Guinness Global Innovators Fund

Innovation | Quality | Growth | Conviction

INVESTMENT COMMENTARY – July 2018

About the Fund

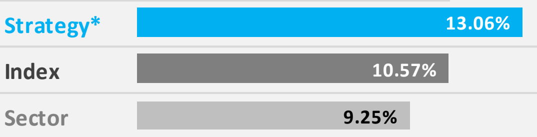
The Fund is a global growth fund designed to provide exposure to companies benefiting from innovations in technology, communication, globalisation or innovative management strategies. The Fund holds a concentrated portfolio of large and medium-sized companies in any industry and in any region.

Fund size	$204m
AUM in strategy	$435m
Fund launch date	31.10.14
Strategy launch date	01.05.03
Managers	Dr. Ian Mortimer, CFA Matthew Page, CFA

Performance **30.06.18**

Cumulative % gross total return (GBP)	1 year	3 years	5 years	10 years
Strategy*	13.9	65.9	120.7	322.6
Index	9.9	54.7	89.7	192.8
Sector	9.1	44.0	70.1	129.3
Position in sector	**48** /289	**19** /258	**11** /227	**2** /152

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

Summary performance

In the month of June the Guinness Global Innovators Fund was down 1.50% (in GBP) versus the benchmark MSCI World Index up 0.78%. The fund therefore underperformed the index by 2.28% over the month.

Year-to-date the fund is now up 2.86% (in GBP) versus the benchmark MSCI World Index up 3.24% (an underperformance of 0.38%).

Despite the weaker markets seen over the first quarter of 2018, followed by mixed markets over the second quarter, the medium-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 quartile over one, three, five and ten years.

Fund Y-class, GTR in GBP to 30.06.18	1yr	3yr	5yr	10yr
Fund	**13.91**	**65.85**	**120.71**	**322.61**
MSCI World	9.90	54.68	89.70	192.76
IA sector average	9.12	44.01	70.10	129.31
Rank vs peers	48/289	19 / 258	11 / 227	2 / 152

Source: Financial Express. Cumulative Total Return in GBP, as of 30th June 2018

Quarter in Review

Global equity markets made a modest gain in April, bringing the MSCI World Index return for the year into positive territory (total return for the first four months of 2018 was +0.05% in USD). The protectionist rhetoric that dominated headlines in March seemed to soften in April, though there were also numerous other tailwinds: 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. While 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 revolved around earnings releases and M&A activity.

In May, markets advanced (MSCI World +0.7% in USD) despite increasing trade tensions and geopolitical instability. The prospect of a snap Italian election and mixed signals from the Trump administration about talks with North Korea overshadowed strong first-quarter corporate earnings, which for the S&P500 showed 24% year-on-year growth and far exceeded analyst expectations. Close to 80% of companies in the S&P 500 Index reported better earnings per share than expected, and US companies appear well on track to meet the 20% earnings growth expectations for the current calendar year.

June saw more volatile markets as investors navigated rising trade tensions between the U.S. and China, eurozone political risks, and faltering confidence in the future growth of the EU and China. Global markets were shaken by President Trump's latest tariff threats to China. Trump threatened to put tariffs on an extra $200bn of Chinese goods, sparking fears of an escalating trade war. Both China and the U.S. have already imposed tariffs on steel, aluminium and some agricultural goods. The eurozone suffered from weak investor confidence in June, driven by volatility in the Italian economy and fears of a trade war with the U.S. The region's growth slowed to 0.4% during Q1 2018, compared with 0.7% in the previous quarter. Chinese equities also saw weakness in June, which was largely attributed to China's trade war with the U.S., although China's economic growth has also been driven by domestic consumer spending, so the recent weakening of consumption growth in China could also have been a factor.

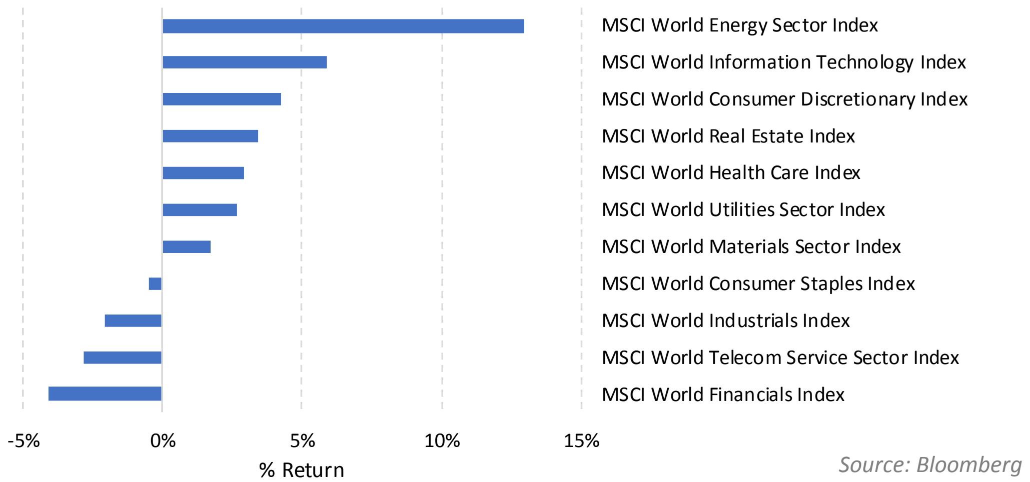


Figure 2: Sector performance in Q2 2018 (all TR in USD)

Figure 2, above, illustrates the individual sector performance of the MSCI World Index over Q2 2018. The quarter saw mixed performance across sectors. Energy companies rallied throughout the quarter and were the best-performing sector overall as oil prices continued to strengthen. The IT and Consumer Discretionary sectors also performed well and were second and third respectively. Staples, Industrials, Telcos and Financials all posted negative returns over the quarter.

Geographically, Asia and Emerging Markets were the worst-performing regions (in USD terms), as Figure 3 below highlights, giving up some of the strong performance seen in Q1. U.S. returns were stronger, although performance was generally subdued across all regions.

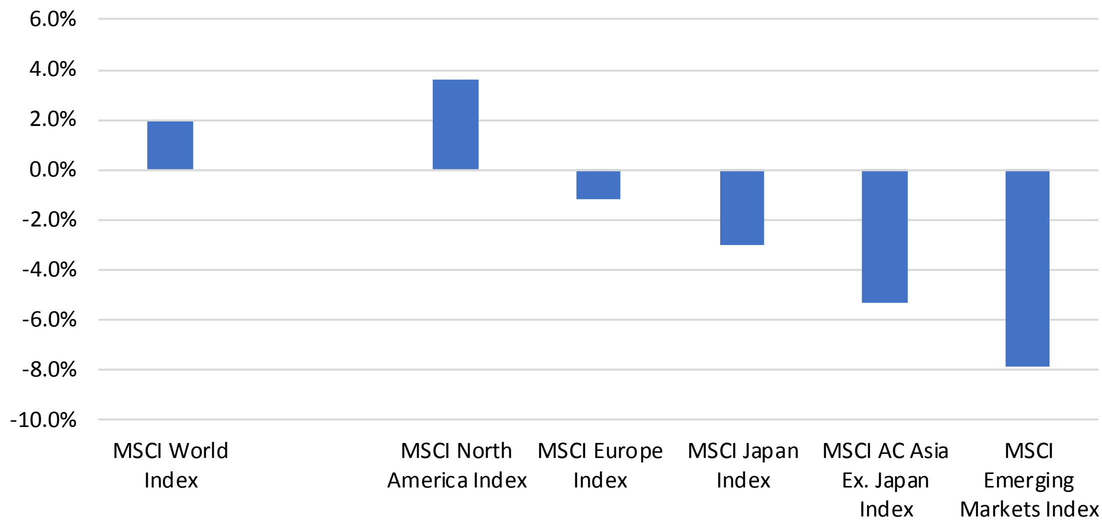


Figure 3: Regional performance in Q2 2018 (all TR in USD)

Performance drivers

Figure 4 shows the over and underweight positioning of the fund by sector at the quarter end. Our overweight relative to the benchmark in IT (c.34% overweight as at 30.06.2018) and our underweight positioning in Financials (c.15% underweight) and Consumer Staples (c.8% underweight) were positives during the quarter.

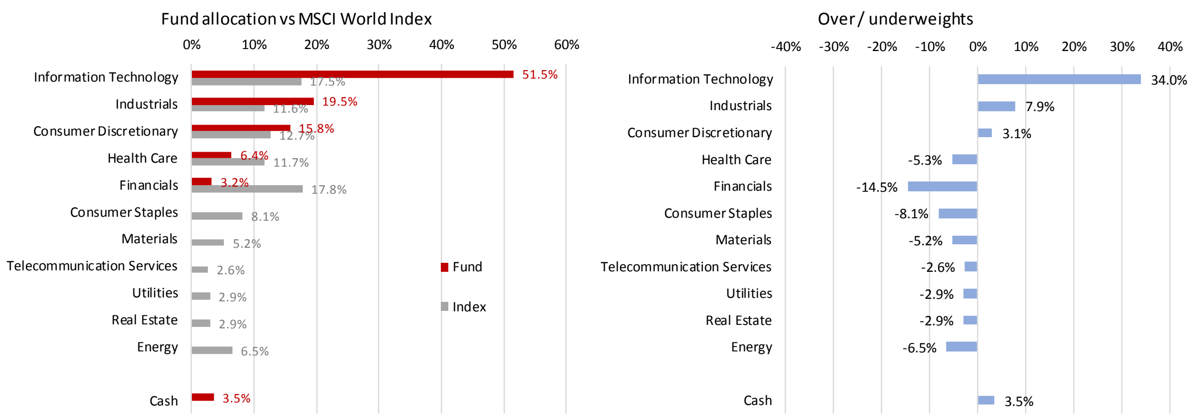


Figure 4: Sector breakdown of the fund versus MSCI World Index. Guinness Asset Management, Bloomberg (data as at 30.06.2018)

In terms of geographic exposure, the fund is slightly underweight the U.S. compared to the benchmark (55% vs 62%, as measured by country of domicile). This underweight made no discernible difference to performance last quarter. Our overweight relative to the benchmark in Asia Pacific excluding Japan (c.15% overweight as at 30.06.2018) and our underweight positioning in Europe (c.9% underweight) similarly made no material impact to performance during the quarter.

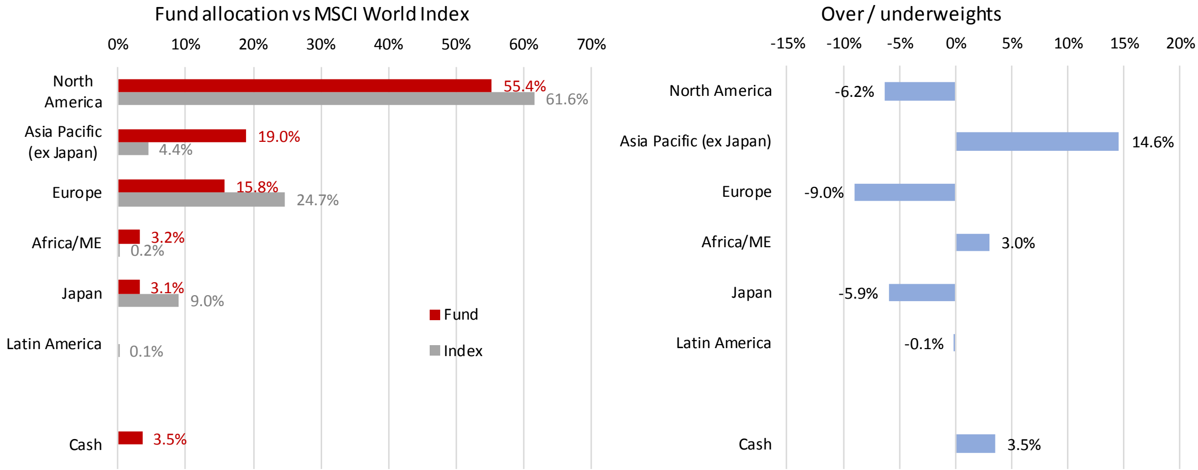


Figure 5: Geographic breakdown of the fund versus MSCI World Index. Guinness Asset Management, Bloomberg (data as at 30.06.2018)

In a quarter where markets have seen high uncertainty there have been some winners and some losers. Overall our allocation effects have been relatively modest, but there was weakness in some of the semiconductor names and smartphone-related manufacturers within IT. Semiconductors have had a volatile year as fears of a developing downcycle have conflicted with positive earnings reports from many companies within the industry. Smartphone-related manufacturers were negatively affected by weaker iPhone demand in the short term, but in the medium to long term certain smartphone manufacturers are expected to benefit from an increasing number of lenses used and more complex casing construction.

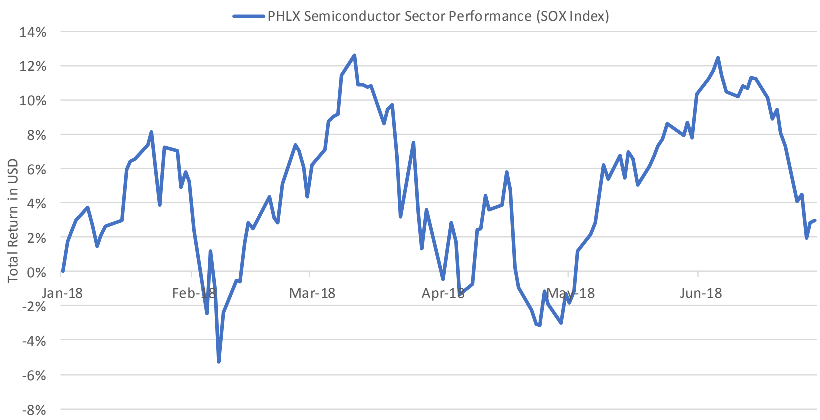


Figure 6: Philadelphia Stock Exchange Semiconductor Sector Performance. Guinness Asset Management, Bloomberg (data as at 30.06.2018)

Individual companies that performed well over Q2 were Facebook (+21.6% total return in USD) and Nike (+20.3% total return in USD).

Facebook has recovered strongly since the storm over data use and anti-trust issues in March. With their fears largely abated, investors have since been looking at what the future may hold for Facebook. The company announced it would be launching a new dating feature, causing Match Group's shares to fall by more than 20% on the day of the announcement. Facebook's Instagram launched a long-format video feature, which brings it into competition with YouTube. Instagram has also seen rapid user growth, which is starting to worry other platforms such as Snapchat. Fears over the impact of the general data protection regulation (GDPR) seem to be overblown as data post-GDPR suggest no observable impact for Facebook.

Nike has seen sales surge in its home market, the U.S., causing its share price to rally. Sales for the region rose for the first time in four quarters. The results signalled that Nike's new products are doing well with U.S. shoppers and beat Nike's own forecast, which was for unchanged sales in the region. Strong growth also continued overseas, where half of the company's revenues are now generated.

Individual companies that underperformed over Q2 were Fanuc (-21.6% total return in USD) and AAC Technologies (-20.9% total return in USD).

Fanuc, the Japanese manufacturer of factory automation systems and robots, fell after the Japan Machine Tool Builders' Association reported that revised May machine tool orders from China fell 9.5% y/y. They also noted Fanuc is 'the leading supplier in this area'. There was uncertainty about the effect of U.S. trade policy on Japanese manufacturing, adding further downward pressure to the share price. Earlier in the quarter Fanuc released its forecast for operating profit which came in significantly under analysts' estimates. Sales growth and margin expansion may be limited due to headwinds from a stronger yen and slower sales in factory automation.

AAC Technologies, a smartphone lens and acoustics manufacturer, has been caught in the sell-off that has affected Apple suppliers amid signs of softening demand for high-end smartphones and a potential lacklustre 2018 iPhone cycle. The share price fall is in the context of a strong rally in the sector over 2017 (AAC's total return was 100% in USD over 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.

Changes to the portfolio

We made no changes to the portfolio in the quarter. However, due to market volatility we did take the opportunity to rebalance the portfolio.

Portfolio characteristics

The below chart shows the geographic weighting of the portfolio both in terms of where the companies are domiciled and where their revenues come from, which can often be more illuminating.

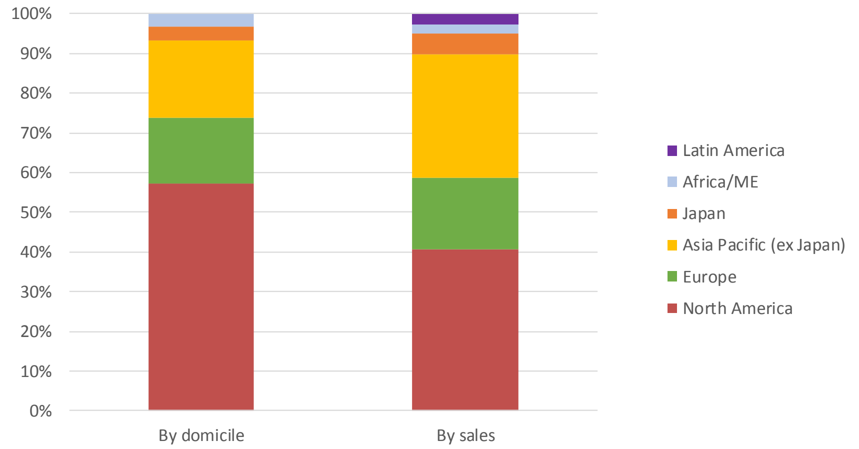


Figure 8: Geographic breakdown of the fund. Guinness Asset Management, Bloomberg (data as at 30.06.2018)

We would note two main points: (i) the lower exposure to the U.S. the fund has when considered by revenues (c.41%) versus by domicile (c.57%), which arises because some companies are domiciled in the U.S. but have large global exposure (such as Applied Materials); and (ii) the larger exposure to Asia by revenues (c.36%) 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. On the large overweight position to Information Technology it is worth noting that it is split between the three different subsectors of semiconductors (c.15% of the portfolio), software and services (c.24%), and technology hardware (c.13%).

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 back in 2003.

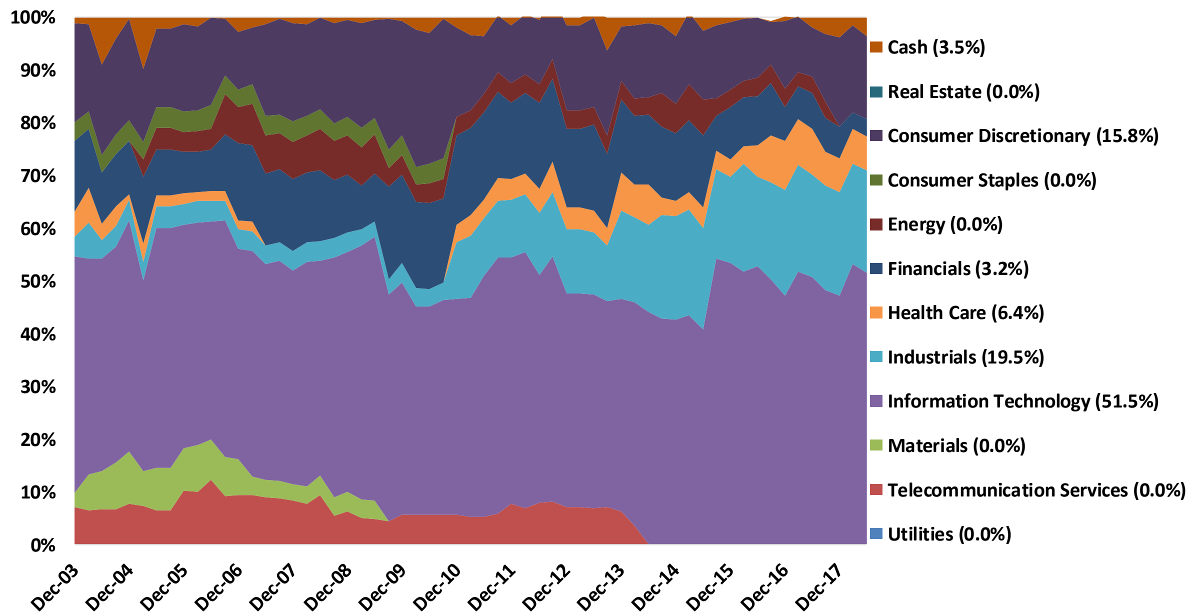


Figure 9: Portfolio sector breakdown. Guinness Asset Management, Bloomberg (30.06.2018)

From a sector and geographic perspective, our exposure is similar to last quarter.

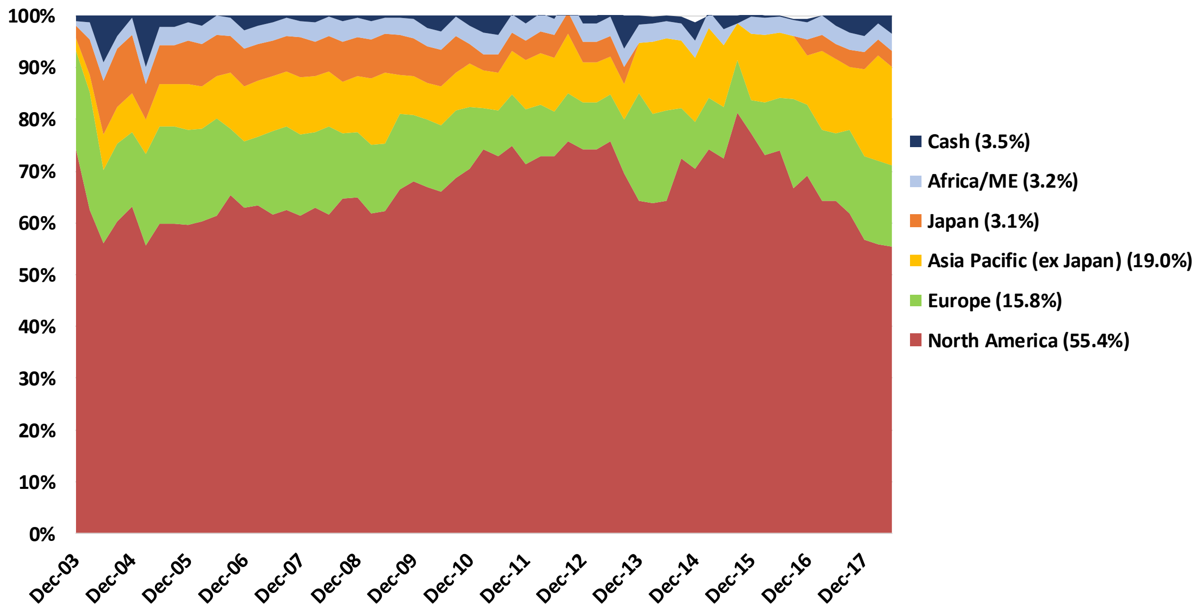


Figure 10: Portfolio geographic breakdown. Guinness Asset Management, Bloomberg (30.06.2018)

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%	9%
Quality	CFROI (2017)	17%	12%
	Weighted average net debt / equity	-10%	65%
Growth (& valuation)	Last 3-year sales growth (annualised)	14%	6%
	Estimated earnings growth (2018 vs 2017)	11%	9%
	FCF yield	4.9%	4.3%
	PE (2018e)	16.8	15.9
Conviction	Number of stocks	30	1649
	Active share	94%	-

Figure 11: Portfolio metrics versus index. Guinness Asset Management, Credit Suisse HOLT, Bloomberg (data as at 30.06.2018)

As Figure 11 shows, the Global Innovators 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 based on P/E, and a valuation discount when considered in FCF yield terms.

Outlook

The fund is now trading at an 5.5% premium to the broad market on a P/E ratio basis (fund 16.8x 2018 expected earnings vs MSCI World Index 15.9x). The longer-term premium of the fund versus the broader market has been in the 10-20% range, 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 11% vs MSCI World Index at 9%).

Thank you for your continued support.

Portfolio Managers

Dr Ian Mortimer, CFA
Matthew Page, CFA

Analysts
Joshua Cole, CFA
Sagar Thanki

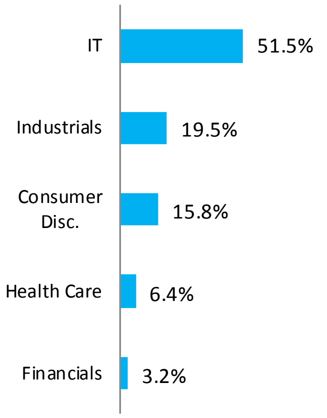
PORTFOLIO

30/06/2018

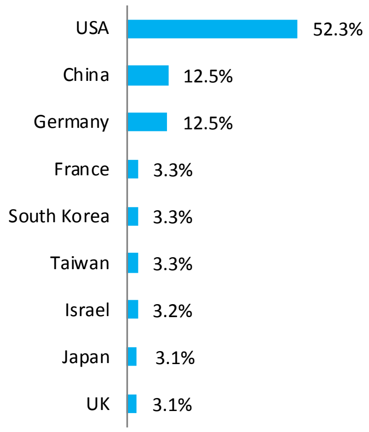
Fund top 10 holdings

Nike	3.6%
Facebook	3.6%
Cognizant Tech Solutions	3.4%
Schneider Electric	3.3%
Roper Industries Inc	3.3%
Boeing	3.3%
Lam Research	3.3%
Danaher Corp	3.3%
Paypal	3.3%
Samsung Electronics GDR	3.3%
% of Fund in top 10	33.7%
Total number of stocks in Fund	30

Sector analysis

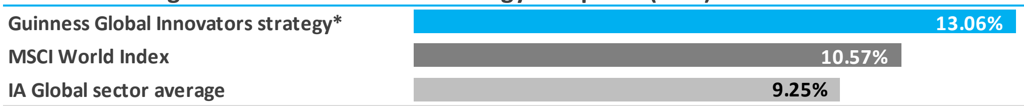


Geographic allocation



30/06/2018

Annualised % gross total return from strategy inception (GBP)



Discrete years % gross total return (GBP)

	Jun '14	Jun '15	Jun '16	Jun '17	Jun '18
Guinness Global Innovators strategy*	21.5	9.5	10.1	32.2	13.9
MSCI World Index	10.6	10.9	15.0	22.3	9.9
IA Global sector average	9.0	8.4	6.7	23.7	9.1

Cumulative % gross total return (GBP)

	1 month	Year-to-date	1 year	3 years	5 years	10 years
Guinness Global Innovators strategy*	-1.5	2.9	13.9	65.9	120.7	322.6
MSCI World Index	0.8	3.2	9.9	54.7	89.7	192.8
IA Global sector average	0.1	2.5	9.1	44.0	70.1	129.3

RISK ANALYSIS

30/06/2018

Annualised, weekly, 5 years, in GBP	Index	Sector	Strategy*
Alpha	0	0.91	2.34
Beta	1	0.80	1.12
Information ratio	0	-0.25	0.64
Maximum drawdown	-14.03	-17.08	-17.14
R squared	1	0.78	0.87
Sharpe ratio	0.72	0.65	0.86
Tracking error	0	5.84	5.58
Volatility	12.38	11.14	14.90

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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 investment team using the same investment process as applied to the UCITS version. The past performance of the US mutual fund is not indicative of the future performance of Guinness Global Innovators Fund.**
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: 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.

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.