

Guinness Global Innovators Fund

Innovation | Quality | Growth | Conviction

INVESTMENT COMMENTARY – September 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	\$216m
AUM in strategy	\$449m
Fund launch date	31.10.14
Strategy launch date	01.05.03

Managers Dr. Ian Mortimer, CFA
Matthew Page, CFA

Analysts Sagar Thanki
Joseph Stephens

Performance 31.08.18

Cumulative % total return (GBP)	1 year	3 years	5 years	10 years
Strategy*	12.0	83.1	124.0	307.9
Index	12.1	65.9	93.7	179.5
Sector	10.5	56.4	74.8	135.5
Position in sector	108 /289	12 /258	13 /232	4 /156

Annualised % total return from strategy inception (GBP)

Strategy*	13.17%
Index	10.28%
Sector	9.44%

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, total return, in GBP.

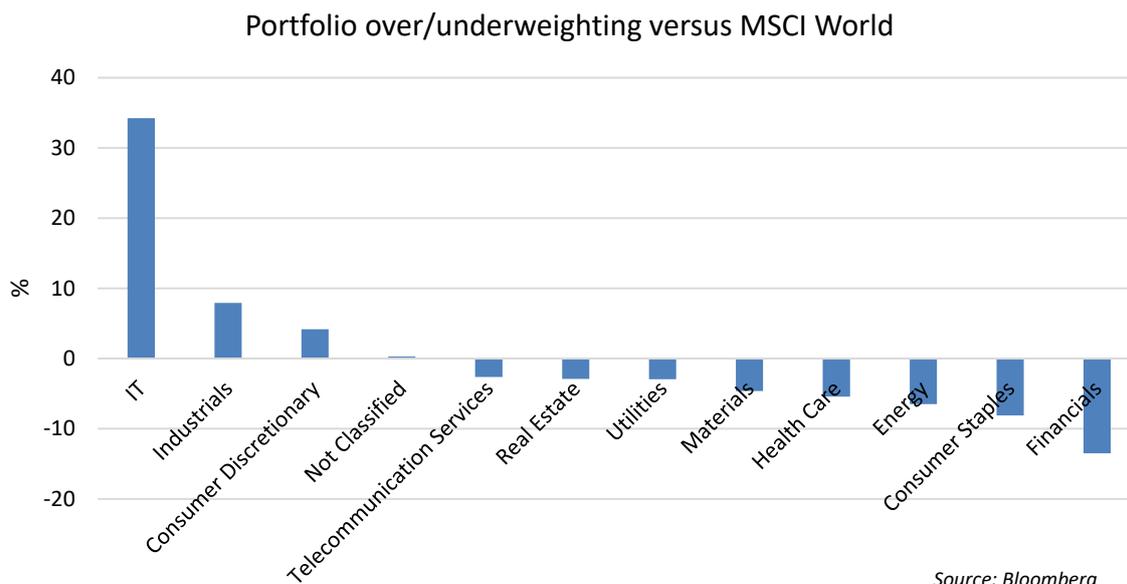
Summary performance

In August, the Guinness Global Innovators Fund produced a total return of 0.44% (in GBP) against the MSCI World Index of 2.17%. As a result, the fund underperformed the benchmark by 1.73%. Year-to-date, the fund has produced a total return of 6.59% (in GBP) against 9.12% for the benchmark.

The IT sector, which was a relative underperformer in July, once again topped the sector performance table with a total return of 7.41% (in GBP) for the month. Our overweight of 34% consequently provided a positive contribution to the portfolio's performance for August. However, stock selection was a drag on our portfolio relative to the benchmark due to strong performance from companies that we do not own. For example, Apple, which is the largest constituent of the MSCI World, was up 21.13% (in GBP) for the month and accounted for 0.5% of the performance difference against the benchmark.

The fund's underweight positions in Financials, Materials and Energy – the three worst-performing sectors for the month – was a positive in sector attribution terms.

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Geographically, the US, the portfolio’s largest regional exposure (c.60% of total portfolio), outperformed other regions with the MSCI US Index rising 4.65% (in GBP). In contrast, our exposure to EM contributed negatively, and the MSCI EM Index fell -1.42%.

Portfolio Update

Individual companies that performed well over the month included Nvidia (14.63% in USD) and Cisco (12.96% in USD).



Nvidia’s shares fell 5% in mid-August after management guidance for Q3 was weaker than market expectations, citing a slowdown in crypto mining demand. However, the company still posted strong earnings overall which showed datacentre revenues up 83% year-on-year and gaming revenue up 52%. By the end of the month, the share price was up 14.63% after Nvidia revealed its next-generation graphical processing units (GPUs) which are expected to solidify the company’s leadership in the gaming industry and provide further growth in AI technologies. With no competitors expected to release new GPUs this year, Nvidia has tested its pricing power by selling the new products at higher premiums.

Cisco, which continues to be a strong contributor to the fund’s performance this year, posted Q4 results which beat analyst estimates, with revenue up 5.9% year-on-year. This was taken as further evidence that its new strategic transformation – moving from a focus on traditional hardware to software products – is working. Building on this strategy, Cisco announced it intended to acquire Duo, which provides identification and authentication solutions via the cloud, better allowing customers to securely connect to networks.



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Individual companies that underperformed over August were AAC technologies (-13.00% in USD) and Continental (-20.29% in USD).



AAC had earnings and price targets cut by analysts after posting results that missed forecasts, with net income down 38.7%. This was the first decline in profits for almost four years and resulted in a share price drop of almost 11%. The fall was led by a slowdown in smartphone demand, particularly from Apple, which accounts for around 56% of AAC’s total revenue. We still view AAC as a quality company in an innovative industry and note several new products on the horizon. The new iPhone release in the coming months could also prove to be a boost in second-half earnings.

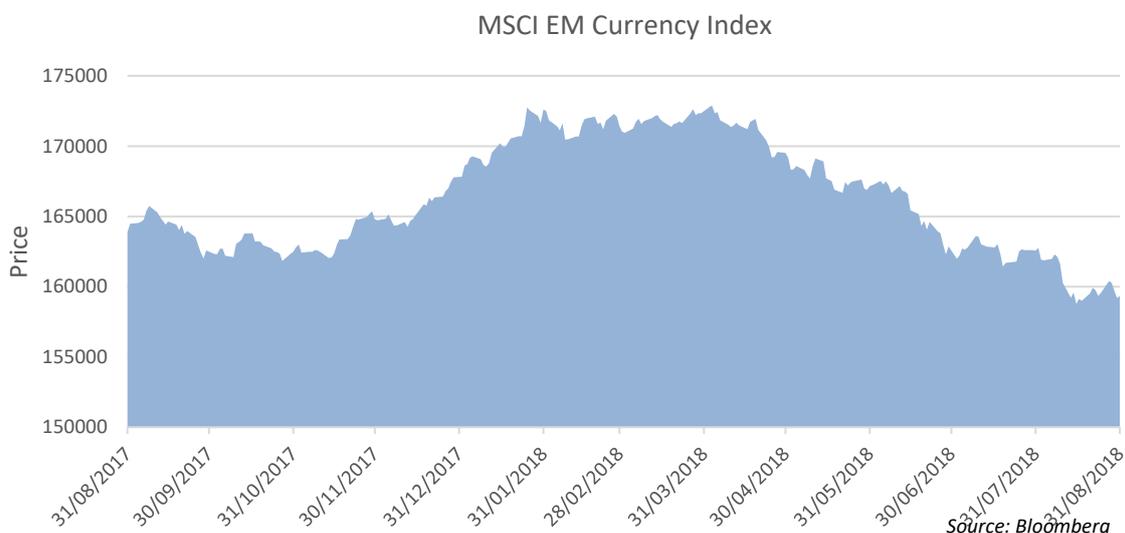
Continental posted a profit warning two weeks after releasing its earnings, signalling that it expects lower sales and increases in costs and warranty claims, reducing margins. This is an indication of softer automotive markets and consumers changing preferences to such vehicles as sedans and SUVs. Despite this, Continental continues to be a quality company and we remain positive in our belief that its automotive segment can benefit from the changing automotive landscape with the advent of the electric car and autonomous vehicle. As of the 31st August, the company traded on 10.8x 2018 expected earnings and 9.7x 2019 expected earnings – a significant discount to trailing historic multiples.



Market Update

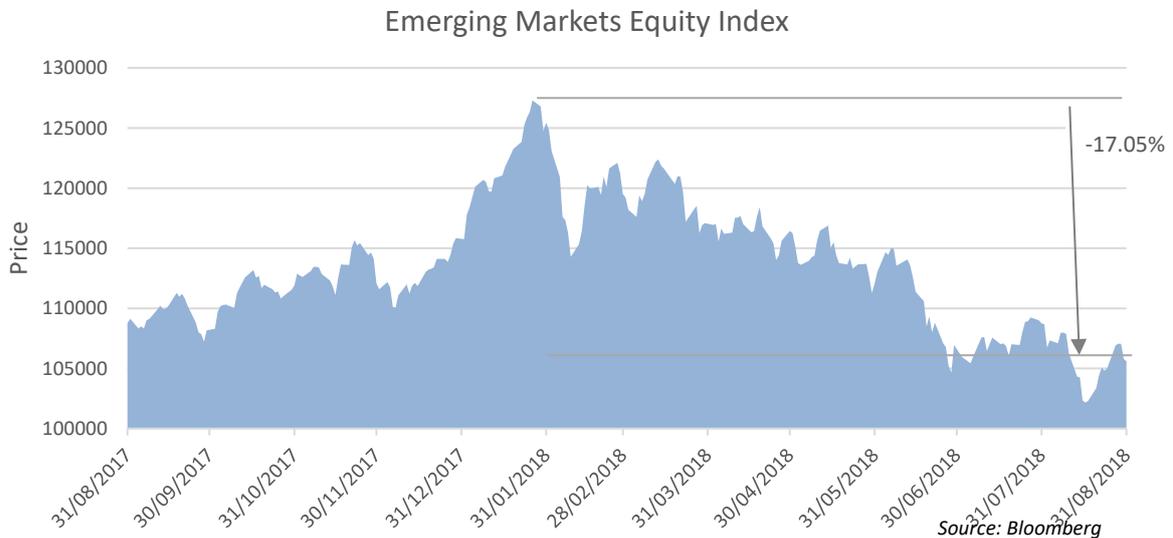
EM currency decline

In Emerging Markets, we have seen the continued decline in currency valuations led by the Argentinian Peso, Turkish Lira and more recently the South African Rand. Coupled with a strengthening USD, this has led to the MSCI EM Currency Index, a GDP-weighted basket of EM currencies, showing further weakness for the year, as shown below.



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Moreover, we have seen investor uncertainty emanating from final tariff discussions between the US and China. This has led to capital outflows from EM regions, leaving the EM Equity benchmark (see chart below) close to an official ‘bear market’ correction from the peaks seen mid-January.



The Argentinian Peso and Turkish Lira remain under pressure, having lost around 50% and 40% respectively against the US dollar during 2018. Argentina’s central bank has opted to raise interest rates substantially to around 60%, accompanied by a loan from the IMF for \$50bn, the largest the IMF has granted, to try and shore up the Peso. However, it seems to have done little for investor confidence and President Macri has asked the IMF to speed up the distribution.

In contrast, the decline in the Turkish Lira, triggered by US sanctions for the imprisonment of an American pastor, has been met with a different mentality. Erdogan, the president of Turkey, has refused to bow to Trump’s demands, saying “those who assume they can bring us to our knees through economic manipulations don’t know our nation at all”. Erdogan has refused to raise interest rate rises even after the Lira lost 25% in July, arguing they cause rather than curb inflation. However, recent economic data suggesting inflation around 18% (versus a target 5%), prompted Erdogan to indicate an adjustment in monetary policy may be forthcoming.

Whilst the portfolio holds no companies domiciled within Argentina, Turkey or South Africa, it is overweight to Emerging Markets compared to the benchmark. However, our exposure to EM is confined to companies which we believe have solid balance sheets and a competitive advantage. As a result, the portfolio’s EM exposure outperformed that of the benchmark for the month, producing total returns of -2.14% (in USD) against -5.53% for the MSCI World Index.

Thank you for your continued support.

Portfolio Managers

Dr Ian Mortimer, CFA
Matthew Page, CFA

Analysts

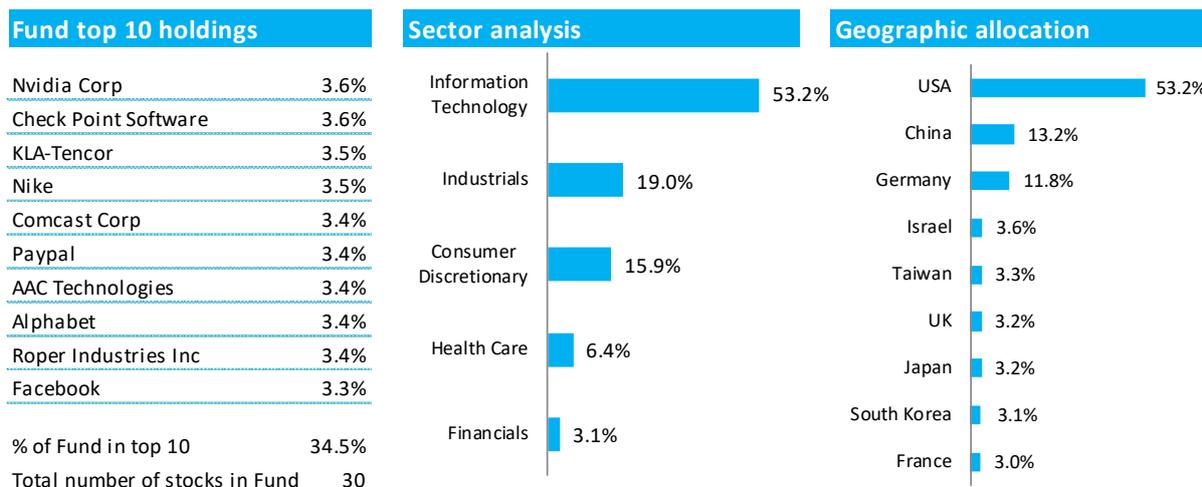
Joseph Stephens
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Guinness Global Innovators Fund

PORTFOLIO

31/08/2018



31/08/2018

Annualised % total return from strategy inception (GBP)



Discrete years % total return (GBP)

	Aug '14	Aug '15	Aug '16	Aug '17	Aug '18
Guinness Global Innovators strategy*	25.0	-2.2	29.5	26.2	12.0
MSCI World Index	12.8	3.5	25.2	18.1	12.1
IA Global sector average	10.1	1.5	20.3	17.6	10.5

Cumulative % total return (GBP)

	1 month	Year-to-date	1 year	3 years	5 years	10 years
Guinness Global Innovators strategy*	0.4	6.6	12.0	83.1	124.0	307.9
MSCI World Index	2.2	9.1	12.1	65.9	93.7	179.5
IA Global sector average	1.7	6.8	10.5	56.4	74.8	135.5

RISK ANALYSIS

31/08/2018

Annualised, weekly, 5 years, in GBP	Index	Sector	Strategy*
Alpha	0	0.68	1.67
Beta	1	0.79	1.12
Information ratio	0	-0.34	0.54
Maximum drawdown	-14.03	-17.08	-17.14
R squared	1	0.77	0.87
Sharpe ratio	0.85	0.74	0.94
Tracking error	0	5.87	5.61
Volatility	12.26	11.06	14.77

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Source: Financial Express, bid to bid, 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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