

Guinness Global Innovators Fund

Innovation | Quality | Growth | Conviction

INVESTMENT COMMENTARY – June 2019

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	\$205m
AUM in strategy	\$372m
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 31.05.19

Cumulative % total return (GBP)	1 year	3 years	5 years	10 years
Strategy*	-5.2	53.1	77.5	335.7
Index	5.3	49.6	75.0	230.7
Sector	2.7	45.2	59.8	177.0
Position in sector	282 /315	59 /275	67 /239	6 /167

Annualised % total return from strategy inception (GBP)

Strategy*	12.00%
Index	9.67%
Sector	8.86%

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 May, the Guinness Global Innovators Fund provided a total return of -8.30% (GBP) against the MSCI World Index net total return of -2.54% (GBP). Hence the fund underperformed the benchmark by -5.76%. Year to date, the fund has produced a total return of 12.34% against the MSCI World's 10.90%.

Reignition of trade tariff disputes caused most global markets to experience their worst month this year. In particular, the fund's overweight positioning to Chinese equities and semiconductor names, which yielded strong returns over the first few months of the year, caused significant drags on the portfolio over the month. The fund's positioning against peers continues to be strong, especially on a long-term basis.

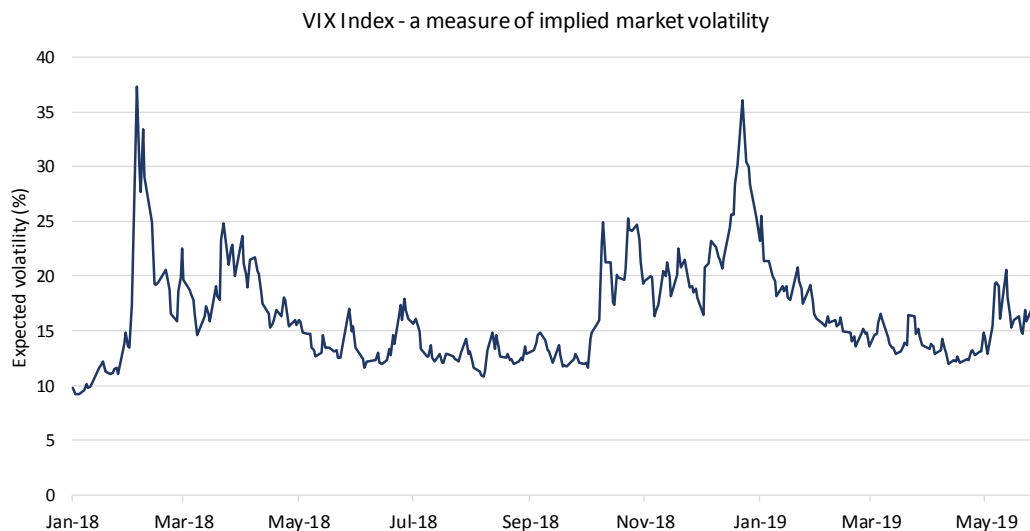
	YTD	1yr	3yr	5yr	10yrs
Fund	12.34	-5.20	53.05	77.49	335.72
Index	10.90	5.27	49.56	74.96	230.70
IA sector average	11.45	2.66	45.15	59.83	176.97
Rank vs peers	124/321	282/315	59/275	67/239	6/167
Quartile	2nd	4th	1st	1st	1st

Figure 1: Global Innovators strategy total return GBP, FE (data as at 31.05.2019)

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May in review

After significant spikes in volatility towards the end of 2018, 2019 showed signs of a calmer market, with trade rhetoric absent from the daily headlines and US interest rate hikes easing. However, with no US-China trade resolution, it was only a matter of time before Donald Trump voiced his continuing displeasure, and the US consequently increased levies on Chinese goods and threatened further tariffs. This, alongside more potential tariffs on US allies, caused volatility to return (as indicated by the VIX index, a measure of expected market volatility) – albeit not at the levels seen in December 2018. The increased volatility left Intercontinental Exchange as the fund’s best-performing stock over May.



Source: Bloomberg, as of 31st May 2019

In the US, equity markets had experienced robust growth early in the year when there was increasing talk of possible trade agreements on the horizon and more dovish tones from the US Fed. However, with President Trump growing increasingly discontent with the lack of movement on key trade issues, the US increased tariffs on \$200bn of Chinese imports from 10% to 25% – a move which had been threatened by Trump in March but pushed back as trade talks continued. The rise was met with a backlash from Chinese officials and China raised tariffs on \$60bn of US goods. Market bellwethers such as Apple and Caterpillar, which have significant exposure outside of the US, experienced large sell-offs. The resulting underperformance from Chinese equities was a drag on the portfolio.

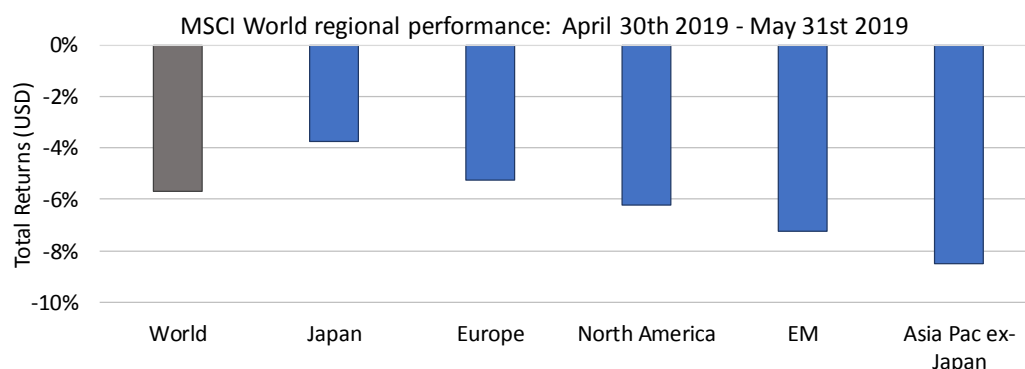
Adding further fuel to the conflict, the US also put Chinese smartphone and telecoms business Huawei on a blacklist, preventing US companies from selling to the company without a license. The news sent many global stocks down, with Huawei relying heavily on US semiconductor companies’ products such as Xilinx’s FPGAs (field-programmable-gate-arrays) for its 5G telecoms and Micron’s memory chips used in its smartphones. In addition, the backlisting forced fund constituent Alphabet, which licences its Android operating system to Huawei to be used on its smartphones, to stop supplying the system to comply with regulations.

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Guinness Global Innovators Fund

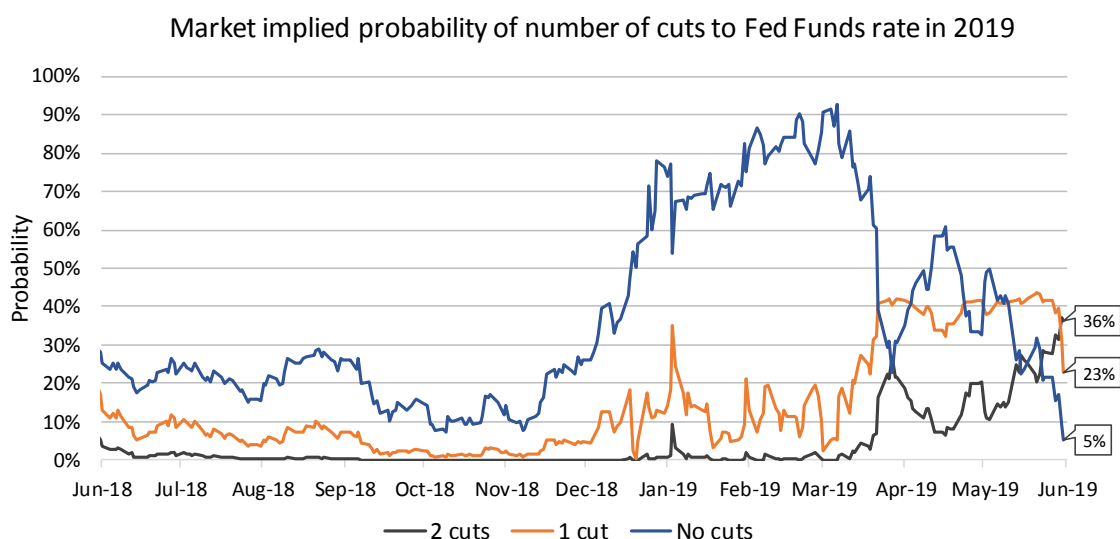
As the US-China trade conflict came back into view, President Trump also threatened to impose a 5% tariff on all Mexican goods from June 10 in an effort to control immigration coming from Central America through Mexico into the US. The move threatens to disrupt the efforts made last year to revamp the NAFTA agreement signed by the US, Mexico and Canada.

On a more positive trade note, the US did lift import taxes on Canadian and Mexican steel and aluminium and delayed potential car tariffs imported from Europe, Japan and other countries. The news made Europe one of the best-performing regions. There is a consensus that US trade disputes with the likes of China and Mexico could stand to benefit European companies as a shortfall in supply would need to be filled. The fund currently has an underweight exposure to Europe which was a relative drag on the portfolio.



Source: Bloomberg, as of 31th May 2019

With trade fears once again causing volatility in the market, investors are now predicting that the US Fed will make two interest rate cuts over the year – in stark contrast to the tone set at the end of last year, when interest rates were set to ‘autopilot’ and had hikes, rather than cuts, priced in.



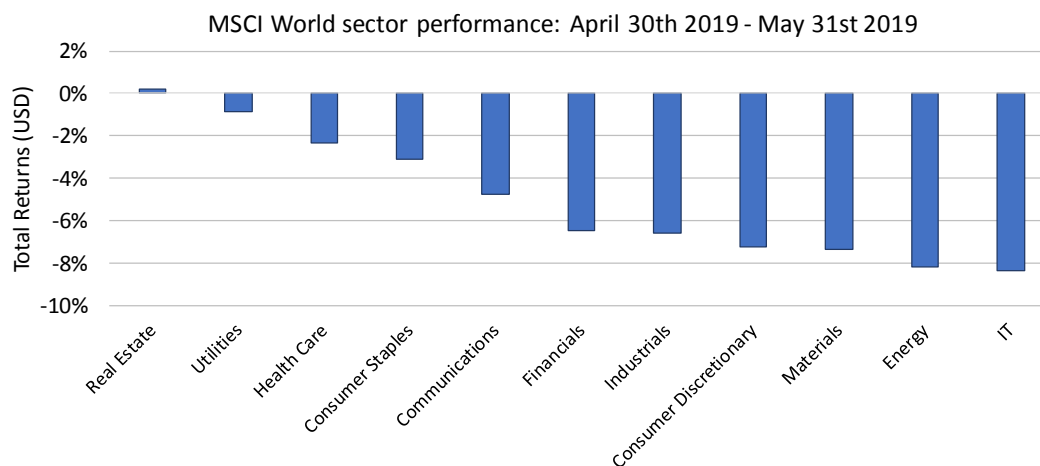
Source: Bloomberg, as of 31th May 2019

Investors turned their attention to more defensive sectors over the month. IT, the fund’s largest sector weighting, was the biggest underperformer and the largest drag on the portfolio during May,

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with our semiconductor exposure in particular selling off on a combination of US-China trade tariffs and the Huawei blacklisting.

The fund continues to hold no exposure to Energy or Materials, which contributed positively to asset allocation.



Source: Bloomberg, as of 31th May 2019

Individual stock performances:

Individual companies that performed the best over the month included Intercontinental Exchange Inc (1.06% in USD) and Danaher Corp (-0.32% in USD).



Intercontinental Exchange (ICE), the operator of global commodity and financial exchanges, benefitted from the increased volatility in the market whilst also reporting quarterly results which were ahead of expectations for EPS and in-line for revenues expectations. We view Intercontinental Exchange as a good play on volatility, benefitting from the geopolitical tensions that have grabbed headlines over the past year. ICE is an asset-light business with returns on capital above 40% and net margins at 40% (as of 2018 full year results) and has returned over 320% in capital appreciation since the fund’s purchase in 2009.

Danaher, the diversified conglomerate with products focused on life sciences, diagnostics, dental and environmental solutions, was one of the fund’s outperformers over the month, benefitting from the general risk-off attitude of investors, tilting their preference towards more defensive sectors such as Health Care. Danaher is long-term holding of the fund, displaying growing returns on capital and margins through its strategic acquisition process of identifying companies with secular growth drivers, high return-on-capital and strong market position, and leveraging its Danaher playbook, DBS, to add long-term value.

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Individual companies that underperformed over the month were Baidu Inc (-33.83% in USD) and NVIDIA Corp (-25.07% in USD).



Baidu, frequently viewed as China’s version of Google, operates the largest search engine in China as well as various additional operations including iQiyi, China’s largest entertainment streaming platform, and Apollo, one of the country’s leading autonomous vehicle operating systems. Baidu fell on quarterly results that showed increased spending on traffic acquisition as competition in search increases, in addition to higher costs on content as the company looks to add scale to iQiyi with new and exciting entertainment. Baidu faces the increasing tendency for users to search through alternative apps and platforms such as WeChat, the super-app operated by Tencent (which we also own in the fund). However, Baidu has been developing its own news feed based upon individual users’ interest and searches (similar to social media platform Facebook) in order to drive traffic back onto Baidu’s main search platform and away from alternatives. Additionally, we continue to see strong potential from Baidu’s various additional operations including autonomous vehicles, Baidu Cloud and DuerOS – Baidu’s voice assistant used in smart devices.

Nvidia is a semiconductor company known for its leadership in GPUs (Graphics Processing Units), which historically have been used to render video game graphics. More recently, Nvidia has benefitted from the increased demand for GPUs in more advanced technologies including artificial intelligence and autonomous vehicles. The company reported quarterly results which were better than expected, reinforcing hopes of a recovery in demand going into the second half of the year. However, management’s guidance for the full year was revised down as they took a more cautious stance on a lack of visibility into future orders, in addition to more general trade concerns. However, we still view Nvidia as a strong long-term holding given the company’s exposure to innovative growth areas and robust competitive position versus its peers.

Thank you for your continued support.

Portfolio Managers

Dr Ian Mortimer, CFA
Matthew Page, CFA

Analysts

Joseph Stephens
Sagar Thanki

Data sources

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

Index and stock data: *Bloomberg*

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Guinness Global Innovators Fund

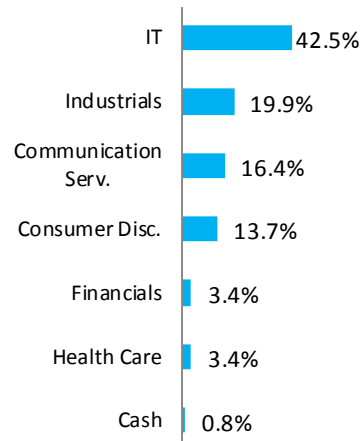
PORTFOLIO

31/05/2019

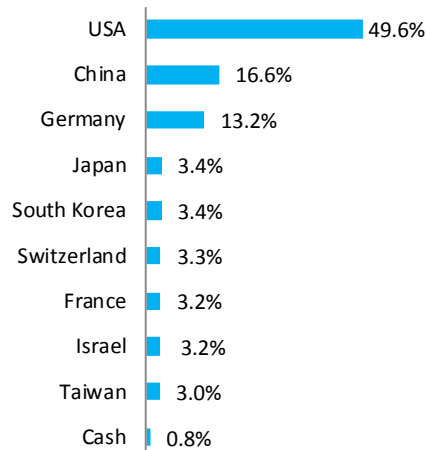
Fund top 10 holdings

New Oriental Education & Technology Group	3.8%
Alphabet	3.6%
Lam Research	3.5%
Tencent Holdings	3.5%
Continental	3.5%
Fanuc Corp	3.4%
Samsung Electronics GDR	3.4%
Cognizant Tech Solutions	3.4%
Intercontinental Exchange	3.4%
Danaher Corp	3.4%
% of Fund in top 10	34.9%
Total number of stocks	30

Sector analysis



Geographic allocation



31/05/2019

Annualised % total return from strategy inception (GBP)

Guinness Global Innovators strategy*	12.00%
MSCI World Index	9.67%
IA Global sector average	8.86%

Discrete years % total return (GBP)

	May '15	May '16	May '17	May '18	May '19
Guinness Global Innovators strategy*	18.8	-2.4	39.8	15.5	-5.2
MSCI World Index	16.2	0.7	31.3	8.2	5.3
IA Global sector average	14.1	-3.5	30.4	8.5	2.7

Cumulative % total return (GBP)

	1 month	Year-to-date	1 year	3 years	5 years	10 years
Guinness Global Innovators strategy*	-8.3	12.3	-5.2	53.1	77.5	335.7
MSCI World Index	-2.5	10.9	5.3	49.6	75.0	230.7
IA Global sector average	-2.4	11.5	2.7	45.2	59.8	177.0

RISK ANALYSIS

31/05/2019

Annualised, weekly, 5 years, in GBP	Index	Sector	Strategy*
Alpha	0	0.53	-0.69
Beta	1	0.80	1.13
Information ratio	0	-0.28	0.07
Maximum drawdown	-14.03	-17.08	-19.65
R squared	1	0.79	0.85
Sharpe ratio	0.61	0.53	0.53
Tracking error	0	6.05	6.44
Volatility	13.23	11.82	16.20

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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: Link Fund Manager Solutions (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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