

# Guinness Global Innovators Fund

Innovation | Quality | Growth | Conviction

## INVESTMENT COMMENTARY – October 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.

<b>Fund size</b>	£191m
<b>AUM in strategy</b>	£328m
<b>Fund launch date</b>	31.10.14
<b>Strategy launch date</b>	01.05.03

**Managers** Dr. Ian Mortimer, CFA  
Matthew Page, CFA

**Analysts** Sagar Thanki  
Joseph Stephens

### Performance 30.09.19

Cumulative % total return (GBP)	1 year	3 years	5 years	10 years
<b>Strategy*</b>	8.4	46.3	89.1	314.2
<b>Index</b>	7.8	41.1	86.1	207.5
<b>Sector</b>	6.0	36.0	69.2	153.0
<b>Position in sector</b>	103 /321	41 /280	63 /245	5 /170

### Annualised % total return from strategy inception (GBP)

<b>Strategy*</b>	12.59%
<b>Index</b>	10.09%
<b>Sector</b>	9.15%

<b>Strategy</b>	Guinness Global Innovators*
<b>Index</b>	MSCI World Index
<b>Sector</b>	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 September, the Guinness Global Innovators Fund provided a total return of 1.64% (GBP) against the MSCI World Index net total return of 0.93% (GBP). Over the third quarter, the fund produced a total return of 5.22% against the MSCI World's 3.83%. Hence the fund outperformed the benchmark by 1.39%. Year-to-date, the fund has produced a total return of 26.95% against the MSCI World's 21.55%.

	YTD	1yr	3yr	5yr	10yrs
<b>Fund</b>	26.95	8.35	46.32	89.05	314.15
<b>Index</b>	21.55	7.76	41.09	86.10	207.47
<b>IA sector average</b>	19.65	5.98	35.95	69.17	152.95
<b>Rank vs peers</b>	21/323	103/321	41/280	63/245	5/170
<b>Quartile</b>	1st	2nd	1st	2nd	1st

**Figure 1: Global Innovators strategy total return, % GBP, Financial Express (data as at 30.09.2019)**

Outperformance by the fund during July and September more than offset underperformance during August due to the escalation in the US-China trade dispute. Overall, strong IT returns, particularly from our semiconductor names, drove a large part of the outperformance of the fund over Q3 with KLA Tencor, Lam Research and Applied Materials returning 35.6%, 23.7% and 11.7% (in USD) respectively. In addition, the fund benefitted from strong stock selection from our US stocks once again – mainly the semiconductor names – and Asia Pacific stocks such as Anta Sports (up 21.0% USD) and New Oriental Education (up 14.7% USD), which added further to their significant gains this year.

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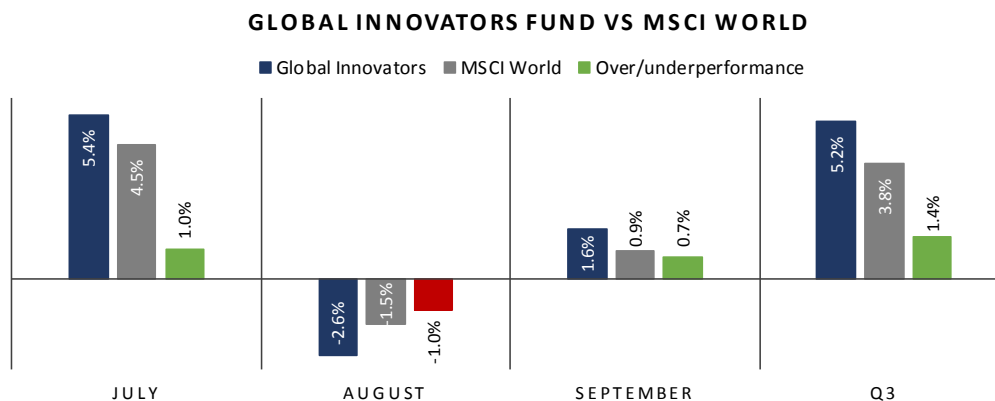


Figure 2: Global Innovators strategy total return in GBP. Source: Bloomberg (data as at 30.09.2019)

### Performance in July

In July, the US was the strongest-performing region with more subdued 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% during the second quarter – a significant decline from the 3.1% seen in Q1, but above market expectations. Come the FOMC meeting, Jerome Powell announced a 25bp cut to interest rates – the first cut since the financial crisis – which although anticipated, saw equity markets drop on comments that this was not the start of a sequence of cuts, but rather a mid-cycle adjustment. The strong North American performance was the largest regional contributor to fund performance with stock selection generally positive arising from strong quarterly results.

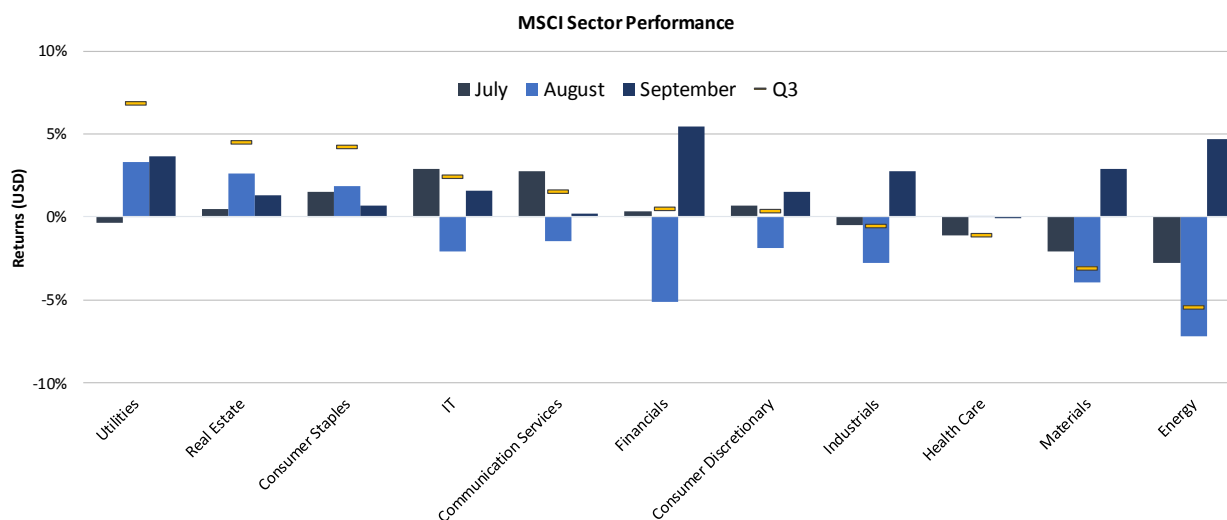


Figure 3: Sector performances in Q3 2019 (all TR in USD)

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, however. Data published during the month 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.

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Subsequently, Asia Pacific was the worst-performing region over the month. However, despite the fund’s overweight exposure relative to the MSCI World Index, 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.

Over July 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 10 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 the previous high achieved in April.

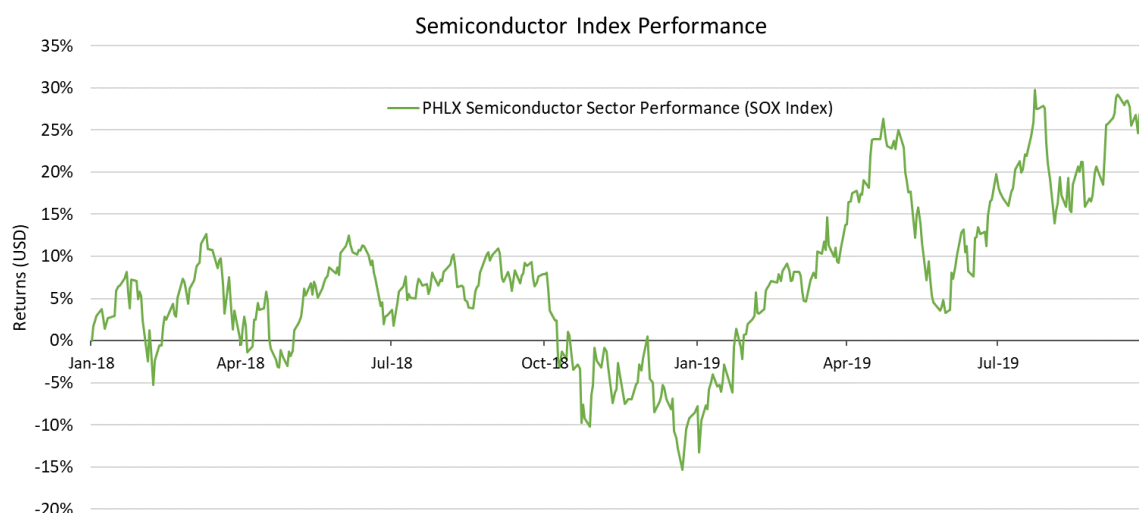


Figure 4: Bloomberg, as of 30th October 2019

## Performance in August

Trump set the tone at the beginning of the month as he enacted his threat of further tariffs on Chinese goods, forcing retaliation from the Chinese government. The US proposed a new 10% levy on the remaining \$300bn of Chinese goods previously not affected by tariffs. China responded by allowing its currency, the Renminbi, to weaken sharply below what had been seen as a key threshold of 7RMB to the US Dollar, followed a few weeks later by threatening to raise tariffs on \$75bn of US imports including agricultural goods, oil and cars. The (largely expected) retaliation prompted President Trump to raise both existing and planned tariffs rates by a further 5%.

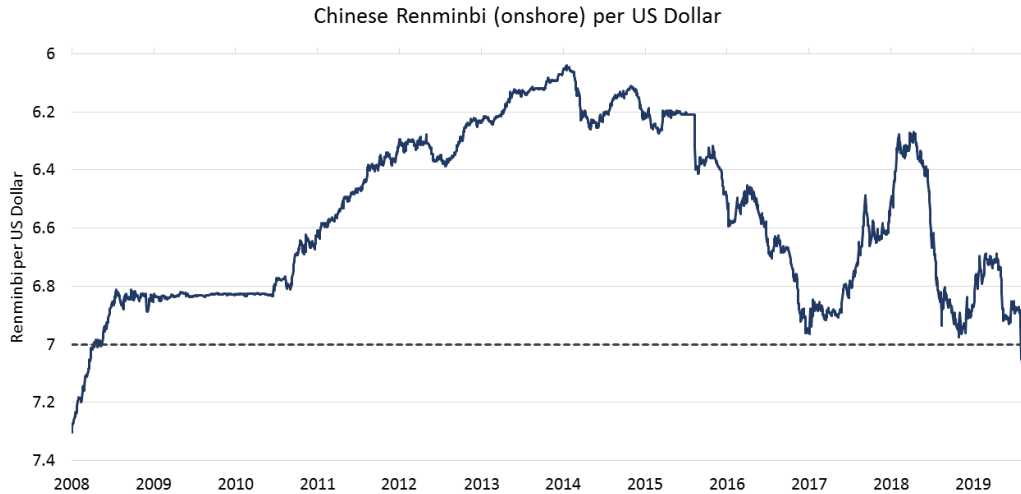


Figure 5: Bloomberg, as of 31st August 2019

President Trump did offer some reprieve, however, by delaying the planned 15% levy on consumer goods including laptops and smartphones until December in order to protect US shoppers from higher prices before Christmas. The month ended with hopes of fresh trade talks between the US and China with Trump commenting that China had called and that they “want to make a deal”.

The fund holds an overweight position in Asia Pacific stocks and the relative underperformance by the region was a drag on the portfolio. However, this was outweighed by strong stock selection including Anta Sports (10.4% in USD) and New Oriental Education (8.7% in USD).

Minutes released from the US Fed indicated a clear dispersion of views among FOMC members as to the path they should take. Inflation numbers over the month remained below the Fed’s target of 2%, whilst US consumer sentiment fell the most since 2012, potentially giving the Fed further fuel for an addition interest rate cut. The relative strength in US markets over the month was a slight drag on fund performance due to the slight underweight position (c.57% vs c.61% in the MSCI World), but stock selection again outweighed this as KLA Tencor, the semiconductor equipment manufacturer, was up 9.1% (in USD) and Intercontinental Exchange, which benefitted from volatility in markets, was up 6.4% (in USD) over the month.

On a sector basis, the ‘flight to safety’ mentality resulted in Utilities, Real Estate and Consumer Staples and Health Care all outperforming the general market. The fund has no exposure to the former three.

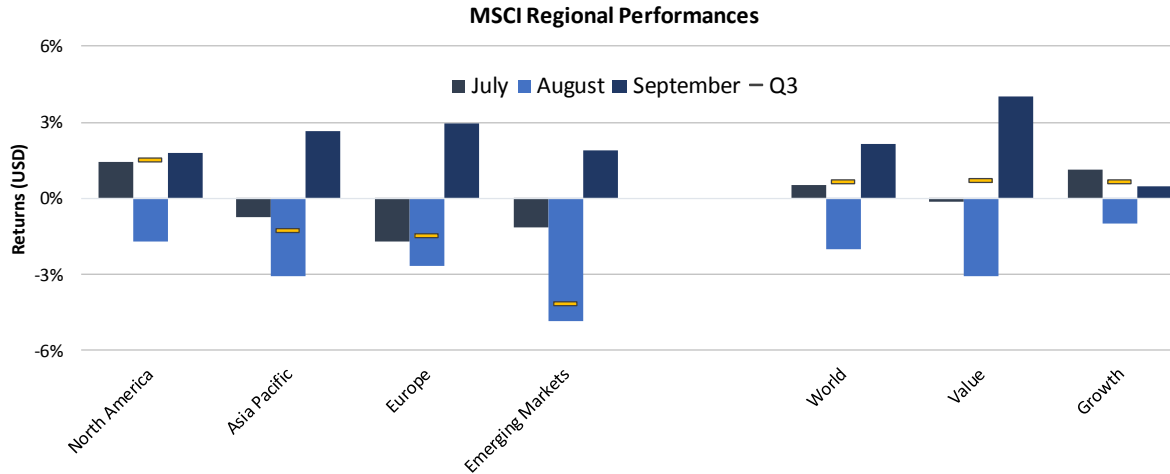


Figure 6: Regional performances in Q3 2019 (all TR in USD)

## Performance in September

In the US, the FOMC cut interest rates by 25bps once more, but again the minutes highlighted the dispersion of committee opinions on the cut. The US showed record levels of unemployment, down to 3.5% from 3.7% previously, although the 136,000 jobs added over the month came in below the median forecast. Together with wage growth showing signs of slowing and poor economic data out of Europe and Asia, this led to increased hopes that further interest cuts may be on the horizon.

In Europe, only a few weeks before ECB president Mario Draghi is due to hand over the reins to Christine Lagarde, the president is facing a fierce backlash to the new ambitious monetary policy of rate cuts further into negative territory coupled with an open-ended bond purchase programme. Several member leaders have expressed their opposition to the new stimulus; Jens Weidmann, head of Germany’s Bundesbank, declared that the ECB’s policies would hurt savers and pensioners. Economic data from the Eurozone continued to disappoint, with the manufacturing PMI falling to 46.4 – the lowest in six years – mainly as a result of German manufacturing’s seven-year low at 43.1 while accounting for the majority of manufacturing in the Eurozone. With the German economy shrinking 0.1% in Q2, all eyes will be on data for Q3 as Germany borders on a technical recession. The trade dispute between the US and China did escalate over the month on reports that the US was considering restricting Chinese company listings on US exchanges, but this was rebuffed by the treasury.

Asia, which performed well in the month despite the continued volatility created from US-China trade dispute, was the largest regional contributor to fund outperformance with Catcher Technologies, the manufacturer of smartphone casings, reacting well to reports of better iPhone sales following the release of the iPhone 11. Semiconductor names continued to perform well in addition to a strong month for Nike on better-than-expected results, particularly from China sales which grew at 22% YoY.

## Performance over the quarter:

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Over the entire quarter, the fund’s exposure to US was the largest regional contributor on strong selection particularly from semiconductor names such as KLA Tencor, Lam Research and Applied Materials. Stock selection was also behind Asia Pacific’s positive contribution to fund performance over the quarter, with New Oriental Education and Anta Sports continuing their strong performance in 2019.

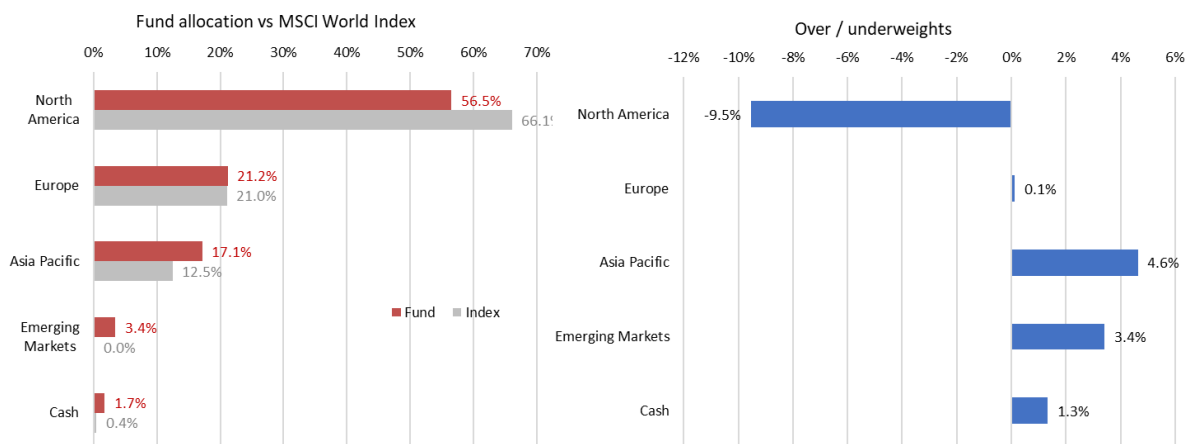


Figure 7: Geographic breakdown of the fund versus MSCI World Index. Guinness Asset Management, Bloomberg (data as at 30.09.2019)

On a sector level, our overweight position to IT was the largest contributor to the fund’s outperformance, with positive asset allocation and stock selection. The fund’s exposure to Consumer Discretionary was also a strong contributor with Asian names Anta Sports, the largest domestic sportswear manufacturer in China, and New Oriental Education, the provider of online and offline tutoring services in China, the main contributors. Our exposure to Industrials, however, was a drag on portfolio performance as continued weakness in European manufacturing data led to the relative underperformance by companies such as Siemens and Schneider Electric.

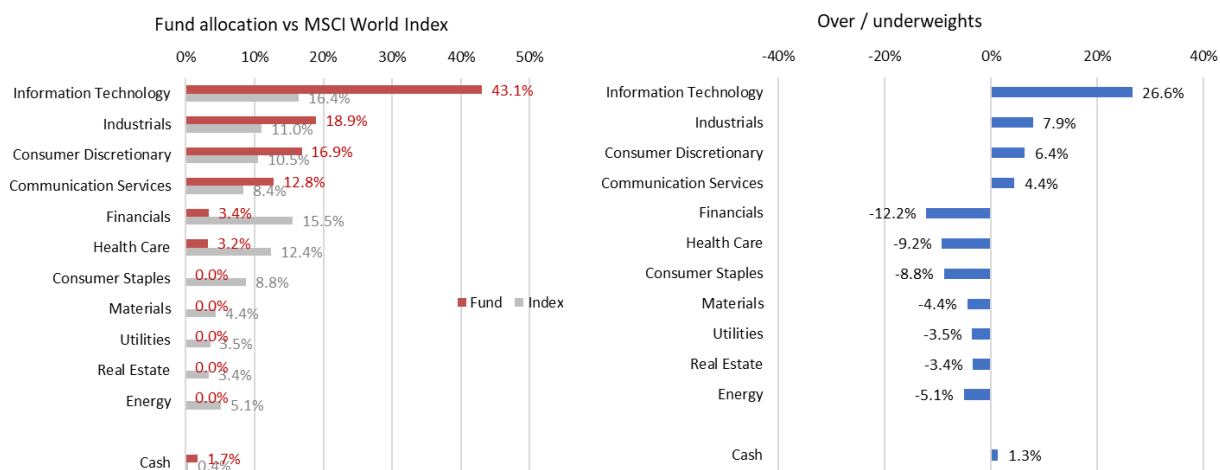
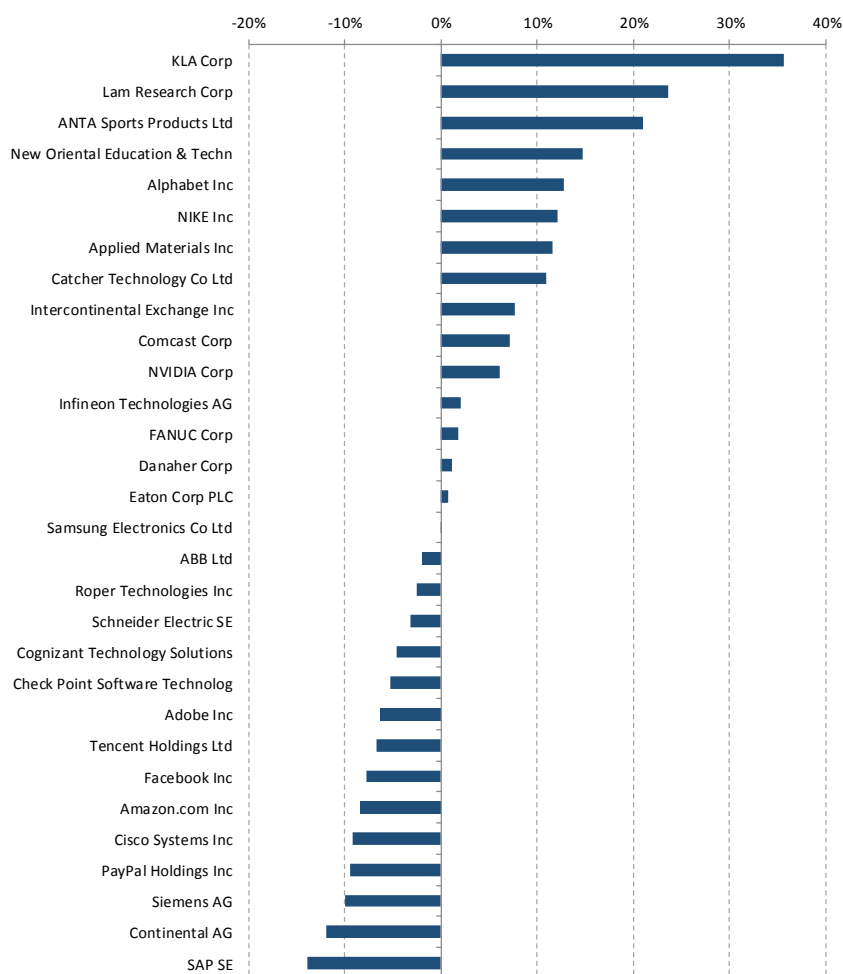


Figure 8: Sector breakdown of the fund versus MSCI World Index. Guinness Asset Management, Bloomberg (data as at 30.09.2019)

### Individual stock performance over Q3 2019 (total returns USD):

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## Guinness Global Innovators Fund



**Figure 9: Individual performances of fund constituents. Guinness Asset Management, Bloomberg (data as at 30.09.2019)**



Strong performances from our semiconductor equipment manufacturers KLA Tencor, Lam Research and Applied Materials were a product of positive earnings results from both fund constituents and industry peers during the quarter. Upbeat reports from industry peers such as ASML (not held in the fund), the equipment manufacturer of photolithography systems – effectively the tracing of chip designs onto wafers using light – reported results that beat estimates and maintained their 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. Additionally, commentary from Broadcom’s management suggesting demand in their semiconductor business had ‘bottomed out’ eased fears around the apparent build-up of customer inventory. All three of our semiconductor equipment manufacturers trade on modest valuations while forecasting strong growth, hence we continue to see good upside potential with significant long-term demand drivers from multiple sectors.

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**Nike**, the largest sportswear manufacturer in the world, delivered strong returns (12.2% USD) over the quarter after announcing forecast-beating results. The brand has been under particular pressure after missing on last quarter's forecasts – the first time the company had missed earnings forecasts in seven years. Furthermore, after Nike withdrew its new line of shoes in China after one of the designers showed support for the Hong Kong protests, the 22% revenue growth experienced in the latest report was even more impressive. Nike has continued to deliver on its digital transformation and efforts to sell more products directly to consumers such as through the expansion of the Nike Direct app, which has led to lower costs and subsequently higher margins. The company maintains a dominant market position particularly in the higher-growth Asian regions and is exposed to next-generation consumer trends in athletic sportswear, but we note the significantly expanded multiple the company now trades on relative to the time of initial purchase in 2016.



**PayPal**, the digital wallet company exposed to innovation themes such as FinTech and eCommerce, underperformed over the quarter, producing a total return of -9.5% (in USD). The underperformance follows a weak July after the company cut its full-year sales guidance due to delays in product integration and a strong US dollar. On the other hand, there was positive news as PayPal became the first foreign company to win a Chinese payments licence – beating the likes of Visa and Mastercard, which have been waiting for over two years. The deal, which is based on PayPal's 70% stake in Huofubao (GoPay), a small online payments company, allows PayPal to facilitate online and mobile payments along with issuing debit cards, pinning the Western giant against the Chinese tech giants Tencent (WeChat) and Alibaba (Alipay). PayPal continues to grow well as it expands into Asian countries such as India and China and has grown its free cash flow over 20% annualised over five years while maintaining good margins and a strong balance sheet.

## Changes to the portfolio:

We made no changes to the portfolio over the quarter.

## Portfolio characteristics

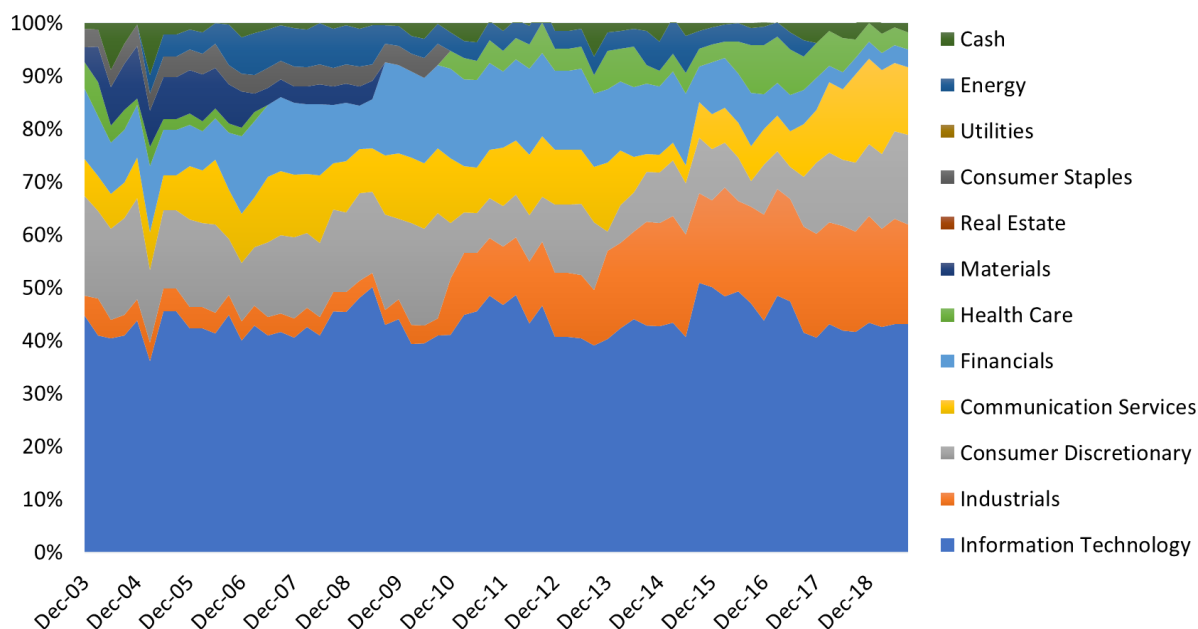
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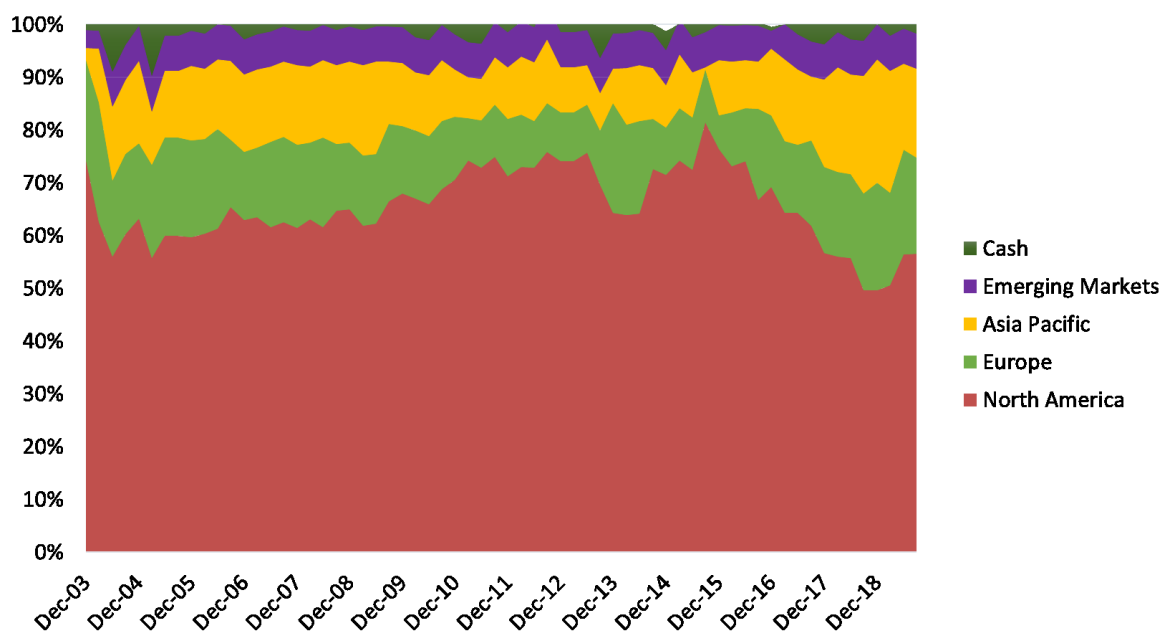


## Guinness Global Innovators Fund

The two charts below show how the exposure of the fund has evolved since we launched the strategy in 2003. We continue to hold no exposure to Real Estate, Energy, Materials, Consumer Staples or Utilities. Technology remains our largest exposure, split between three sub-sectors semiconductors, software and services, and technology hardware. On a regional basis, North America continues to be the largest exposure (57%), with Europe (21%) and Asia Pacific (17%) sharing similar exposures. With no changes made over the quarter, the fund exposures remain broadly the same as last quarter.



**Figure 10: Portfolio sector breakdown. Guinness Asset Management, Bloomberg (30.09.2019)**



**Figure 11: Portfolio geographic breakdown. Guinness Asset Management, Bloomberg (30.09.2019)**

### Key fund metrics today

The four key tenets to our approach are innovation, quality, growth, and conviction.

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## Guinness Global Innovators Fund

		Fund	MSCI World Index
Innovation	R&D / Sales	8%	6%
	CAPEX / Sales	5%	9%
Quality	CFROI (median 2019)	16%	8%
	Return-on-Equity	16%	12%
	Weighted average net debt / equity	2%	80%
Growth (& valuation)	Trailing 3-year sales growth (annualised)	15%	9%
	Estimated earnings growth (2020 vs 2019)	11%	9%
	FCF yield	5%	5%
	PE (2020e)	18.0	15.3
Conviction	Number of stocks	30	1190
	Active share	98%	-

**Figure 12: Portfolio metrics versus index. Guinness Asset Management, Credit Suisse HOLT, Bloomberg (data as at 30.09.2019)**

The fund now trades at a 18% premium to the broad market on a PE ratio basis (fund 18.0x 2020 expected earnings vs MSCI World Index 15.3x), but remains in line on a FCF yield basis, while forecasting greater earnings growth from companies of a higher quality (ROE 16% vs 12%) and exposed to innovative themes driving long-term demand growth.

We 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

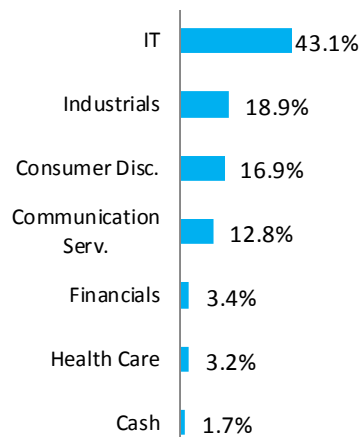
### PORTFOLIO

30/09/2019

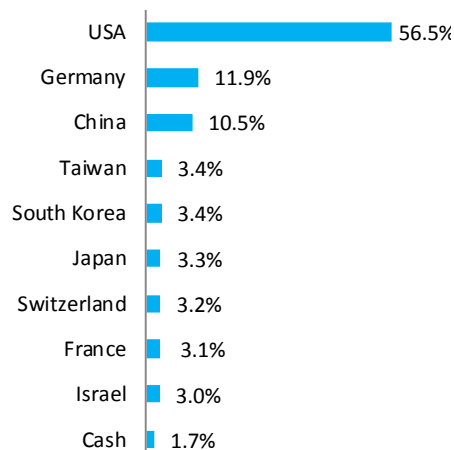
#### Fund top 10 holdings

KLA-Tencor	4.3%
Lam Research	4.1%
Anta Sports Products	3.8%
Applied Materials	3.7%
New Oriental Education &	3.7%
Nike	3.5%
Alphabet	3.5%
Nvidia Corp	3.5%
Catcher Technology	3.4%
Samsung Electronics GDR	3.4%
% of Fund in top 10	37.0%
Total number of stocks	30

#### Sector analysis



#### Geographic allocation



30/09/2019

#### Annualised % total return from strategy inception (GBP)

Guinness Global Innovators strategy*	12.59%
MSCI World Index	10.09%
IA Global sector average	9.15%

#### Discrete years % total return (GBP)

	Sep '15	Sep '16	Sep '17	Sep '18	Sep '19
Guinness Global Innovators strategy*	-2.0	31.8	24.1	8.8	8.4
MSCI World Index	1.6	29.8	14.4	14.4	7.8
IA Global sector average	-1.4	26.1	14.9	11.6	6.0

#### Cumulative % total return (GBP)

	1 month	Year-to-date	1 year	3 years	5 years	10 years
Guinness Global Innovators strategy*	1.6	27.0	8.4	46.3	89.1	314.2
MSCI World Index	0.9	21.6	7.8	41.1	86.1	207.5
IA Global sector average	0.2	19.7	6.0	36.0	69.2	153.0

### RISK ANALYSIS

30/09/2019

Annualised, weekly, 5 years, in GBP	Index	Sector	Strategy*
Alpha	0	1.08	-1.03
Beta	1	0.78	1.14
Information ratio	0	-0.26	0.05
Maximum drawdown	-14.03	-17.08	-19.65
R squared	1	0.79	0.85
Sharpe ratio	0.72	0.67	0.61
Tracking error	0	6.17	6.56
Volatility	13.34	11.76	16.43

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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](http://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, 18 Smith Square, London SW1P 3HZ.

### 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](http://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](mailto:info@guinnessfunds.com)

Web: [guinnessfunds.com](http://guinnessfunds.com)