

Guinness Global Innovators Fund

Innovation | Quality | Growth | Conviction

INVESTMENT COMMENTARY – June 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	\$193m
AUM in strategy	\$431m
Fund launch date	31.10.14
Strategy launch date	01.05.03
Managers	Dr. Ian Mortimer, CFA Matthew Page, CFA

Performance 31.05.18

Cumulative % gross total return (GBP)	1 year	3 years	5 years	10 years
Strategy*	15.5	57.6	121.2	282.8
Index	8.8	45.5	83.6	165.6
Sector	8.5	36.5	63.5	111.6
Position in sector	30 /287	19 /255	8 /227	4 /152

Annualised % gross total return from strategy inception (GBP)

Strategy*	13.26%
Index	10.58%
Sector	9.29%

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 May, the Guinness Global Innovators Fund produced a total return of 6.2% (in GBP), versus the MSCI World Index return of 4.3%. The Fund therefore outperformed the index by 1.9% in the month.

Over a one-year period to the end of May, the Fund is ahead of the benchmark with a total return of 15.5% (in GBP) while the MSCI World Index is up 8.8%.

Year-to-date, the Guinness Global Innovators Fund is up 4.4% (total return in GBP), which is ahead of the MSCI World, up 2.4% over the same period.

Outperformance in the month can be attributed in part to strong performance from the Semiconductor industry as strong earnings and upbeat global semiconductor sales spurred a recovery. The Guinness Global Innovators Fund is overweight Semiconductors (relative to the MSCI World Index). In addition, being underweight Financials benefitted the fund's performance, as political turmoil in Italy sparked concerns over the stability of the eurozone.

Versus a peer group of IA Global Equity funds, the Guinness Global Innovators strategy continues to rank very strongly across every time frame, appearing in the top decile across 3, 5 and 10 years.

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May in Review

Global equity markets advanced in May (MSCI World +0.7% in USD) despite increasing trade tensions and geopolitical instability. The prospect of a snap election in Italy and mixed signals from the Trump administration on talks with North Korea overshadowed strong first-quarter corporate earnings, which 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. Looking to next year, it is unclear to what extent rising wage growth and interest costs will eat into corporate margins, though analysts expect 10% earnings growth.

Interestingly, companies that have missed earnings estimates continue to get punished by the market, whereas those who have positively surprised are seeing less reward than in the past:

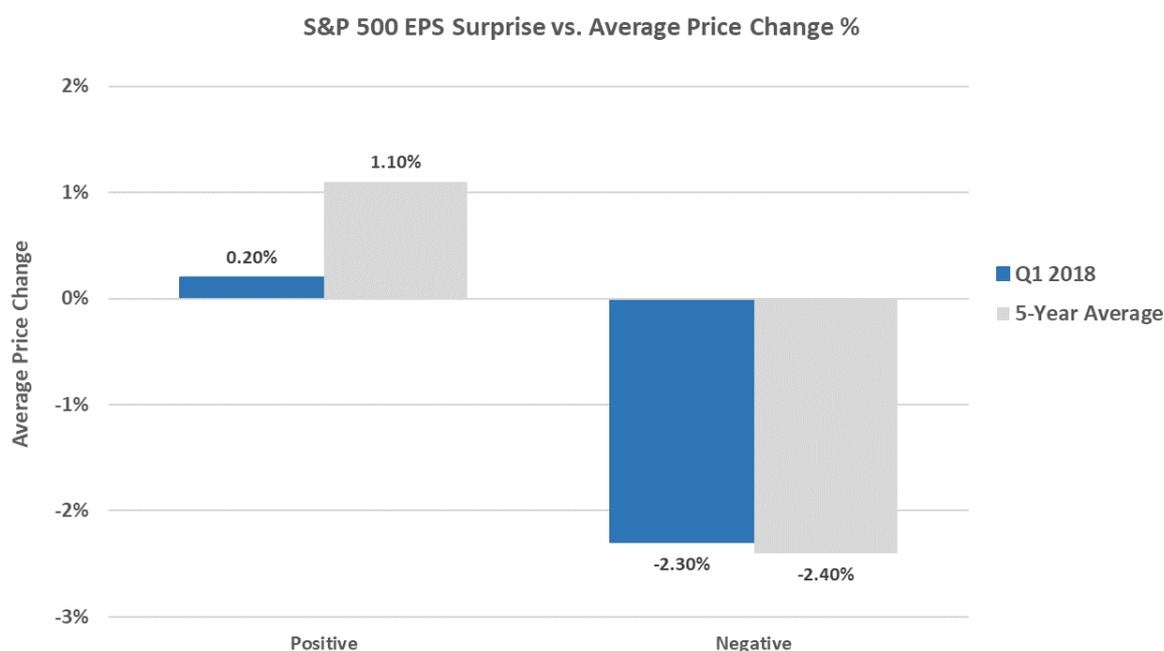


Chart 1: Source: Bloomberg. As of 31st May 2018

Much of this is due to uncertainty over where in the cycle the economy is positioned. According to the National Bureau of Economic Research (NBER), the current economic expansion is now 107 months old – making it the second longest in the past 100 years – and well above the average of 58 months. Most economists agree that expansions don’t die of old age, but that the odds of fatal missteps increase the older they get.

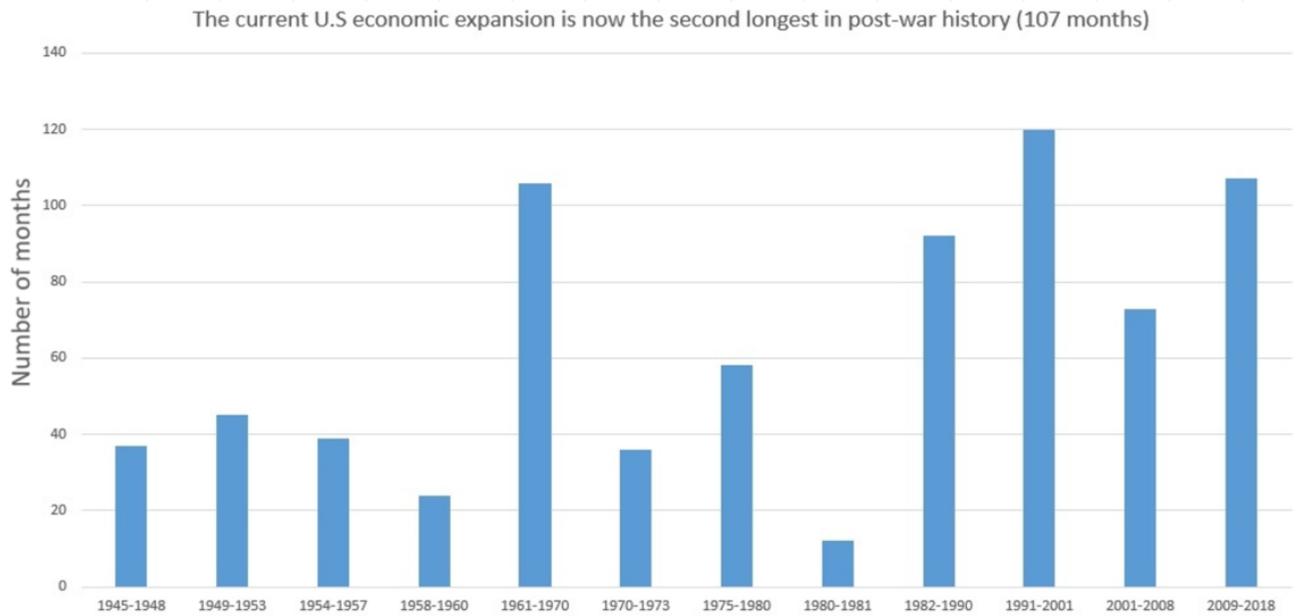


Chart 2: Source: Bloomberg. As of 31st May 2018

Additionally, the current expansion has not shown the robust magnitude that its age suggests. As shown in the chart below, real US GDP growth in the current expansion lags the other three longest expansions quite significantly. As of the first quarter of 2018, real GDP has expanded by 21% since 2009; this is far lower than the 36% compound growth seen between 1991-2001.

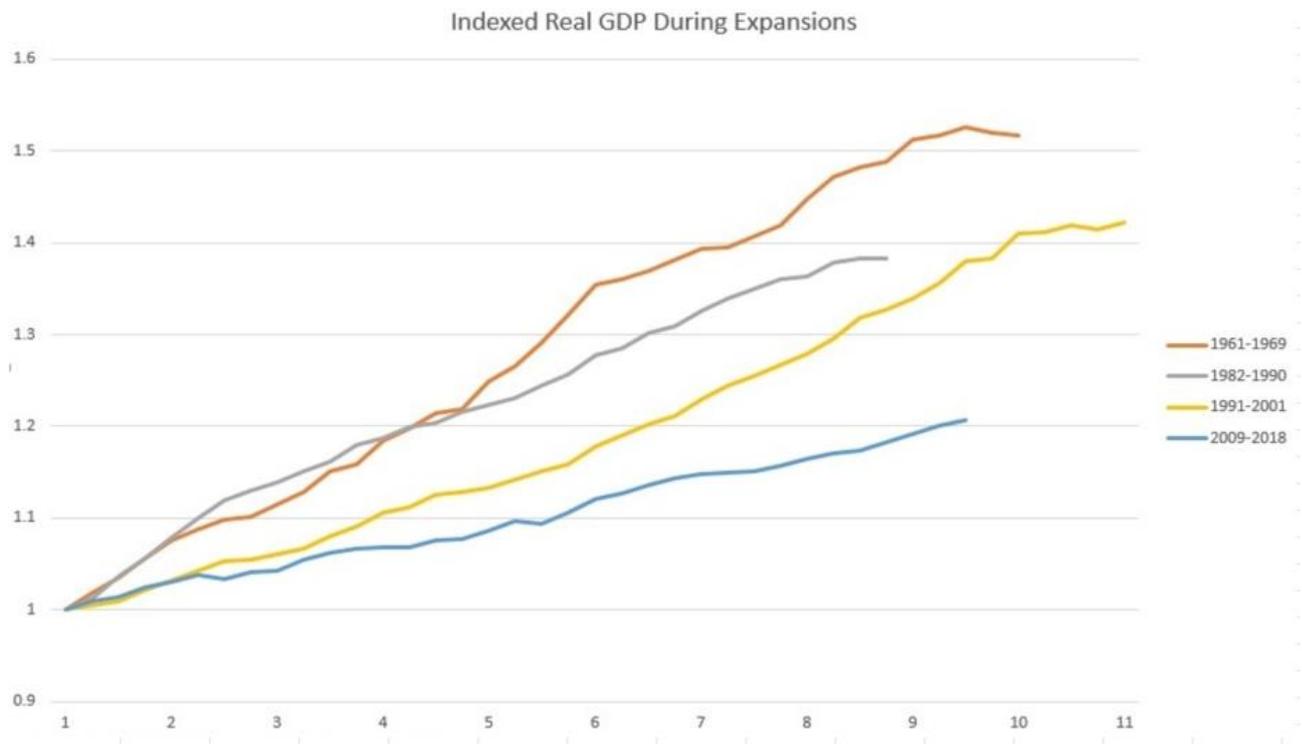


Chart 3: Source: Bloomberg. As of 31st May 2018

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May revealed that for the first quarter of 2018, US GDP growth was marginally revised down from 2.3% to 2.2%. This is a slower growth rate versus Q4 2017, when the US economy grew at 2.9%. The deceleration was driven by a slowdown in consumer spending, which expanded at 1% in Q1 2018 compared to 4% in the last quarter of 2017. Nonetheless, broader indicators suggest the US economy remains on a firm footing in 2018 and the data are not expected to deter the Federal Reserve (Fed) from raising interest rates by another 0.25% in June.

European data was more mixed. Eurozone unemployment fell to 8.5% in April, from 8.6% in March; higher oil prices helped lift headline consumer price inflation to 1.9%, from 1.2% in the previous month, and consumer confidence remains close to a 17-year high. However, corporate sentiment was affected by global trade concerns and higher oil prices, and the manufacturing PMI for May declined for a fifth consecutive month from a peak of 60.6 in December. Nevertheless, the recent level of 55.5 still corresponds to more than 2% growth.

On the political front, events in Italy and Spain produced high volatility in financial markets towards the end of May. In Italy, the Five Star Movement and the League, both populist parties, appeared close to forming a coalition government before President Sergio Mattarella blocked the appointment of a Eurosceptic finance minister proposed by the two parties. Concerns arose over the intended policies of lower taxes for individuals and corporations, which would lead to higher government debt (already around 130% of GDP) and likely risk violation of the EU's Stability and Growth Pact. Although the formation of a coalition government consisting of a less Eurosceptic finance minister did eventually obtain the President's approval, investors are cautious of the fractious economic backdrop in Italy. Meanwhile in Spain, the socialist opposition party PSOE filed a motion for a vote of no confidence in Prime Minister Rajoy, eventually ousting him and replacing him with the PSOE leader Pedro Sanchez at the helm of a new government. Eurozone equities ended May in the red with the MSCI Europe ex UK Index returning -1.5% (in EUR).

UK equity markets continued their positive run over May as a whole, despite a sell-off towards the month end on concerns over contagion from the political situation in Italy. The FTSE 100's positive returns were driven by a spike in the price of Brent crude oil, which climbed to around US\$80 per barrel during the month – its highest level in three years. Performance was also supported by Sterling's continued weakness against the US dollar, which bolstered the returns of the Index's many international constituents. The Bank of England's Monetary Policy Committee (MPC) voted 7-2 to keep the central bank base rate at 0.5%, citing weaker-than-expected domestic growth for first quarter 2018 (+0.1%).

Most Asian and Emerging Market equity indices ended the month lower as sentiment was dampened by concerns surrounding the US-North Korea summit and US-China trade negotiations. The month saw examples of the unpredictability of the Trump administration, which first cancelled and then sought to re-instate the President's proposed meeting with Kim Jong-un of North Korea (although he did manage to meet Kim Kardashian instead). It also decided after all to impose tariffs on the imports of aluminium and steel from the EU, Canada and Mexico, which responded with tariffs of their own. Alongside the US withdrawal from the Iran nuclear deal, geopolitical concerns heightened and unsettled markets overall. A stronger US Dollar also undermined sentiment towards emerging equity markets during May.

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Market Movements

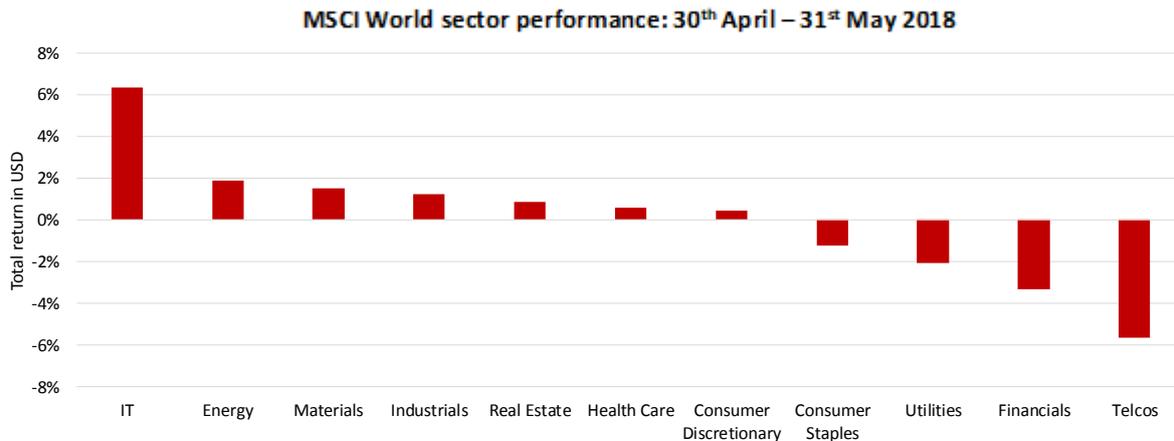


Chart 4: Source: Bloomberg. As of 31st May 2018

The strongest sector in May was Information Technology, following a lacklustre month in April. Out of the three industry groups which make up the IT sector, Semiconductors (+9.5%, all total returns in USD) led both Technology Hardware and Equipment (+6.1%) and Software and Services (+5.6%). All three posted healthy total returns. In the Guinness Global Innovators Fund we are overweight Information Technology and benefitted from having five positions in Semiconductors (Nvidia +12.2%, KLA-Tencor +12.0%, LAM Research +7.1%, Infineon +6.7% and Applied Materials +2.8%).

Energy was the second best performing sector in May. Energy stocks have continued to benefit from higher oil prices and increased demand. Production cuts by OPEC (Organization of Petroleum Exporting Countries) and Russia over the past 16 months have helped crude oil prices rally. OPEC are discussing the ‘tapering’ of existing quota reductions in the second half of 2018 in order to keep markets in balance. Decisions are expected to be made when OPEC meet on June 22.

Telcos were the worst performing sector this month as competition in the sector is rising, even though the sector has seen rising demand for wireless services. The Telecoms sector has the highest debt-to-equity ratio of any non-financial sector, declining net profit margins and rising expenses, creating further headwinds for the industry. The European Union agreed a major regulatory overhaul of the sector, which, while supported by politicians and consumer groups, was not supported by the region’s top carriers, who complained that the Electronic Communications Code is an added burden and won’t spur the necessary spending on networks.

The underperformance of Financials in the month was driven particularly by European bank weakness, stemming from the political uncertainty in Italy. Bond yields also came down, with the US 10-year yield decreasing from 3.2% to 2.9%, which caused share prices of US banks to weaken.

The Guinness Global Innovators Fund is underweight Consumer Staples, Utilities and Telcos, having no positions in these sectors, and has a single Financials holding. Other underweight sectors include Real Estate, Health Care and Materials. We find few good quality, innovative companies in these

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sectors. In May, having no exposure to the four worst performing sectors aided the fund's outperformance.

Portfolio update



NVIDIA (+12.2% total return in USD), the graphics chip maker, has seen expanding adoption from the PC gaming sector. Meanwhile, fears of a collapse in demand for cryptocurrency mining rigs is now seen as a minimal risk to NVIDIA's long-term performance. On 10th May, NVIDIA reported revenues for the first quarter that beat the highest analyst estimate. Beats were also seen on its EPS and gross margins.



KLA-Tencor (+12.0% total return in USD), 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. In late April, KLA-Tencor reported adjusted earnings per share for the third quarter (fiscal year-end is June 2018) that beat the average analyst estimate, spurring on a rally throughout May. This was helped by increased confidence in semiconductors and better earnings across the sector.



Facebook (+11.5% total return in USD) has recovered strongly since the news storm over data use and anti-trust issues in March. Investors have largely laid their fears to rest and have since been looking at what the future holds for Facebook. The company's announcement that it would be launching a new dating feature caused shares in Match Group to fall by more than 20% on the day. Further fears over the impact of the recently-enforced general data protection regulation (GDPR) seem to have been overblown as data post-GDPR suggests no observable impact for Facebook.



Cognizant Technology (-7.7% total return in USD), the US provider of custom IT consulting and a range of technology services, reported Q1 results in early May which broadly met analyst expectations with slightly underwhelming margin expansion. However, guidance for Q2 for both the adjusted earnings per share and revenue missed the average analyst estimate, causing a sell-off in the stock. The company is still targeting an improvement in 2018 profitability as it continues to undertake several

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strategic changes amid activist pressure. The company will focus on expanding its emerging IT products to capture growing demand for cloud, analytics and security services.

We made no changes to the portfolio in May.

Thank you for your continued support.

Portfolio Managers

Dr Ian Mortimer, CFA

Matthew Page, CFA

Analysts

Joshua Cole, CFA

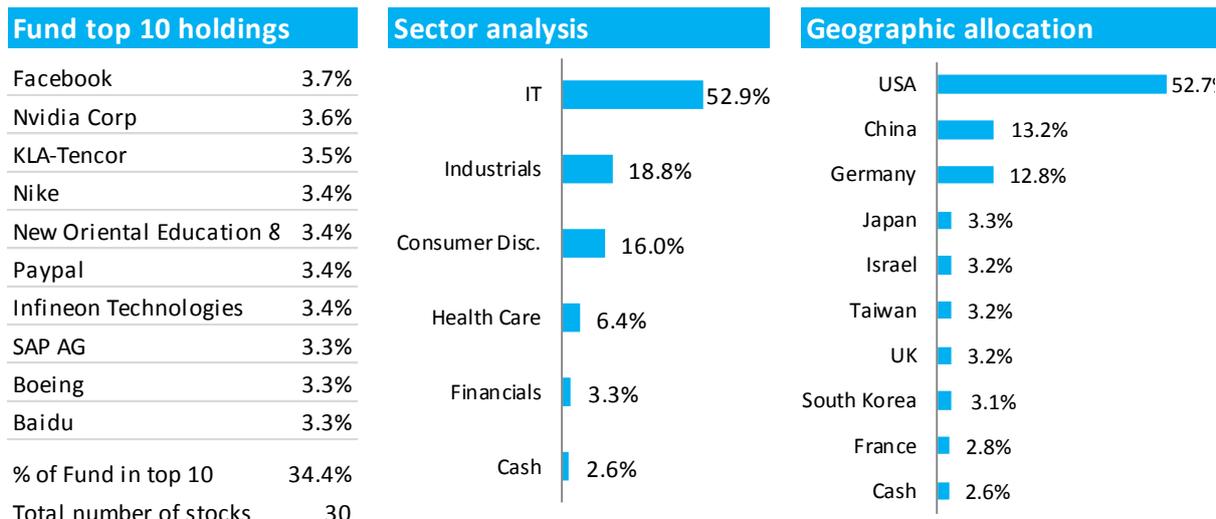
Sagar Thanki

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PORTFOLIO

31/05/2018



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Annualised % gross total return from strategy inception (GBP)

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MSCI World Index	10.58%
IA Global sector average	9.29%

Discrete years % gross total return (GBP)

	May '14	May '15	May '16	May '17	May '18
Guinness Global Innovators strategy*	18.2	18.8	-2.4	39.8	15.5
MSCI World Index	8.0	16.8	1.3	32.0	8.8
IA Global sector average	5.0	14.1	-3.5	30.4	8.5

Cumulative % gross total return (GBP)

	1 month	Year-to-date	1 year	3 years	5 years	10 years
Guinness Global Innovators strategy*	6.2	4.4	15.5	57.6	121.2	282.8
MSCI World Index	4.3	2.4	8.8	45.5	83.6	165.6
IA Global sector average	3.6	2.4	8.5	36.5	63.5	111.6

RISK ANALYSIS

31/05/2018

Annualised, weekly, 5 years, in GBP	Index	Sector	Strategy*
Alpha	0	0.97	3.14
Beta	1	0.79	1.12
Information ratio	0	-0.27	0.80
Maximum drawdown	-14.03	-17.08	-17.14
R squared	1	0.78	0.87
Sharpe ratio	0.77	0.70	0.97
Tracking error	0	5.86	5.58
Volatility	12.51	11.22	15.05

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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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