

# Global Innovators Fund

4th Quarter 2015 Update

**GUINNESS**  
**ATKINSON**

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F U N D S

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Investing in Human Progress



## **Matthew Page, CFA**

- Portfolio manager of strategy since 2010, previously analyst on strategy from 2005
- Joined Guinness Atkinson Asset Management in September 2005
- CFA Charterholder
- Previous to Guinness Atkinson, worked for Goldman Sachs as an analyst in Fixed Income Currencies and Commodities (FICC)
- Graduated from University of Oxford, with a Masters degree in Physics in 2004



## **Dr Ian Mortimer, CFA**

- Portfolio manager of strategy since 2010
- Joined Guinness Atkinson Asset Management in December 2006
- CFA Charterholder
- Graduated from University of Oxford, with a D.Phil. in Physics in 2006
- Graduated from University College London, University of London, with a First Class Honors Masters degree in Physics in 2003

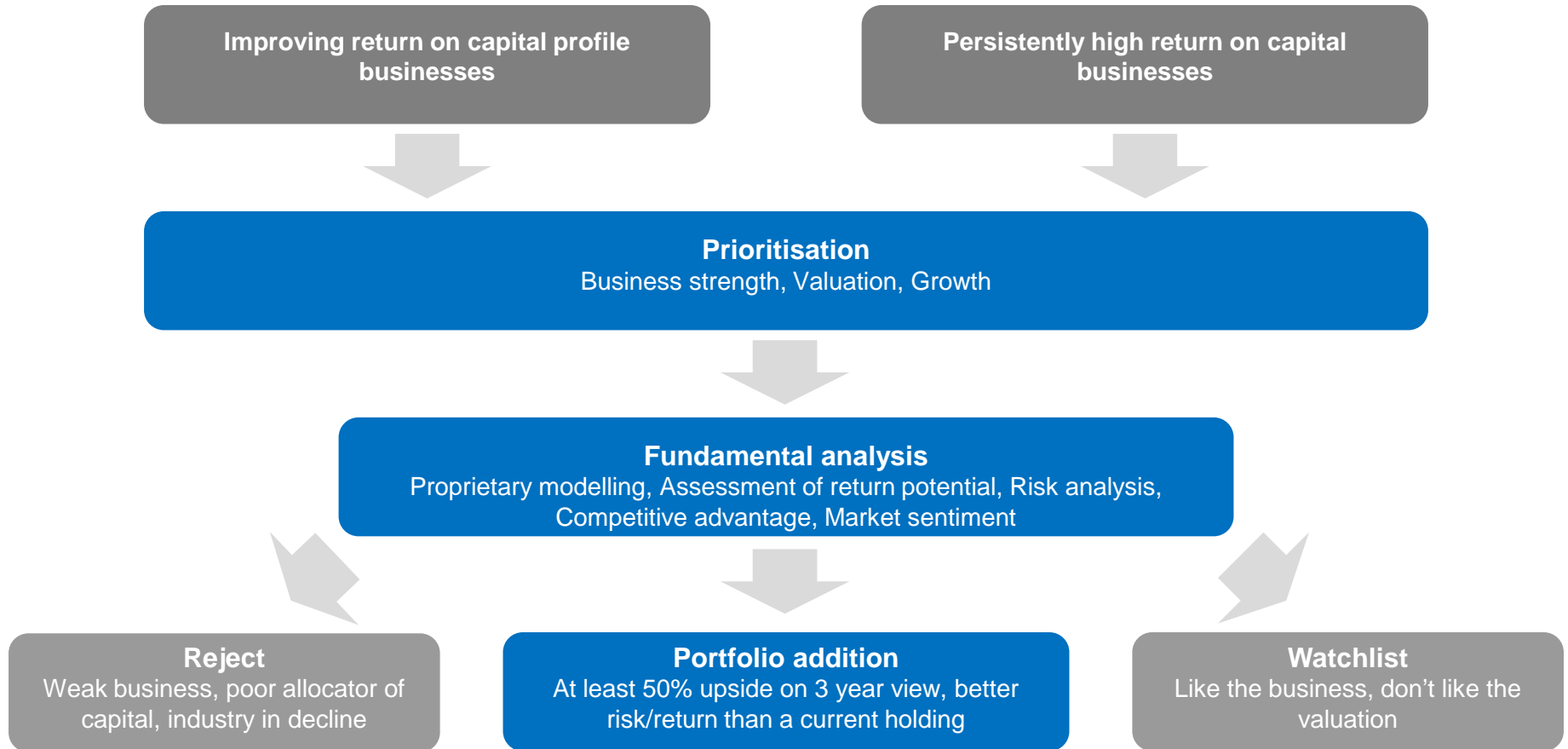
## ▪ Global multi-cap growth strategy with a value discipline

- Quality growth companies at attractive valuations
- Highly disciplined, systematic approach
- Mid-large cap bias
- Concentrated portfolio of best ideas
- High active share – equal weight portfolio construction
- Buy and hold – low turnover

|                            |            |
|----------------------------|------------|
| <b>Benchmark</b>           | MSCI World |
| <b>Number of positions</b> | 30         |
| <b>Position size</b>       | 3-4%       |
| <b>Market cap range</b>    | > \$0.5bn  |
| <b>Max industry weight</b> | 30%        |
| <b>Av. holding period</b>  | 3-5 years  |
| <b>Cash range</b>          | 1-3%       |

- Inception on December 15, 1998 (run in its current form since 2003)
- \$213M AUM in strategy (as of 9/30/2015)

- We believe quality companies that can demonstrate some element of innovation through their business model, or their products, or through technological advances have the best chance of defending their superior return on capital
  
- We believe return on capital is the best identifier of ‘quality’ businesses
  - 1. Persistently above average return on capital over an entire cycle**
    - Established competitive advantage
    - High probability of continued above average return on capital (‘good companies stay good’)
  
  - 2. Improving return on capital profile**
    - Potential to achieve above average return on capital in the future
    - Significant opportunities to reinvest cash flow in high return projects
  
- We believe buying companies at attractive valuations significantly increases their investment return potential over the long term and provides a useful margin of safety to mitigate unforeseen risks
  
- We believe that our disciplined, intelligently designed, repeatable process maximises our chance of success. And that equal weighting and low turnover add useful incremental returns



- Prospect for return from cash-flow growth
  - Higher than average return on capital or prospect of achieving it
  - Confidence that earnings can grow – revenue growth, margin expansion
  - Consider full spectrum of growth companies to identify best opportunities
- Prospect for return from re-rating
  - Company out of favour or irrational hype has abated
  - Multiple (P/E, EV/EBITDA) discount to peers, or market, or company history
  - Avoid story stocks, don't pay up for expected future growth
- Recognise markets can be irrational over short term
  - Do not know when market will re-value company
  - Buy and hold
  - Use any short term movements to trim/top-up position

Business  
value creation

+

Return from  
re-rating

=

>50% upside  
to current  
valuation over  
3 years

| As at 9/30/15 in USD          | Q3     | 1 YR   | 3 YRS<br>(ann) | 5 YRS<br>(ann) | 10 YRS<br>(ann) | Since Inception<br>(12/15/98) |
|-------------------------------|--------|--------|----------------|----------------|-----------------|-------------------------------|
| <b>Global Innovators Fund</b> | -9.64% | -7.19% | 15.04%         | 13.28%         | 8.86%           | 6.07%                         |
| <b>MSCI World Index</b>       | -8.32% | -4.50% | 9.25%          | 8.98%          | 5.43%           | 4.77%                         |

*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 Funds may be lower or higher than the performance quoted. Expense ratio 1.26%*

## Top 5 performing stocks

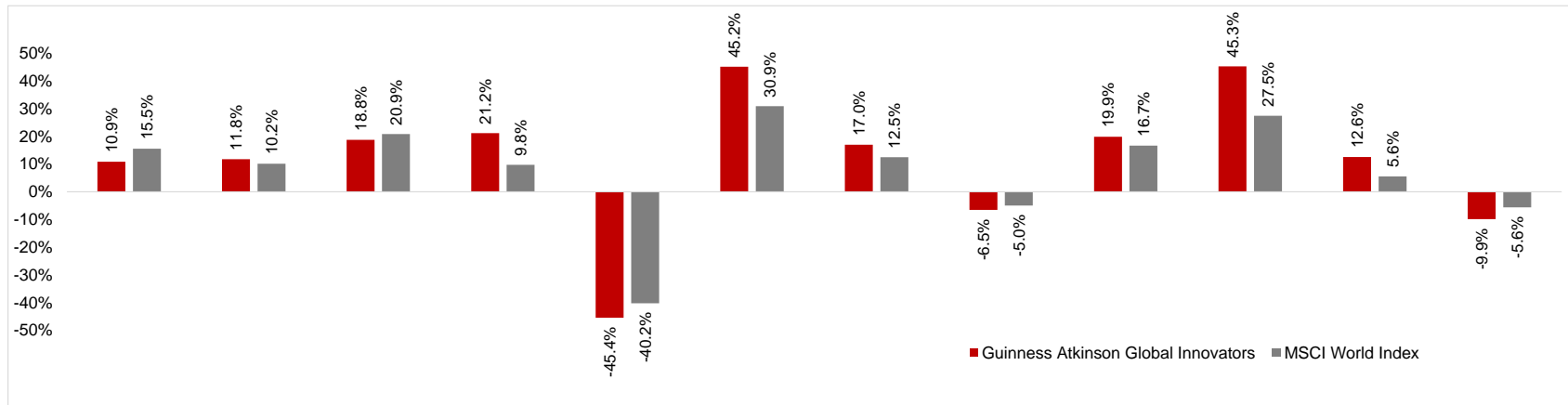
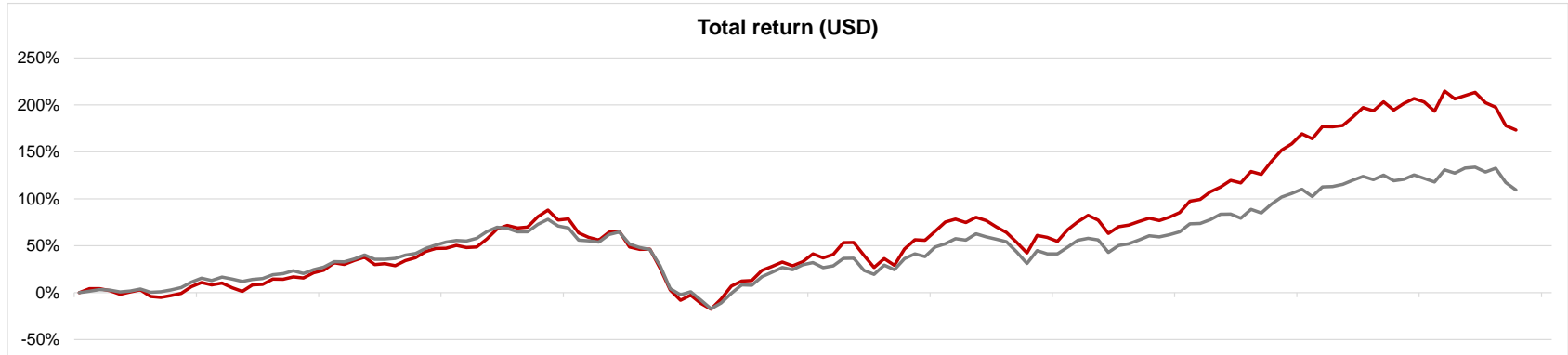
|                           | <b>3Q return</b> |
|---------------------------|------------------|
| Nvidia                    | 23.1%            |
| H&R Block                 | 22.8%            |
| Intercontinental Exchange | 5.4%             |
| Intel                     | -0.1%            |
| Check Point Software      | -0.3%            |

## Bottom 5 performing stocks

|                   | <b>3Q return</b> |
|-------------------|------------------|
| Lenovo            | -37.9%           |
| Tegna             | -29.8%           |
| Applied Materials | -23.1%           |
| PTC               | -22.6%           |
| Schlumberger      | -19.5%           |

**Performance data quoted represents past performance and does not guarantee future results**





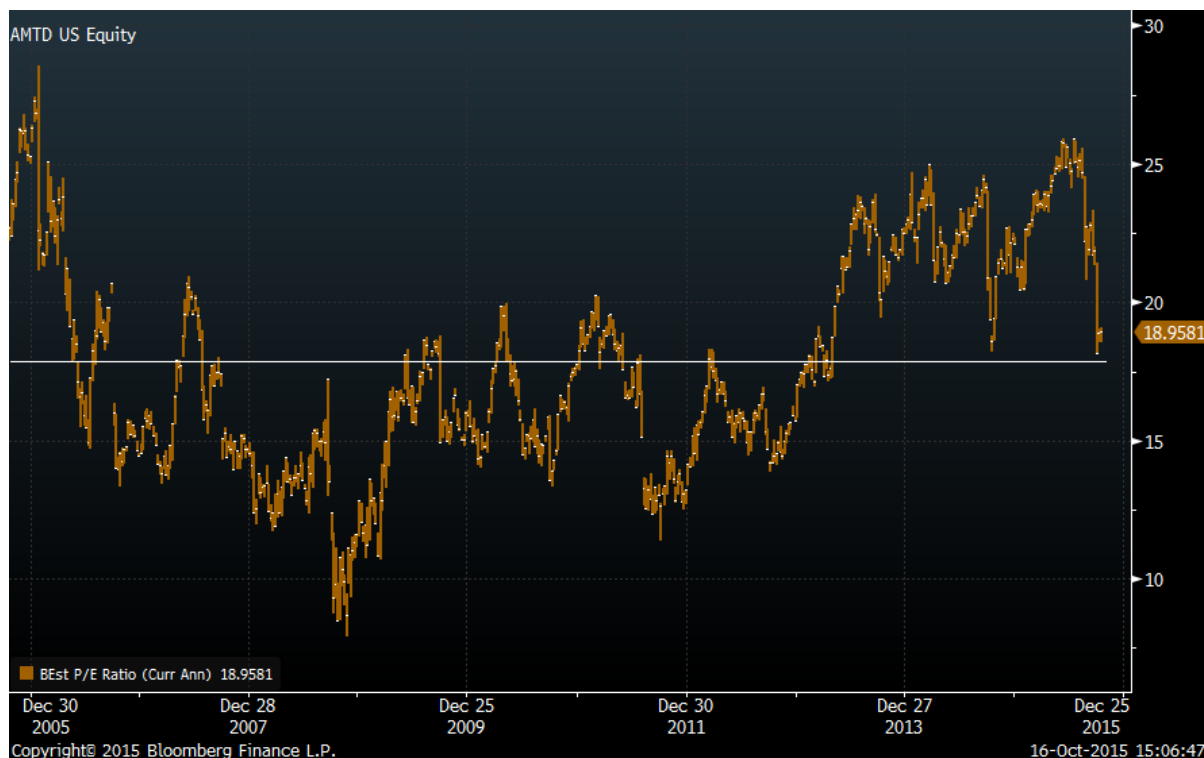
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| <b>Buys</b> | <b>Sells</b>       |
|-------------|--------------------|
| Verifone    | TD Ameritrade      |
| Cognizant   | Capital One        |
| Google      | Xerox              |
| Eaton       | L-3 Communications |
| SAP         | BP                 |
|             | Ultra Electronics  |

Fund holdings and sector allocations are subject to change and are not recommendations to buy or sell any security

## Reason for sale: Valuation

In mid July we sold TD Ameritrade as it was valued on a P/E towards the top of its historic ten year range



Verifone is the market leader in providing Point of Sale payments technology and services

The company is benefitting from the rollout of “chip and pin” terminals in the US

Terminals are also capable of processing contactless payments through mobile wallets such as Apple Pay and Google Wallet

Strong growth potential from rollout in US and longer term from Asia



## Reason for sale: Valuation

We sold Capital One as its valuation had reached an historic high

Capital One has seen strong revenue growth since 2009 and has been taking market share

However, last quarter saw a large reserve build suggesting growth in revenues has been driven by lower quality customers

Risk/reward was not attractive to us with valuation at historic high

Leading IT consultant and services business



Strong track record of successfully making bolt-on acquisitions

Very stable margins

Growing revenues at 15%+ per year

Effect of portfolio changes:

1. Growth rate of portfolio improved
2. Quality of companies in portfolio improved
3. Sold companies trading at historic high valuations

|                 |   | Portfolio today | Range last 10years |
|-----------------|---|-----------------|--------------------|
| 0 – 10% growth  |   | 36%             | 20 - 50%           |
| 10 – 20% growth |   | 60%             | 30 - 60%           |
| 20% + growth    |  | 4%              | 0 - 20%            |

Source: Guinness Atkinson Asset Management estimates, 9/30/2015

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



| Name                                      | Industry                       | Mkt. cap | Country of listing | % NAV | PE   |      |
|---|--------------------------------|----------|--------------------|-------|------|------|
|   |                                |          |                    |       | 15Y  | 16Y  |
| Boeing Co/The                             | Capital Goods                  | 94.5     | US                 | 3.8%  | 16.4 | 14.0 |
| Danaher Corp                              | Capital Goods                  | 60.8     | US                 | 3.7%  | 19.8 | 17.2 |
| Eaton Corp PLC                            | Capital Goods                  | 25.9     | US                 | 3.4%  | 11.6 | 10.4 |
| Roper Technologies Inc                    | Capital Goods                  | 17.5     | US                 | 4.0%  | 23.4 | 21.3 |
| Schneider Electric SE                     | Capital Goods                  | 35.5     | FR                 | 3.0%  | 13.0 | 11.7 |
| Li & Fung Ltd                             | Consumer Durables & Apparel    | 6.7      | HK                 | 3.5%  | 15.9 | 14.4 |
| H&R Block Inc                             | Consumer Services              | 9.8      | US                 | 3.5%  | 20.9 | 17.2 |
| Intercontinental Exchange Inc             | Diversified Financials         | 25.9     | US                 | 3.6%  | 19.9 | 17.0 |
| State Street Corp                         | Diversified Financials         | 28.3     | US                 | 3.4%  | 13.1 | 11.8 |
| Schlumberger Ltd                          | Energy                         | 97.0     | US                 | 3.3%  | 19.7 | 20.3 |
| Comcast Corp                              | Media                          | 152.2    | US                 | 3.5%  | 17.3 | 15.3 |
| TEGNA Inc                                 | Media                          | 6.0      | US                 | 2.8%  | 13.2 | 9.9  |
| Gilead Sciences Inc                       | Pharmaceuticals, Biotechnology | 147.9    | US                 | 3.4%  | 8.4  | 8.5  |
| Applied Materials Inc                     | Semiconductors & Semiconductor | 18.8     | US                 | 2.7%  | 12.5 | 11.0 |
| Intel Corp                                | Semiconductors & Semiconductor | 154.6    | US                 | 4.3%  | 13.6 | 12.8 |
| NVIDIA Corp                               | Semiconductors & Semiconductor | 14.1     | US                 | 3.7%  | 18.2 | 17.7 |
| Taiwan Semiconductor Manufacturing Co Ltd | Semiconductors & Semiconductor | 115.4    | TW                 | 3.7%  | 11.7 | 12.8 |
| Check Point Software Technologies Ltd     | Software & Services            | 14.4     | IL                 | 3.5%  | 19.7 | 17.7 |
| Cognizant Technology Solutions Corp       | Software & Services            | 40.4     | US                 | 3.9%  | 20.6 | 18.0 |
| Alphabet Inc                              | Software & Services            | 448.4    | US                 | 3.5%  | 22.1 | 18.9 |
| Oracle Corp                               | Software & Services            | 161.6    | US                 | 3.6%  | 12.6 | 13.7 |
| PayPal Holdings Inc                       | Software & Services            | 38.6     | US                 | 3.1%  | 24.8 | 20.8 |
| PTC Inc                                   | Software & Services            | 3.9      | US                 | 3.4%  | 14.5 | 14.6 |
| VeriFone Systems Inc                      | Software & Services            | 3.5      | US                 | 3.4%  | 15.2 | 12.7 |
| SAP SE                                    | Software & Services            | 83.9     | DE                 | 3.5%  | 15.6 | 14.3 |
| Cisco Systems Inc                         | Technology Hardware & Equipmen | 142.0    | US                 | 3.6%  | 12.0 | 11.4 |
| QUALCOMM Inc                              | Technology Hardware & Equipmen | 90.6     | US                 | 3.4%  | 11.6 | 11.4 |
| Samsung Electronics Co Ltd                | Technology Hardware & Equipmen | 162.8    | KR                 | 3.2%  | 8.1  | 7.2  |
| Lenovo Group Ltd                          | Technology Hardware & Equipmen | 10.1     | CN                 | 2.5%  | 10.2 | 49.6 |

|                         |      |  |       |       |
|-------------------------|------|--|-------|-------|
| Average mkt. cap        | 82.4 | <b>Total portfolio</b><br>Y-o-Y growth | 14.6  | 13.8  |
| Median mkt. cap         | 38.6 |  | 5.8%  |       |
| <b>MSCI World Index</b> |      | Fund premium / (discount)              | 15.4  | 14.0  |
|                         |      |  | -5.1% | -1.3% |

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| Industry breakdown             | % NAV         |
|--------------------------------|---------------|
| Software & Services            | 27.4%         |
| Capital Goods                  | 17.6%         |
| Semiconductors & Semiconductor | 14.1%         |
| Technology Hardware & Equipmen | 12.6%         |
| Diversified Financials         | 6.8%          |
| Media                          | 6.2%          |
| Consumer Services              | 3.5%          |
| Energy                         | 3.2%          |
| Pharmaceuticals, Biotechnology | 3.4%          |
| Consumer Durables & Apparel    | 3.5%          |
| Cash                           | 1.6%          |
|                                | <b>100.0%</b> |

| Market cap. (\$bn) breakdown | % NAV         |
|------------------------------|---------------|
| <10                          | 16.4%         |
| 10 to 50                     | 36.2%         |
| >50                          | 45.8%         |
| Cash                         | 1.6%          |
|                              | <b>100.0%</b> |

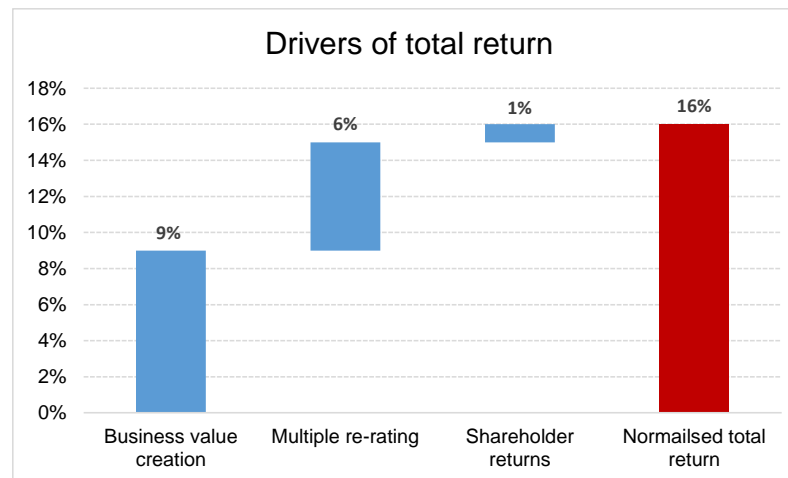
| Regional breakdown | % NAV         |
|--------------------|---------------|
| US                 | 75.6%         |
| Asia               | 12.4%         |
| Europe             | 10.5%         |
| Cash               | 1.6%          |
|                    | <b>100.0%</b> |

Did the mid September represent an inflection point for MSCI World value vs MSCI World Growth?

## Spread: MSCI World Value vs MSCI World Growth



When entering a position we need to be comfortable that there will be scope for multiple expansion not just earnings growth



Example: for a hypothetical company we would always expect the Multiple re-rating element to be positive

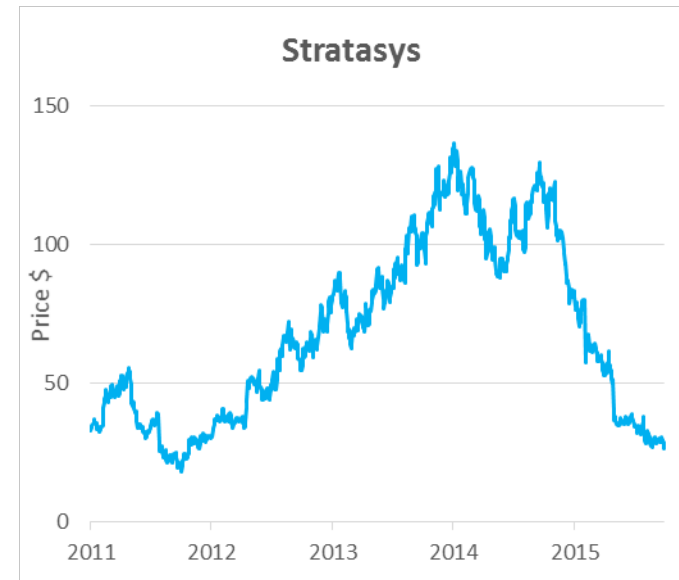
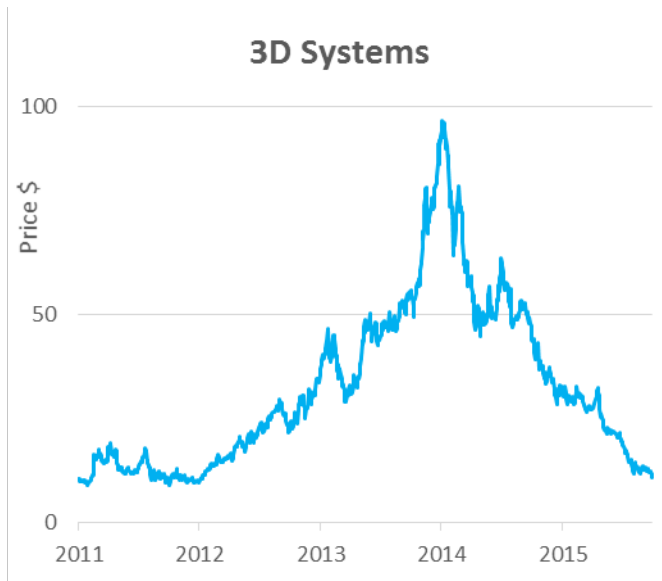
**We have not owned 3D printing stocks as hype has been excessive**

Talk of a decentralized industrial revolution is premature

3D printing industry is not new: it emerged in the 1980s

Main applications remain for niche, low volume, precision items where volumes are small and cost is not a key factor

e.g. prototyping, aircraft components, replacement joints



When hype cycles end, opportunities can arise

We do not believe we are there yet

Portfolio has performed as expected during a market correction

We took advantage of market volatility in August to make a number of changes to our holdings

Changes have improved quality and growth profile of the portfolio

Recent market environment has favoured growth at any price rather than quality growth

This may be starting to change

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

Margin of safety is a principle of investing in which an investor only purchases securities when the market price is significantly below its intrinsic value. In other words, when market price is significantly below your estimation of the intrinsic value, the difference is the margin of safety

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

**Diversification does not assure a profit or protect against loss in a declining market**

**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. The Fund also invests in smaller companies, which will involve additional risks such as limited liquidity and greater volatility. The Fund is non-diversified meaning its assets may be concentrated in fewer individual holdings than diversified funds. Therefore, the Fund is more exposed to individual stock volatility than diversified funds.**

Market cap is the total market value of the shares outstanding of a publicly traded company; it is equal to the share price times the number of shares outstanding.

Fund holdings and/or sector allocations are subject to change at any time and are not recommendations to buy or sell any security

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