

# Guinness Atkinson

## Global Innovators Fund Update

### November 2016

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#### Update

When we look at the drivers of equity markets during October it felt very much like a “risk-on” month, even though in US dollar terms global equities actually fell around 2%. Markets were becoming more confident of a December rate rise by the Fed, yet were still anxious about the US presidential election. Small cap companies outperformed large-cap companies, while Asia and Emerging markets outperformed developed markets. The fund’s IT holdings were strong performers during the month with our positions in Check Point Software, Cognizant and Nvidia all making a significant contribution to performance. The Financials and Materials sectors were also strong performers in October and our small weight to Financials and our zero weight to Materials were a drag.

We made a small number of changes to the portfolio during the month. We sold our positions in Lenovo and State Street and bought new positions in New Oriental Education and Fanuc.

We decided to cut our losses on Lenovo after what has been a tumultuous period for the company, with falling global demand for notebook computers. In contrast, we decided to sell our position in State Street after a rapid rerating since the end of June.

New Oriental is a leading Chinese private education company. It is a mid-sized company with a market capitalisation of around \$8 billion. The company operates 67 schools and nearly 800 education centres in China and they have grown rapidly. Revenues have doubled in the last four years, driven by increasing demand for language and test preparation courses. The growth in the business is attractive and we believe it has considerable scope to continue to grow for years to come. We also like the fact that the company has generated high margins and currently has no debt. We think it is therefore highly cash generative and importantly requires a relatively modest amount of this cash to finance its organic growth. We believe the current valuation is underestimating both the quality of the business model and the long-term growth opportunity.

Fanuc is a Japanese company and is one of the largest producers of industrial robots in the world. Like New Oriental, Fanuc has no debt and a large cash pile. It is geographically diversified, with around 60% of revenues coming from Asia and the balance from Europe and the US. While New Oriental Education is on a secular growth trend Fanuc is more cyclical, and sentiment towards the company is currently quite negative. Sentiment was far more positive in the spring of last year but this change in sentiment means we can buy the same, high quality company, today at a 25-30% discount to where it was in May last year.

The overall effect of these changes was to reduce our exposure to Financials and IT and increase our exposure to Industrials and Consumer Discretionary. It also had the effect increasing our exposure to Asia and reducing our exposure to the US.

#### Impact of the US election

Since the US election on 8th November the portfolio has weathered the markets well, comfortably outperforming the MSCI World benchmark over the course of November so far (to 23rd of November). The portfolio’s exposure to more cyclical parts of the market, at the expense of defensive industries, means we have benefitted from the expectation of President-elect Trump’s desire to kick start the American economy through fiscal stimulus. Indeed, since the election, we have seen a greater than 10% divergence in performance between the world Financial sector, which has benefitted, and the world Utilities sector, which has underperformed. Similarly, on a geographic basis US equities have outperformed Emerging Market equities by a similar margin. Our overweight to US equities has therefore certainly helped performance while our relatively small weight to emerging markets has had a relatively small impact.

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Another positive contributor to performance since the election has been Nvidia, which reported very strong quarterly earnings results. The results surpassed analysts' expectations, and sent the shares rallying almost 30% on the day.

Like many people, we did not expect a Trump victory and we certainly did not position our portfolio for that outcome. Even if we had predicted it, it would not have changed the long-established characteristics we look for in companies. That has not changed since the inception of this strategy in 2003. We believe the portfolio is well positioned in quality growth companies, in industries that will be driving economies forward for years to come. We have always looked for companies that can grow profitably, with disciplined capital budgeting and robust balance sheets, just like New Oriental Education and Fanuc.

**Performance**

In October the Guinness Global Innovators Fund produced a total return of -1.90% vs the MSCI World Index - 1.91%. The fund therefore outperformed the index by 0.01%.

as of 11/30/16	YTD	1 year	3 years annualized	5 years annualized	10 years annualized	Since inception annualized
Global Innovators, Investor Class <sup>1</sup>	7.69%	3.78%	6.97%	14.78%	7.96%	6.87%
Global Innovators, Institutional Class <sup>2</sup>	7.98%	4.06%	7.06%	14.84%	7.99%	6.88%
MSCI World Index	5.62%	%	4.34%	10.54%	4.42%	4.83%

as of 9/30/16 (in USD)	Q3 2016	1 year	3 years annualized	5 years annualized	10 years annualized	Since inception annualized
Global Innovators, Investor Class <sup>1</sup>	9.76%	15.29%	9.50%	17.21%	8.67%	6.90%
Global Innovators, Institutional Class <sup>2</sup>	9.85%	15.53%	9.57%	17.26%	8.69%	6.92%
MSCI World Index	4.99%	12.01%	6.46%	12.28%	5.10%	5.09%

Investor class (IWIRX) Inception 12.15.1998

Expense ratio\* 1.24% (net); 1.27% (gross)

Institutional class (GINNX) Inception 12.31.2015

Expense ratio\* 0.99% (net); 1.07% (gross)

*Performance data quoted represents past performance and does not guarantee future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance of the Fund may be lower or higher than the performance quoted. Total returns reflect a fee waiver in effect and in the*

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absence of this waiver, the total returns would be lower. For most recent month-end and quarter-end performance, visit [http://www.gafunds.com/GIF\\_performance](http://www.gafunds.com/GIF_performance) or call (800) 915-6566.

**Performance data shown for Global Innovators, Institutional Class (GINNX), prior to its launch date on 12/31/15, uses performance data from the Global Innovators, Investor Class (IWIRX).**

\*The Advisor has contractually agreed to reduce its fees and/or pay Fund expenses (excluding Acquired Fund Fees and Expenses, interest, taxes, dividends on short positions and extraordinary expenses) in order to limit the Fund's Total Annual Operating Expenses to .99% for the Institutional class and 1.24% for the Investor class through June 30, 2018. To the extent that the Advisor waives its fees and/or absorbs expenses to satisfy this cap, it may seek repayment of a portion or all of such amounts at any time within three fiscal years after the fiscal year in which such amounts were waived or absorbed, subject to the 0.99% for the Institutional class and 1.24% for the Investor class expense cap.

**Mutual fund investing involves risk and loss of principal is possible. Investments in foreign securities involve greater volatility, political, economic and currency risks and differences in accounting methods. These risks are greater for emerging markets countries. The Fund also invests in medium and smaller companies, which will involve additional risks such as limited liquidity and greater volatility. The Fund may invest in derivatives which involves risks different from, and in certain cases, greater than the risks presented by traditional investments.**

Securities mentioned are not recommendations to buy or sell any security. Current and future portfolio holdings are subject to risk

#### Top 10 Holdings as of October 31, 2016

	Holding	Weight
1	QUALCOMM Inc	4.43%
2	NVIDIA	4.43%
3	Taiwan Semiconductor Manufacturing Co Ltd - ADR	4.34%
4	Boeing Co/The	3.81%
5	Siemens AG	3.70%
6	Applied Materials	3.67%
7	Intel Corp	3.66%
8	PayPal Holdings Inc	3.63%
9	Eaton Corp PLC	3.61%
10	PTC Inc	3.60%

Opinions expressed are subject to change at any time, are not guaranteed and should not be considered investment advice.

*This information is authorized for use when preceded or accompanied by a prospectus for the Guinness Atkinson Global Innovators Fund. The prospectus contains more complete information, including investment objectives, risks, charges and expenses related to an ongoing investment in The Fund. Please read the prospectus carefully before investing.*

**Earnings growth is not representative of the Fund's future performance.**

MSCI World Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed markets.

One cannot invest directly in an index.

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