

**GUINNESS**

# **Global Innovators Fund**

A high conviction global growth fund managed by Dr. Ian Mortimer, CFA, and Matthew Page, CFA, investing in companies we believe can create value through original thinking.

**Annual review**

**2014**

**GUINNESS**

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ASSET MANAGEMENT LTD

<b>Fund size (31.12.14)</b>	<b>£18.0m</b>		
<b>Launch date</b>	<b>31.10.14</b>		
<b>Aim</b>	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.		
<b>Performance</b>	<b>31/12/2014</b>		
<b>Fund</b>	Guinness Global Innovators		
<b>Index</b>	MSCI World Index		
<b>Sector</b>	IA Global sector average		
<b>Cumulative %</b>	<b>1 year</b>	<b>3 years</b>	<b>5 years</b>
<b>Fund</b>	18.9	93.8	119.7
<b>Index</b>	11.5	53.5	68.3
<b>Sector</b>	7.1	42.6	49.8
<b>Position in sector</b>	<b>6</b> /259	<b>3</b> /234	<b>1</b> /200
<b>Annualised % total return from strategy inception (GBP)</b>			
<b>Fund</b>	<b>11.83%</b>		
<b>Index</b>	<b>8.99%</b>		
<b>Sector</b>	<b>8.46%</b>		
<b>Risk analysis - Annualised, weekly, 5 years, in GBP</b>	<b>Index</b>	<b>Sector</b>	<b>Fund</b>
<b>Alpha</b>	0	-0.55	4.93
<b>Beta</b>	1	0.82	1.08
<b>Info ratio</b>	0	-0.37	0.81
<b>Max drawdown</b>	-18.26	-17.61	-25.41
<b>R squared</b>	1	0.80	0.84
<b>Sharpe ratio</b>	0.49	0.34	0.78
<b>Tracking error</b>	0	6.27	6.72
<b>Volatility</b>	14.15	13.00	16.64
<b>Past performance should not be taken as an indicator of future performance. The value of this investment can fall as well as rise as a result of market and currency fluctuations.</b>			
The returns stated above are a simulation based on the actual returns of Guinness Atkinson Global Innovators Fund (a mutual fund for US investors) until the launch of the UCITS version on 31.10.14. Both funds are managed in accordance with the same investment process and with the same portfolios. Source: Financial Express, bid to bid, total return. Guinness Atkinson Global Innovators Fund is not included in the IA Global sector. The sector's performance and the Fund's ranking are included for a comparison of the Fund with the average performance of global equity funds available in the UK.			

# Annual review

## Guinness Global Innovators Fund – a new fund with a long history

Launched on 31<sup>st</sup> October 2014, Guinness Global Innovators Fund is managed as an exact replica of the long-established US SEC-registered Guinness Atkinson Global Innovators Fund (ticker: IWIRX US). The US version has been run by the Guinness team since 2003, and was initially managed by Tim Guinness. We (Matthew and Ian) then took over the day-to-day running of the Fund in 2010.

In terms of philosophy and approach, it shares much with our Global Equity Income Fund. We maintain our focus on value, which in a growth portfolio steers us away from many of the glossy, hyped-up story stocks and towards more out of favour names. It is a high conviction portfolio with 30 equally weighted positions, meaning the portfolio has a high active share (typically over 90%), and we are agnostic as to index weights.

We look to invest in innovative companies because we think that a company that is doing something innovative – be it making scientific or technological breakthroughs, developing better products, or creating new and better business models – should be able to earn a higher return on capital than its average peers. Some of these companies will be highly disruptive, while others will be making more incremental or continuous innovations. We look at the whole spectrum. What is most important to us is not to provide you with a portfolio of the most innovative companies, but to identify a universe of innovative companies, and then select from that universe a portfolio of companies that offer attractive valuation.

The portfolio's longer history means that we can provide here a full review of our performance and our investment decisions in 2014 (as well as the performance of the UCITS version for UK and European investors since launch in October 2014).

We have been delighted with the response we have received, and are pleased to say that the new Fund has

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already reached \$28 million in size. We would like to thank all our investors for their support in the launch of the Fund and look forward to seeing as many of you as possible in 2015!

## A review of 2014

2014 marked another good year for the strategy, despite the various headwinds seen in markets throughout the period. Our approach of looking for innovative, growing businesses helped us to identify a group of companies for the portfolio that managed to take advantage of the pockets of positive economic environments that were available, and our value discipline once again helped us avoid some of the companies ‘priced to perfection’ that stumbled in the year.

Our approach in the Fund is not to provide access to the *most* innovative companies in the world, but rather to look at companies using the ‘prism’ of innovation to highlight those we think might be winners in the future – and then only buy them if they are offering reasonable value compared to those future expectations. We are firm believers that innovative companies can outperform in the future and that a value discipline to stock selection will add meaningfully to that performance.

We are pleased to report more and more investors are coming round to our way of thinking. As well as the \$28 million we have raised since the launch of the UCITS version, the US version has grown from \$50m at the start of 2014 to \$165m today.

### 1. Performance

Global equity markets were positive despite a poor start to the year; the MSCI World Index had a total return of 11.5% over the year (in GBP). The Guinness Global Innovators portfolio delivered a total return of 18.9% over the same period, thereby outperforming the MSCI World Index by 7.4%.

This result is particularly pleasing considering the Fund was up 42.6% in 2013 compared to the Index return of ‘just’ 24.3%.

Annualised % total returns, in GBP	1 year	3 years	5 years	10 years	Strategy launch (1.5.03)
<b>Guinness Global Innovators strategy*</b>	18.9	24.6	17.0	12.1	11.8
<b>MSCI World Index</b>	11.5	15.3	11.0	8.3	9.0
<b>IA Global sector</b>	7.1	12.5	8.4	7.4	8.5
<b>Position in IA Global sector</b>	<b>6</b> /259	<b>3</b> /234	<b>1</b> /200	<b>4</b> /127	<b>12</b> /113

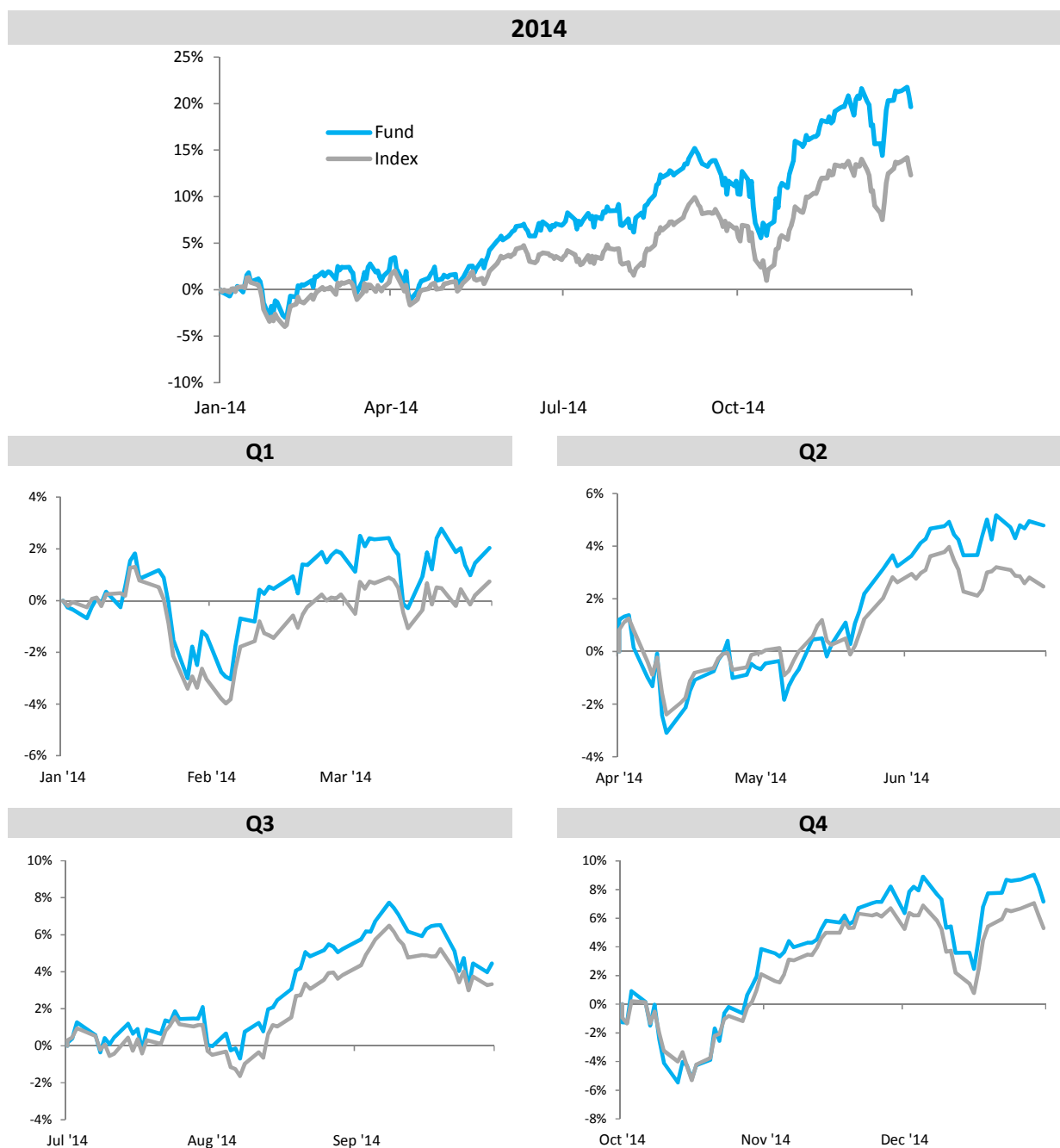
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\*The returns stated above are a simulation based on the actual returns of Guinness Atkinson Global Innovators Fund (a mutual fund for US investors) until the launch of the UCITS version on 31.10.14. Both funds are managed in accordance with the same investment process and with the same portfolios. Source: Financial Express, bid to bid, total return, all in GBP. Guinness Atkinson Global Innovators Fund is not included in the IA Global sector. The sector’s performance and the Fund’s ranking are included for a comparison of the Fund with the average performance of global equity funds available in the UK.

If we look at how the total return of the Fund developed over the year, however, we can see that it was not all plain sailing. 2014, much like 2012, was characterised by quite significant moves to the downside and subsequent recoveries. The charts below show the cumulative performance of the Fund over the entire year, and also quarterly snapshots of cumulative performance to highlight how the broad market performed over the year.

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Fund performance versus MSCI World Index – 2014 and by quarter (total return in GBP)



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These performance graphs show the performance of the Guinness Atkinson Global Innovators Fund (US mutual fund version) and the MSCI World Index, calculated in GBP. *Source: Bloomberg*

Pleasingly, the Fund outperformed in every quarter of the year (even when the market was down in dollar terms, as in Q3). This is not something we would necessarily expect (and certainly something we would never promise to achieve in the future!). The Fund is orientated towards growth, rather than value, so typically we would expect it to underperform in sharply in down markets and outperform in rising markets. Analysing the performance of our underlying holdings, we can see this was broadly true

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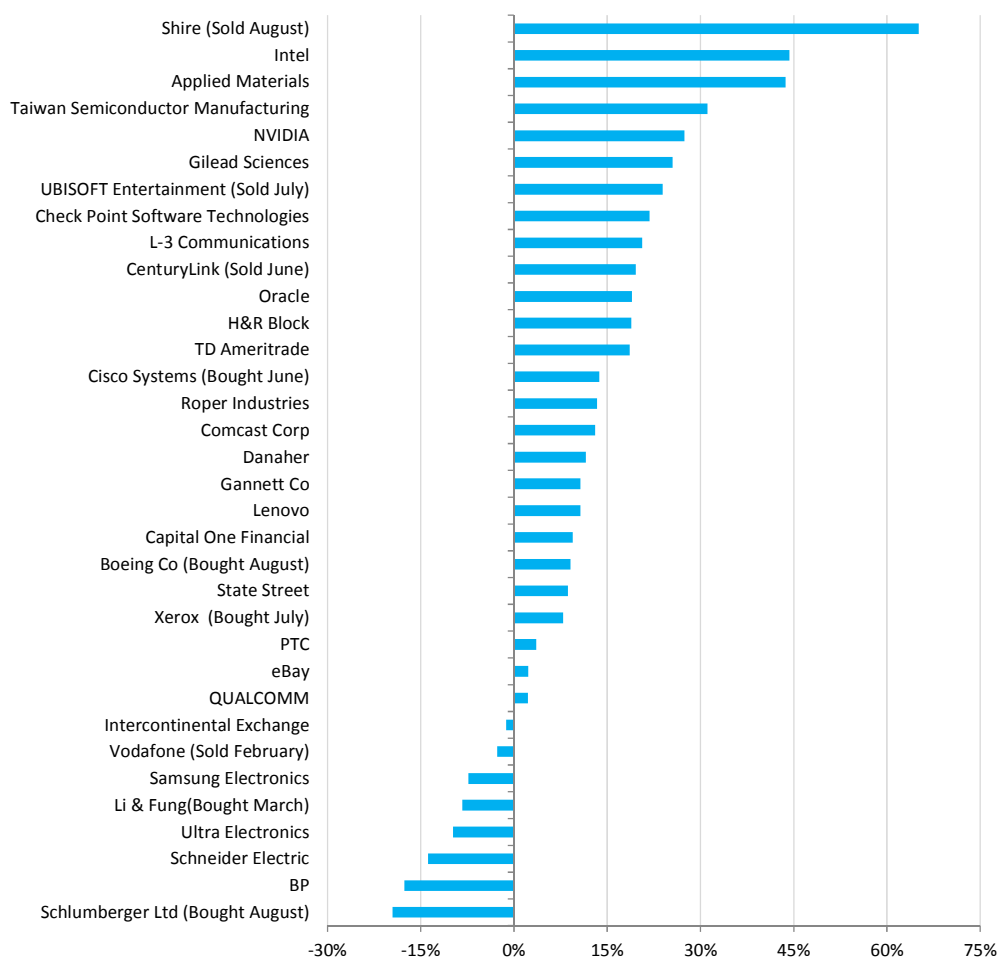
but good stock selection helped ‘boost’ Fund performance in periods where the market was weak. For example, in the third quarter our holding in Gilead Sciences was up almost 30%, while our holdings in Intel, eBay and Lenovo all had total returns in double figures.

As we stated in the introduction, we apply a value discipline to looking for growth stocks – this helps us to avoid paying too much for expected (but unproven) future growth and getting caught up in the hype surrounding the ‘next big thing’. We believe this is particularly beneficial when markets turn sour as it is exactly these types of company that get hit the hardest.

## 2. Attribution and asset allocation

The performance of each individual company held in the Fund throughout the year is shown in the table below. Where a company was held intra-year the purchase or sale date is shown in brackets.

**Portfolio holdings – 2014 total return in USD**



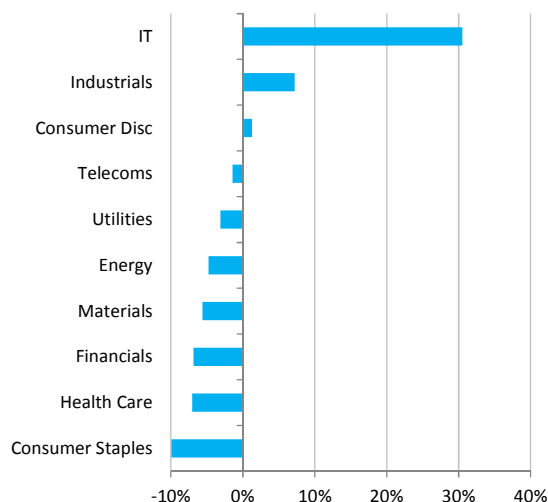
Source: Bloomberg, Guinness Asset Management

There were some standout individual performers in the year. On the positive side Shire, Intel, and Applied Materials were all up over 40% in the year. You can also see that the sales made throughout the year were those companies that had performed particularly strongly. We also sold long-term holding Vodafone following the Verizon deal and the good performance Vodafone had on the back of that deal from mid-2013.

On the negative side, the worst performing companies held in the portfolio came from those stocks in more cyclical sectors (like energy, industrials, and consumer discretionary) as worries surrounding the prospects for global growth came to the front of investors' minds near the end of the year.

When we look at the average weighting of the Fund over the year versus the benchmark, you can see the Fund had some significant differences.

**Fund sector weights relative to the MSCI World Index (2014 average)**



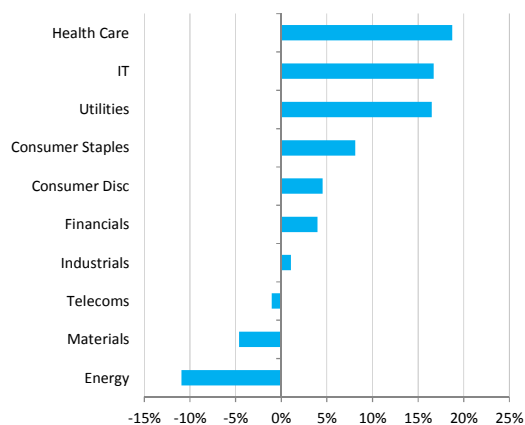
Source: Bloomberg, Guinness Asset Management

These differences come about in three ways:

1. The 'natural' biases towards the technology sector and away from regulated industries like telecoms or utilities that arise from our process of looking for innovative companies;
2. Our bottom-up approach to stock selection in which we look for good companies at cheap valuations regardless of which sector they are in; and
3. The Fund is equally-weighted, which means we do not blindly follow the weightings in the benchmark.

If we look at how the different sectors in the MSCI World have performed over 2014 we can see there has been a very wide dispersion. The best performing sector was health care (up 18.7%) versus the worst performing sector energy (down 10.9%) (in USD).

**MSCI World – sector performance in 2014**






Source: Bloomberg, Guinness Asset Management

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Information technology as a sector performed well, up almost 17%. Our large weighting to IT therefore provided a useful tailwind to the overall performance of the Fund. Headwinds were our underweight versus the top-performing healthcare sector and a lack of exposure to utilities and consumer staples. Again good stock selection (both in terms of selling currently held positions, and purchasing new stocks at the right time) meant we outperformed against the benchmark despite these headwinds.

### 3. Buys and sells

We are firm believers in the benefits of a ‘buy and hold’ strategy. Trading markets is a difficult and often perilous exercise that can incur substantial fees which drag on investment returns. The holding period for an average company in our portfolio has been between three and five years, although we do not discount selling a company earlier if the valuation happens to move dramatically (for example when a company is bid for by a competitor, as we saw for our holding in Shire, the UK pharmaceutical company). The table below shows all the buys and sells we have made in the Fund over the last five years.

	Buys	Sells
2010	   	   
2011	 	   
2012		 
2013	      	     
2014	    	   

Source: Guinness Asset Management

In 2014 we made nine changes to the portfolio, comprising four sells and five buys.

In the first quarter we sold our holdings in Vodafone and Verizon following the latter’s acquisition of the stake of Verizon Wireless it did not already own. In their place we purchased a new position in Li & Fung, a Hong Kong-listed global outsourcing company whose share price had been weakened by the selloff in emerging markets at the start of the year. We noted, however, that over 60% of its revenues came from the US and over 20% from Europe, so it had potentially been dragged down indiscriminately rather than for anything specific to the company itself.

In the second quarter we made only one change to the portfolio; we sold our holding in CenturyLink and replaced it with a holding in Cisco, the information technology company. Cisco is the type of mature, incrementally innovative company we like to invest in – it has a long history of high and persistent return on capital which, to us at least, demonstrates its ability to defend its market share and prevent itself from becoming a ‘company in decline’. At purchase the company was also trading on PE multiples less than 12 times, which was a decent discount to the broad market and its history, and so provided a good entry point for purchase.

We made a number of changes in the third quarter. We sold our holdings in Ubisoft and Shire, and bought new positions in Xerox, Boeing and Schlumberger. Ubisoft and Shire were holdings we had owned for a relatively short period of time (by our standards), at less than one year apiece. We bought Ubisoft

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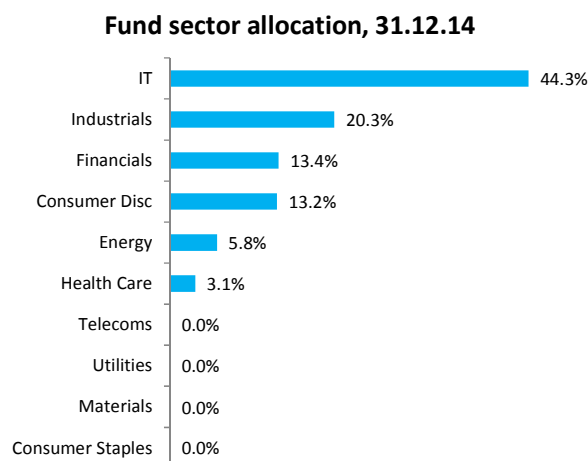
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after a period of very weak performance in the share price, and its subsequent rebound occurred much faster than we might have expected. Its valuation related to such an extent that we felt compelled to take profits and look for a better idea. Shire was the subject of a bid for the entire company from Abbvie. With the stock up just over 90% over our holding period (October 2013 to July 2014), and an increase in the potential offer not looking likely, we decided to sell. Like Cisco, Xerox and Boeing represent the type of more mature companies which are incrementally innovative in the way they do business. Both were trading at reasonable valuations and also have long histories of high return on capital. Schlumberger is also a large capitalisation company but has potentially better chances for growth, and as such we were happy to pay a slightly higher valuation multiple.

We made no changes to the portfolio in the final quarter of the year.

#### 4. What the portfolio looks like today and some thoughts on the future

After the buys and sells we have made throughout the year, the Fund allocation today is shown in the table below.



*Source: Guinness Asset Management*

The information technology sector remains our biggest weighting in the portfolio, but it is worth noting that this comprises more of the large cap ‘blue chip’ companies in the sector like Xerox, Cisco, Intel, etc. rather than the companies that have recently come to market with extremely high valuations like Facebook and Twitter. It is not to say we have particularly strong views on the outlook for the latter, but today we are not willing to pay such high premiums for expected future results. If the valuations of these types of company come back to more normal levels then they *could* fit into the portfolio – only time will tell if our required level of value will materialise and for what reasons market sentiment might turn against them.

We have a zero weighting today to all of the utilities, materials, consumer staples and telecoms sectors. Typically we find almost no innovative utilities and materials companies, so this weighting should come as no surprise. We also see relatively few truly innovative consumer staples or telecoms companies, and today we do not see significant value in the companies in those sectors we do consider innovative. This may change over the coming year, so you might expect to see these weightings increase slightly.

The Fund at the end of the year was trading on 15.7X 2014 earnings, and 14.8X 2015 earnings – a discount to the MSCI World Index equivalent multiples of 11.0% and 4.3%. On these simple metrics we



## Guinness Global Innovators Fund

believe the portfolio therefore provides reasonably good value to our investors, which is particularly pleasing in light of its strong performance over the last year.

We do not like to forecast the future, as it is mostly a futile exercise (just see how well the professional economists do each year) and we do not think we have a particular edge in this regard either. We prefer to focus on valuations and making sure the companies we hold in the portfolio have a reasonable margin of safety to protect from falling markets. Based on the simple metrics outlined above for the portfolio as a whole, we believe the Fund is well set up to continue its good performance into the future.

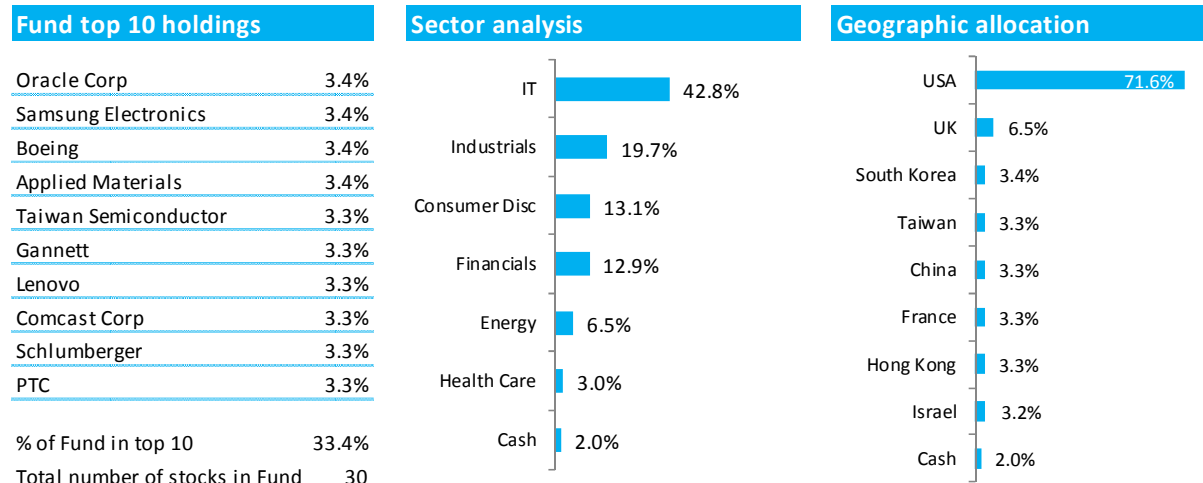
We would like to thank you for your continued support and look forward to updating you with progress over 2015.

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

**January 2015**

## Guinness Global Innovators Fund

### PORTFOLIO (31.12.14)



### PERFORMANCE (composite simulation – see below)

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

12 months to month end:	Dec '10	Dec '11	Dec '12	Dec '13	Dec '14
<b>Fund</b>	20.7	-6.0	14.2	42.6	18.9
<b>MSCI World Index</b>	15.3	-4.8	10.7	24.3	11.5
<b>IA Global sector average</b>	15.8	-9.3	9.4	21.7	7.1

#### Cumulative % total return (GBP)

31/12/2014	1 month	Year- to-date	1 year	3 years	5 years
<b>Fund</b>	-0.9	-	18.9	93.8	119.7
<b>MSCI World Index</b>	-1.2	-	11.5	53.5	68.3
<b>IA Global sector average</b>	-0.9	-	7.1	42.6	49.8

#### Annualised % total return from strategy inception (GBP) 31/12/2014

<b>Fund</b>	11.83%
MSCI World Index	8.99%
IA Global sector average	8.46%

#### Risk analysis - Annualised, weekly, 5 years, in GBP

31/12/2014	Index	Sector	Fund
<b>Alpha</b>	0	-0.55	4.93
<b>Beta</b>	1	0.82	1.08
<b>Information ratio</b>	0	-0.37	0.81
<b>Maximum drawdown</b>	-18.26	-17.61	-25.41
<b>R squared</b>	1	0.80	0.84
<b>Sharpe ratio</b>	0.49	0.34	0.78
<b>Tracking error</b>	0	6.27	6.72
<b>Volatility</b>	14.15	13.00	16.64

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**Composite simulation:** Guinness Global Innovators Fund (UCITS version) launched on 31.10.14. The returns stated above are a simulation based on the actual returns of Guinness Atkinson Global Innovators Fund (a mutual fund for US investors) until the launch of the UCITS version on 31.10.14. Both funds are managed in accordance with the same investment process and with the same portfolios. Guinness Atkinson Global Innovators Fund is not included in the IA Global sector. The sector's performance is included for a comparison of the Fund with the average performance of global equity funds available in the UK. Source: Financial Express, bid to bid, total return.

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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. Any investment decision should take account of the subjectivity of the comments contained in the report. It 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 [guinnessfunds.com](http://guinnessfunds.com), or free of charge from:-

- the Manager: Capita Financial Managers (Ireland) Limited, 2 Grand Canal Square, Grand Canal Harbour, Dublin 2, Ireland;
- 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. **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. The Fund has been approved by the Financial Conduct Authority for sale in the UK. 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.

**Telephone calls** may be recorded and monitored.

**GUINNESS**

ASSET MANAGEMENT LTD

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