

Guinness Global Innovators Fund

Innovation | Quality | Growth | Conviction

INVESTMENT COMMENTARY – November 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	£196m
AUM in strategy	£330m
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 31.10.19

Cumulative % total return (GBP)	1 year	3 years	5 years	10 years
Strategy*	18.5	39.7	82.1	339.6
Index	11.3	32.1	78.2	215.1
Sector	11.1	27.8	64.5	154.6
Position in sector	19 /322	36 /282	64 /247	4 /171

Annualised % total return from strategy inception (GBP)

Strategy*	12.52%
Index	9.88%
Sector	8.97%

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 -0.04% (in GBP) against the MSCI World Index net total return of -2.34%. Hence the fund outperformed the benchmark by 2.30% (GBP). Year to date, the fund has produced a total return of 26.90% against the MSCI World 18.70%.

October was a strong month for equities in USD terms (although not in sterling, as the pound rallied); continuing dovishness from central banks and easing geopolitical tensions after a breakthrough in the Brexit saga and the increasing likelihood of a 'Phase One' deal between the US and China enabled strong returns across major regions. Additionally, better-than-expected earnings helped the fund extend its outperformance vs the MSCI World Index to more than 8% this year. The fund's performance relative to peers continues to be very strong, ranking in the top quartile over most key time periods.

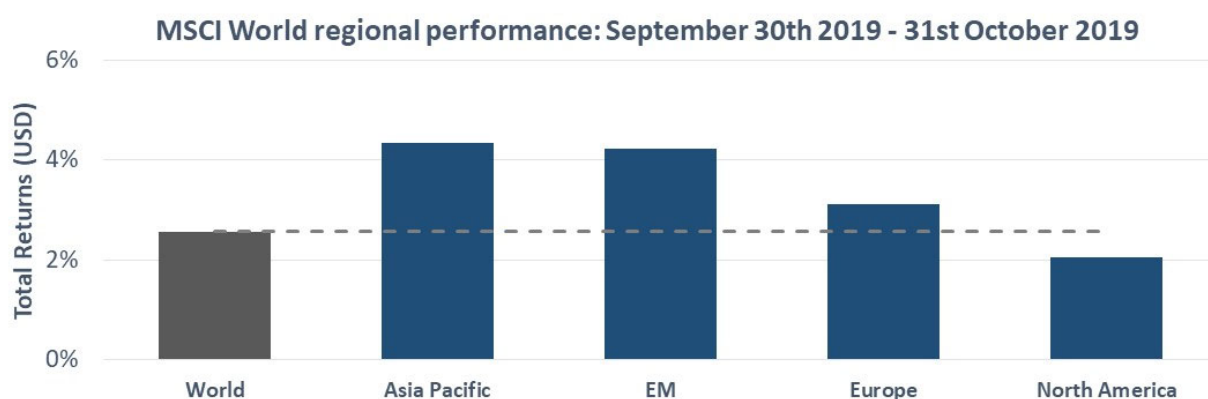
	YTD	1yr	3yr	5yr	10yrs
Fund	26.90	18.53	39.67	82.10	339.64
Index	18.70	11.28	32.05	78.19	215.07
IA sector average	17.23	11.11	27.78	64.54	154.57
Rank vs peers	5/324	19/322	36/282	64/247	4/171
Quartile	1st	1st	1st	2nd	1st

Figure 1: Global Innovators strategy total return, % GBP, Financial Express (data as at 31.10.2019)

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October in review

In the US, the S&P 500 entered Q4 with strongest year-to-date returns since 1997 whilst exhibiting the worst manufacturing PMI (Purchasing Manager's Index) since 2009 – but with record low unemployment (3.6%). The mixed data has been indicative of a volatile year with geopolitical tensions in the headlines and slowing economic data points detracting from an otherwise robust environment – in the US at least. Indeed, US manufacturing data showed a contraction for the third straight month, whilst the US economy added more jobs than expected for October. The mixed data was enough for the US Fed to cut interest rates by a further 25bps – the third cut this year – pointing out, however, that the US consumer was robust enough to possibly warrant a pause in further cuts. The continued easing of monetary policy enabled the S&P 500 to push into record territory. Our exposure to North America was positive for fund performance due to strong stock selection, mainly from semiconductor stocks.



Source: Bloomberg, as of 31st October 2019

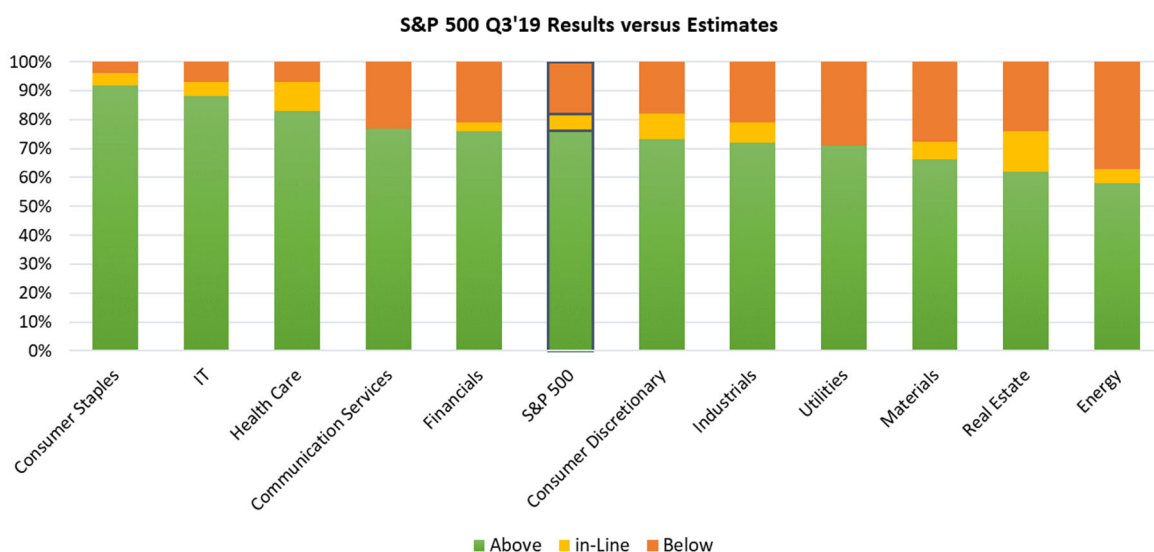
Elsewhere, Asia Pacific and Emerging Markets were the strongest regional performers over the month. In China, GDP growth eased to 6.0% – the slowest pace in 30 years and down from 6.2% in the previous quarter. However, China continued to provide economic stimulus, cutting the Required Reserve Ratio (RRR) – the percentage of deposits banks are required to hold – by another 50bps following the 50bp cut last month, releasing additional money into the banking system. In addition, increasing optimism over the so-called 'Phase One' agreement between the US and China enabled Asian stocks to outperform. The fund's overweight position to Asian Equities was the largest regional contributor to fund performance over the month with Anta Sports (up 18.4% USD) and New Oriental Education (up 10.2% USD) continuing their strong momentum, whilst Catcher Technologies (up 11.9% USD) benefited from reports of strong iPhone 11 demand.

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Source: Bloomberg, as of 31st October 2019

On a sector level, strong earnings reports by Health Care and IT stocks helped propel these sectors to the top of the performance ranking over the month. Indeed, according to Factset, of the 76% of companies within the S&P 500 that have reported for Q3 2019, 89% of Health Care stocks have reported earnings better than forecast and 83% of IT stocks have reported earnings better than expected. While there were some weaker results from bellwethers such as Boeing, Danone, Caterpillar and Texas Instruments, these didn't prevent strength elsewhere. For example, Texas Instruments, which was the one of the first semiconductor stocks to report, reported weak results which caused the Philadelphia Semiconductor Index (SOX Index) to fall more than 2% (in USD) on the day. This was subsequently reversed when other semiconductor names such as LAM Research (up 17.3% USD over the month) and KLA Tencor (up 6.1% USD) reported more upbeat results, leaving the SOX Index at new highs at month-end. Additionally, on a stock-specific level, reports of strong iPhone 11 demand helped to raise Apple supply chain names including Catcher Technology (up 11.8% USD), the manufacturer of casing for smartphones and laptops. Overall, the fund's overweight position to IT stocks was the biggest driver of outperformance, whilst our underweight exposure to Health Care was a relative drag.



Source: Factset, as of 31st October 2019

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Changes in leadership



It was announced that Nike's CEO Mark Parker, who has been at the helm since 2006, would be stepping down and taking on the role of Executive Chairman, to be replaced in the new year with ServiceNow CEO John Donahoe. The stock was subsequently one of the fund's underperformers over the month (down 5% USD), however, we view this change in a positive light given John Donahoe's expertise in digital transformation – a strategy Nike has been undertaking by becoming more prominent online and selling more products direct to consumers – while Mark Parker will remain actively involved. Although Nike continues to trade on elevated levels versus its history, we consider it well positioned to continue to benefit from the trend towards athletic apparel and the growing demand from Chinese consumers, where it currently has the market leading share.



SAP, which is currently searching for a new CEO after Bill McDermott stepped down last month (and has subsequently become CEO of ServiceNow), was one of the fund's outperformers over month, returning 12.9% (in USD). Earnings reported were in line with pre-announced results made earlier in October, with revenue up 10% (in constant currency), cloud revenue up 33% (in constant currency) and gross margin improving by 150bps mainly on improved cloud gross margins. Additionally, SAP announced an extensive partnership with Microsoft to drive the adoption of SAP cloud offerings using Microsoft Azure. We continue to view SAP favourably as a leading provider of CRM and ERM systems, leveraging the cloud to provide enhanced offerings that can be upgraded more regularly and with relative ease. We believe SAP has substantial switching costs advantages, making it difficult for customers to change system provider and, with the addition of its new strategic programme aimed at improving operational excellence, we continue to see strong upside from SAP.

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*

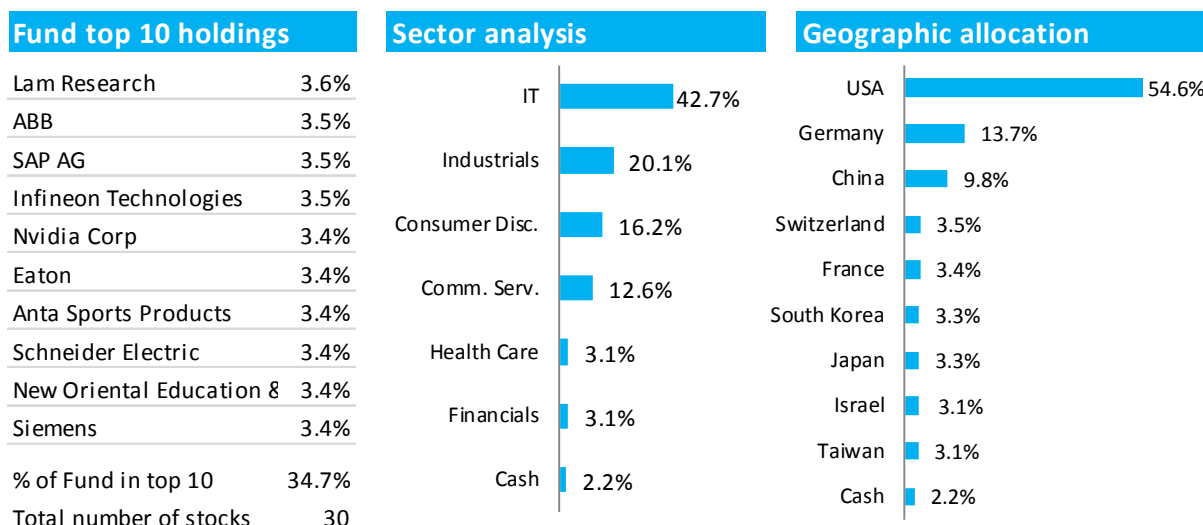
Index and stock data: *Bloomberg*

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Guinness Global Innovators Fund

PORTFOLIO

31/10/2019



31/10/2019

Annualised % total return from strategy inception (GBP)

Guinness Global Innovators strategy*	12.52%
MSCI World Index	9.88%
IA Global sector average	8.97%

Discrete years % total return (GBP)

	Oct '15	Oct '16	Oct '17	Oct '18	Oct '19
Guinness Global Innovators strategy*	3.2	26.3	25.0	-5.8	18.5
MSCI World Index	5.4	27.9	12.9	5.1	11.3
IA Global sector average	4.5	23.2	13.9	1.0	11.1

Cumulative % total return (GBP)

	1 month	Year- to-date	1 year	3 years	5 years	10 years
Guinness Global Innovators strategy*	0.0	26.9	18.5	39.7	82.1	339.6
MSCI World Index	-2.3	18.7	11.3	32.1	78.2	215.1
IA Global sector average	-2.0	17.2	11.1	27.8	64.5	154.6

RISK ANALYSIS

31/10/2019

Annualised, weekly, 5 years, in GBP	Index	Sector	Strategy*
Alpha	0	0.86	-0.23
Beta	1	0.78	1.13
Information ratio	0	-0.27	0.15
Maximum drawdown	-14.03	-17.08	-19.65
R squared	1	0.78	0.85
Sharpe ratio	0.66	0.58	0.60
Tracking error	0	6.19	6.52
Volatility	13.18	11.60	16.19

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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. Fund returns are for share classes with a current Ongoing Charges Figure (OCF) stated above; returns for share classes with a different OCF will vary accordingly

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, 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. 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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