

Guinness Global Innovators Fund

Innovation | Quality | Growth | Conviction

INVESTMENT COMMENTARY – November 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	\$189m
AUM in strategy	\$374m
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 31.10.18

Cumulative % total return (GBP)	1 year	3 years	5 years	10 years
Strategy*	-5.8	48.9	84.7	354.7
Index	5.1	51.9	74.8	228.7
Sector	1.0	41.7	54.3	186.7
Position in sector	270 / 293	78 / 263	28 / 233	4 / 162

Annualised % total return from strategy inception (GBP)

Strategy*	12.14%
Index	9.79%
Sector	8.83%

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

For the month of October, the Guinness Global Innovators Fund provided a total return of -8.62% (in GBP) against the MSCI World Index return of -5.44%. Hence the fund underperformed the benchmark by -3.18%. Year-to-date, the fund produced a total return of -5.65% against the MSCI World Index's 3.43%.

Despite the weaker performance over the recent months, the long-term performance of the strategy remains very strong; versus the sector places it ranks the top quartile over five and ten years.

	1yr	3yr	5yr	10yr
Fund	-5.75%	48.94%	84.65%	354.70%
Index	5.13%	51.89%	74.75%	228.66%
IA sector average	0.99%	41.71%	54.31%	186.65%
Rank vs peers	270/293	78/263	28/233	4/162

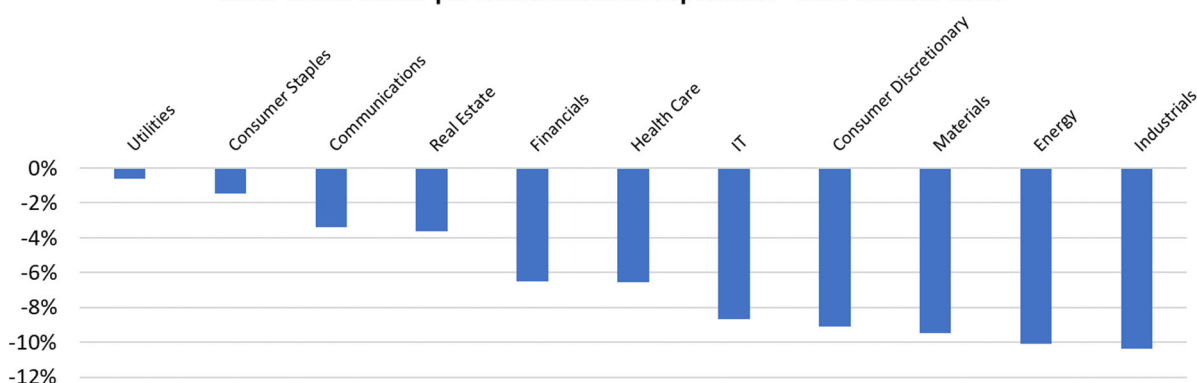
Figure 1: Global Innovators strategy total return in GBP. Source: FE (as at 31.10.2018)

No region or sector escaped the worst month for stocks since October 2011. All regions experienced negative returns, with Asia-Pacific ex-Japan weakest returning -11% (in USD). The portfolio's overweighting to the IT sector was the main contributor to the underperformance relative to the MSCI World. However, the portfolio underweight to Financials – the largest sector exposure in the MSCI World – was a positive contributor. Regionally, the portfolio

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suffered from an overweighting to Asia Pacific stocks. Specifically, the portfolio is overweight to Chinese stocks, which underperformed considerably over the month (down c.20% in USD).

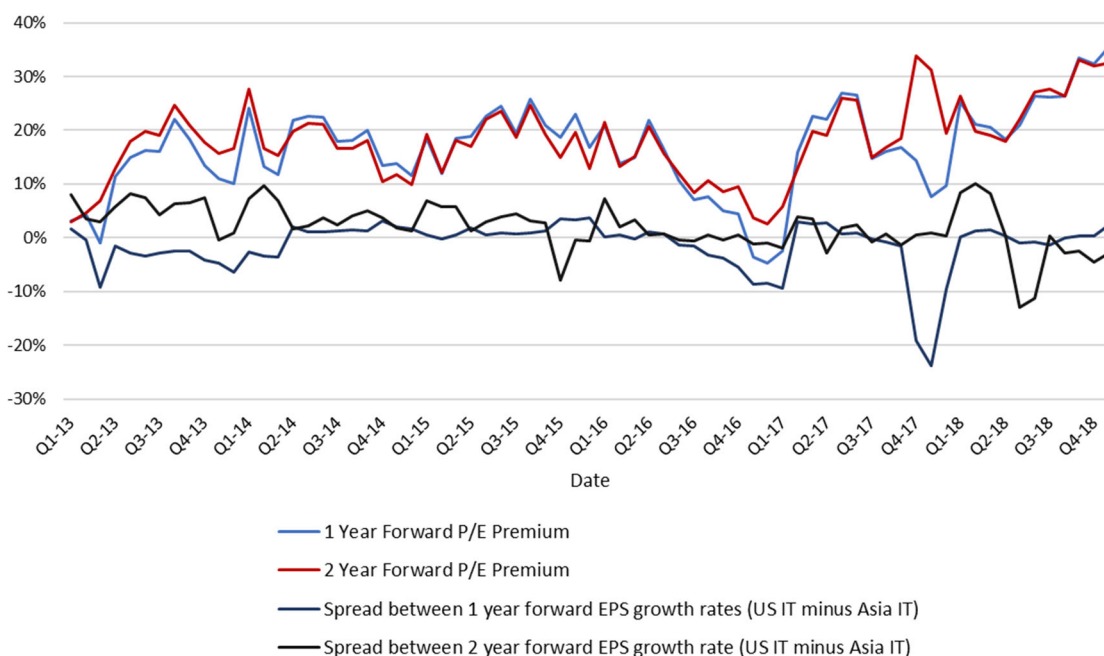
MSCI World sector performance: 30th September - 31st October 2018



Source: Bloomberg. Data as of 31st October 2018

Our overweighting to Asia Pacific equities, and in particular Asia Pacific IT stocks, has been a drag on the portfolio over the recent period. However, as the graph below shows, the premium paid for US IT stocks over Asian IT is at all-time highs of around 30-35% (based on 1 and 2-year forward P/E ratios). However, the 1-year forward EPS growth rate for US IT implies only a 3% higher growth above that of Asia, with 2-year EPS growth rates for Asia Pacific IT actually pricing in higher rates than their US counterparts. We believe Asian stocks have been over-sold and are now trading at even more attractive multiples given the implied growth rates relative to global peers.

MSCI USA IT Index against MSCI Asia Pacific IT Index



Source: Bloomberg. Data as of 31st October 2018

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Earnings season:

According to FactSet, over half of the S&P 500 companies have reported earnings this quarter by the end of October. Of these, 77% have reported EPS figures above forecasts. Contrary to history, in which positive earnings surprises have been rewarded with an average 1% share price increase, this quarter's earnings beating companies have experienced an average 1.5% decrease in share price. This possibly reflects lower future guidance given by management on issues surrounding rising interest rates, trade tensions and increasing input costs, but could also suggest lower confidence from investors in economic growth in general.

Within the portfolio, 19 companies have reported earnings so far, with 79% showing positive earnings surprises.

Company	Revenue Surprise (%)	Earnings Surprise (%)
INTERCONTINENTAL EXCHANGE	0.46%	6.25%
BAIDU	1.56%	13.64%
COGNIZANT	-0.14%	4.98%
EATON	-1.50%	-0.17%
FACEBOOK	-0.55%	19.43%
FANUC	-2.00%	-13.39%
KLA-TENCOR	1.75%	11.23%
ROPER TECHNOLOGIES	0.62%	5.10%
ABB	-1.40%	-7.61%
COMCAST	1.38%	7.37%
ALPHABET	-0.64%	13.53%
SCHNEIDER ELECTRIC	2.05%	8.41%
CHECK POINT SOFTWARE	1.03%	1.55%
NEW ORIENTAL	2.24%	-2.11%
DANAHER	1.05%	2.30%
PAYPAL	0.43%	7.17%
SAP	0.54%	4.40%
LAM RESEARCH	0.90%	4.47%
SAMSUNG	0.65%	5.84%

Source: Bloomberg. Data as of 31st October 2018

The notable negative earnings surprises came from Fanuc and ABB, our two robotics/automation companies, citing slowdowns in orders from a weaker macro environment. ABB and Fanuc now trade on 1-year forward PEs of c.15x and c.21x, below their respective 5-year averages. Over the long term, we view these companies as key beneficiaries to the global demand for industrial automation: increasing workplace efficiencies, reducing defects, and decreasing labour costs.

Portfolio Update

Individual companies that performed well over the month included Comcast Corp (8.28% in USD) and Intercontinental Exchange Inc (2.87% in USD).

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Comcast, the American telecommunications conglomerate which offers streaming, television channels and high-speed internet, produced the largest total return of the portfolio over October. Whilst users of pay-TV continue to decline, Comcast has been buoyed by renewed momentum in broadband – in contrast to competitors such as AT&T and Disney which are investing heavily in content to take on Netflix. Helping to compound a strong month were upgraded ratings from Credit Suisse citing sustained marketing in satellite TV whilst others cut costs, which should reduce competitiveness and increase margins. With the stock trading around one standard deviation below its 10-year P/E average, Comcast looks like it has more upside potential.

Intercontinental Exchange has embarked on a wave of acquisitions as it focuses on pricing and financial data revenue streams. Despite recent outcries from the SEC over the ‘unjust’ pricing of data fees charged by exchanges to the likes of brokers and traders, Intercontinental performed strongly in the most recent earnings period, beating forecasts by 6.25%. With the VIX index (an indicator of expected market volatility) increasing in recent months and uncertainty around the future of trade tariffs and interest rate movements, we view Intercontinental as a strong beneficiary of this environment as investors reallocate capital.

Individual companies that underperformed over the month were AAC Technologies Holdings Inc (-26.78% in USD) and NVIDIA Corp (-24.98% in USD).



Nvidia, a market leader in semiconductor chips, specifically Graphics Processing Units (GPUs), traditionally used in video games, has been a long-term outperformer due to the more recent use of GPUs in AI and machine learning technologies. However, Nvidia has experienced recent headwinds due to fears surrounding the slowdown in demand for crypto-mining chips and more general semiconductor demand cycle fears. We expect Nvidia to continue to benefit from increased revenues from data centres and more diverse use of their GPUs, particularly as autonomous vehicles become a reality in modern transportation.

AAC technologies, a key supplier of smartphone components including acoustics, haptics and optics, has experienced continued downward pressure over the year from slowing smartphone demand and fears of increased competition. AAC continues to produce innovative products such as the use of smartphone screen surfaces as speakers and the increased use of haptics for user feedback. The rising demand for premium smartphones leads to the requirement for premium components, and as such AAC’s superior products should be able to regain any temporary loss of market share to new entrants. AAC currently trades on a 1-year forward P/E of around 13x, a figure which we believe is not reflective of the company’s potential future growth but is more in line with compression in Asian IT multiples in general.

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Economics

In the US, positive data continued to flow with unemployment dropping to its lowest level since 1969, GDP growth beating expectations up to 3.5% (however down from 4.2% last quarter) and more recent data indicating wages are finally starting to pick up. However, with the benefits of the tax cuts on corporate earnings diminishing, the US has been left with a widening fiscal budget deficit, growing 17% year-on-year to 3.9% of GDP. Additionally, President Trump's use of trade tariffs has come into question with no breakthrough in talks with China and the US trade deficit rising to the highest level on record (\$76bn).

In Europe, Eurozone GDP growth was below expectations (0.2%) with the EU as a whole also falling to 0.3% growth. The soft data has been indicative of a struggling German economy – the largest in the EU – and continuing issues surrounding the Italian budget, which was rejected by the EU. Germany has been struggling with car emission scandals and softening demand for automotives from China, the largest automotive market in the world. More recently, Angela Merkel has announced she will be stepping down as the leader of the CDU after her term in 2021, raising the prospect of a Germany without Angela Merkel.

In China, the Renminbi fell to its lowest level against the dollar since 2008 and official figures showed GDP growth slowing to 6.5%, the slowest rate since the 2008 crash. However, in an unusual move, Chinese officials released a statement in an attempt to reassure investors pointing to an easing of M&A approvals and the facilitation of private investments. This comes after a series of actions China has taken including the lowering of the required reserve rate for the fourth time this year in a push to increase liquidity in the market.

In the UK, the pound rose as talk of a finalised Brexit agreement increased with Brexit secretary Dominic Raab signalling he expected a deal before November 21st. Additionally, there were reports indicating the EU and Britain had reached an agreement on financial services for after Brexit. The UK released its final budget before the Brexit deadline, with the UK chancellor declaring the era of austerity was finally coming to an end. The NHS budget has been given a boost by stronger than expected tax receipts, whilst the UK is also implementing a digital tax on large tech companies if there is no international agreement to tackle the issue.

We thank you for your continued support.

Portfolio Managers

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Matthew Page, CFA

Analysts

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Data sources

Fund performance: *Financial Express, Total return in GBP*

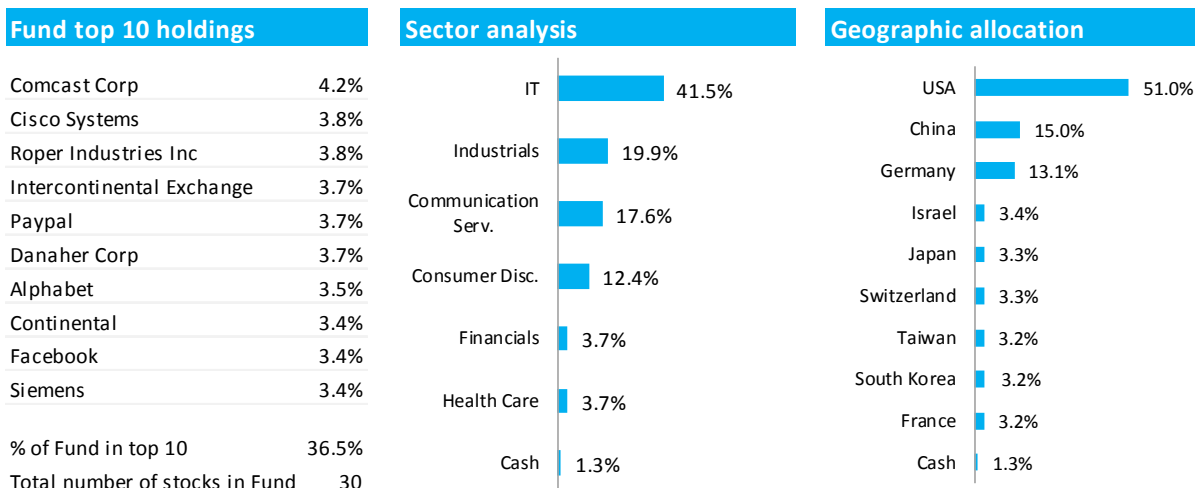
Index and stock data: *Bloomberg*

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Guinness Global Innovators Fund

PORTFOLIO

31/10/2018



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Annualised % total return from strategy inception (GBP)

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MSCI World Index	9.79%
IA Global sector average	8.83%

Discrete years % total return (GBP)

	Oct '14	Oct '15	Oct '16	Oct '17	Oct '18
Guinness Global Innovators strategy*	20.2	3.2	26.3	25.0	-5.8
MSCI World Index	9.1	5.4	27.9	12.9	5.1
IA Global sector average	4.2	4.5	23.2	13.9	1.0

Cumulative % total return (GBP)

	1 month	Year- to-date	1 year	3 years	5 years	10 years
Guinness Global Innovators strategy*	-8.6	-5.7	-5.8	48.9	84.7	354.7
MSCI World Index	-5.4	3.4	5.1	51.9	74.8	228.7
IA Global sector average	-6.6	-0.5	1.0	41.7	54.3	186.7

RISK ANALYSIS

31/10/2018

Annualised, weekly, 5 years, in GBP	Index	Sector	Strategy*
Alpha	0	-0.12	-0.19
Beta	1	0.81	1.13
Information ratio	0	-0.37	0.16
Maximum drawdown	-14.03	-17.08	-17.14
R squared	1	0.78	0.87
Sharpe ratio	0.61	0.46	0.57
Tracking error	0	5.89	5.76
Volatility	12.53	11.42	15.22

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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, 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

Tel: +44 (0) 20 7222 5703

Email: info@guinnessfunds.com

Web: guinnessfunds.com