovators Fund is overweight IT and Industrials (relative to the MSCI World Index). Being underweight in Energy also dragged on performance in the month as this sector performed very strongly. Supply concerns helped the price of crude oil reach its highest since 2014, moving above US\$75 a barrel.

The upside in the fund in April came from good stock selection within the Health Care sector and an underweight position in Consumer Staples, as this sector lagged.

Versus funds in the IA Global sector, the Guinness Global Innovators strategy continues to rank very strongly across every timeframe, appearing in the top decile over 3, 5 and 10 years.

April in Review

Global equity markets made a modest gain in April, bringing the year's return for the MSCI World into positive territory (+0.05% in USD). The protectionist rhetoric that dominated headlines in March seemed to soften last month, though there were numerous

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other tailwinds for markets: broadly encouraging economic news, strong company earnings releases, elevated levels of corporate activity, continued central bank support, and lessening political risk in the Korean peninsula. As well as expressing optimism on a trade deal with China, President Trump also hinted that the US may re-join the Trans-Pacific Partnership free-trade deal that he pulled out of shortly after taking office.

Most corporate headlines in April concerned earnings releases and M&A activity. 85% of the S&P 500 companies (by market cap) reported their first quarter earnings, of which 80% beat analysts' consensus EPS expectations – a better beat rate than the historical trend of 67%. Average beat margin stood at 7.7%, which (for comparison) is above the historical median of 4.2%. On the revenue front, 74% of companies surprised positively, beating expectations by 1.1%. The releases highlighted that corporate profitability remains robust, driven still by tax benefits and economic growth. However, despite the figures illustrating a strong showing, companies notably needed to positively surprise on the top and bottom line to outperform the S&P 500. Even then, the market reaction was relatively muted – 242 companies that beat on earnings and sales outperformed the market by 0.7% on earnings day. Meanwhile, those companies that missed EPS and only beat on sales were punished and underperformed by -4.0% on average (in USD).

We wrote in our October 2017 manager's update: "markets have been able to tune out the noise and maintain a focus on economics and company fundamentals". The current market paints a somewhat different picture. Investors seem to be treading with caution amid geopolitical concerns, interest rate expectations, and a lingering trade war threat.

Turning to economics, US GDP growth in Q1 was confirmed at 2.3%, which was slower than growth in Q4 but ahead of expectations. Inflation – both with and without fuel costs – was also confirmed as higher in March and close to the target range. The March unemployment rate was steady at 4.1% but is still expected by the Federal Reserve (Fed) to drop below 4% by the end of the year. These factors led to renewed speculation over the pace of Fed rate hikes this year, in turn increasing bond yields and souring market sentiment. 10-year US Treasuries rose above 3% for the first time in four years, and rising oil prices and increasing wages continue to add inflationary pressure.

In Europe, April saw equity markets post their best monthly return of 2018 (MSCI Europe ex UK Index rose 4.0% in EUR terms). Purchasing Manager Indices (PMIs) stabilised and beat expectations, with readings remaining firmly in expansionary territory (mid-50s). On the monetary policy front, the European Central Bank (ECB) did not announce any changes to its existing policies – it remained committed to the bond-buying programme at a pace of €30bn per month until September 2018, with Mario Draghi reiterating that interest rates are to be kept on hold "well past" the end of quantitative easing.

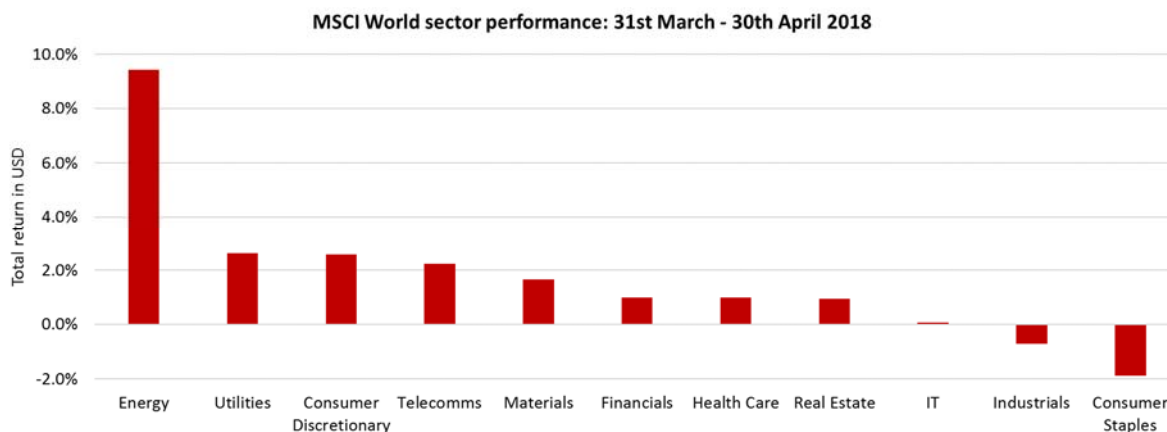
The UK was the best-performing region in April; the FTSE 100 rose 7.2% over the month (in GBP). M&A activity remained an important theme and the market was further supported by renewed weakness in Sterling against a resurgent US Dollar. This plays a particularly significant role due to the international nature of the companies within the FTSE 100 Index – c.70% of its constituents' sales come from abroad. Nonetheless, economic data releases sent mixed messages regarding the overall health of the economy. Unemployment fell to 4.2% in March, with wage growth accelerating slightly to 2.8%. UK headline and core inflation fell by more than expected (to 2.5% and 2.3% respectively). Rising wages and falling inflation led market expectations for a May interest rate hike to fall from 100% at the end of March to 20% at the end of April.

In Asia, equity markets were positive (MSCI Asia rose 1.3% in USD), supported by an easing in global trade concerns after China's somewhat appeasing announcements. These included greater openness in the financial sector, intellectual property protection, a relaxation of requirements for joint ventures and a reduction in imports duty on certain products. The inter-Korea summit towards the end of the month gave markets a little boost too, as Moon Jae-in (South Korea) and Kim Jong-un (North Korea) announced that they plan to sign a peace treaty in 2018 and formally bring about an end to military conflict. This precedes President Trump's meeting with Kim Jong-un next month, but the latter's interest in pursuing prosperity and economic development raised the prospect of a controlled opening-up of North Korea's economy. This led to a strong rally in the share prices of Korean construction, cement, steel and rail companies.

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Elsewhere, Taiwan was dragged lower by the Technology sector, with weaker-than-expected 2018 second quarter guidance from Taiwan Semiconductor Manufacturing impacting sentiment towards other companies in the Apple supply chain. Emerging Market equities also posted a negative return in April, largely due to a strengthening Dollar. In contrast, Japan’s equity market benefited from the Yen weakening relative to the Dollar and ended the month higher.

Market Movements



In April, the Technology sector showed lacklustre performance even as big tech companies largely reported better-than-expected earnings. Out of the three industry groups which make up the IT sector, Semiconductors (-4.4% total return in USD) lagged both Technology Hardware and Equipment (-0.6%) and Software and Services (+1.7%). Industrials also generally beat earnings expectations but posted weak performance over the month – airlines in particular were hindered by the oil price rally and subsequent fuel price pressures. In the Guinness Global Innovators Fund we are overweight Information Technology and Industrials, as previously mentioned.

The strongest sector in April was Energy. The price of crude oil climbed to its highest since 2014 – moving above US\$75 a barrel – after declines in US stockpiles of oil, gasoline, diesel and jet fuel signalled increasing scarcity in supplies. Production cuts by OPEC (Organization of Petroleum Exporting Countries) and Russia over the past 16 months have also helped crude oil prices rally.

Geopolitics may sustain the oil price rally if OPEC decides to extend the deal to cut oil output or if concerns escalate that the U.S. might pull out of the 2015 Iran nuclear deal. On the other hand, potential headwinds for the oil market could be a strengthening US dollar and increased oil supply from other countries, including the U.S. The Guinness Global Innovators Fund is underweight Energy, having no positions in this sector. Other sectors that we are underweight include Real Estate, Health Care, Materials, Consumer Staples and Financials. These tend to be less innovative areas of the market.

Finally, we also saw Utilities and Consumer Discretionary sectors perform well, driven respectively by commodity prices and robust results from major online consumer firms, Netflix and Amazon. Consumer Staples performed the worst over the month. The prospect of higher interest rates, the impact of a rising Dollar on the global nature of businesses in the sector, and individual industry issues weighed on performance. Investors had a slight preference towards small cap stocks and were generally indifferent over style during the month, though this had negligible impact on the fund’s performance.

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Portfolio update



The fund's the strongest performer in April was ANTA Sports (+15.4% in USD). The company, which is based in China, generates revenue through the manufacture and trading of sporting goods, including footwear, apparel and accessories. Its impressive cash flow return on investment has exceeded 10% over the last 10 years. Its brand portfolio includes ANTA, ANTA KIDS, FILA, FILA KIDS and NBA. ANTA Sports' share price rallied mid-month after Q1 retail sales of Anta branded products increased by almost 25% from a year ago.



Baidu (+12.4% total return in USD), a Chinese-based search engine internet company has been strengthening its core online marketing business using AI and big-data technology to enhance its search, news feed and video products. Baidu's quarterly earnings, released at the end of April, beat analyst expectations with earnings per share of \$2.19. In addition, Baidu's quarterly revenues also grew by 24% YoY. The guidance for Q2 revenue was also revised upwards to a range of \$3.97 to \$4.17 billion.



AAC Technologies

AAC Technologies (-19.3% total return in USD), a smartphone lens and acoustics manufacturer, has been caught in the selloff that has affected Apple suppliers in April, amid signs of softening demand for high-end smartphones and a potential lacklustre 2018 iPhone cycle. The share price fall is in context of a strong rally in the sector over 2017 (AAC's total return was 100% in USD in the year). We still see good value in AAC Technologies and will use any short-term weakness to rebalance the position back to equal weight in the portfolio.

We made no changes to the portfolio in April.

Thank you for your continued support.

Portfolio Managers

Dr Ian Mortimer, CFA

Matthew Page, CFA

Analysts

Joshua Cole, CFA

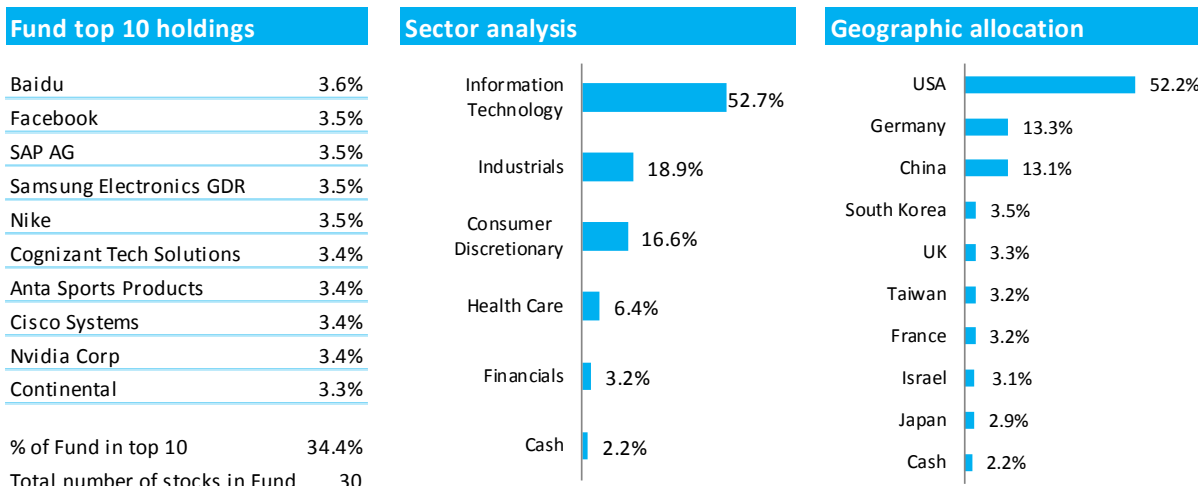
Sagar Thanki

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Guinness Global Innovators Fund

PORTFOLIO

30/04/2018



30/04/2018

Annualised % gross total return from strategy inception (GBP)

Guinness Global Innovators strategy*	12.87%
MSCI World Index	10.33%
IA Global sector average	9.08%

Discrete years % gross total return (GBP)

	Apr '14	Apr '15	Apr '16	Apr '17	Apr '18
Guinness Global Innovators strategy*	20.7	21.2	-3.3	39.1	12.5
MSCI World Index	8.1	18.7	1.1	30.6	6.9
IA Global sector average	6.2	15.5	-2.4	26.8	7.9

Cumulative % gross total return (GBP)

	1 month	Year- to-date	1 year	3 years	5 years	10 years
Guinness Global Innovators strategy*	0.7	-1.6	12.5	51.2	121.1	263.5
MSCI World Index	3.1	-1.7	6.9	41.2	81.0	159.5
IA Global sector average	4.0	-1.2	7.9	33.5	63.8	108.0

RISK ANALYSIS

30/04/2018

Annualised, weekly, 5 years, in GBP	Index	Sector	Strategy*
Alpha	0	0.71	3.36
Beta	1	0.80	1.11
Information ratio	0	-0.26	0.80
Maximum drawdown	-14.03	-17.08	-17.14
R squared	1	0.78	0.87
Sharpe ratio	0.67	0.59	0.89
Tracking error	0	5.89	5.54
Volatility	12.62	11.38	15.04

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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'Île, 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 will be recorded and monitored.

GUINNESS

ASSET MANAGEMENT

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

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