

Guinness Global Innovators Fund

Innovation | Quality | Growth | Conviction

INVESTMENT COMMENTARY – August 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	\$233m
AUM in strategy	\$407m
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 30.06.19

Cumulative % total return (GBP)	1 year	3 years	5 years	10 years
Strategy*	5.6	54.0	97.8	360.6
Index	11.0	46.0	93.9	247.2
Sector	10.0	42.8	75.7	189.9
Position in sector	251 /321	41 /279	67 /245	6 /171

Annualised % total return from strategy inception (GBP)

Strategy*	12.73%
Index	10.23%
Sector	9.41%

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 July, the Guinness Global Innovators Fund provided a total return of 5.43% (GBP) against the MSCI World Index net total return of 4.46%. Hence the fund outperformed the benchmark by 0.97%. Year to date, the fund has produced a total return of 27.20% against the MSCI World 22.28%.

	YTD	1yr	3yr	5yr	10yrs
Fund	27.20	5.63	54.04	97.81	360.63
Index	22.28	11.01	45.97	93.86	247.17
IA sector average	22.55	10.03	42.82	75.71	189.90
Rank vs peers	56/326	251/321	41/279	67/245	6/171
Quartile	1st	4th	1st	2nd	1st

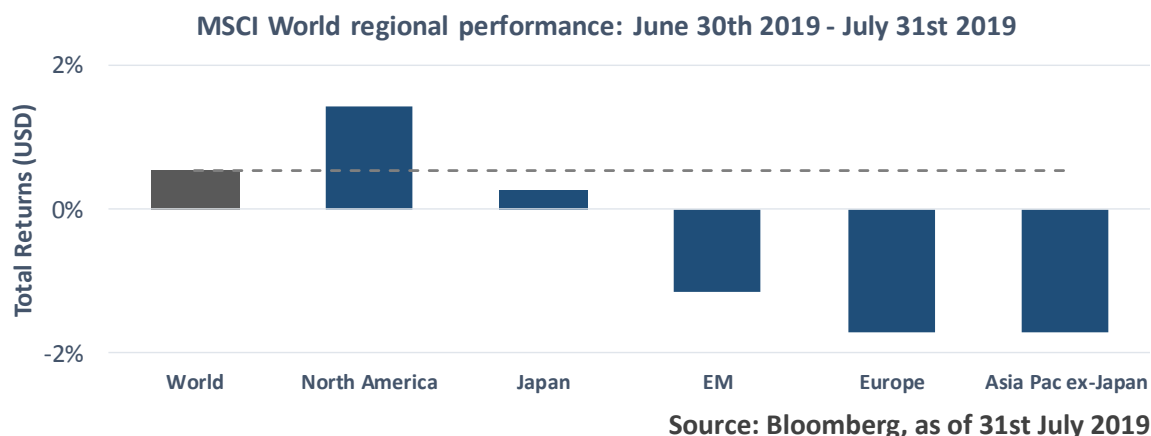
Figure 1: Global Innovators strategy total return in GBP. Source: FE (data as at 31.07.2019)

July in review

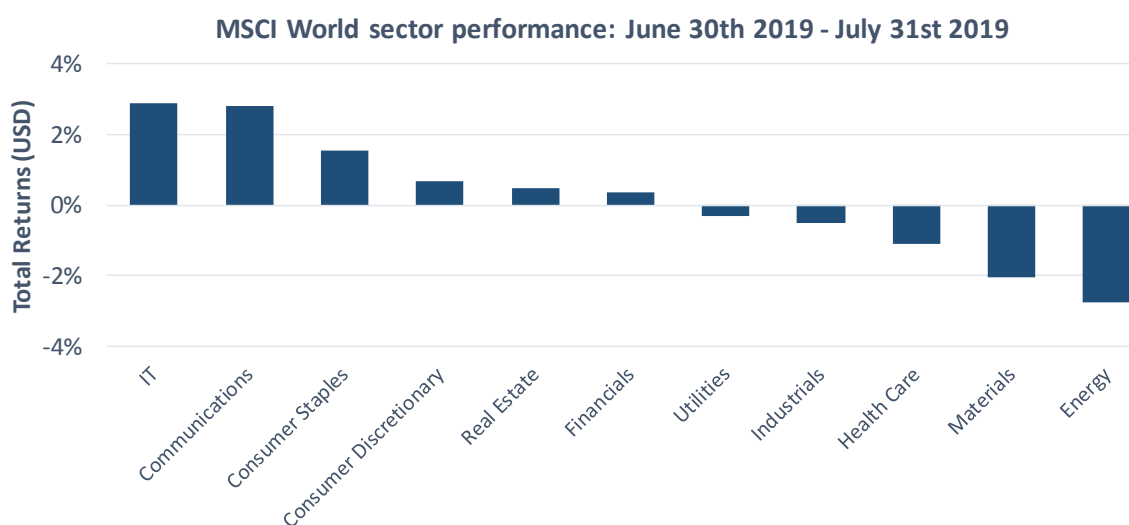
Although the fund produced a total return of 5.43% in GBP, a combination of a strong US dollar and weakening Sterling as a no-deal Brexit becomes more likely resulted in more modest gains in US dollar terms. North America was the strongest-performing region after a relatively subdued month of trade headlines, robust economic data and the expectation of an interest rate cut when the Federal Open Market Committee (FOMC) met on 31st July. Indeed, US consumer confidence grew far more than expected while US GDP grew 2.1% year-on-year during the second quarter – a significant decline from the 3.1% seen in Q1 but above market

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expectations. Following the FOMC meeting, Jerome Powell announced a 25bp cut to interest rates – the first cut since the financial crisis – which, although anticipated, precipitated a drop in equity markets due to comments that this was not the start of a sequence of cuts, but rather a mid-cycle adjustment. Strong North American equities were the largest regional contributor to fund performance. Stock selection was the main source of return, arising from positive quarterly results.



July was not completely without trade headlines. President Trump tweeted that there were “no signs” that China was buying the US agricultural goods promised after an agreement to resume negotiations was reached at the G20 summit in June. Trade talks did resume during the final week of July, but little progress seemed to have been made and there were various media comments aimed between the two sides following the initial meetings. In some relief to Chinese equities, data showed Chinese manufacturing stabilising as the manufacturing PMI came in at 49.9 – up from 49.4 in June and ahead of forecasts of 49.6, although still in contraction. Subsequently, Asia Pacific ex-Japan was the worst-performing region over the month. Despite the fund’s overweight exposure relative to the MSCI World, however, Asia was the second largest regional contributor to fund performance, as stock selection from names such as Anta Sports (up 9.4% in USD) and New Oriental Education (up 8.0% in USD) more than outweighed the region’s underperformance.



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Earnings season has so far been strong. Factset indicates that 77% of the S&P 500 companies that have reported have had positive earnings surprises and 61% have had positive revenue surprises. By sector, IT has so far reported the greatest average level of positive earnings surprise and it was the strongest over July. Indeed, the fund benefitted from robust quarterly results from semiconductor companies such as Lam Research in addition to upbeat results from semiconductor names not held in the fund such as Texas Instruments and ASML. Consequently, four of the top ten stock performances over the month were from semiconductor companies. The generally positive outlooks given by companies over the month helped lift the Philadelphia Semiconductor Index above its previous high achieved in April.

Philidelphia Semiconductor Index



Source: Bloomberg, as of 31st July 2019

Individual stock performance

Individual companies that performed well over the month included KLA Tencor (15.33% in USD), Lam Research (11.06% in USD), Applied Materials (9.93% in USD) and Alphabet Inc (12.50% in USD).



Strong performances from our semiconductor equipment manufacturers KLA Tencor, Lam Research and Applied Materials were a product of positive earnings results from fund constituents and industry peers. Neither KLA Tencor nor Applied Materials reported results during July, and Lam Research only reported on 31st July; their strong performances were primarily a consequence of upbeat reports from other semiconductor companies. For example, ASML (not held in the fund), the manufacturer of photolithography systems – for tracing chip designs onto wafers using light – reported results that beat estimates and maintained the company’s full-year outlook. This was taken as a read-across to our semiconductor equipment companies which manufacture different portions of the chip fabrication process: KLA Tencor specialises in process control and yield management while Lam Research and Applied Materials manufacture various equipment dealing with the deposition of material to the etching of circuit designs. There were also strong results from analogue semiconductor producer Texas Instruments which helped lift the industry as a whole.

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All three of our semiconductor equipment manufacturers trade on modest forward valuations which are not too dissimilar to their historic averages. Combined with strong forecast earnings growth in 2020 and 2021 and their long-term exposures to new innovative technologies such as artificial technology, this leads us to see good upside.

	PE 1FY	Std dev from 10Y av.	Std dev from 5Y av.	Forecasted EPS growth 2020	Forecasted EPS growth 2021
MSCI World Semiconductor Index	16.4	0.0	0.6	7.8%	14.1%
KLA-Tencor	16.4	-0.2	-0.2	6.8%	14.0%
LAM Research	14.7	-0.1	0.7	26.8%	5.8%
Applied Materials	16.3	0.3	0.7	23.9%	21.6%

Source: Bloomberg, as of 31st July 2019

Alphabet

Alphabet reported quarterly results that showed YoY revenue growth of 22% (after adjusting for FX changes), with advertising revenue brushing off fears of further deceleration in growth. Cloud continued to be a key growth driver for Alphabet as it invests heavily in new and existing infrastructure to compete with leaders Amazon Web Services and Microsoft Azure. Alphabet also announced a \$25bn stock buyback plan in order to return some of its growing cash pile to shareholders. With the MSCI World IT Index currently trading on 21x 2019 earnings, Alphabet's 22x 2019 earnings is a small premium to pay for a company which has been growing its earnings at over 20% from a substantial base figure.

We thank you for your continued support.

Portfolio Managers

Dr Ian Mortimer, CFA
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Analysts

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Data sources

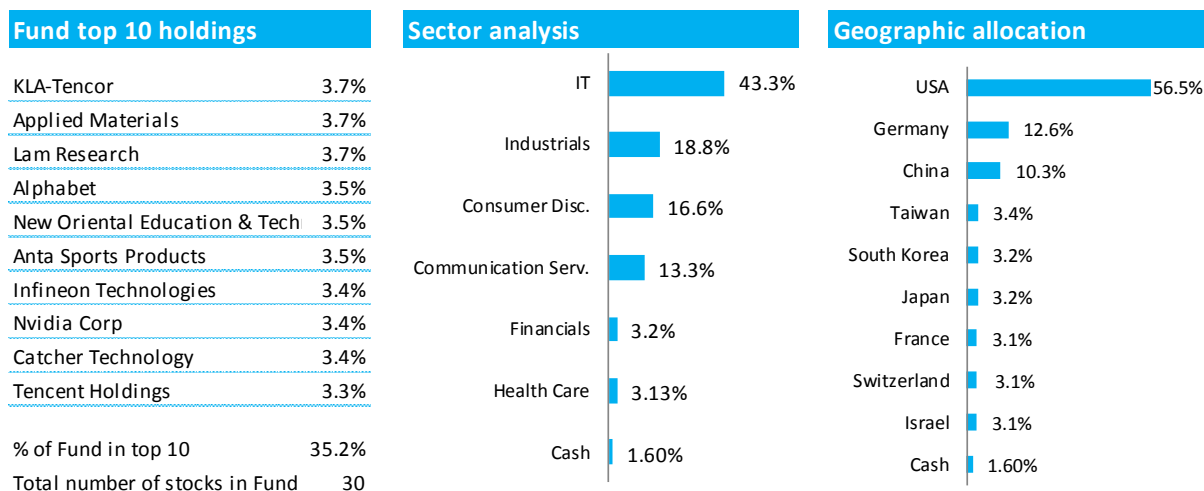
Fund performance: *Financial Express, Total return in GBP*

Index and stock data: *Bloomberg*

Guinness Global Innovators Fund

PORTFOLIO

31/07/2019



31/07/2019

Annualised % total return from strategy inception (GBP)



Discrete years % total return (GBP)

	Jul '15	Jul '16	Jul '17	Jul '18	Jul '19
Guinness Global Innovators strategy*	8.6	18.2	26.8	15.0	5.6
MSCI World Index	13.5	17.0	16.9	12.4	11.0
IA Global sector average	9.4	12.4	17.8	10.2	10.0

Cumulative % total return (GBP)

	1 month	Year-to-date	1 year	3 years	5 years	10 years
Guinness Global Innovators strategy*	5.4	27.2	5.6	54.0	97.8	360.6
MSCI World Index	4.5	22.3	11.0	46.0	93.9	247.2
IA Global sector average	4.9	22.6	10.0	42.8	75.7	189.9

RISK ANALYSIS

31/07/2019

Annualised, weekly, 5 years, in GBP	Index	Sector	Strategy*
Alpha	0	0.71	-0.66
Beta	1	0.79	1.13
Information ratio	0	-0.33	0.12
Maximum drawdown	-14.03	-17.08	-19.65
R squared	1	0.80	0.85
Sharpe ratio	0.81	0.71	0.71
Tracking error	0	6.05	6.52
Volatility	13.31	11.84	16.31

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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: 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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