

GUINNESS

Global Innovators Fund

Innovation | Quality | Growth | Conviction

A high conviction global growth fund managed by Dr. Ian Mortimer, CFA, and Matthew Page, CFA

Annual review

2017

GUINNESS
ASSET MANAGEMENT

Fund size (31.12.17)	£118m			
Launch date	31.10.14			
Aim	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.			
Performance	31/12/2017			
Strategy	Guinness Global Innovators*			
Index	MSCI World Index			
Sector	IA Global sector average			
Cumulative % gross total return (GBP)	1 year	3 years	5 years	10 years
Strategy*	22.0	58.8	169.2	242.3
Index	12.4	52.9	114.2	154.6
Sector	14.0	44.5	88.3	101.4
Position in sector	21 /276	31 /251	4 /226	4 /154
Annualised % gross total return from strategy inception (GBP)				
Strategy*	13.31%			
Index	10.70%			
Sector	9.39%			
Risk analysis - Annualised, weekly, 5 years, in GBP				
	Index	Sector	Strategy[†]	
Alpha	0	0.71	3.93	
Beta	1	0.81	1.10	
Info ratio	0	-0.34	0.96	
Max drawdown	-14.03	-17.08	-17.14	
R squared	1	0.80	0.87	
Sharpe ratio	0.94	0.84	1.21	
Tracking error	0	5.50	5.43	
Volatility	12.17	11.07	14.43	
Past performance should not be taken as an indicator of future performance. The value of this investment can fall as well as rise as a result of market and currency fluctuations.				
*The returns stated above are a simulation based on the actual returns of Guinness Atkinson Global Innovators Fund (a mutual fund for US investors, launched on 31/04/2003) until the launch of the UCITS version on 31.10.14. Both funds are managed in accordance with the same investment process and with the same portfolios. Source: Financial Express, bid to bid, total return. Guinness Atkinson Global Innovators Fund is not included in the IA Global sector. The sector's performance and the Fund's ranking are included for a comparison of the Fund with the average performance of global equity funds available in the UK.				

Annual review

In 2017 the Guinness Global Innovators Fund produced a total return of 22.00% (in GBP) vs the MSCI World Index return of 12.42%. The fund therefore outperformed the benchmark by 9.58% over the year.

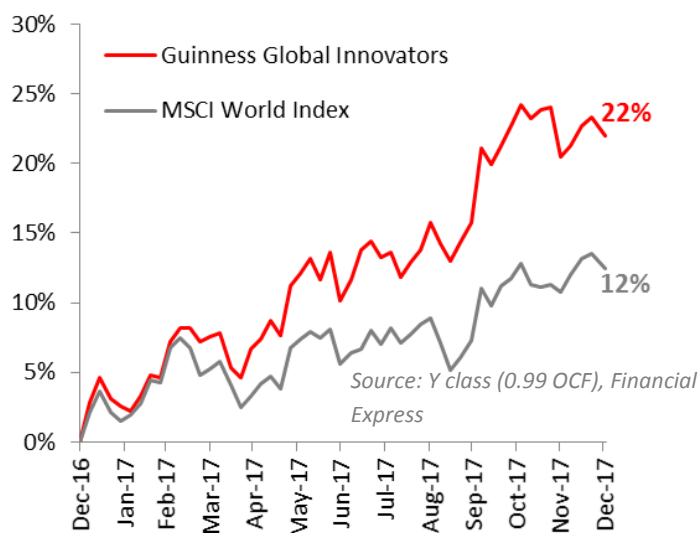
The short-term and long-term performance of the strategy remains very strong versus both the index and the IA Global Sector; its performance versus the sector places it in the top decile over one, five and 10 years.

Figure 1: Global Innovators strategy performance

Cumulative % total return (GBP)	1 year	3 years	5 years	10 years
Guinness Global Innovators Fund	22.00	58.81	169.16	242.33
IA Global Sector average	14.02	44.52	88.28	101.40
MSCI World Index	12.42	52.93	114.24	154.59
Position in sector	21/276	31/251	4/226	4/154

Source: Y class (0.99% OCF), Financial Express

Figure 2: Global Innovators Fund performance 2017 (TR in GBP)



Source: Y class (0.99 OCF), Financial Express

Review of 2017

2017 provided strong global equity returns (MSCI World Index up 12.42% in GBP, 23.10% in USD over the year) even with continued uncertainty from the political events of 2016. Despite various warnings throughout the year from market commentators of overvalued equity markets, the year ended looking stronger than it has done in previous years, with improving economic

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indicators and growing earnings seen in most regions around the world. The MSCI World Index recorded its first ever year of posting a positive total return in every single month and hit a remarkable sequence of 14 months of positive returns (TR in USD).

The year started with all eyes focussed on the U.S. with the inauguration of President Trump on January 20th and the potential for swift action on his campaign promises: trade, tax reform, infrastructure spending, immigration, and healthcare. Overall the markets continued to rally on the back of the 'inflation trade' with growth stocks outperforming value stocks. In Europe, the focus was on political uncertainty and the potential rise of populism in the upcoming Dutch, French and German elections.

As the first quarter progressed, we saw markets rise to record peaks across various indices, as positive core economic, consumer demand and strengthening manufacturing data all aided the market rally on the hope of faster economic growth. Corporate earnings were overall more positive than expected and growth estimates were revised upwards in Europe for 2017. The latter half of March saw Trump's key healthcare bill fail to pass in Congress, due to both displeased Republican moderates and Republican conservatives. This caused doubts over other potential policies Trump has spoken about.

In Europe, there was slight relief from moderates and pro-EU politicians across Europe as Dutch voters crushed the hopes of far-right populist Geert Wilders, helping at least for now to calm fears of political uncertainty across the continent. At the very end of the month the UK Prime Minister, Theresa May, activated Article 50 of the Lisbon Treaty, the official mechanism to exit from the European Union. Formal talks have continued throughout the year, although there are still many major unresolved issues.

As we entered Q2, markets continued to react to the uncertainty of political foray and follies from the U.S., Europe and Asia. As the quarter progressed, markets stayed largely buoyant despite elections, cyber-attacks, terrorist attacks and a deepening crisis relating to the Trump-Russian election interference allegations.

Trump came to the end of his 100 days in office and having laid out an ambitious list of goals in his '100-day action plan' last October, some had been achieved, and some not. The Republicans' seven-year battle to repeal Obamacare appeared to have been almost fruitless after party leaders lost a Senate vote. The President's lack of control over Washington resulted in broad downward pressure on the Dollar, with the dollar index hitting a 10-month low. As the U.S. continued to show signs of a strengthening economy, the Federal Reserve Bank raised interest rates by 0.25% in June, the third rate rise (after those in December and March) in seven months. The U.S. is the first major economy to move away from near-zero interest rates and Quantitative Easing, which were introduced in many economies in the aftermath of the Financial Crisis. In Europe, a decisive victory by Emmanuel Macron over Marine Le Pen reduced the political uncertainty that was a worry to the markets at the beginning of the year. North Korea continued to feature in the headlines throughout the second half of the year as it persisted in testing its missile technology, to the upset of the wider international community and straining relationships between the U.S. and China.

In mid-August, stocks slid in the U.S. and Europe, with sharper falls in Asia, although there was a slight recovery by the end of the month. In the European Central Bank's July policy vote, there appeared to be concern over the strength of the Euro and in August the single currency hit a two-and-a-half year high against the dollar. Emmanuel Macron celebrated his first hundred days as President of France amid an improving economy but decreasing approval ratings.

As the Summer drew to a close, Republicans announced a proposed bill for cutting U.S. taxes, which largely reflected what President Trump wanted. The plan aimed to cut corporate tax to 20% (from 35%) and largely end taxation of non-U.S. earnings. Since Trump's election most of the expectation of tax cuts had faded, but following the announcement we saw a reversal, with the market pricing in a chance of a tax cut. By December this proposal became law, passed by Republicans in Congress and signed into law by President Trump, cutting

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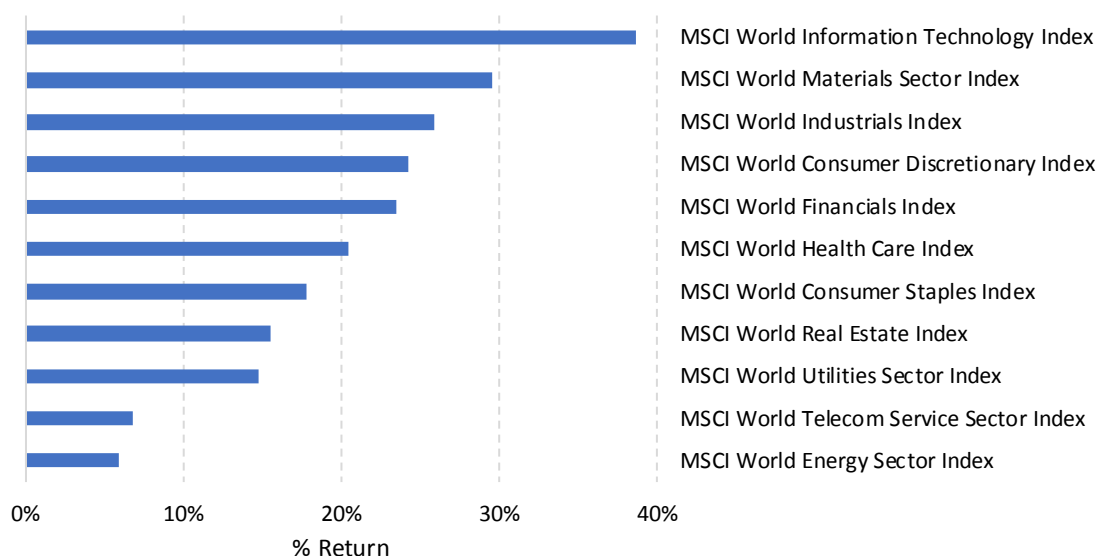
the corporate tax rate to 21%. In Europe, Angela Merkel won her fourth term as German Chancellor, a victory overshadowed by an increase in support for the nationalist AfD and the difficulty of forming a coalition in the Bundestag which can command a majority, with talks between parties continuing into the new year.

As the year progressed into its final quarter, the broad equity rally seen throughout this year continued, buoyed by a better-than-expected quarterly results season. Notably robust performances were delivered from large U.S. technology stocks such as Amazon, Microsoft, Facebook, Alphabet and Intel. The U.S. economy grew by 3% (annualized GDP) in Q3, despite the damage and disruption caused by two hurricanes. U.S. consumer sentiment was also reported by the University of Michigan to have been the strongest for 13 years. Economic data have been positive on both sides of the Atlantic. Preliminary data showed the Eurozone gross domestic product rose 0.6% in Q3 from the previous quarter. This was ahead of analysts’ estimates. Asia sentiment in the month was positive, with strong third quarter results following the U.S. This has similarly helped reinforce the region’s equity rally. Asian companies’ profits on the whole beat analysts’ estimates. In early November the Bank of England decided to raise the key interest rate to 0.5%, the first rate rise in a decade. However, policy makers showed concern for the UK economy due to Brexit and therefore indicated another rate rise wouldn’t happen in the short term.

As the year ended, Europe still grappled with unresolved political uncertainties in Germany, Italy and Spain. From a macroeconomic viewpoint, the “goldilocks” tale continued. Strong growth and modest inflation – the “just right” environment – were broad-based across the Eurozone economies. The 19-nation bloc has also seen the unemployment rate drop to 8.8%, the lowest in almost nine years.

Equity markets over the past year have persistently defied the sceptics, who have pointed to political dysfunction, monetary policy uncertainty, and potential geopolitical crises as reasons for woe. With global markets having rallied across the board, most appear expensive versus their own history, naturally causing concern that markets may become overstretched and that a correction could be around the corner. However, earnings growth remains positive and economic data continue to improve.

Figure 3: Sector performance in 2017 (all TR in USD)



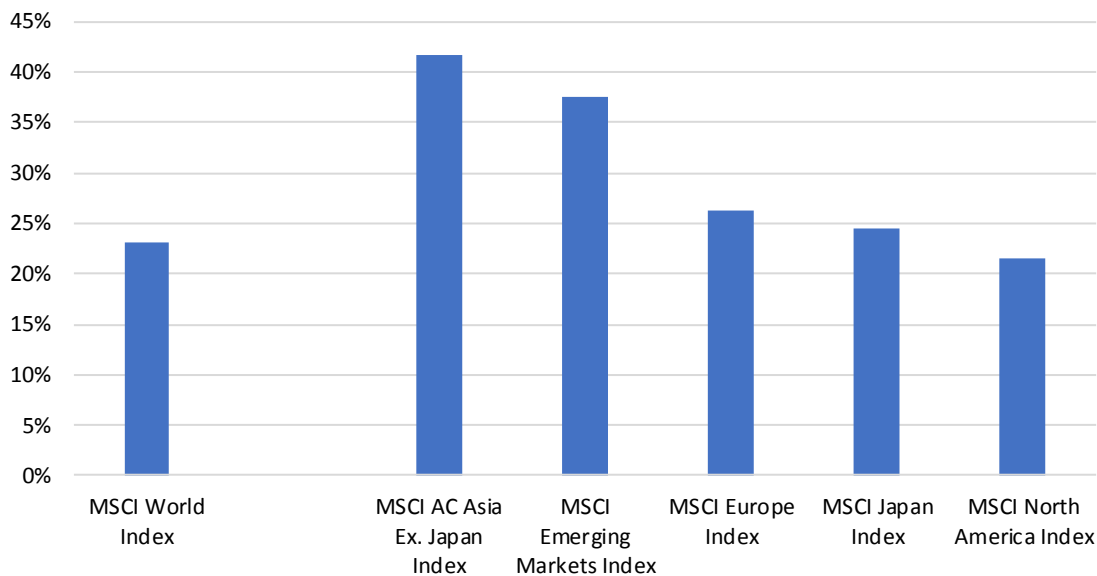
Source: Bloomberg

Figure 3 above illustrates the individual sector performances of the MSCI World Index over 2017. The big winners in 2017 were IT companies with all other sectors posting strong performance over the period. All sectors returned 15% or above except the Telecom Services Sector and the Energy Sector, which posted total returns of “only” 7% and 6% respectively.

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Geographically Asia and the Emerging Markets were the best-performing regions, as Figure 4 below highlights. However, all regions showed strong returns, with Europe, Japan and the U.S. exceeding returns of 20% (total return, in USD). In local currency terms Europe had a lower return of 11% whilst Japan was up 20%.

Figure 4: Regional performance in 2017 (all TR in USD)

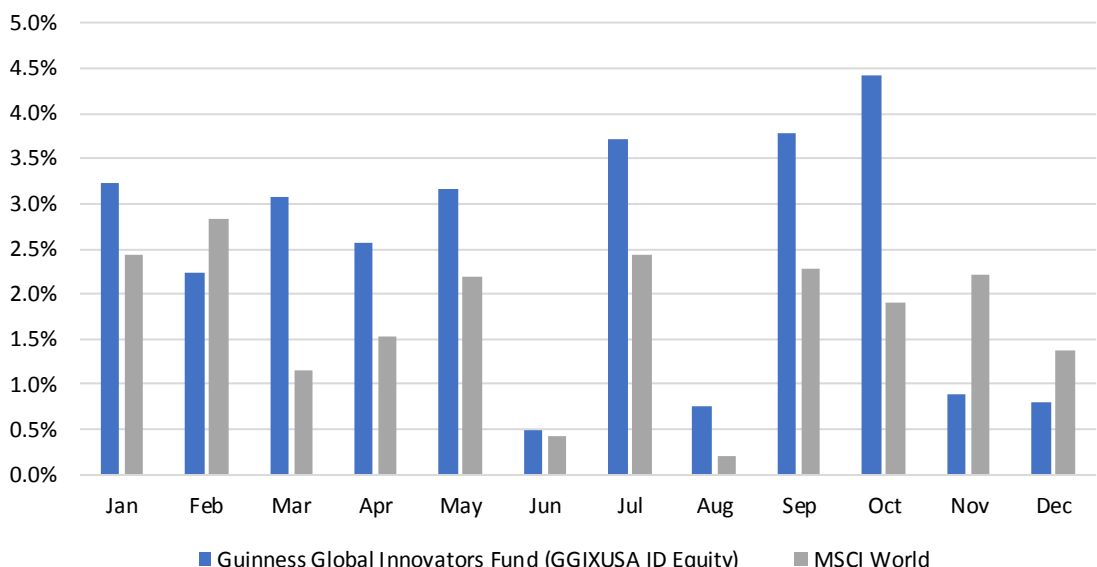


Source: Bloomberg

Review of 2017 fund performance

As we have highlighted in previous reviews, historically the Global Innovators Fund has tended to outperform in months where the index performance has been positive and underperform in months where the index performance has been negative. In a year where markets rallied strongly, the picture held true especially regarding the asymmetrically positive upside. The chart below shows that over the 12 months of positive market returns, the fund outperformed in nine of them.

Figure 5: Monthly returns of Fund vs benchmark in 2017 (all TR in USD)



Source: Bloomberg

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Guinness Global Innovators Fund

The months where the fund underperformed in positive markets were February, November and December. In February we saw a shift into defensive stocks, with especially strong performance from Health Care, Consumer Staples and Utilities. Our current underweight to these defensive sectors meant we therefore didn't partake fully in this rally. Certain cyclical sectors such as IT (which we are overweight) also performed well, which was a positive for the fund. Corporate earnings season resulted in some larger idiosyncratic stock movements. Weaker-than-expected results from WisdomTree and Schneider Electric sent their shares down 11% and 5% respectively. H&R Block's shares declined 4% as the market continued to worry about the upcoming tax season.

In November and December, there was some notable sector rotation – perhaps a healthy way for the market to consolidate some gains without the overall market suffering to any significant degree. U.S. tax reform prompted a rotation out of Technology stocks, the year's best-performing sector, and into firms seen to benefit the most from a potential reduction in the corporate tax rate, such as banks. Technology companies are expected to see little boost, as the industry's average effective tax rate of 18.5% is already lower than the new level of 21% passed by Republicans. Smaller, more domestically-focused U.S. stocks are expected to benefit the most from a lower tax rate.

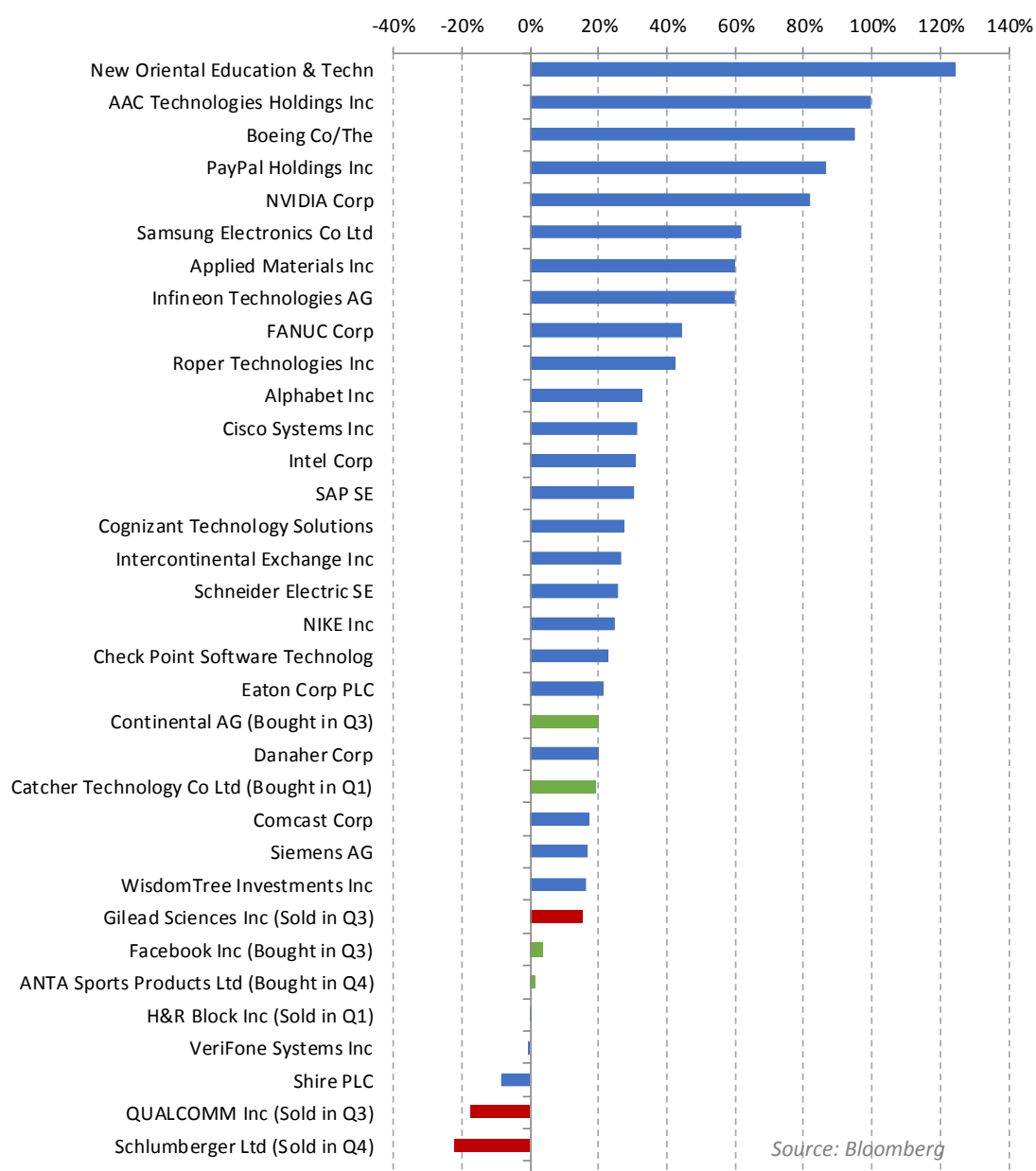
Towards the end of November, the Information Technology sector sold off, which appeared to be driven by concerns raised in a Morgan Stanley analyst report that the cycle was peaking for memory chips. This resulted in chip manufacturers and equipment makers leading the sell-off. This then led to other Information Technology companies (such as Facebook, Alphabet) selling off, although this didn't seem to be driven by any fundamental changes. End-of-year profit-taking has been suggested as an explanation for the fall.

In the context of the entire year, Technology stocks – where the fund has a big overweight (the fund with 51% on average over 2017, versus the MSCI World index with 16% on average) – have performed very strongly. Over the year, Information Technology was the biggest contributor to positive total attribution of the Fund. A zero weighting to Materials meant the fund did not participate in the commodities rally significantly. Similarly, the fund had a low exposure to the banking industry, which also rallied throughout the year as the expectation and materialisation of interest rate increases boosted the prospects for their returns.

On a stock-specific basis, strong earnings growth from companies in the Information Technology sector (Nvidia, AAC Technologies) aided performance. However, strong performance from stocks in other sectors also contributed to the overall outperformance of the fund, such as the Industrial sector (Boeing, Fanuc and Roper Technologies) and Consumer Discretionary (primarily New Oriental Education, and Nike rallying in Q4). These strong positive returns more than offset the weaker performing stocks (Qualcomm, Schlumberger).

Figure 6 below highlights these trends in more detail by showing all the companies held in the portfolio over the year and their total returns. Red and green highlighted bars indicate the company was sold or bought respectively during the year.

Figure 6: Individual stock performance over 2017 (total return USD)



We have always sought to apply a valuation discipline when running this strategy to avoid the temptation to invest in exciting stories at heady valuations. This discipline does not preclude our investment in companies with high levels of anticipated growth, but means we will only do so when we are comfortable that we are not taking on too much risk from a valuation perspective.

This was tested when the fund underperformed in the first half of 2016 despite the good valuations we saw in many of the companies held in the portfolio. As long-term investors we stuck to our beliefs and it was pleasing to see the market reward stocks in 2017 that had been out of favour in previous years.

One factor that explains in part the strong performance of the fund over the year is the outperformance of growth stocks that began in earnest in January 2017, as can be seen in figure 7 below.

Figure 7: Value vs growth index performance since January 2017 (all TR in USD)



Although we are investing for growth, our valuation discipline and bottom-up approach means we have generally steered away from the most expensive parts of the growth universe. The growth rally we saw throughout the year benefited some of the more cyclically-oriented businesses we held as the market began to price in the combination of improving earnings growth and better prospects for economic growth.

Changes to the portfolio

We sold four positions and initiated four new positions over the course of 2017, three less than in 2016 and slightly below the long-term turnover of the strategy.

Figure 8: Number of changes to the portfolio

	2015	2016	2017
Buys	6	7	4
Sales	6	7	4
Total Holdings	30	30	30

We made one change to the portfolio in the **first quarter**. We sold H&R Block and replaced it with Catcher Technology.



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H&R Block, the U.S.-based tax preparation company, was first purchased for the strategy in October 2012 so had been a long-term holding. Over our holding period the company went through quite significant changes. In particular, the spinning off of its banking arm in 2014 released the company from the regulatory burden and capital requirements associated with that business. This was well received by the market and the company added significantly to the performance of the fund from our first purchase in 2012 to the end of 2015. However, through 2016 the company posted a series of weak quarterly results as it appeared competition in the market place, particularly from the 'do-it-yourself' online tax returns model, had begun to erode its dominant position. This was reflected by sharp declines in the share price over this period. The quarterly results released in early March 2017 surprised to the upside, however, mainly as the market had become too pessimistic rather than results being obviously positive. The subsequent spike upwards in the share price provided us an opportune moment to exit our position. The valuation of the company is undemanding (around 13.5x 2017 expected earnings) but we found it hard to see where the growth we are looking for could come from and it appears that, for now at least, the company has lost its competitive edge. We felt our conviction was not strong enough to justify holding the stock through the next quarterly results (for the year ending April and released in June). These results were key as the company's earnings are so seasonally skewed due to the tax year.

Catcher Technology is a Taiwanese-listed technology company that specialises in the manufacture of metallic casing for devices. Historically sales were dominated by notebooks, but this has shifted to smartphones as more high-end phone suppliers moved to metallic casings following Apple's iPhone 5. This does mean the company has a handful of clients dominating its revenue stream (Apple, Samsung, for example) but also provides opportunity, as these companies search for the most innovative casings for their newest phones. The latest cases will be a combination of both metal and glass (or laminate) and will be more technically difficult to produce. This is reflected in the high operating margins the company has managed to achieve (around 30%) and which we believe they can defend in the future. From a quality perspective, the company has maintained a high return on capital for a significant period and has been growing this year-on-year, suggesting management has been allocating capital successfully. The company is exposed to the business cycle and is cyclical by nature but the uptick in earnings estimates and cheap valuation (just over 10X 2017 expected earnings) give reasonable margins of safety, in our opinion.

The overall effect on the portfolio was to reduce our exposure to the Consumer Discretionary sector and the U.S. and increase our exposure to Asia and the IT sector.

We did not make any changes to the portfolio in the **second quarter**.

We made two changes to the portfolio in the **third quarter**. We sold positions in Gilead and Qualcomm and initiated new positions in Facebook and Continental.



Gilead, the U.S.-based biopharmaceutical company, has been held in the strategy since October 2010. It has done well from its innovative Hepatitis C and HIV drugs, but is losing market share due to competition and pricing from generic products, in part due to the expiry of a patent for an active ingredient in some of its key drugs. This has started to erode revenues and earnings and the amount of debt has been rising, albeit alongside a large cash pile. We therefore decided to sell our full position in Gilead. Gilead has been one of our

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most successful holdings, rising almost 400% over our holding period, in a time the market “only” rallied around 100% (total return in USD).

Qualcomm, the U.S. multinational semiconductor and telecommunications equipment company, designs chips for 4G and next-generation mobile technologies. The company has been held in the Global Innovators Fund since October 2013. Qualcomm's sales may be impacted by lawsuits against its royalty model from Apple and stressed by a falling share of the smartphone chip market. Qualcomm also faces revenue pressures as smartphone shipments slow and prices for its chips drop amid rising competition among the chip manufacturers. In addition, we believe over the next few years we will see more in-house chips from the major smartphone manufacturers. For these reasons, in combination with a declining cash flow return on investment, we decided it was time to sell our entire position in Qualcomm.

In the quarter we bought Facebook, the social media company, on the prospect of continued strong earnings growth which we believe the market is not appreciating. The company generates revenue through targeted advertising to over two billion users who regularly use its social media platform. There is significant earnings potential in Facebook's unmonetized apps such as WhatsApp and Messenger, which each have significant user bases. There is upside potential in the average revenue per user (ARPU) growth in the U.S., as Facebook still accounts for a relatively small percentage of the total revenue spend per person in the U.S. There is also upside potential in ARPU in the rest of the world, especially Europe and Asia. In our upside case we note that user growth could accelerate in Asia, especially in India. Facebook's cash flow return on investment has grown considerably over the last few years. Combined with a strong balance sheet (with no debt) and stable-to-growing margins, we think this makes Facebook a good addition to the portfolio.

Continental, the German automotive manufacturing company, was traditionally known as a tyre manufacturer. Today, over half its revenue comes from automotive systems, which cover a range of innovative technologies set to improve the automotive industry. Continental has expertise in safety technologies, efficiency improvement in internal combustion engines, battery management systems, comfort and security. It is well positioned to take advantage of a shift towards smarter and connected cars and autonomous driving. Continental has a stable and high cash flow return on investment, low debt, and margins which are higher than its peers, indicating its leading position in the tyre and automotive industry.

The overall effect of these changes was to reduce our exposure to Health Care and increase our exposure to Consumer Discretionary. It also had the effect of increasing our exposure to Europe and reducing our exposure to the U.S.

We made one change to the portfolio in the **fourth quarter**. We sold our position in Schlumberger and bought a new position in Anta Sports.



Schlumberger, the global oil and gas services company, was our only Energy sector holding. In recent times we have grown increasingly worried at the company's falling cash flow return on investment and this has been accompanied by stagnant capital growth. In our opinion, the company's inability to sustain healthy margins and grow its earnings has put the stock out of favour, especially at a time where industry-wide factors are hampering the performance of energy stocks. We believe there remain significant headwinds for the company as many of their customers are drastically cutting their capital expenditure plans.

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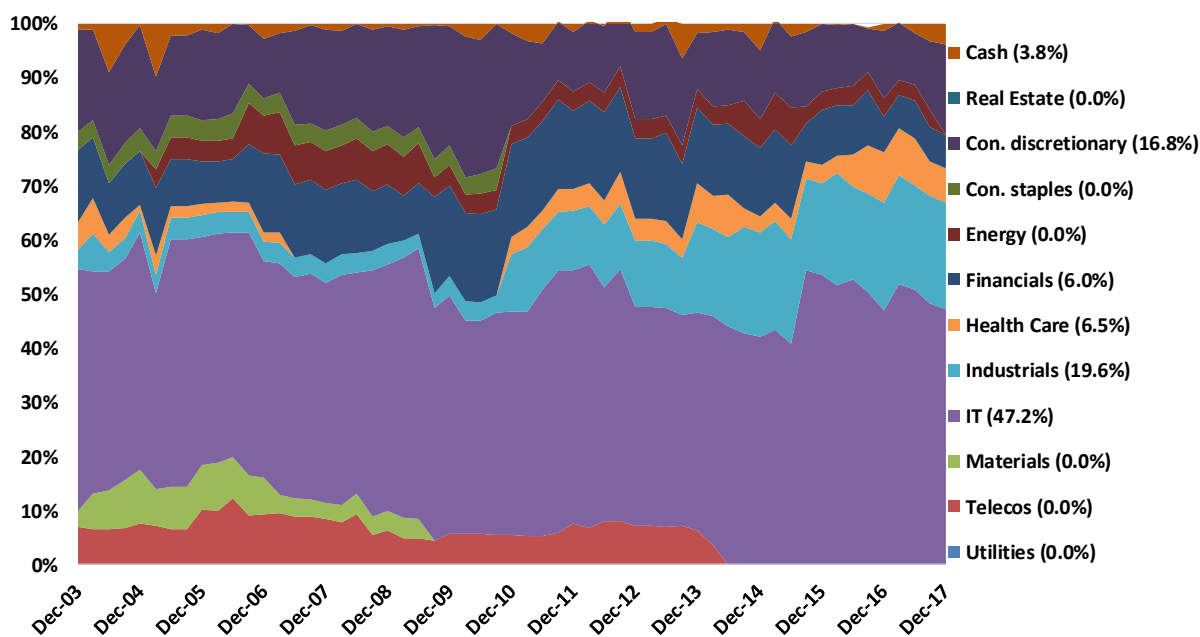
We bought ANTA Sports to replace Schlumberger, sticking to our one-in, one-out policy. ANTA Sports, based in China, has a stellar cash flow return on investment of over 10%, over the last 10 years. The company generates revenue through the manufacture and trading of sporting goods, including footwear, apparel and accessories. Its brand portfolio includes ANTA, ANTA KIDS, FILA, FILA KIDS and NBA, and the company is also looking to new brands, such as South Korea’s Kolon. Looking at the financials, ANTA Sports has very solid margin growth alongside a surge in sales in recent years. The company is well positioned to benefit from the growing wealth in China and recovering economy, and has maintained low debt. We have conviction that the stock has potential to sustain its earnings growth.

The overall effect of these changes was to reduce our exposure to the Energy sector and increase our exposure to the Consumer Discretionary sector, whilst also decreasing our exposure to the U.S. and increasing our exposure to Asia.

Portfolio characteristics

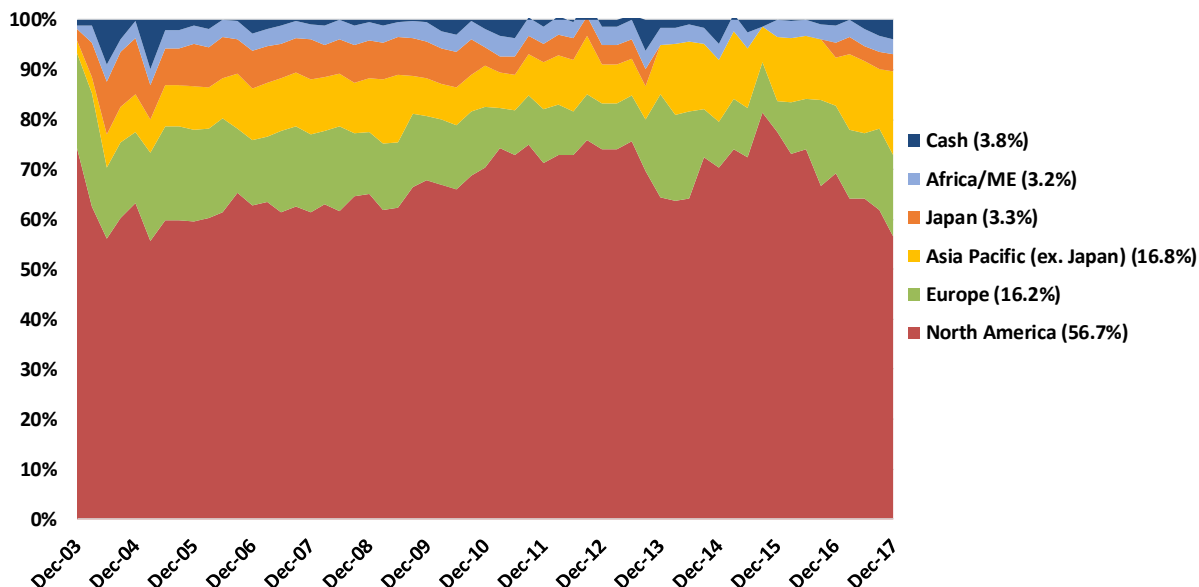
The charts below show the sector and geographic breakdown of the portfolio at the end of each quarter since the strategy’s inception.

Figure 9: Portfolio sector breakdown (all dates at quarter end)



Source: Guinness Asset Management, Bloomberg

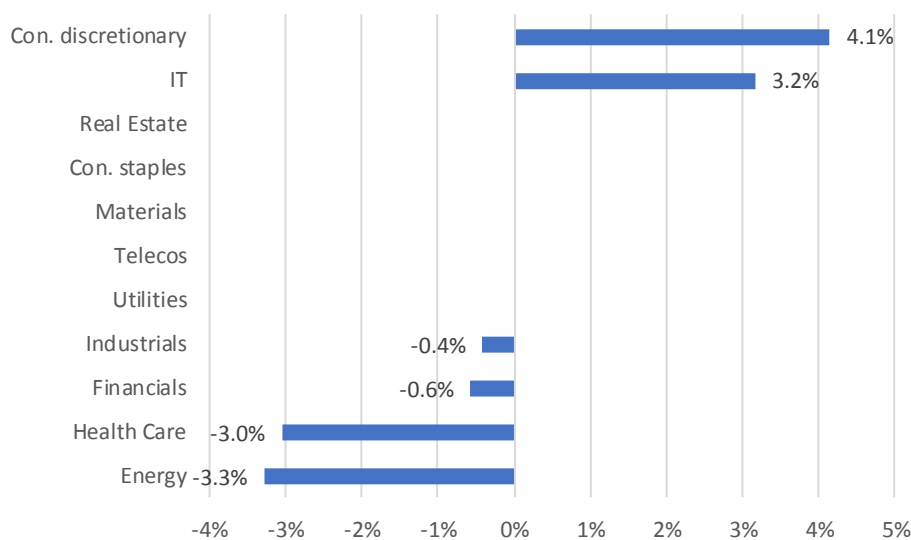
Figure 10: Portfolio geographic breakdown (all dates at quarter end)



Source: Guinness Asset Management, Bloomberg

In terms of sector allocations, over the year we reduced our exposure to Health Care and Energy and increased our exposure to IT and Consumer Discretionary. We now have no holdings in Energy and we still have no holdings in Consumer Staples, Materials, Telcos, Utilities or Real Estate.

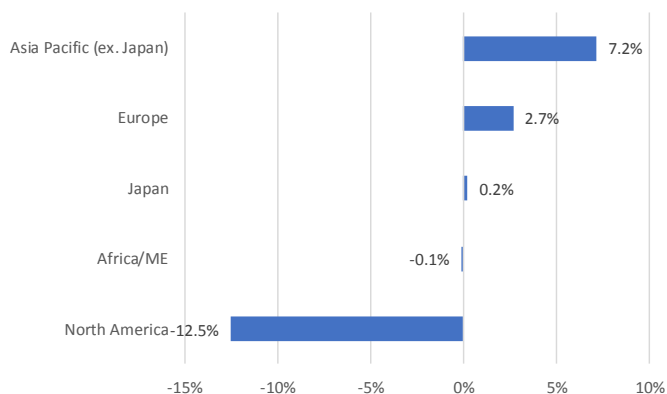
Figure 11: Change in portfolio sector allocation (31.12.2017 vs 31.12.2016, adjusted for cash balances)



Source: Guinness Asset Management, Bloomberg

In terms of the portfolio’s geographic breakdown, the portfolio continues to have a bias to the U.S., but we reduced this significantly over 2017, decreasing the fund’s allocation by over 10%. We increased our exposure to Asia and slightly increased our exposure to Europe.

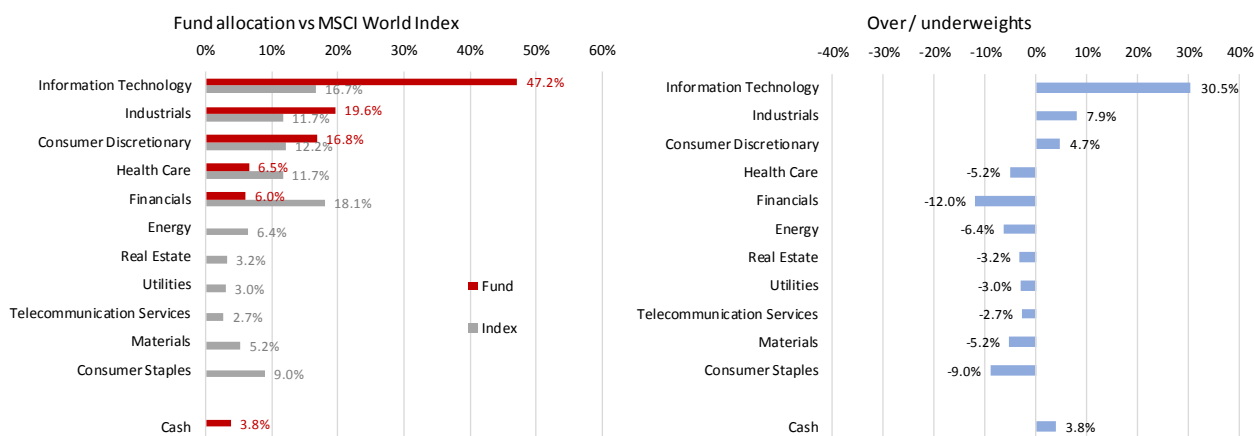
Figure 12: Change in portfolio geographic allocation (31.12.2017 vs 31.12.2016, adjusted for cash balances)



Source: Guinness Asset Management, Bloomberg

Figure 13 shows the over and underweight positioning of the fund by sector. Our overweight relative to the benchmark in Information Technology (c.30% overweight as at 31.12.2017) and our underweight positioning in Telecommunication Services (c.3% underweight), Energy (c.6% underweight) and Consumer Staples (c.9% underweight) were positives on average over the year. The largest sector underperformance was in Materials (representing a c. 5% underweight versus the benchmark) and Financials (c. 12% underweight).

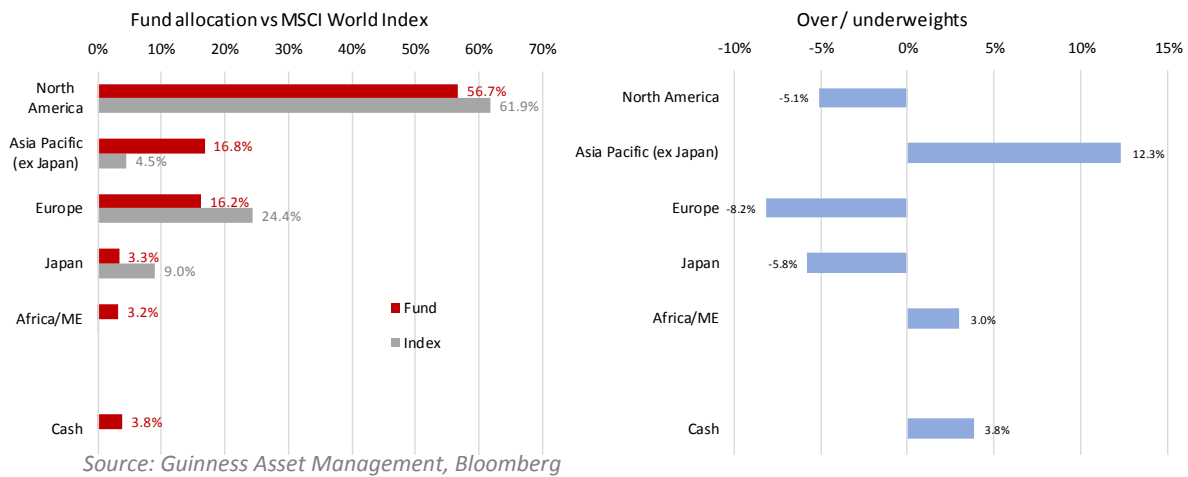
Figure 13: Sector breakdown of the fund versus MSCI World Index. Source: Guinness Asset Management, Bloomberg (data as at 31.12.2017)



Source: Bloomberg

In terms of U.S. geographic exposure, the fund is slightly underweight the benchmark (as measured by country of domicile). The fund has a c.57% weighting to the U.S. (as at 31.12.2017).

Figure 14: Change in portfolio geographic allocation (31.12.2017 vs 31.12.2016, adjusted for cash balances)



At the year end the portfolio is trading on a 2018 PE ratio of 17.5X, which is at a premium of 2.0% to the MSCI World Index equivalent PE multiple of 17.2X despite the very strong outperformance of the fund over the year. The expected growth in earnings of the portfolio (2019 on 2018) stands at 12.0%, significantly above the benchmark expected growth in earnings of 9.6%.

Outlook

As we reflect on 2017 and look forward to 2018, there is still considerable uncertainty in markets. Even though earnings growth has started to pick up, with a positive backdrop of improving economic growth around the world, we are still conscious of the historically high valuations seen in markets.

On the political front, 2017 saw populist political parties gain ground around Europe many of which have anti-immigration, anti-EU, and protectionist policies at their heart. Indeed, in December a new Austrian government took office consisting of a coalition between the conservative People’s Party and the right-wing populist Freedom Party. In Germany, Angela Merkel’s failed to win a majority government, as the Alternative for Germany party made gains. In 2018, two major populist parties – the Five-Star Movement and the Northern League – are hoping to win Italy’s May elections. As the Trump administration enters its second year, there are legislative challenges, midterm elections and threats from abroad to deal with. Republicans will be keen to progress a legislative agenda before attention shifts to the midterm elections.

Central bank policy will remain a vital driver of the markets in 2018. The solid economic performance of the U.S. in 2017 has led analysts to expect at least three rate hikes in 2018. The Eurozone is experiencing strong growth rates, but currently markets do not expect any rate hikes in 2018. The ECB has left open the option of increasing stimulus if economic conditions shift.

Uncertainty appears set to continue into the year ahead, but our investment process has never been one in which we try to position the portfolio based on a macro view or to capture any short-term trends. Even though this portfolio is focused predominantly on growth opportunities, we have always employed a value discipline and it has served us well. Value in this context does not mean simply optically cheap stocks. It means identifying companies where profitable growth opportunities exist and the market underappreciates these opportunities. More importantly, it means avoiding companies with characteristics that are statistically likely to destroy your capital. Weak businesses are one way to destroy capital. Companies with excessive valuations are another way. It is the combination of a weak business and excessive valuation that is most likely to lose you money, and we will always seek to avoid these companies. We will continue to focus on companies that

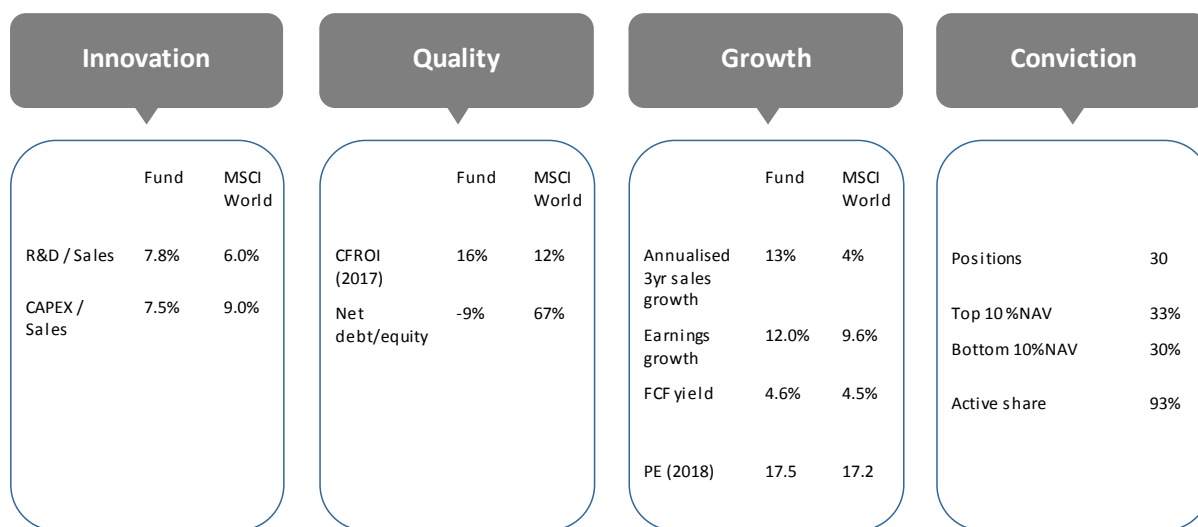
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Guinness Global Innovators Fund

can avoid the competitive threat of their peers, that have healthy balance sheets, that are earning returns on capital above their cost of capital and growing their economic profit, and that can reinvest their cash flows in profitable projects which can grow their business sustainably in the future.

In summary, the four key tenets to our approach are innovation, quality, growth, and conviction. As shown in Figure 15, this philosophy is reflected in the metrics of the fund. The fund 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 slight premium in terms of valuation.

Figure 15: Portfolio metrics versus index. Guinness Asset Management, Credit Suisse HOLT, Bloomberg (data as at 31.12.2017)



Source: Bloomberg

May we wish you a happy and prosperous New Year, and we look forward to updating you on the progress of the fund over the course of 2018.

Portfolio Managers

Matthew Page, CFA

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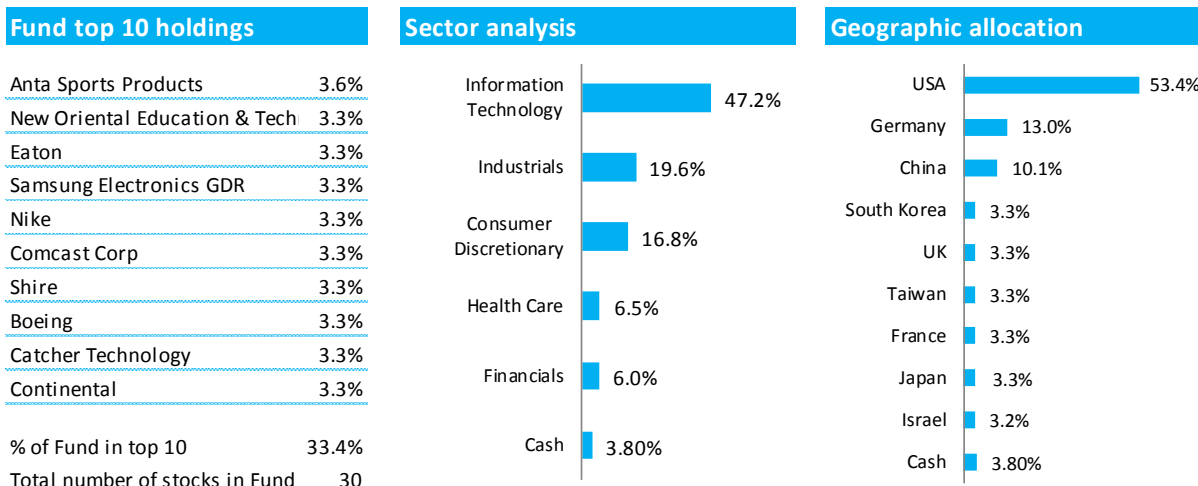
January 2018

Past performance should not be taken as an indicator of future performance. The value of investments and any income arising from them can fall as well as rise as a result of market and currency fluctuations.

Guinness Global Innovators Fund

PORTFOLIO

31/12/2017



31/12/2017

Annualised % gross total return from strategy inception (GBP)

Guinness Global Innovators strategy*	13.31%
MSCI World Index	10.70%
IA Global sector average	9.39%

Discrete years % gross total return (GBP)

	Dec '13	Dec '14	Dec '15	Dec '16	Dec '17
Guinness Global Innovators strategy*	42.6	18.9	2.0	27.6	22.0
MSCI World Index	25.0	12.1	5.5	28.9	12.4
IA Global sector average	21.7	7.1	2.8	23.3	14.0

Cumulative % gross total return (GBP)

	1 month	Year- to-date	1 year	3 years	5 years	10 years
Guinness Global Innovators strategy*	0.9	0.0	22.0	58.8	169.2	242.3
MSCI World Index	1.5	0.0	12.4	52.9	114.2	154.6
IA Global sector average	1.6	0.0	14.0	44.5	88.3	101.4

RISK ANALYSIS

31/12/2017

Annualised, weekly, 5 years, in GBP	Index	Sector	Strategy*
Alpha	0	0.71	3.93
Beta	1	0.81	1.10
Information ratio	0	-0.34	0.96
Maximum drawdown	-14.03	-17.08	-17.14
R squared	1	0.80	0.87
Sharpe ratio	0.94	0.84	1.21
Tracking error	0	5.50	5.43
Volatility	12.17	11.07	14.43

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***Composite simulation:** Guinness Global Innovators Fund (UCITS version) launched on 31.10.14. The returns stated above are a simulation based on the actual returns of Guinness Atkinson Global Innovators Fund (a mutual fund for US investors) until the launch of the UCITS version on 31.10.14. Both funds are managed in accordance with the same investment process and with the same portfolios. Guinness Atkinson Global Innovators Fund is not included in the IA Global sector. The sector's performance is included for a comparison of the Fund with the average performance of global equity funds available in the UK. Source: Financial Express & Guinness Asset Management, bid to bid, total return (Y class, 0.99% OCF.)

Past performance should not be taken as an indicator of future performance. The value of investments and any income arising from them can fall as well as rise as a result of market and currency fluctuations.

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'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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