

Guinness Global Innovators Fund

Innovation | Quality | Growth | Conviction

INVESTMENT COMMENTARY – April 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	\$187m
AUM in strategy	\$367m
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 31.03.19

Cumulative % total return (GBP)	1 year	3 years	5 years	10 years
Strategy*	3.9	55.7	87.6	378.2
Index	12.0	49.6	77.6	253.5
Sector	9.0	43.8	60.2	199.8
Position in sector	244 /309	32 /271	35 /238	3 /165

Annualised % total return from strategy inception (GBP)

Strategy*	12.31%
Index	9.73%
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

For the month of March, the Global Innovators Fund produced a total return of 4.93% (in GBP) against the MSCI World Index net total return of 3.42%. For the first quarter of 2019, the fund produced a total return of 15.14% (in GBP) against the MSCI World net total return of 9.94%, hence outperforming by 5.20%.

The fund's strong returns had several drivers: outperformance by the fund's semiconductor names due to positive outlooks from management; dovish tones from the US Federal Reserve on interest rate hikes; and encouraging noise from US-China trade talks which boosted our Chinese stocks such as New Oriental Education and Anta Sports. This leaves the portfolio's performance ranking in the top quartile of the IA Global sector year-to-date and over 3, 5 and 10 years.

	YTD	1yr	3yr	5yr	10yrs
Fund	15.14	3.88	55.71	87.64	378.17
Index	9.94	11.98	49.57	77.59	253.46
IA sector average	9.81	8.97	43.82	60.24	199.75
Rank vs peers	11/321	244/309	32/271	35/238	3/165
Quartile	1st	4th	1st	1st	1st

Figure 1: Global Innovators strategy total return GBP, FE (data as at 31.03.2019)

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GLOBAL INNOVATORS FUND VS MSCI WORLD

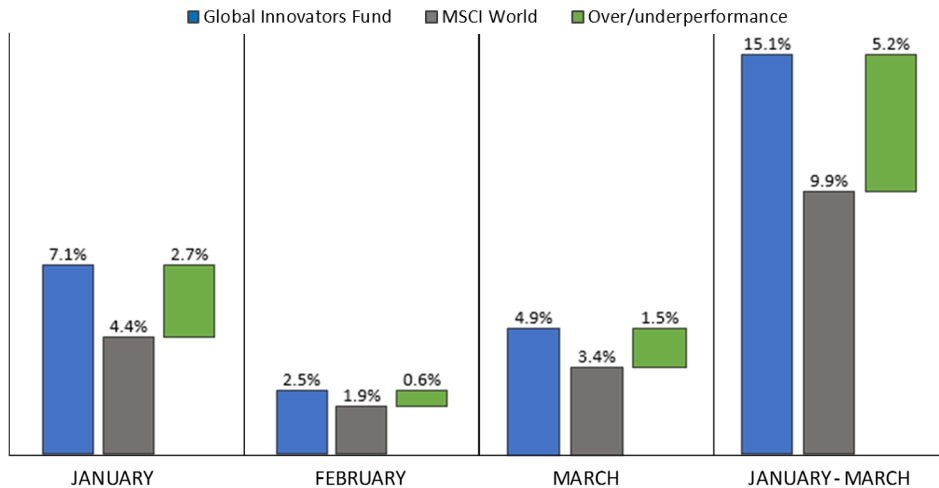


Figure 2: Global Innovators strategy and MSCI World net total returns GBP, FE (data as at 31.03.2019)

The year began with a sharp reversal in the tone of the US Fed as Jerome Powell, its Chairman, signalled that slowing growth on a macro level and the US government shutdown – the longest in history – was enough to raise the possibility of fewer or even no further interest rate hikes this year. This came in stark contrast to the tone set by the Fed only a few months prior, when the interest rate path was set to ‘autopilot’.

GDP data for the fourth quarter of 2018 showed that China grew at ‘only’ 6.4% year-on-year, leading to concerns over slowing growth and raising the possibility of further government stimulus – such as the People’s Bank of China (PBoC) announcing it would cut the Reserve Requirement Ratio for banks by a further 100 basis points. US-China trade talks continued to deliver mixed messages, although China did pledge to buy significant volumes of agricultural, manufacturing and other US products to begin rebalancing the trade deficit. China was subsequently one of the best-performing regions, with New Oriental Education, the private tutoring service in China, up 40.6% in USD over the month. The fund currently has overweight exposure to China.

On a stock-specific level, semiconductor companies including LAM research (up 24.5% USD) and Applied Materials (up 19.4% USD) rallied strongly over January as the majority of management teams gave upbeat outlooks for the second half of 2019. After semiconductors were some of the most beaten-up stocks of 2018, the commentary raised the serious possibility of an inflection point in demand going into Q3. The fund currently holds six companies in the semiconductor industry. These stocks have produced strong historic returns, but their valuations have more recently been compressed to near long-term lows. Consequently, the raised outlook for the second half of the year leaves the fund in a strong position to take advantage of future earnings growth and possible re-ratings. (See the January update for more details on management commentary and our investment thesis for semiconductor names.)

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Guinness Global Innovators Fund



Figure 3: Sector performances in Q1 2019 (all TR in USD)

In February Chinese equities continued their surge. Enough progress had been made in trade talks between the US and China to warrant President Trump postponing hikes in tariffs previously set to be introduced on March 1st. However, a lack of meaningful news on key areas of contention such as intellectual property left much to be resolved.

Fund constituents including New Oriental Education and Anta Sports, the Chinese clothing company, continued to benefit from the rebound in Chinese stocks, but our exposure to the US market was the largest contributor to the fund outperformance over the month. Minutes released from the US FOMC meeting continued to point to a more patient approach on interest rate hikes whilst also showing a desire to end the reduction of the Fed's balance sheet as soon as possible.

The fund's performance over February was aided further by idiosyncratic factors arising from positive earnings reports released over the month. Of the 30 companies within the portfolio, 25 companies had reported fourth-quarter results, of which 88% reported positive EPS surprises and 88% reported positive revenue surprises. Danaher Corporation, the diversified conglomerate with products in life sciences, diagnostics, dental and environmental solutions, delivered results slightly above estimates whilst announcing that they had agreed to buy General Electric's (GE) biopharmaceutical unit. This made the company the fund's top performer over the month, up 14.5% in USD.

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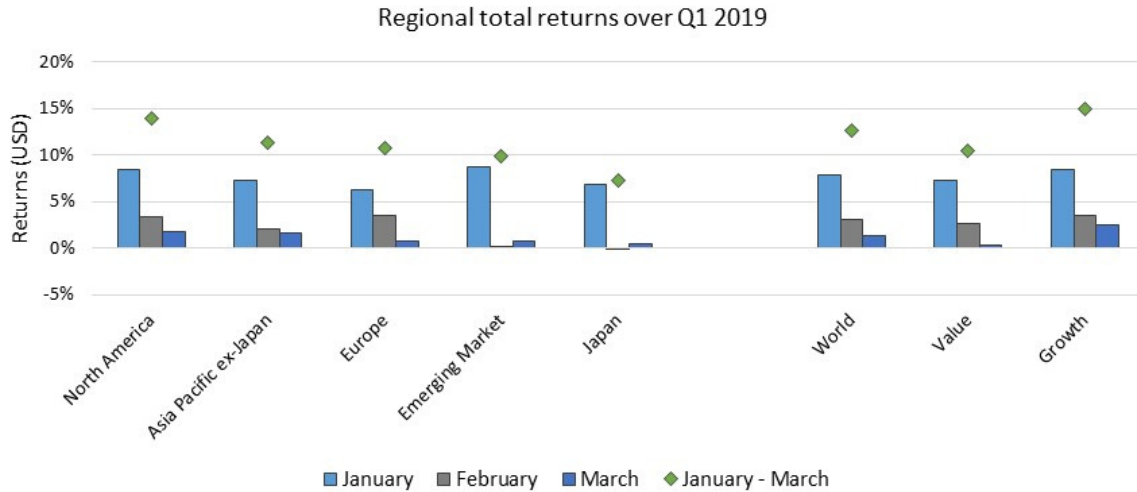


Figure 4: Regional performances in Q1 2019 (all TR in USD)

Equity markets continued their ascent in March, albeit returning more modest gains. North America and Asia Pacific ex-Japan were the top-performing regions over the month, both returning 1.7% in USD. This benefited the fund’s performance with the US being the fund’s largest regional exposure and the fund exhibiting an overweight position to Asia Pacific.

Economic data released from Europe continued to deteriorate, with manufacturing data hardest hit. Manufacturing PMIs for Europe as a whole dropped to 47.5 (below 50 indicating contraction), whilst Germany continued to be the major contributor with its own manufacturing PMI dropping to 44.1. ABB, the power and robotics company held in the fund, subsequently underperformed, returning -5.2% (USD) over the month. The ECB held rates as expected but expressed its intention to postpone further any future interest rate hikes, which are now not expected until at least next year. Additionally, the ECB announced a new round of TLTROs – cheap financing for the banking sector – as their endeavour to stimulate growth within the region continues.

A broadly similar story emerged from the US Fed, which also held rates steady at its meeting and now does not expect any interest hikes at all this year. Support for fixed income markets also came with the Fed’s announced intention to end quantitative tightening by September this year. The general theme of easing interest rate hikes made Financials the worst-performing sector over the month, which aided the fund’s relative performance due to the fund’s underweight positioning.

Exposure to China was the largest contributor to the fund’s outperformance over the month. With US-China trade talk rumbling on, the momentum in stocks was enough to outweigh mixed economic data from China. Chinese officials reduced their GDP forecast from a hard 6.6% to a range of 6.5%-6.6%, and export data continued to decline, down 21% YoY as US-China trade tariffs take their effect. The Chinese PMI rebounded back above 50, providing some relief, but as it sits barely above 50, time will tell if government stimulus can boost this figure by a more meaningful degree.

Guinness Global Innovators Fund

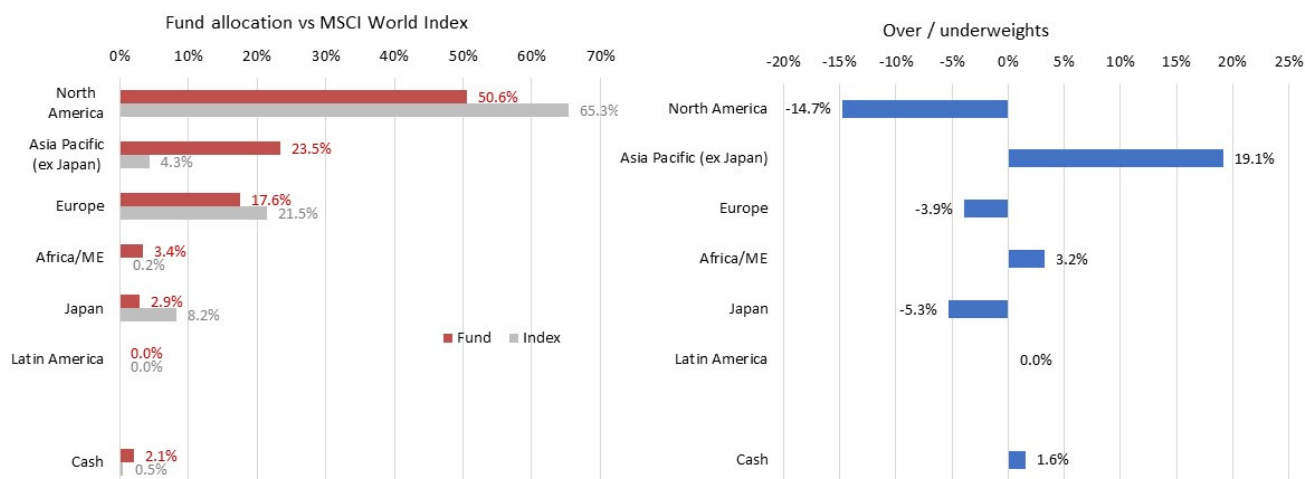


Figure 5: Geographic breakdown of the fund versus MSCI World Index. Guinness Asset Management, Bloomberg (data as at 31.03.2019)

Over the quarter as a whole, the fund's overweight exposure to Asia Pacific ex-Japan (with a weighting of 23.5% against MSCI World's 4.3%) and China in particular was the largest regional contributor to its outperformance, with the most significant returns coming from New Oriental Education (up 64.4% in USD) and Anta Sports (up 41.8% in USD). The fund's largest regional exposure, North America (50.6% exposure), produced significant stock selection attribution as our overweight positions in semiconductor companies and global conglomerates Danaher and Roper Technologies produced strong returns.

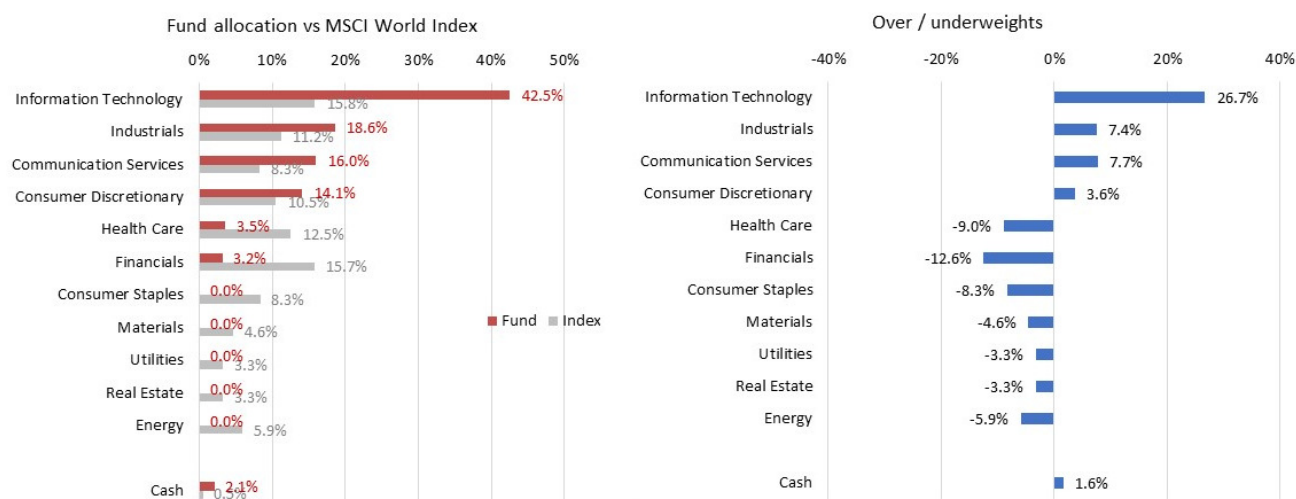


Figure 6: Sector breakdown of the fund versus MSCI World Index. Guinness Asset Management, Bloomberg (data as at 31.03.2019)

On a sector level, our overweight position to IT, the highest-performing sector over the quarter, produced the largest contributions to the fund's outperformance. In particular, the portfolio's exposure to semiconductor names such as Nvidia (up 34.6% in USD) and KLA Tencor (up 34.3% in USD) provided the most significant contribution to the performance, having previously been on a drag on the portfolio over Q4 2018. The fund continues to hold no positions in Energy, Real Estate, Utilities, Materials and Consumer Staples.

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Individual stock performance over Q1 2019 (total returns USD):

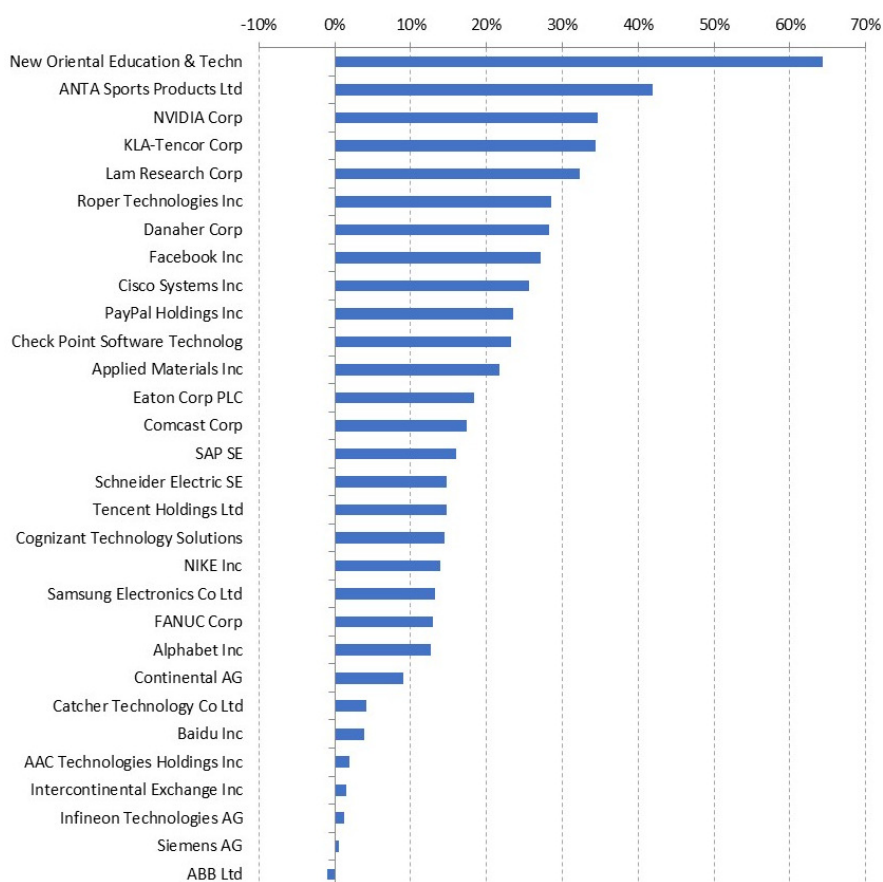


Figure 7: Individual performances of fund constituents. Guinness Asset Management, Bloomberg (data as at 31.03.2019)

Individual companies that performed well over the quarter included New Oriental Education (64.3% in USD) and Anta Sports (41.9% in USD).



New Oriental Education, the provider of private tutoring services in China, began the year positively, reporting top and bottom-line figures that beat analysts’ forecasts for the first quarter. The stock had been one of the fund’s largest underperformers of 2018, mainly on increased regulation in private tutoring services in China – a move we felt was overdone, since increased regulation and standardisation of the industry should stand to benefit the larger players in the long-term as smaller players are pushed out. New Oriental Education last year announced an expansion effort to gain a greater share of the largely fragmented private tutoring market. In the latest earnings report, the company reported expansion efforts were on track, with total schools and learning centres up 20% YoY, whilst announcing a new initiative named “3S” – Standardisation, Streamlining and Systematization – dedicated to improving the efficiency of the company. The fund’s equally weighted portfolio, which ensures we periodically trim the outperforming stocks and top up the underperformers, resulted in our periodically increasing our exposure as the stock underperformed in 2018 and subsequently reducing our exposure after the stock rallied into 2019.

ANTA Sports was the second-best-performing stock in the fund over the first quarter, up 41.9% in USD. The company generates revenue through the manufacture and trading of sporting goods, including footwear,

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apparel and accessories. ANTA is poised for greater market share in China as it seeks to woo affluent shoppers with pricier athletic gear. This includes popular brands such as Fila and Descente, as well as Salomon and Arc'teryx – both owned by Amer Sports, which ANTA has recently acquired. Going premium should make up for less robust gains at its lower-priced namesake brand, which sells at half the price of Nike and Adidas products. ANTA's sales growth is likely to accelerate from the acquisition of Amer, yet a profitability boost may not be likely for some two years. On the upside, the move to acquire a European company gives ANTA Sports scale to expand geographically as well as launch new products in China. The company's growing product offering could well fuel earnings and revenue growth and the shrewd move into winter sport clothing and equipment comes well-timed ahead of the next Winter Olympics in 2022 in Beijing.

Individual companies that underperformed over the month were ABB Ltd (-1.0% in USD) and Siemens (0.5% in USD).



ABB, the provider of power and automation technologies, announced in December that it was splitting off its power grid business to Hitachi as it looks to focus its efforts on industrial automation via the production of robotics. Over the last quarter analysts have continued to downgrade their estimates over worries of slow late-cycle capex spending. ABB currently derives around 37% of its revenues from Asia ME and Africa and 35% from Europe – regions which are currently experiencing slowing manufacturing PMIs. Whilst we acknowledge these short-term headwinds, we believe the company will benefit from the longer-term secular shift toward automated production lines, while splitting off its power grid business leaves ABB with a more focused platform.

Siemens, the engineering and manufacturing company which focuses on electrification, automation and digitisation, produced total returns of 0.5% (in USD) over the quarter. The underperformance came after the planned merger between Siemens' railway business and French train equipment maker Alstom was rejected by the European Commission on the grounds that the loss of competition in some European markets for signalling and high-speed trains would be too big. The planned merger was part of a larger push by European companies to create global champions in largely fragmented markets capable of competing with the likes of CRRC, the state-backed company in China. In our view, Siemens continues to push in the right direction, merging or spinning out its sub-scale business lines in order to create market leaders and a more streamlined core. Siemens currently trades on a one-year forward PE of 13.8x, with a forecasted growth rate of around 15% – an attractive position given Siemens' exposure to innovative themes such as automation and digitalisation.

Portfolio characteristics

The chart below shows the geographic weighting of the portfolio both by company domicile and by origin of sales.

Guinness Global Innovators Fund

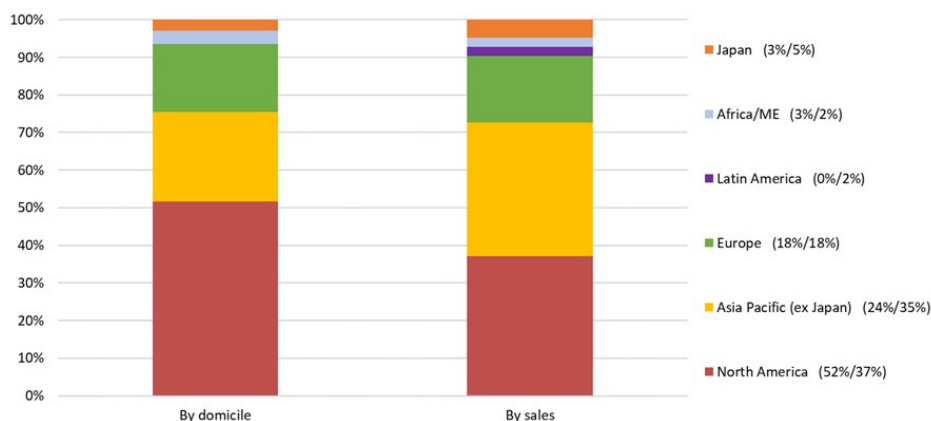


Figure 8: Geographic breakdown of the fund. Guinness Asset Management, Bloomberg (data as at 31.03.2019)

The two charts below show how the exposure of the fund has evolved since the launch of the strategy in 2003. We continue to hold no exposure to Real Estate, Energy, Materials, Consumer Staples and Utilities. Information Technology remains our largest exposure, split between three sub-sectors: semiconductors, software and services, and technology hardware.

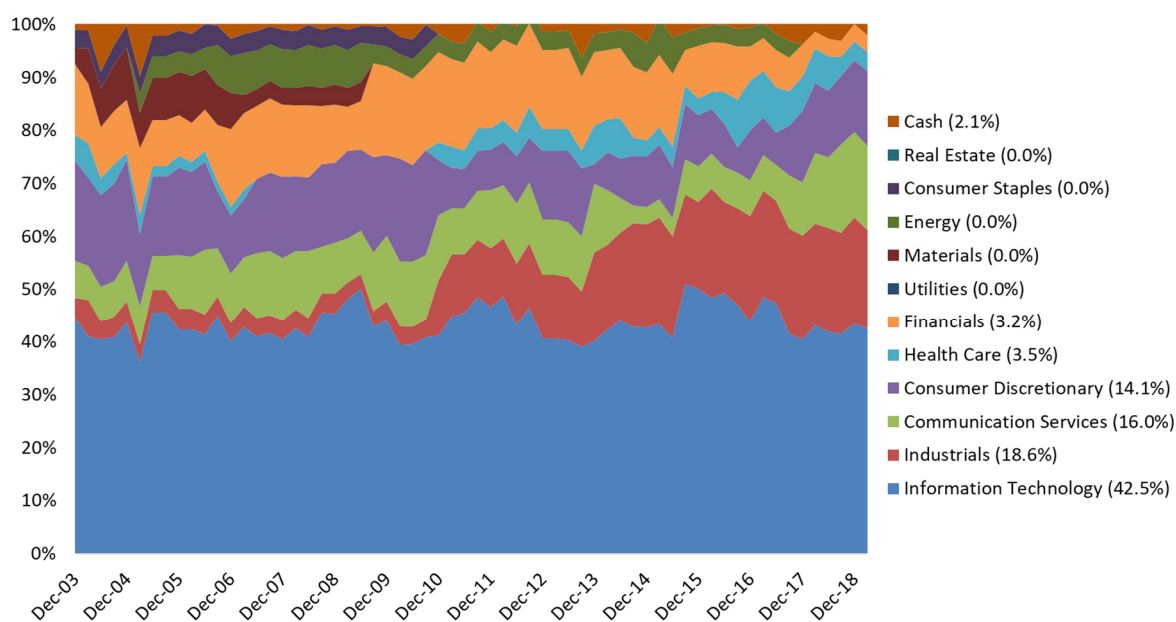


Figure 9: Portfolio sector breakdown. Guinness Asset Management, Bloomberg (31.03.2019)

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Guinness Global Innovators Fund

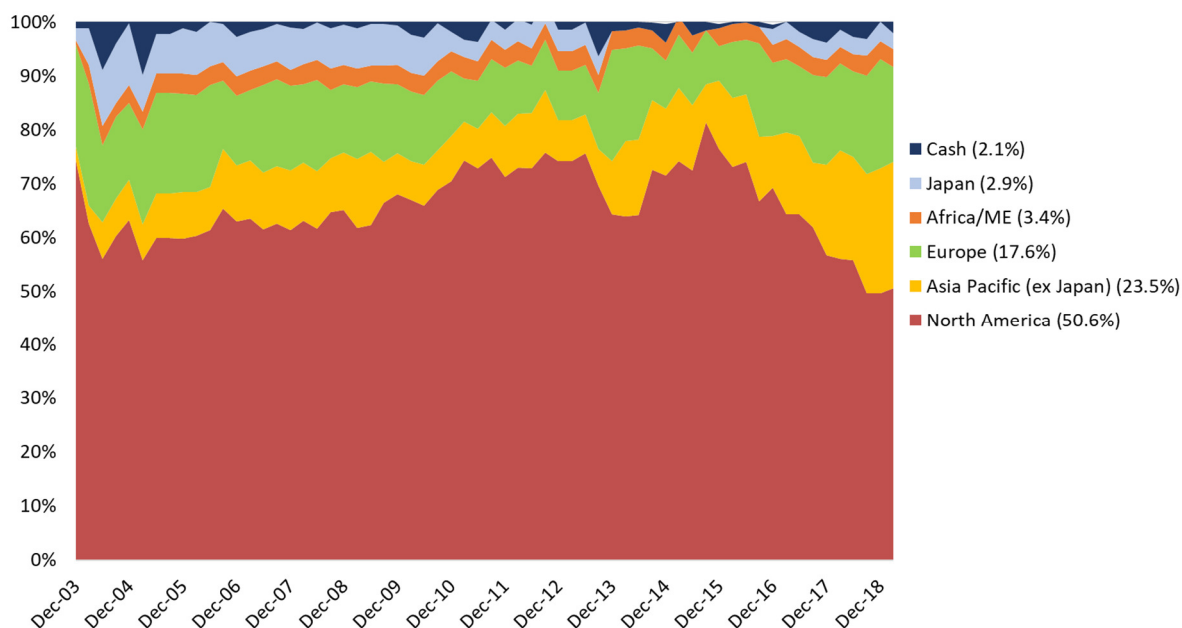


Figure 10: Portfolio geographic breakdown. Guinness Asset Management, Bloomberg (31.03.2019)

Key fund metrics today

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

		Fund	MSCI World Index
Innovation	R&D / Sales	8%	6%
	CAPEX / Sales	7%	10%
Quality	ROC (median 2019)	16%	8%
	Weighted average net debt / equity	-13%	115%
Growth (& valuation)	Trailing 3-year sales growth (annualised)	14%	8%
	Estimated earnings growth (2020 vs 2019)	13%	10%
	FCF yield	6%	5%
	PE (2019e)	17.7	15.7
Conviction	Number of stocks	30	1190
	Active share	97%	-

Figure 11: Portfolio metrics versus index. Guinness Asset Management, Credit Suisse HOLT, Bloomberg (data as at 31.03.2019)

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Guinness Global Innovators Fund

The fund is now trading at an 13% premium to the broad market on a PE ratio basis (fund 17.7x 2019 expected earnings vs MSCI World Index 15.7x). The longer-term premium of the fund versus the broader market has been in the 10-20% range, so we still believe the portfolio offers good value relative to the market today. From a long-term perspective, the portfolio invests in highly efficient companies (median return on capital 2019 16% vs 8%) whose innovative nature differentiates them from competitors and consequently should drive demand for their products.

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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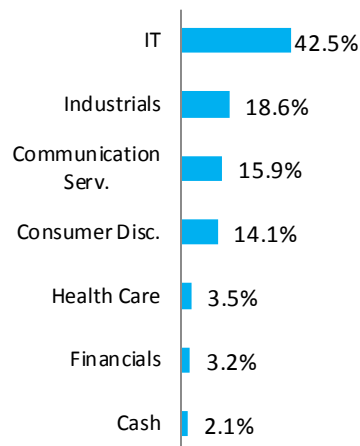
PORTFOLIO

31/03/2019

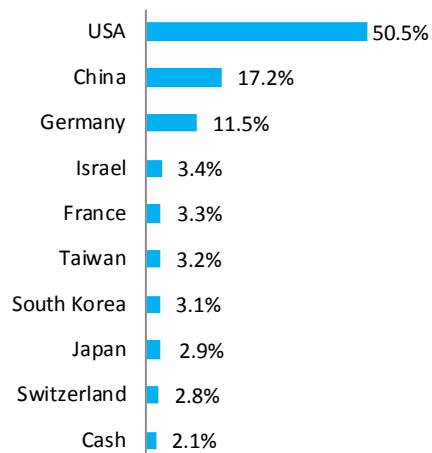
Fund top 10 holdings

Anta Sports Products	4.2%
New Oriental Education & Technology Group	4.0%
KLA-Tencor	3.7%
Lam Research	3.6%
Nvidia Corp	3.6%
Roper Industries Inc	3.6%
Danaher Corp	3.5%
Paypal	3.5%
Cisco Systems	3.5%
Check Point Software	3.4%
% of Fund in top 10	36.5%
Total number of stocks	30

Sector analysis



Geographic allocation



31/03/2019

Annualised % total return from strategy inception (GBP)

Guinness Global Innovators strategy*	12.31%
MSCI World Index	9.73%
IA Global sector average	8.86%

Discrete years % total return (GBP)

	Mar '15	Mar '16	Mar '17	Mar '18	Mar '19
Guinness Global Innovators strategy*	23.2	-2.2	35.3	10.8	3.9
MSCI World Index	19.1	-0.3	31.9	1.3	12.0
IA Global sector average	15.3	-3.4	28.6	2.7	9.0

Cumulative % total return (GBP)

	1 month	Year-to-date	1 year	3 years	5 years	10 years
Guinness Global Innovators strategy*	4.9	15.1	3.9	55.7	87.6	378.2
MSCI World Index	3.4	9.9	12.0	49.6	77.6	253.5
IA Global sector average	2.6	9.8	9.0	43.8	60.2	199.8

RISK ANALYSIS

31/03/2019

Annualised, weekly, 5 years, in GBP	Index	Sector	Strategy*
Alpha	0	0.12	0.33
Beta	1	0.80	1.13
Information ratio	0	-0.36	0.24
Maximum drawdown	-14.03	-17.08	-19.65
R squared	1	0.79	0.86
Sharpe ratio	0.65	0.52	0.63
Tracking error	0	6.08	6.21
Volatility	13.20	11.81	16.02

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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

Tel: +44 (0) 20 7222 5703

Email: info@guinnessfunds.com

Web: guinnessfunds.com