Guinness Global Innovators Fund

INVESTMENT COMMENTARY - October 2016

About the Fund

The Fund is a large cap. 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	£62m
AUM in strategy	£185m
Fund launch date	31.10.14
Strategy launch date	01.05.03
Managers	Dr. Ian Mortimer, CFA Matthew Page, CFA

Performance — 30.09.16

Cumulative %	**1 year**	**3 years**	**5 years**
Strategy*	32.2	59.1	158.0
Index	29.9	47.8	107.9
Sector	26.2	34.2	80.2
Position in sector	**38** /258	**15** /232	**3** /202

Annualised % total return
from strategy inception (GBP)

Strategy*	**12.41%**
Index	**9.63%**
Sector	**8.79%**

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, bid to bid, total return, in GBP.

Summary performance

In the month of September the fund was up 1.38% (in GBP) versus the benchmark MSCI World Index up 1.36%. The fund therefore outperformed the index by 0.02% over the month.

Over the third quarter as a whole the fund was up 11.91% versus the benchmark MSCI World Index up 7.42%. The fund therefore outperformed the index over the quarter by 4.49%.

Coming after some underperformance relative to the broader market at the start of the year, the large outperformance in the third quarter by the fund now places it ahead of the index year-to-date. This year the fund is now up 19.32% versus the MSCI World Index up 19.76%. The fund is therefore behind the index by 0.44% for the year.

Quarter in review

Despite world equity markets finishing almost flat over the period we witnessed significant volatility in share prices over the third quarter of 2016.

In July the market had to digest the surprise vote for Brexit in the UK referendum on EU membership at the end of June. After an initial sell-off equity markets rallied significantly through the end of the month, with the MSCI World Index closing up over 4% in July.

In August equity markets appeared somewhat subdued with the MSCI World Index up only 0.14% (in USD) over the month. The VIX (or so-called ‘fear index’) also remained at low levels suggesting market participants were less concerned with the potential for a big sell-off in US equities. However, as we noted in previous updates the overall market performance belied quite large divergences in individual sector performances; financials, IT, materials, and industrials led the market and utilities, healthcare, telcos, and consumer staples lagged. This was in stark contrast to the start of the year when the more 'defensive' sectors outperformed as markets worried about the prospects for Chinese growth. In a similar vein, developed markets underperformed emerging markets in August, continuing a trend that had begun to evolve around the end of May.

September followed a similar pattern to August. Developed market equities (MSCI US +0.1%, MSCI UK +0.5%, MSCI Europe +0.6%, all in USD) lagged emerging market equities (MSCI EM +1.3%) and Asian equities (MSCI Asia-Pac ex Japan +1.7%, Japan +1.3%) and the sectors that led and lagged the markets in August (as noted above) broadly continued to do so in September.

The performance of the energy and materials sectors, and energy in particular, coincided with better prospects for commodity prices in general and specifically for oil following perceived collaborative action on supply curtailments by OPEC members. The relative underperformance of REITs, telcos, healthcare, and staples also coincided with a growing assumption that more accommodative monetary policy from central banks, most notably the Fed and the ECB, may not come to pass - making the high dividends from these types of business less attractive and less necessary to investors in the medium to long term.

The notable exception to the sector leaders from August continuing to outperform in September was the financials sector. Fears surrounding Deutsche Bank following the record Department of Justice settlement claim for mis-selling residential mortgage-backed securities in the US, and the emergence of a probe into fake customer account openings at Wells Fargo combined to rattle the sector.

Performance drivers

In terms of positioning the fund benefitted significantly from the sector over- and underweights versus the index in the quarter.

Over the period the fund retained its zero weighting to all of consumer staples, telcos, utilities, materials, and real estate (which previously was included in financials but is now split out as a standalone sector by MSCI). The only one of these five sectors to outperform the overall market in the quarter was materials whereas the other four made up the worst performing sectors in Q3 – meaning our zero weighting to them added helpfully to performance in the period.

The two sector overweights in the portfolio were industrials and information technology, both of which outperformed the benchmark.

IT was, in fact, the best performing sector in the MSCI World in the third quarter and rallied 13.1% (in USD) over the period. This compares to the poorest performing sector - utilities - which was down 3.3%; a 16.4% divergence in just three months. The fund had a c.47% weighting to IT on average over the quarter which contributed significantly to the overall performance of the fund in the period.

In terms of geographic exposure the largest difference between the fund and the benchmark was the exposure to Western Europe (as measured by country of domicile). The fund over the quarter had on average a c.9% weighting to Western Europe which compares to the index at c.24% - so a 15% underweight position. This made no discernible difference from an index-relative performance perspective in the quarter, however.

The largest geographic overweight remains North America which was on average a c.13% larger position than the benchmark (c.74% versus c.61%). Again this made no discernible difference from a performance perspective in the quarter.
Small-caps outperformed large-caps, which would generally not be beneficial to the fund, as the fund only invests in mid- to large-cap companies. There was a (small) bias towards value stocks versus growth stocks but this likely did not affect performance in a significant way.
Individual companies that performed well over Q3 were Nvidia (up 46.0% in USD), State Street (up 29.9%), Qualcomm (up 28.9%), Applied Materials (up 26.2%), and SAP (up 22.2%).
Companies that had weaker performance over Q3 were Cognizant (down 16.6% in USD), Verifone (down 15.1%), Tegna (down 5.0%), Gilead (down 4.6%), and Oracle (down 3.7%).

Changes to the portfolio

In the quarter we made four changes to the portfolio; we sold positions in Oracle and Tegna and initiated new positions in Infineon and Shire.

Oracle has been a long term holding in the strategy, having been in the portfolio since the end of 2003. The total return of the stock over our holding period was 222% (in USD), versus the MSCI World Index return of 132% - a significant 2.8% annualised return difference. Over the long period we held the stock the earnings improved by 441%, which came through both net income growth (c.325%) and also a reduction in the shares outstanding (c.21% reduction). The PE multiple contracted significantly, however, reducing by approximately 46% - which reflects the maturity of the business and its ability to grow cash flows in the future. The contribution from shareholder returns in terms of dividends was modest, as the company only began to pay a dividend in 2009. Today we see the company's reasonable valuation multiple as reflective of the lower prospects for growth and this combined with the declining return on capital suggests the business is struggling to find good projects for reinvestment of capital. The bull case is that the company is undergoing a period of restructuring as it transitions from a license-model to software as a service (SaaS) model and that the higher margins afforded to the restructured segments will provide an uplift to both earnings and the multiple. We fear that this transition may be more difficult than management suggests and despite the company's market share and large size we see increased competition in its end markets, especially in the database segment. We therefore felt the prospects for short to medium term growth were potentially limited and that the reasonable valuation was a fair reflection of this - and that there were better opportunities elsewhere.

Tegna has been held in the strategy since October 2013, originally through the Gannett business which subsequently split into Tegna and Gannett(NewCo) in June 2015. Gannett(NewCo) took on the publishing business and Tegna the broadcast television and digital media businesses. Part of the rationale of this split was that the faster growing and more profitable Tegna could command a higher multiple and ultimately we took the same view – selling our holding in Gannett(NewCo) and increasing our stake in Tegna to a full position in the portfolio.

The market rewarded the reorganisation of the business leading up to the June 2015 split, but subsequently Tegna has disappointed somewhat with recent quarterly earnings below expectations. The company has also announced that one of its main digital media assets, cars.com, will be spun out in 2017 and that careerbuilder.com is under strategic review. We perceive the broadcast television model to be under potential long term threat, and the fact that the company is struggling despite a 'bumper' year of the Olympics and a presidential election makes us question the long term opportunities for the business. The very low multiple (less than 10x 2016 expected earnings) does not, in our opinion, make up for the potential for near term earnings declines and the long term headwinds in the sector. Over our holding period (adjusting for the split in June 2015) we calculate the position made a small loss versus the MSCI World.

Shire is a business we have held in the strategy before, from October 2013 to August 2014. We sold previously as the share price appreciated dramatically when a bid from Abbvie was tabled for the company. After our sale the bid was ultimately withdrawn by Abbvie due to the growing backlash against so-called 'tax inversions' at that time (Abbvie would have been able to utilise Shire's Dublin domicile to reduce significantly the overall group tax rate). We repurchased shares in Shire in September 2016.

In the time since the failed Abbvie bid, Shire has made a number of notable transactions itself: NPS and Dyax in 2015 and the transformation deal for Baxalta in 2016. In doing so the company has reduced its dependence on its legacy drugs, created the largest biopharma company focussed on rare diseases, and created a strong future pipeline of new drugs. We were attracted back to the company by the fact it had increased its return on capital every year for the last three years, its potential ability to protect margins with its new focus and specialisation, and the fact we could purchase shares at reasonable valuations that were trading at the time below the average five year multiple and below the broad market.

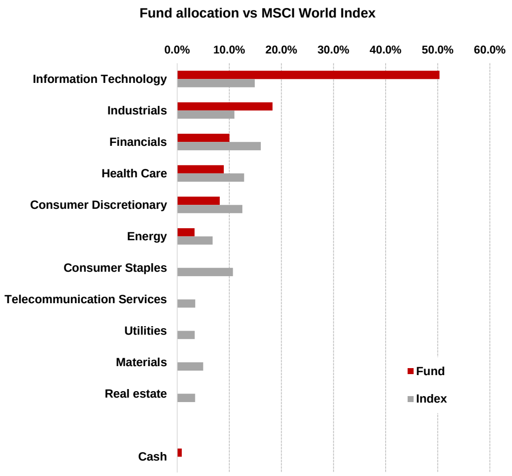
Infineon is a new holding for the fund. The €17bn market cap company is listed in Germany and designs and manufactures semiconductors. Originally part of the Siemens group, it was spun out as a separate entity in 1999. The stock price has been strong over the past year but we still see good opportunities for growth. The company has a number 1 or number 2 position in very fast growing markets, and especially in the automotive sector where we see significant prospects for future growth in the transition through advanced driver assistance to completely autonomous vehicles. Each stage in this development will require a higher and higher density of chips per car to enable the increased functionality and safety features required.

Infineon trades at the high end of valuation multiples we are comfortable with (today it is around 20x forward earnings) and we recognise it is a cyclical business but we see high operating margins, improving returns on capital and the prospect of growing economic profits through asset growth. When combined with a secular growth trend supporting the business more broadly we can see earnings growth at around the 15% CAGR level over the next five years which, if achieved, would certainly justify the current price. We also recognise that we have not factored in any significant multiple rerating into our analysis of potential future returns.

Positioning

In terms of sector weightings the fund continues to have a zero weighting to utilities, materials, consumer staples, telcos, and the newly created real estate sector. The largest overweight positions are to IT and to industrials.

The chart below shows the sector breakdown of the fund in absolute terms and also relative to the benchmark to highlight any over/underweights.



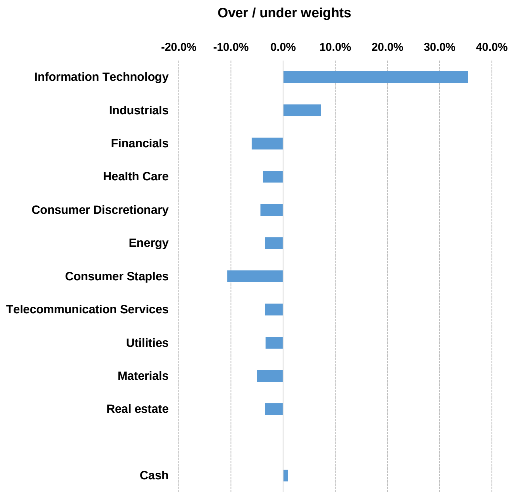


Chart 1: Sector breakdown of the fund versus MSCI World Index. Guinness Asset Management, Bloomberg (data as at 30.09.2016

With regard the large overweight position to IT it is worth noting that this is split between the three different subsectors of semiconductors (20.5% of portfolio today), software and services (19.4%), and technology hardware (11.2%).

To put this data into a historical context (for the fund at least) the below two charts show how the exposure of the fund has evolved since we launched the strategy back in 2003.

From a sector perspective the recent changes made to the portfolio have reduced consumer discretionary and increased healthcare. The reduction in IT exposure over the quarter (purple block) reflects a rebalancing of the portfolio, as some of the positons owned in IT had been outperforming significantly through the second quarter and therefore their relative size in the portfolio had increased. We took the opportunity during the third quarter to take some profits in these companies and reinvest the proceeds into companies held that had underperformed

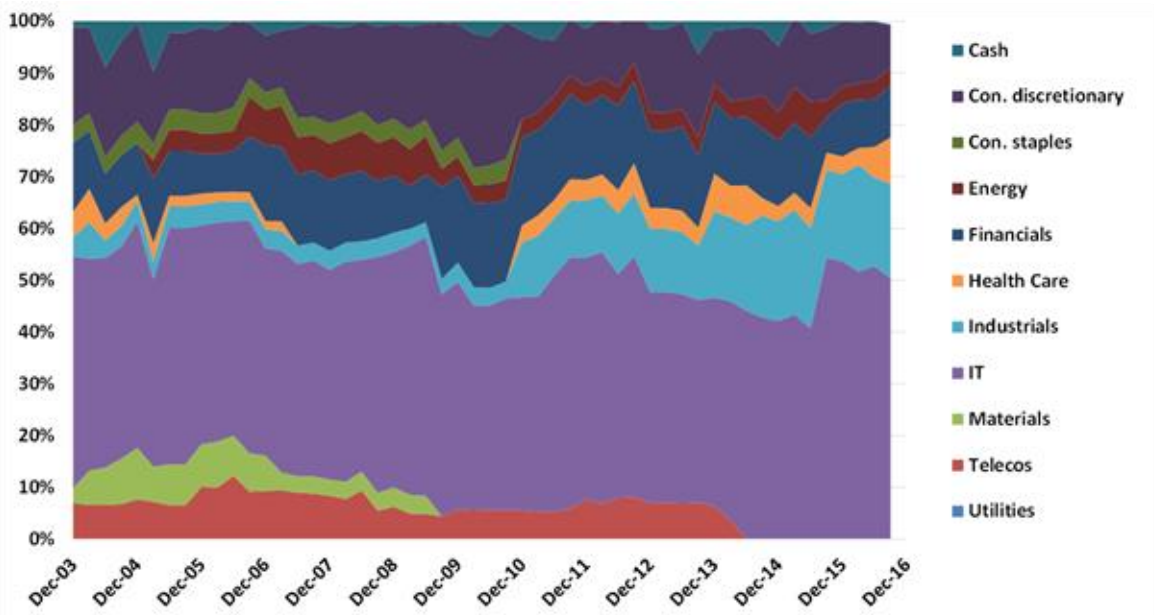


Chart 2: Sector breakdown of the strategy since launch. Guinness Asset Management, Bloomberg (data as at 30.09.2016)

From a geographic point of view the recent changes to the portfolio reduced the North American exposure of the fund by c.6.6% and increased the European exposure by an equivalent amount. This brings the North American exposure of the portfolio back towards the average of c.60% the strategy has had over the past 12 years.

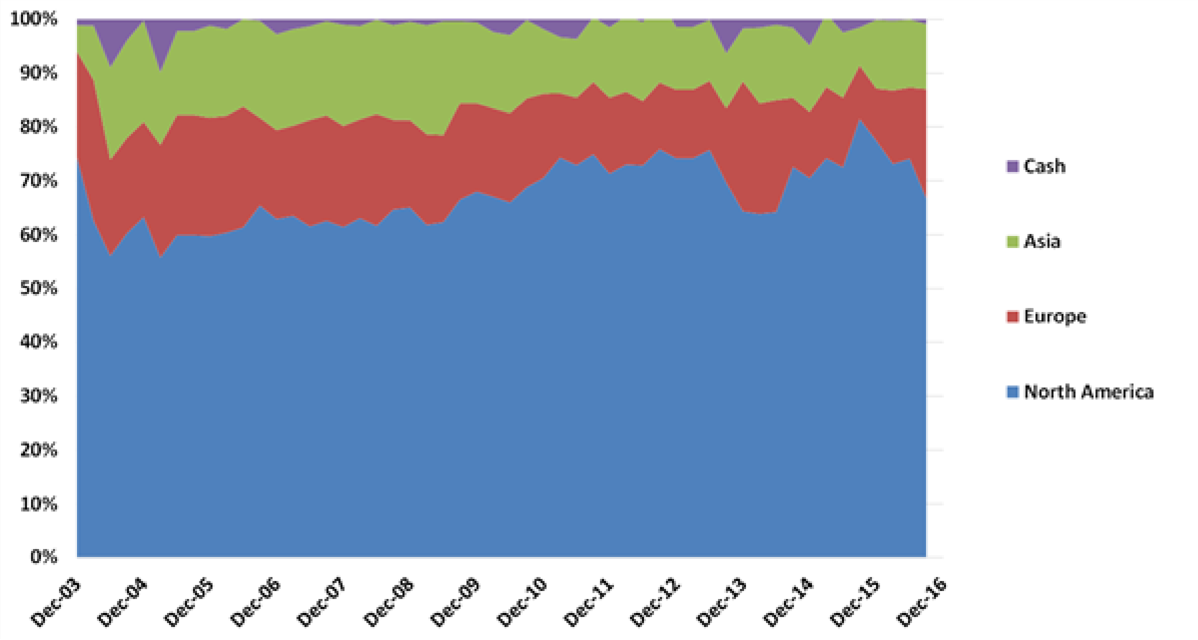


Chart 3: Geographic breakdown of the strategy since launch. Guinness Asset Management, Bloomberg (data as at 30.09.2016)

Outlook

In our conclusion of the previous quarterly update for the fund we wrote:

"Generally speaking the fund has outperformed in periods of rising markets, and underperformed slightly in periods of falling markets. The fund is orientated towards growth, but not at any price. The recent underperformance is therefore somewhat expected as the more defensive parts of the market (such as consumer staples, utilities, etc) have outperformed and these are parts of the market to which the fund has relatively low exposure.

This is reflected in valuations, however, and the fund at the end of the quarter was trading on a forward PE multiple of 15.5x, which is a 4% discount to the broader market. Historically the fund has traded on a premium to the market so we believe this is a reflection of what the market has rewarded (and overlooked) over the past 12-18 months. Recent good performance in fund holdings that have been underperformers over that period (NVIDIA, Applied Materials, Samsung Electronics, Oracle, Cisco for example) may be an indication that the market is starting to reassess the value these types of business, particularly versus the more expensive high growth companies that did so well during 2015. If this is the case then we believe the fund is well positioned to take advantage of that trend."

One quarter does not represent a trend, and we are well aware of how fickle the market can be, but it is encouraging that the recent performance of the fund has been so strong and that our faith in the companies we held through 2015 and the first half of 2016 has begun to be rewarded.

We also note that despite the outperformance in the third quarter the fund still trades at a 3.7% discount to the broad market on a PE ratio basis (the fund is at 16.8x 2016 expected earnings vs MSCI World Index 17.4x) despite the expected year-on-year earnings growth of the overall portfolio standing at 12.5% (2017 on 2016).

Thank you for your continued support.

Dr. Ian Mortimer & Matthew Page
Co-managers, Guinness Global Innovators Fund

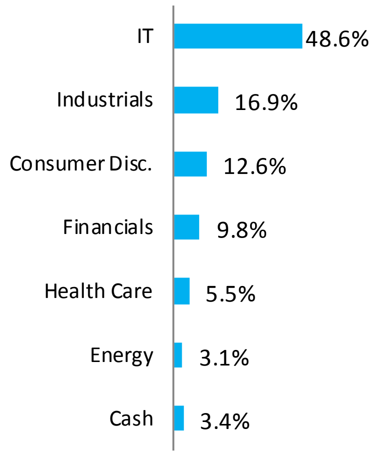
PORTFOLIO

30/09/2016

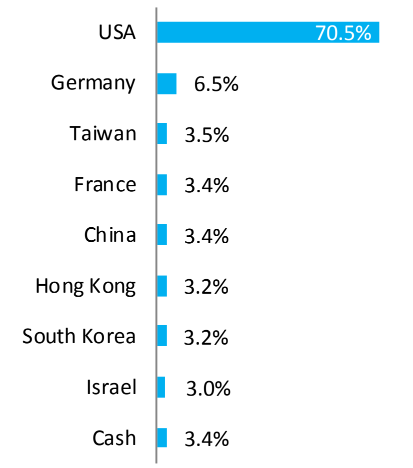
Fund top 10 holdings

Intel Corp	3.7%
Nvidia Corp	3.5%
Alphabet	3.5%
Qualcomm	3.5%
Taiwan Semiconductor AI	3.5%
Schneider Electric	3.4%
Cisco Systems	3.4%
Wisdomtree Investments	3.4%
Lenovo	3.4%
SAP AG	3.3%
% of Fund in top 10	34.6%
Total number of stocks	31

Sector analysis



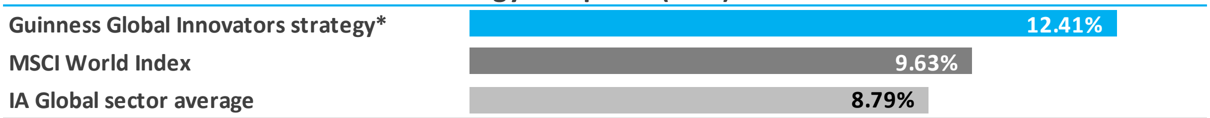
Geographic allocation



PERFORMANCE *(composite simulation - see below)*

30/09/2016

Annualised % total return from strategy inception (GBP)



Discrete years % total return (GBP)	Sep '12	Sep '13	Sep '14	Sep '15	Sep '16
Guinness Global Innovators strategy*	21.5	33.4	22.6	-1.8	32.2
MSCI World Index	17.3	19.9	12.1	1.6	29.9
IA Global sector average	13.0	18.8	7.9	-1.4	26.2

Cumulative % total return (GBP)	1 month	Year-to-date	1 year	3 years	5 years
Guinness Global Innovators strategy*	1.4	19.3	32.2	59.1	158.0
MSCI World Index	1.4	19.8	29.9	47.8	107.9
IA Global sector average	1.0	16.7	26.2	34.2	80.2

RISK ANALYSIS

30/09/2016

Annualised, weekly, 5 years, in GBP	Index	Sector	Strategy*
Alpha	0	-0.15	3.03
Beta	1	0.82	1.09
Information ratio	0	-0.46	0.71
Maximum drawdown	-14.03	-17.08	-17.14
R squared	1	0.79	0.86
Sharpe ratio	0.92	0.74	1.10
Tracking error	0	5.90	5.79
Volatility	12.82	11.84	15.11

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Source: Financial Express, bid to bid, total return, in GBP.

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: Capita Financial Managers (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'Ile, 1204 Geneva, Switzerland.

Telephone calls may be recorded and monitored.