

Guinness Global Innovators Fund

Innovation | Quality | Growth | Conviction

INVESTMENT COMMENTARY – July 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	\$220m
AUM in strategy	\$397m
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*	3.4	55.6	87.7	375.4
Index	10.3	46.6	85.0	258.1
Sector	7.5	45.1	67.8	194.6
Position in sector	255 /319	46 /279	63 /242	6 /170

Annualised % total return from strategy inception (GBP)

Strategy*	12.43%
Index	9.99%
Sector	9.13%

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 June, the Global Innovators Fund produced a total return of 7.40% (in GBP) against the MSCI World net total return of 5.56%. For the second quarter of 2019, the Fund produced a total return of 4.79% against the MSCI World net total return of 6.48%. Year-to-date the Fund has produced a total return of 20.66% against the MSCI World net total return of 17.06%, hence outperforming by 3.60%.

Outperformance during April and June was not enough to offset the underperformance during May after the reignition of the US-China trade dispute which negatively impacted our semiconductor exposure in particular. However, the increasing likelihood of US interest rate cuts (as seen in the market implied rate expectations) and the re-start of trade talks at the G20 summit enabled equity markets to continue their rally this year into June, with the S&P 500 hitting record highs. The Fund ranks in the top quartile year-to-date and over 3, 5 and 10 years against the IA Global sector.

	YTD	1yr	3yr	5yr	10yrs
Fund	20.66	3.37	55.63	87.72	375.36
Index	17.06	10.30	46.64	84.96	258.12
IA sector average	16.83	7.49	45.10	67.80	194.55
Rank vs peers	62/325	255/319	46/279	63/242	6/170
Quartile	1st	4th	1st	1st	1st

Figure 1: Global Innovators strategy total return in GBP. Source: FE (data as at 30.06.2019)

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Performance in April

After equity markets produced strong returns in the first quarter of the year, the trend continued into April, with America and Europe leading. The US shook off fears of a slowing economy, registering annual GDP growth of 3.2% for Q1 – well above estimates of 2.3%. Unemployment remained steady at 3.8% and real wage growth came in at 3.3%, keeping inflationary concerns subdued. The Fund benefited from the strong performance in the US – the portfolio’s largest regional exposure – with stock selection from names such as Lam Research (up 19.1% in USD) and Facebook (up 16.0% in USD), providing the majority of outperformance relative to the MSCI World.

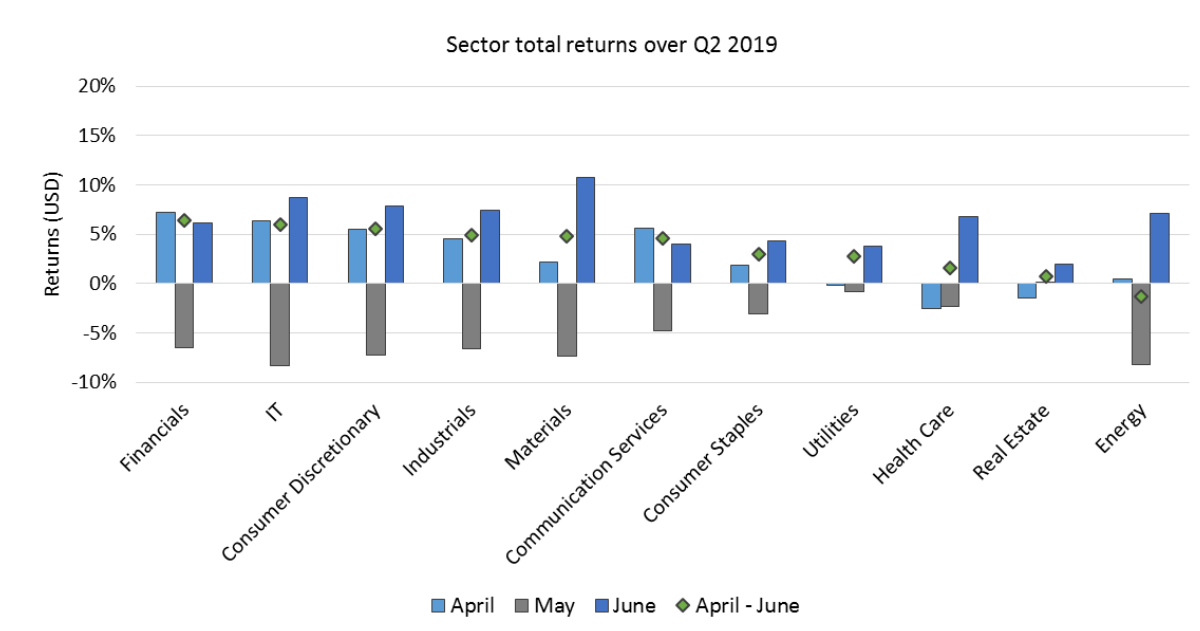


Figure 2: Sector performances in Q2 2019 (all TR in USD)

Whilst our exposure to Asia Pacific had been a tailwind in Q1, the region scaled back further gains to a modest 1.9% (USD) in April. China’s manufacturing PMI came in at 50.2 for April – below March’s 50.8 but still above the important 50 which indicates expansion. GDP data for Q1 indicated the economy grew 6.4% - slightly above the forecasted 6.3% but still well below 2018 Q1 growth of 6.8%. The region’s relative underperformance to the rest of the world was a slight drag on the portfolio’s asset allocation over the month.

The Fund currently holds a small underweight position relative to the benchmark in Europe, which outperformed over the month. However, stock selection outweighed this as Infineon, the German semiconductor designer for electric and autonomous vehicles, and Continental, the manufacturer of vehicle tyres, chassis and powertrains, performed strongly over the month, producing total returns (in USD) of 19.1% and 13.3% respectively.

On a sector level, strong returns from IT – the Fund’s largest sector exposure – contributed positively. In addition, stock selection within the sector was also positive with semiconductor names such as Infineon, Lam Research and Applied Materials outperforming. Good performance from Financials left our underweight position contributing negatively to asset allocation over the month with our one position, Intercontinental Exchange, providing an otherwise positive total return of 6.8% (in USD).

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Conversely, the Fund’s underweight exposure to Health Care - the worst-performing sector over the month – contributed positively, with our sole holding, Danaher, producing 0.3% (in USD) while the sector was down.

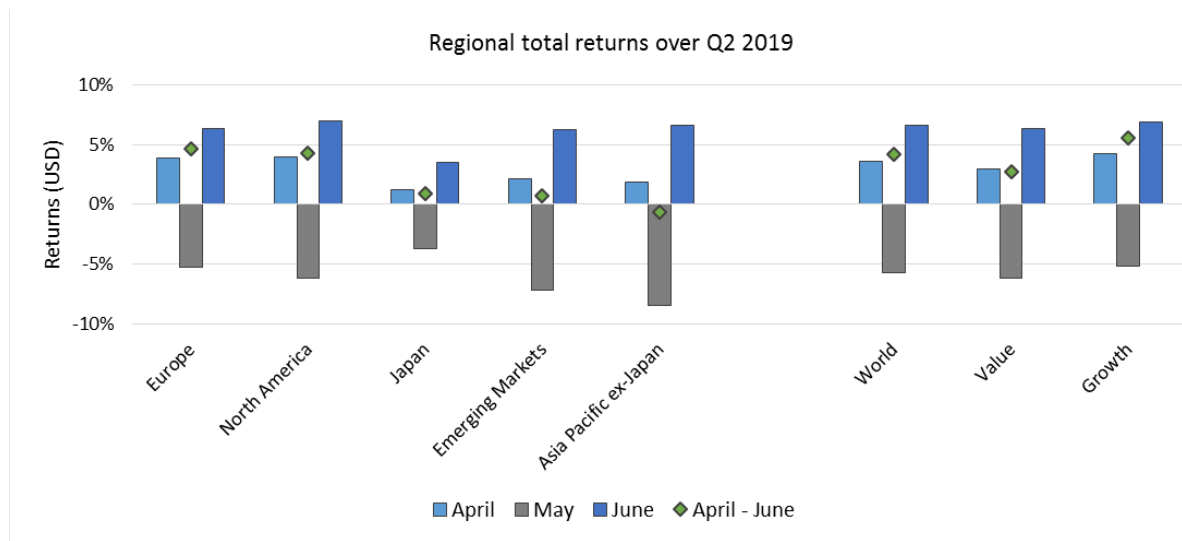


Figure 3: Regional performances in Q2 2019 (all TR in USD)

Performance in May

In May, with President Trump growing increasingly frustrated with the lack of progress on key trade issues, the US increased tariffs on a further \$200bn of Chinese imports from 10% to 25% – a move threatened in March. The move was met with a backlash from Chinese officials and China raised tariffs on \$60bn of US goods with market bellwethers such as Apple and Caterpillar, which have significant exposure outside the US, experiencing large sell-offs. The resulting underperformance from Chinese equities was a drag on the portfolio.

In addition to an increase in tariffs, 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, and semiconductor stocks bore the largest impact since Huawei relies heavily on US semiconductor companies. In addition, the blacklisting forced Fund constituent Alphabet, which licences its Android operating system to Huawei to be used on its smartphones, to stop supplying the system.

With the US-China trade conflict back into view, President Trump also threatened to impose a 5% tariff on all Mexican goods from June 10 as part of efforts to control immigration coming from Central America into the US through Mexico. The move threatened to upheave 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 delay potential tariffs on cars imported from Europe, Japan and other countries. The news made Europe one of the best-performing regions.

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

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

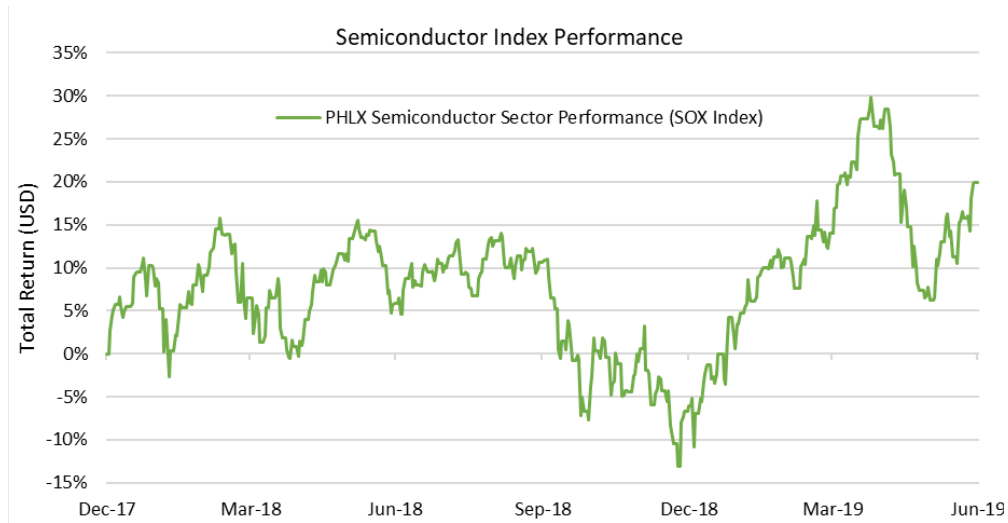


Figure 4: Philadelphia Semiconductor Index performance since January 2018 (all TR in USD)

Performance in June

Trade disputes continued to make headlines in June. After he levied further tariffs on Chinese goods in May, all eyes were on Trump’s meeting with Xi at the G20 summit. The resulting agreement to hold off further tariffs and the potential for US companies to continue trading with Huawei whilst talks continued was taken positively by markets. This led to a reversal in the underperformance in semiconductor companies seen in May, with IT providing the largest proportion of positive performance on a sector level.

Elsewhere, Trump continued his attack on the US Fed for not cutting interest rates with its June meeting, claiming the Fed chairman Jay Powell was doing a ‘bad job’ and that it was not creating an even playing field against China. However, the tone struck by the Fed continued to move towards possible cuts by year end, with Mr Powell indicating risks to global growth had increased in recent weeks. The market-implied forecast for US interest rates by the end of year is now a 100% probability of rate cuts – a stark contrast to what was predicted at the beginning of the year. The increasingly dovish tone set by the US Fed enabled US equities to extend their rally, with the S&P 500 reaching record highs. Although this contributed negatively to asset allocation, since the Fund is underweight the US, strong stock selection within the region from companies such as Nvidia (up 21% in USD) and Applied Materials (up 16% in USD) more than offset this.

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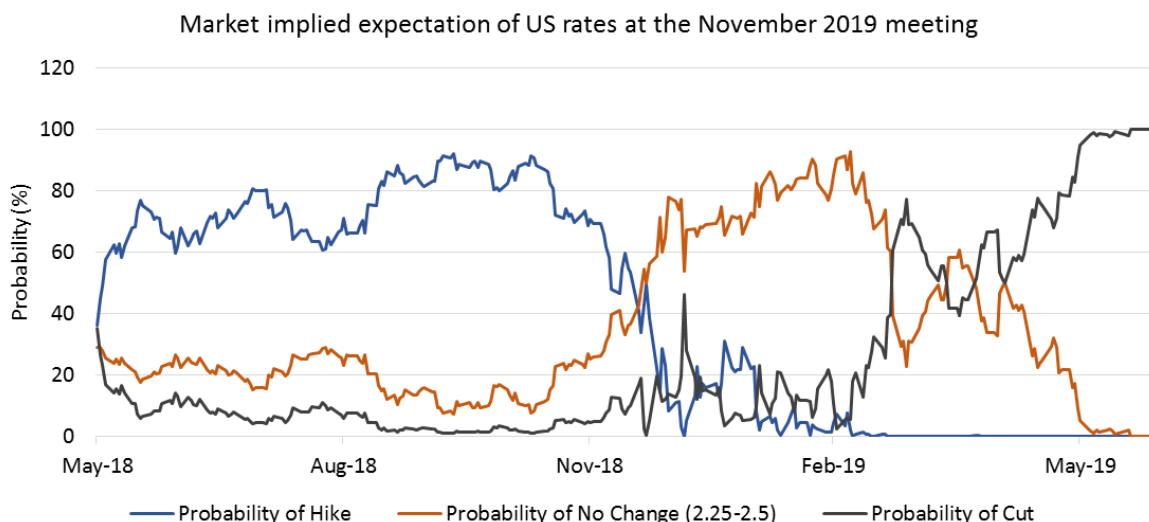


Figure 5: Implied probability of US interest rates

Protests continued over an extradition bill in Hong Kong that many fear will make it easier for China to seize suspects in the territory to face trial in the mainland. Nike, a Fund constituent, was in the crosshairs, cancelling a limited-edition line of sport shoes after one of their Japan-based studios that designed the range posted a picture on Instagram in support of the anti-extradition protests.

With the tariff truce between the US and China agreed at the G20, Chinese equities experienced some relief, especially given the sell-off endured in May when Trump increased tariffs on Chinese goods. Again, although our overweight position to Asian equities was a slight drag on the Fund, stock selection from companies such as Tencent (up 9% in USD) and Anta Sports (up 12% in USD) subsequently resulted in Asia being the largest regional contributor to performance over the month.

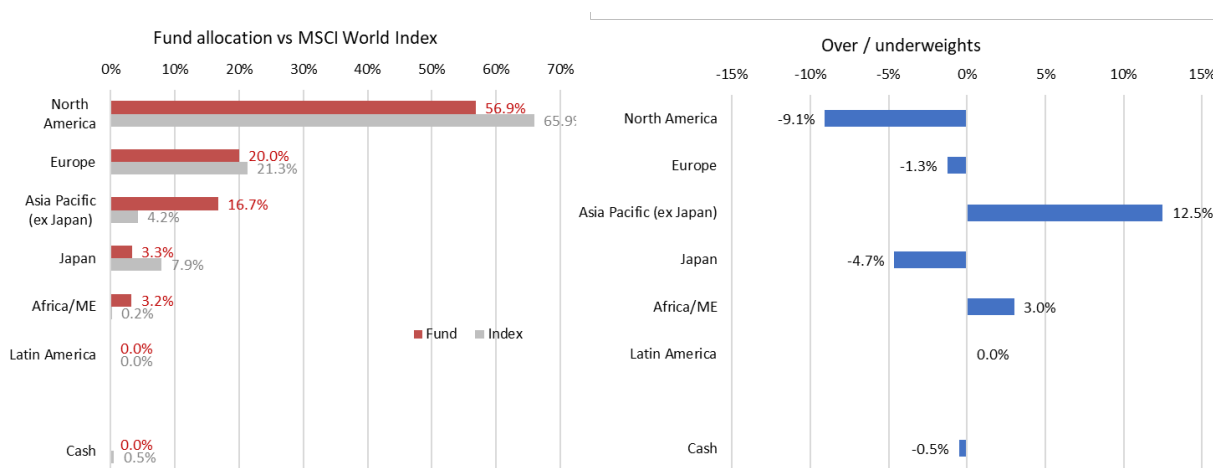


Figure 6: Geographic breakdown of the Fund versus MSCI World Index. Guinness Asset Management, Bloomberg (data as at 30.06.2019)

Over the quarter as a whole, the Fund’s overweight exposure to Asia Pacific ex-Japan (weighting of 16.7% against MSCI World 4.2% at quarter end) was the largest regional drag on the portfolio, having been one of the largest contributors to outperformance in Q1. Our exposure to European

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equities was the largest regional contributor in Q2, with strong stock performances from SAP (up 20% in USD) and Schneider Electric (up 19% in USD).

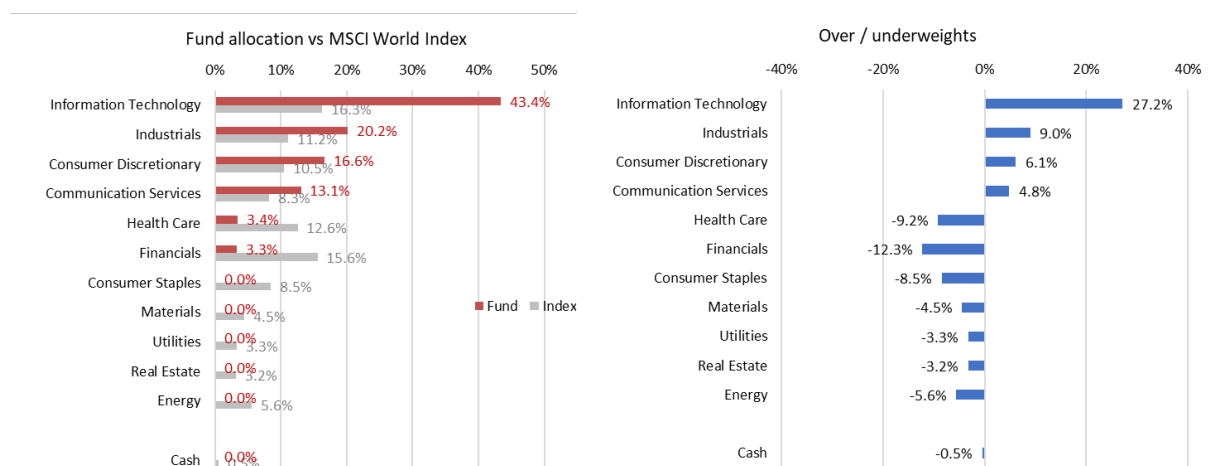


Figure 7: Sector breakdown of the Fund versus MSCI World Index. Guinness Asset Management, Bloomberg (data as at 30.06.2019)

On a sector level, our overweight position to IT contributed positively to asset allocation, although stock selection, with names such as Cognizant and Checkpoint Software, was a drag on the portfolio. The Fund’s exposure to the Industrials sector made up the largest proportion of positive attribution with stock selection from Schneider Electric (up 19% in USD) and ABB (up 11% in USD) the largest contributors.

Individual stock performance over Q2 2019 (total returns USD):

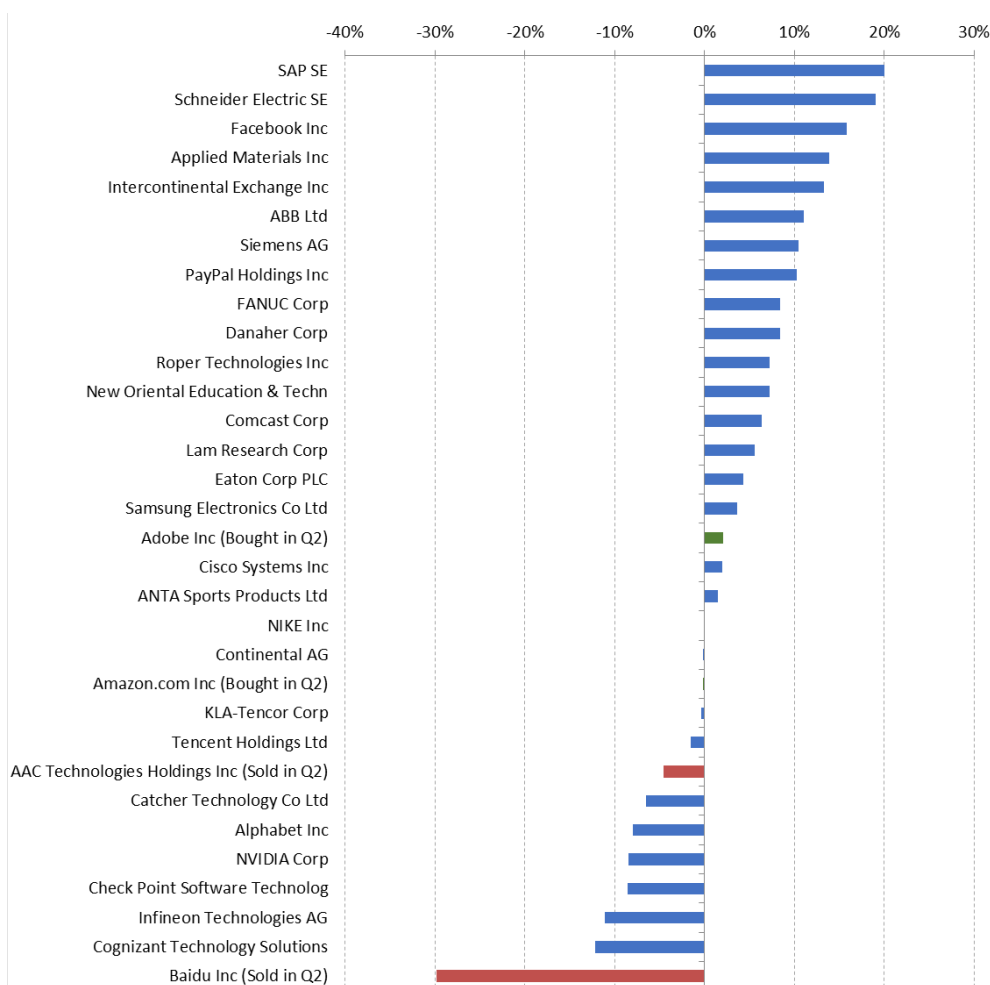


Figure 8: performance of Fund constituents. Guinness Asset Management, Bloomberg (data as at 30.06.2019)

Individual companies that performed well over the quarter included SAP (20.0% in USD) and Schneider Electric (19.0% in USD).



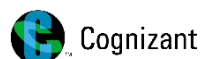
SAP, the maker of enterprise software that helps businesses manage operations and customer relationships, was the portfolio’s best-performing stock over the quarter. In April, it was announced that activist investor Elliott Management had built a stake in SAP in order to drive profitability that matches the company’s significant revenue growth over the past few years. In addition, SAP posted quarterly earnings during the quarter that beat estimates by 8.6% and raised guidance for the full year. SAP has experienced strong revenue growth from the scaling of cloud platform usage and with SAP trading on 25x 1FY PE – a discount to competitors – we continue to see good upside.

Schneider Electric, the manufacturer of power distribution and automation systems such as programmable logic controllers, industrial control products and detectors, has benefitted from the automation of factories and the rising need for energy-efficient products. The company has seen

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rising margins over the last few years with its strategic plan to be the leading integrated energy management and automation company. Schneider posted quarterly results that beat estimates with revenue increasing by 20% more than analysts had expected. Schneider Electric currently trades on 15x next year's earnings, exhibits stable returns on investment over the last decade and continues to drive growth through transformation of its business strategy.

Individual companies that underperformed over the quarter were Baidu (-29.8% in USD) and Cognizant (-12.2% in USD).



Baidu, commonly referred to as China's version of Google, operates the largest search engine in China along with additional segments including iQiyi, the largest entertainment streaming platform in China and Apollo, one of the leading autonomous vehicle operating systems. Over the past quarter, Baidu reported its first loss since going public in 2005 on higher traffic acquisition costs to drive traffic back to its search engine and away from super-apps such as WeChat (owned by Tencent), along with rising content costs for iQiyi as it seeks to create new and exciting content for viewers. Revenue growth had also slowed and as we discuss later in the update, we sold our position in Baidu at the end of the quarter.

Cognizant, the provider of custom IT consultancy services, reported their first quarterly earnings miss, attributing the surprise to weakness in financial services and healthcare customers. Cognizant now trades ~1 standard deviation below its long-term average PE ratio, has experienced above 10% EPS growth in 13 of the last 14 years and remains forecasted to grow above 10% for the next 3 year. As such, we still view Cognizant as good value with returns coming from good earnings growth as well as a possible re-rating.

Changes to the portfolio

Over the quarter we made two changes, selling our positions in AAC Technologies and Baidu and initiating new positions in Amazon and Adobe.



AAC Technologies, the manufacturer of miniaturized components for smartphones including acoustics, haptics and antennae, has faced increasing pressures from the slowing global demand for smartphones and increasing competition. We bought AAC Technologies in 2016 based on its market-leading position in smartphone components and the ever-increasing need for quality components in more premium smartphones. AAC technologies constantly yielded 30% operating margins which reflected this leadership (well above competitors). As it has diversified into new areas such as haptics, however, and faced new competition in its specialist area of acoustics, AAC's operating margins and returns on capital have come under increasing pressure. As a consequence, with AAC losing some of its competitive edge whilst also facing slowing global demand, we felt the company could struggle to grow in the future while lower returns would justify a lower multiple. As such it no longer met our criteria for the portfolio.

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Baidu, the operator of China's largest search engine and various other leading products and services, has faced the increasing propensity for users to enter their queries into alternative platforms such as the super-app, WeChat, owned by Tencent. Although Baidu has been experiencing the secular tailwind in the movement to online advertising, the increasing competition and rising costs to acquire traffic in search (which makes up the majority of its revenue) have had a detrimental effect on Baidu's margins, with operating margins falling from c.50% in 2012 to c.18% in 2018. We felt that although Baidu has leading positions in entertainment streaming, autonomous vehicles and other innovative areas, the increasing competition within Baidu's main segment, search, had reduced our conviction in Baidu's ability to stem further margin erosion while continuing to reinvest to drive growth.



Amazon operates its e-commerce platform and has leading positions in cloud computing, digital streaming and artificial intelligence. Amazon is known for its industry disruption, and although it trades on higher multiples than industry peers, its ability to increase its profitability in recent years as it scales up operations in segments including Amazon Web Services (AWS), its cloud computing platform, has enabled it to expand margins and grow cash flows while continuing to reinvest in new disruptive technologies such as drone delivery.

Adobe is the undisputed leader in creative and document software including Photoshop and Acrobat Reader and has been making headway into the marketing and analytics. The company has benefited from the transition to cloud-based products and the increase in non-professional subscribers. The shift to higher-margin, higher recurring revenue from cloud-based software has resulted in year-on-year increases in operating margins and returns on capital. Trading at c.30x 2020 earnings whilst exhibiting c.32% operating margins (greater than competitors) and forecasting year-on-year earnings growth of 20%, Adobe is a highly reputable business with strong long-term growth potential which is not trading at a substantial premium.

Portfolio characteristics

The chart below shows the geographic weighting of the portfolio both by domicile and source of revenues.

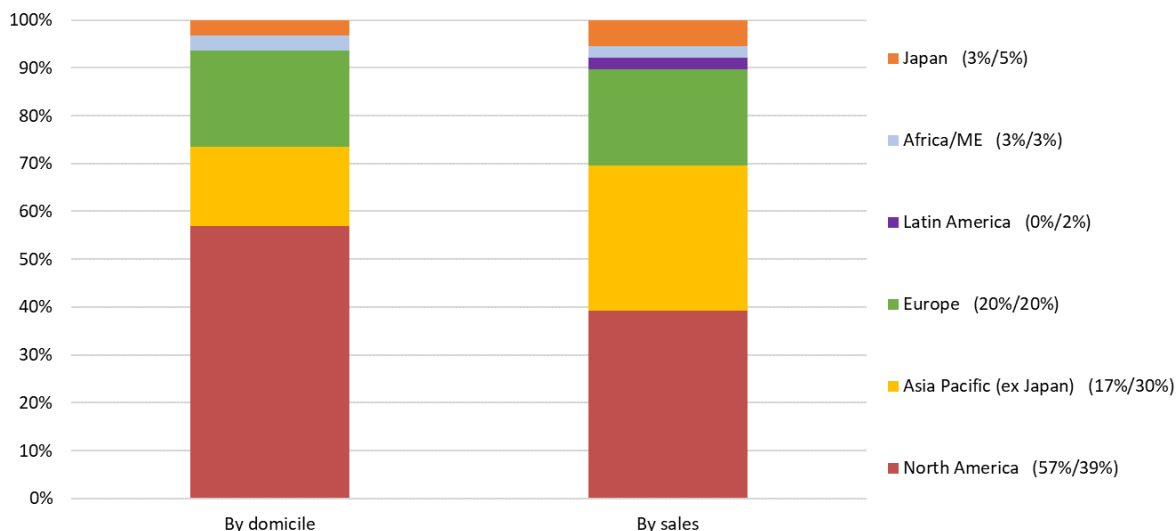
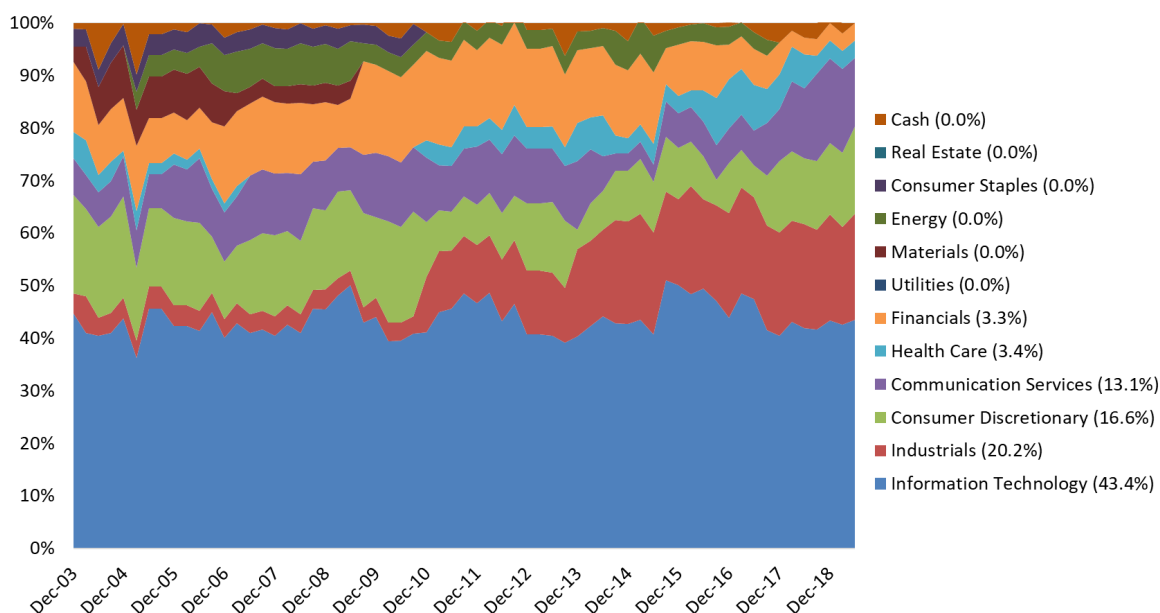


Figure 9: Geographic breakdown of the Fund. Guinness Asset Management, Bloomberg (data as at 30.06.2019)

The two charts below show how the exposure of the Fund has evolved since the launch of the strategy back 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. The two switches we made during the month (selling AAC technologies and Baidu and buying Amazon and Adobe) had the effect of increasing exposure to Consumer Discretionary by one position and reducing our exposure to Communication Services by one position. There was no net effect on our exposure to IT.



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Figure 10: Portfolio sector breakdown. Guinness Asset Management, Bloomberg (30.06.2019)

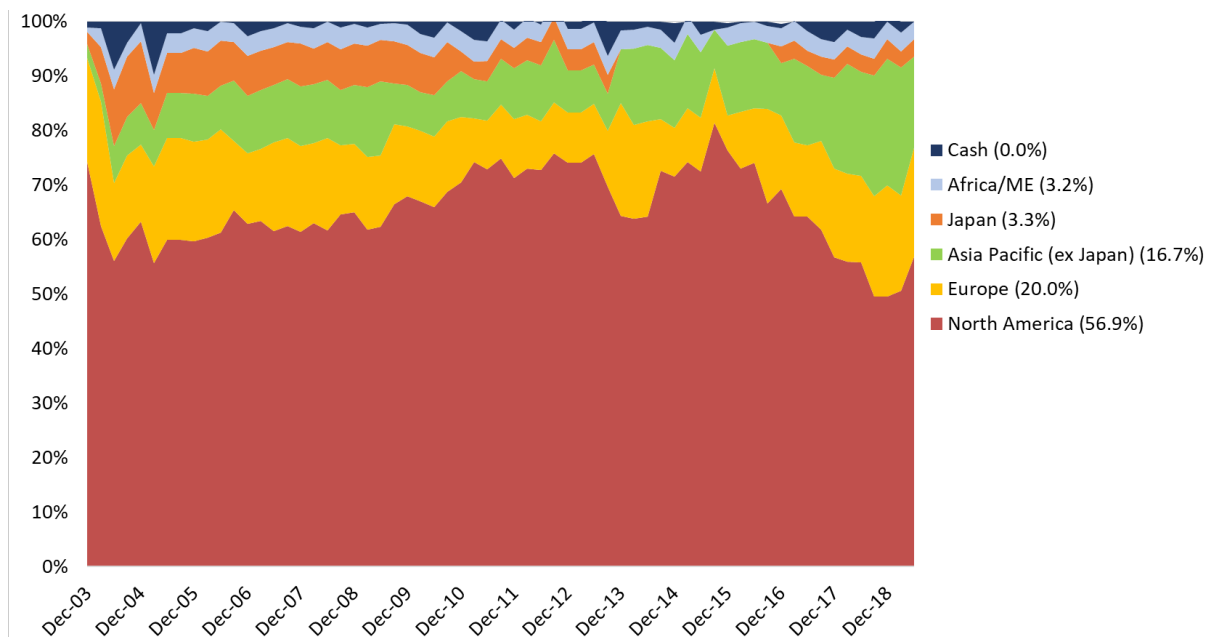


Figure 11: Portfolio geographic breakdown. Guinness Asset Management, Bloomberg (30.06.2019)

The change in regional exposure as a result of the two changes was in decrease in exposure to Chinese equities (AAC Technologies and Baidu), whilst increasing the exposure to US (Amazon and Adobe).

Key fund metrics

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	6%	9%
Quality	CFROI (median 2019)	16%	8%
	Weighted average net debt / equity	-2%	96%
Growth (& valuation)	Trailing 3-year sales growth (annualised)	14%	8%
	Estimated earnings growth (2020 vs 2019)	13%	10%
	FCF yield	5%	5%
	PE (2019e)	19.3	16.3
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 30.06.2019)

The portfolio now trades at an 18% premium to the broad market on a PE ratio basis (Fund 19.3x 2019 expected earnings vs MSCI World Index 16.3x), but remains in line on a FCF yield basis whilst currently forecasting 13% EPS growth vs MSCI World 10%. We therefore believe the portfolio offers good value relative to the market today given the exposure to higher-quality (median CFROI 2019 16% vs 8%), innovative companies in higher growth areas (3-year trailing sales growth 14% vs 8%).

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

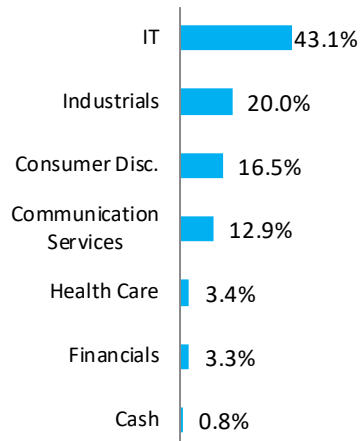
PORTFOLIO

30/06/2019

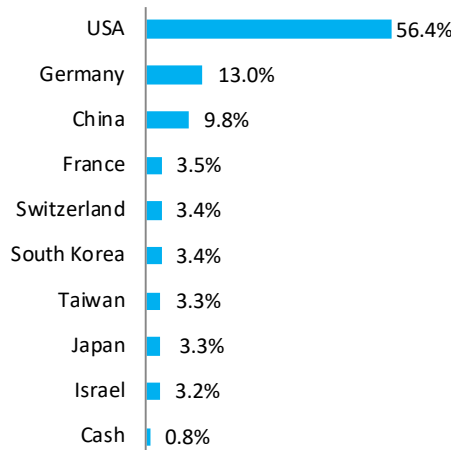
Fund top 10 holdings

Applied Materials	3.6%
Lam Research	3.5%
Nvidia Corp	3.5%
Continental	3.5%
Schneider Electric	3.5%
SAP AG	3.4%
Eaton	3.4%
New Oriental Education &	3.4%
ABB	3.4%
Danaher Corp	3.4%
% of Fund in top 10	34.5%
Total number of stocks	30

Sector analysis



Geographic allocation



30/06/2019

Annualised % total return from strategy inception (GBP)

Guinness Global Innovators strategy*	12.43%
MSCI World Index	9.99%
IA Global sector average	9.13%

Discrete years % total return (GBP)

	Jun '15	Jun '16	Jun '17	Jun '18	Jun '19
Guinness Global Innovators strategy*	9.5	10.1	32.2	13.9	3.4
MSCI World Index	10.3	14.3	21.6	9.3	10.3
IA Global sector average	8.4	6.7	23.7	9.1	7.5

Cumulative % total return (GBP)

	1 month	Year-to-date	1 year	3 years	5 years	10 years
Guinness Global Innovators strategy*	7.4	20.7	3.4	55.6	87.7	375.4
MSCI World Index	5.6	17.1	10.3	46.6	85.0	258.1
IA Global sector average	4.9	16.8	7.5	45.1	67.8	194.6

RISK ANALYSIS

30/06/2019

Annualised, weekly, 5 years, in GBP	Index	Sector	Strategy*
Alpha	0	0.53	-0.81
Beta	1	0.80	1.13
Information ratio	0	-0.32	0.07
Maximum drawdown	-14.03	-17.08	-19.65
R squared	1	0.79	0.85
Sharpe ratio	0.71	0.61	0.61
Tracking error	0	6.06	6.48
Volatility	13.27	11.86	16.26

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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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