Guinness Global Innovators Fund

Innovation | Quality | Growth | Conviction

INVESTMENT COMMENTARY – July 2021

About the Fund

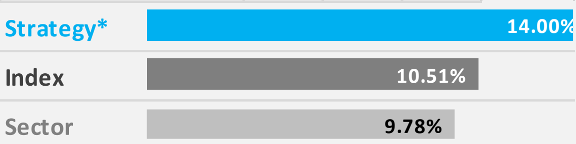
The Fund is a global growth fund designed to provide exposure to companies benefiting from innovations in technology, communication, globalisation or innovative management strategies. The Fund holds a concentrated portfolio of large and medium-sized companies in any industry and in any region.

Fund size	$628m
AUM in strategy	$838m
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 William van der Weyden

Performance 30.06.21

Cumulative % total return (GBP)	1 year	3 years	5 years	10 years
Strategy*	31.1	68.2	153.3	401.4
Index	24.4	45.3	93.2	219.8
Sector	25.9	42.6	92.5	172.5
Position in sector	**89** /434	**37** /376	**20** /314	**8** /203

Annualised % total return
from strategy inception (GBP)



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 USD.

Summary performance

For the second quarter of 2021, the Guinness Global Innovators Fund provided a total return of 9.62% (GBP) against the MSCI World Index net total return of 7.61% (GBP). The fund therefore outperformed the benchmark by 2.01% (GBP). For the first half of 2021, the fund has produced a total return of 13.22% (GBP) against the MSCI World net total return of 11.86% (GBP).

As the first half of 2021 comes to a close, investors may take some solace that COVID-19 vaccination programs progress for many regions with COVID-19 deaths flatlining and mobility restrictions easing. With that, activity across many regions began to pick up, with economic indicators broadly pointing to economic expansion.

However, with investors expecting swift rebounds in economic activity, and with governments and central banks continuing their accommodative fiscal and monetary policies, investors have since become cautious on the prospects for inflation. While the US Fed has reiterated its stance that current spikes in inflation are more transitory, they did acknowledge the potential need to taper their bond buying programme and the latest 'dot plots' indicated a move towards raising rates earlier than had previously been expected.

Q2 saw a reversal of the market trends that dominated Q1, with growth stocks returning to favour and so-called 'reflation trade' stocks, such as cyclical and value shares, underperforming. Market participants began to re-rate 'higher duration' equites such as growth stocks as the yield curve flattened and market-implied measures of future inflation such as breakeven rates retreated. The market also rewarded 'quality' companies, which as a factor had lagged so far in 2021, as these higher quality stocks were deemed to be better placed in the current environment due to their more consistent – albeit often lower – growth and strong balance sheets. From a fundamental perspective, these stocks' (quality, growth) relative valuations also looked more compelling compared to value and cyclical stocks which had seen significant multiple expansion in the recovery phase seen since November 2020 when news of successful vaccines first broke.

We believe that the outlook continues to be positive with a strong economic recovery underway in the US and Europe, supported by accommodative central bank policies and Fiscal support and that higher quality growth stocks are well placed due to their more consistent growth, strong balance sheets, and in the case of Global Innovators, secular themes underlying their long-term prospects. Our focus on valuation (and specifically that attached to future growth) should continue to help us avoid the hyped up and unsustainable areas of the market which are proliferated more recently.

During the quarter, the fund's main performance drivers were as follows:

- The fund's overweight exposure to IT – the best-performing sector over the quarter – was a positive contributor to relative performance from an asset allocation perspective.

- Further, while the Industrial sector was the second worst-performing sector over the quarter, strong stock selection drove positive attribution in the fund, particularly from Roper Technologies (+16.7% USD) and ABB (+11.9%) which reported results in April that beat expectations.

- From a regional perspective, stock selection from the fund's US exposure was the largest contributor with Nvidia in particular, the fund's best-performing stock (+49.9%) over the quarter.

- More broadly, the fund benefited from the shift from value to growth stocks in Q2.

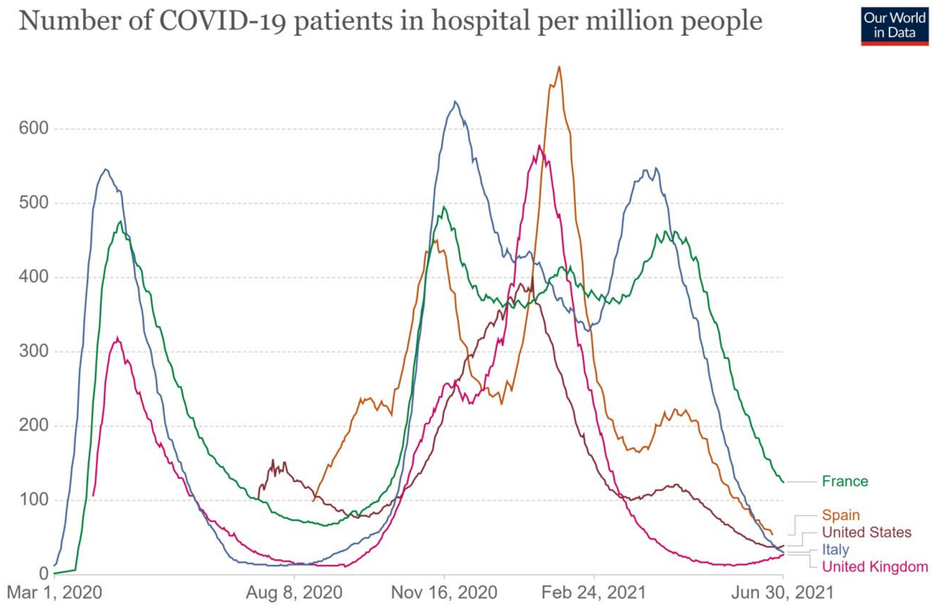
- Over both the short and long term, it is pleasing to see that the Fund's strategy remains well positioned across all periods versus its IA Global Equity sector peers. In particular, the fund ranks in the top quartile across all periods shown below. Further performance figures are available at the end of this document.

Cumulative % total return, in GBP, to 30/06/2021	YTD	3 months	1 year	3 years	5 years	10 years*	Launch*
Guinness Global Innovators	13.22	9.62	31.05	68.24	153.30	401.44	983.57
MSCI World Index	11.86	7.61	24.36	45.31	93.19	219.78	514.93
IA Global sector average	10.29	6.86	25.92	42.61	92.50	172.51	445.63
IA Global sector ranking	77/445	58/450	90/434	37/376	21/314	8/203	4/90
IA Global sector quartile	1	1	1	1	1	1	1

Figure 1: Guinness Global Innovators strategy performance. Source: FE.
**Strategy launched 01.05.2003. 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 investment team using the same investment process as applied to the UCITS version.*

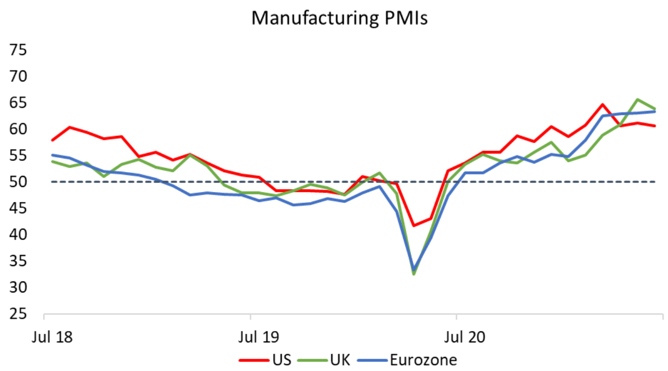
Quarter in review:

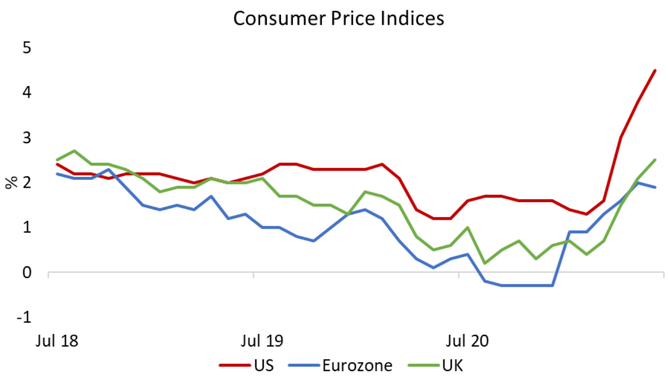
Moving into 2H 2021, vaccination rollouts continued to rise across countries with the share of the global population with at least one dose at 25%. And while the UK has seen a pickup in cases due to the newer Delta variant, this has not translated into proportionate hospitalisations thanks to vaccine protection.



Source: Our World in Data

With COVID-19 hospitalisations broadly trending lower, countries have continued to ease mobility restrictions which has supported improvements in economic activity. Indeed, manufacturing Purchasing Managers' Indices (PMIs) have continued to point to economic expansion (levels above 50), with the US PMI at its highest level since 1983.





Source: Bloomberg

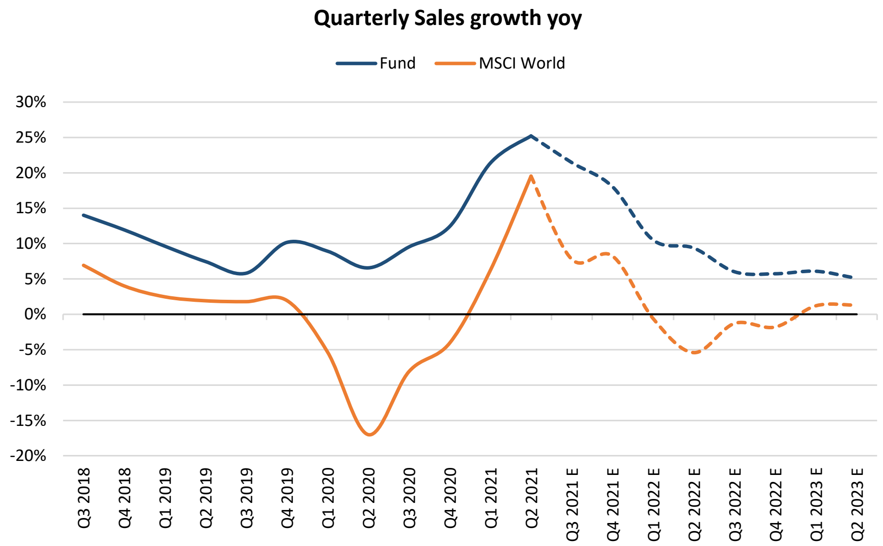
However, with economic activity picking up, coupled with sustained accommodative fiscal and monetary policies, inflation has continued to pick up within many regions. In the US, the Consumer Price Index (CPI) for May came in at 3.8%, for example. And while the US Fed continues to view the heightened inflation numbers as transitory, their June FOMC meeting showed they had become more hawkish, with the median expectation of members indicated by the 'dot plot', now suggesting two rate hikes in 2023.

With rising bond yields and inflation expectations in Q1, value and cyclical stocks rallied, as the so-called 'reflation' trade took hold on expectations of a fast rebound in the earnings of those stocks that had been hit hardest. In Q2, we saw these trends reverse with longer dated bond yields falling leading to a flattening of the yield curve alongside the Fed's more hawkish stance. This was beneficial to 'high-duration' stocks with high future earnings and as such growth stocks once again returned to vogue. This was a positive contributor to the fund's relative performance with higher growth sectors such as IT – the fund's largest overweight position – posting the strongest relative performance in the quarter.

The trends which have played out since the March 2020 COVID-induced market crash have been consistent with typical post recessionary periods; with the swift recovery driven by multiple re-ratings and generally lower earnings, being replaced by the 'growth' or 'mid' cycle' phase which typically rewards companies that can provide consistent growth against a backdrop of generally falling multiples.

Today we do not see a consistent picture with regards to inflation as we have seen mixed economic indicators over the past weeks and months, but it does appear that a strong economic recovery is underway in the US and Europe, supported by accommodative central bank policies and Fiscal support. We also believe that higher quality growth stocks are currently well placed due to their more consistent growth, strong balance sheets, and in the case of the Guinness Global Innovators Fund, secular themes underlying their long-term prospects, as we may well see bumps in the road. Our focus on valuation (and specifically that attached to future growth) should continue to help us avoid the 'hyped up' and unsustainable areas of the market.

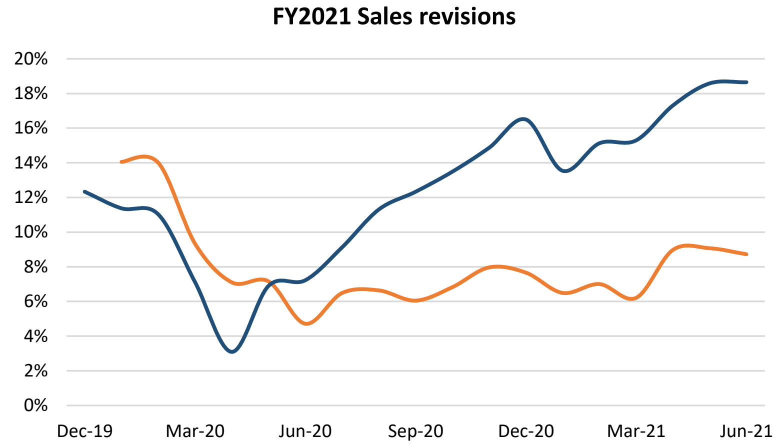
It is pleasing to see that one of the key tenants of the fund's innovation philosophy – that innovative companies may be less susceptible to cyclical pressures – has been evidenced over the last year.



Source: Bloomberg, Guinness Asset Management.
Chart shows quarterly sales growth y-o-y in USD of the median fund holding versus MSCI World.

From the chart above, we can see that the median fund holding held up very well in terms of sales impact through the pandemic and was significantly less affected than the average of the benchmark. Indeed, it is worth noting that the median fund holding only experienced a *slowdown* in sales growth as opposed to outright sales decline.

What is more, the market has continued to revise these companies' sales estimates upwards for the next year on improving short and long-term demand accelerated by pandemic – further improving the relative performance versus the market as a whole.



Source: Bloomberg, Guinness Asset Management.
Chart shows FY2021 Sales revisions in USD for the median fund holding (in blue) versus MSCI World (in orange).

In summary, we are encouraged by the fund's performance throughout the pandemic, from the outperformance vs the benchmark during the drawdown last March; the outperformance during the initial recovery as we saw an acceleration of the adoption of many of the innovation themes we are invested in; the fund holding up well and outperforming the growth index (albeit underperforming the broad benchmark) in what was a strong value rally that dominated most of the first half of 2021; and outperforming since mid-May as the market once again shifted to reward growth companies, and the quality growth companies we seek to invest in in particular.

Moving forward, we continue to believe our approach of investing in quality growth companies within secular themes, combined with our valuation discipline is well placed for the current market environment.

Stock performance over Q2 2021 (total return in USD):

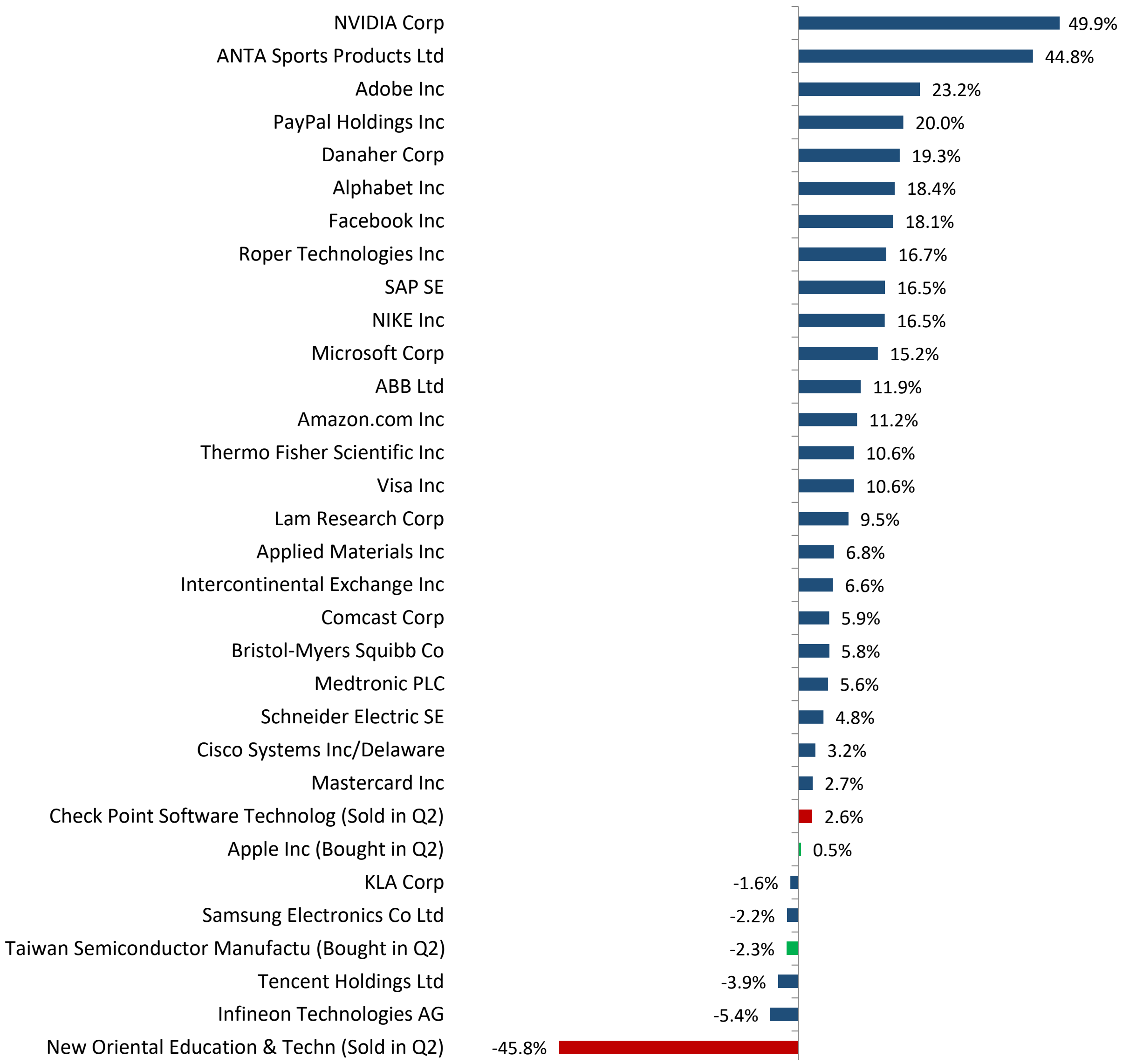


Figure 2: Performance of fund constituents. Guinness Asset Management; Bloomberg, (total return in USD)

Nvidia (+49.9% USD):

Chip designer Nvidia was the top performer for the fund this quarter. The announcement of a 4-for-1 stock split in mid-May saw the beginning of a rally - the first split in four years following a 1,600% gain. Nvidia has been a key beneficiary of the pandemic-induced global chip shortage, with the resumption of the manufacturing sector causing demand to sky-rocket and prices to surge. This resulted in another record quarter for the firm, with EPS and revenue beating analyst expectations by +11% and 5% respectively, causing a further rally in the stock. Crypto-currency miners have contributed to shortages of GPUs in Nvidia's largest segment, Gaming, resulting in the release of a purpose built crypto-mining chip, the CMP Card. This will ease some supply shortage that has negatively affected gamers, alongside driving growth in the Crypto segment. Nvidia's Datacentre segment (c. 40% of sales) is well positioned for further growth, following the release of the firms first CPU chip, Grace. Further CPU activity could follow should the acquisition of ARM get the green light, although this is currently facing multiple regulatory hurdles.

Anta Sports (+44.8% USD):

Anta Sports, the largest domestic sportswear brand in China, was the fund's second-best performing stock over the quarter as Chinese retail sales continued to benefit from the opening up of the economy. Although Chinese retail sales missed estimates for April, there was increased optimism that the government would roll out new policy support measures for the industry to boost consumption. Expected policies were further supported as concerns over China's aging population grew, with the latest census data showing China was on the cusp of population stagnation after years of rapid growth. This led to the announcement during May, that married couples could now have up to 3 children – 5 years after China ended its 'one-child policy'. Elsewhere, there was also optimism that Anta has, and would continue to take market share from Western competitors Nike and Adidas, as the fallout from the avoidance of Xingjang cotton persisted – albeit slightly more muted.

Tencent (-3.9% USD):

Tencent was the 3rd largest detractor from the fund over the quarter, with Chinese regulatory activity weighing heavily on Tencent and other Chinese tech peers. Following the imposition of a £2.8bn penalty on Alibaba, regulators warned Tencent (alongside 33 other online companies) that they had just a month to "completely rectify" anti-competitive practices and publicly pledge to abide by anti-competition rules. The company was summoned a second time in April, alongside 13 other fintechs, to "rectify prominent problems" in their platforms. A profit jump of +65% in Q1 (ahead of consensus) was not enough to appease investor concerns, which remain focused on whether Chinese regulation will tighten over Tencent and their payments business, as they did with Alibaba back in April. Whilst these concerns are material, CEO Pony Ma has historically retained a good relationship with the Chinese state (primarily through keeping a low profile), which gives us some comfort. We will continue to monitor the situation and act accordingly.

Infineon (-5.4% USD):

Infineon, the German leading supplier of power semiconductors and related products to the automotive industry, was the fund's 2nd weakest performer over the quarter. Despite quarterly results that beat expectations with management subsequently raising guidance, the company continued to be weighed down by the near-term shortage in chip manufacturing capacity. Infineon relies heavily on contract chip manufacturers such as TSMC, and the on-going acceleration in demand for chips used for everything from mobile phones to data centres, has left little capacity for the automotive sector. While management noted the semi supply imbalance will likely persist for a couple of quarters, we continue to be encouraged by the industry's shift towards more electrified vehicles, with Infineon's book-to-bill ratio of 2.1x indicating strong demand for the company's products.

Changes to the portfolio:

During the quarter, we sold two positions, Check Point Software and New Oriental Education, and initiated two positions in TSMC and Apple.

TSMC:

TSMC is the world's largest semiconductor foundry, pioneering the pure-play foundry business, working solely as an independent contractor to chip designers such as Nvidia. Whilst we have been watching TSMC for some time, having previously owned the business in the fund between 2010 and 2016, we now felt, given the lasting acceleration in demand for chips and clear leadership over competitors including Intel (who have suffered continued setbacks in their leading-edge foundry business), TSMC could provide ample growth going forward whilst enjoying more-than-robust competitive advantages. Whilst we acknowledge the need for TSMC to constantly reinvest in capital expenditure (the company recently announced the intention to spend $100bn over the next 3 years to expand capacity), we believe, given their track record in converting investment into market share, TSMC can continue to be the all-out leader in chip fabrication and capitalise on the growing need for semiconductors across end-markets.

Check Point Software:

A long-term holding of the fund, held since launch, Check Point Software is one of the world's largest pure-play cyber security vendors. With an increasing number of global cyber-attacks due to data proliferation, Check Point is well placed to capitalise on the growing need for more sophisticated cyber security software. However, although the company is highly cash generative (free cash flow margins >50%) with 75% of sales recurring, we felt that Check Point's growth profile was not as strong as other investment opportunities given its relatively smaller exposure to the high growth area of cloud cyber security and given its position in the highly fragmented cyber security market.

New Oriental Education:

Having seen its share price peak in February, New Oriental Education, China's second largest after-school tutoring (AST) provider, has seen sustained weak share price performance as investors grapple with continued news surrounding the potential tightening of AST regulation. Whilst increased regulation is not new to the Chinese education industry, more recent speculation has sent broad education share prices down. During the quarter, the State Council and Ministry of Education held a press conference to discuss the 14th Five-Year Plan on education in which they commented on 'outstanding problems' within the industry including false or inaccurate advertising, teacher certificates, and teaching contents. Whilst we believe tighter regulations could solidify New Oriental Education's market leadership over the long-term as smaller competitors are driven out, the near-term impact on New Oriental's growth and costs could result in sustained negative momentum and ultimately we believed there were better investment opportunities available.

Apple:

A stock that needs little introduction, Apple has been on our watchlist for some time. Having underperformed the wider market (alongside other large IT/quality growth stocks) during the first quarter, we felt this presented as good an entry point as Apple might present. While not a new story, with Apple's continued shift to service revenues alongside products, including iPhones, Apple Watch, and Mac, that create the key platform upon which to upsell services, we felt the market was underappreciating the opportunity for sustained growth from a company that has continually pushed the boundaries of innovation. Furthermore, as we enter a new stage in the economy's recovery, a company such as Apple that exhibits daunting competitive advantages (centred around the switching costs associated with the ecosystem of devices and software Apple users tend to have) further increased our conviction on the stock. Lastly, whilst we acknowledge the risks around 'big tech' regulation, particularly in the US, we view this risk as having a lower likelihood than perhaps the markets estimate – not least with Facebook winning the first round of their antitrust case, showing that the worst case of company forced break up remains low.

Portfolio characteristics

The two charts below show how the exposure of the fund has evolved since we launched the strategy back in 2003. We continue to hold no exposure to Real Estate, Energy, Materials, Consumer Staples, and Utilities. Information Technology remains our largest exposure, split between the three sub-sectors of semiconductors; software and services; and technology hardware. On a regional basis, North America continues to be the largest exposure (71%), followed by Europe (16%) and Asia Pacific (9%).

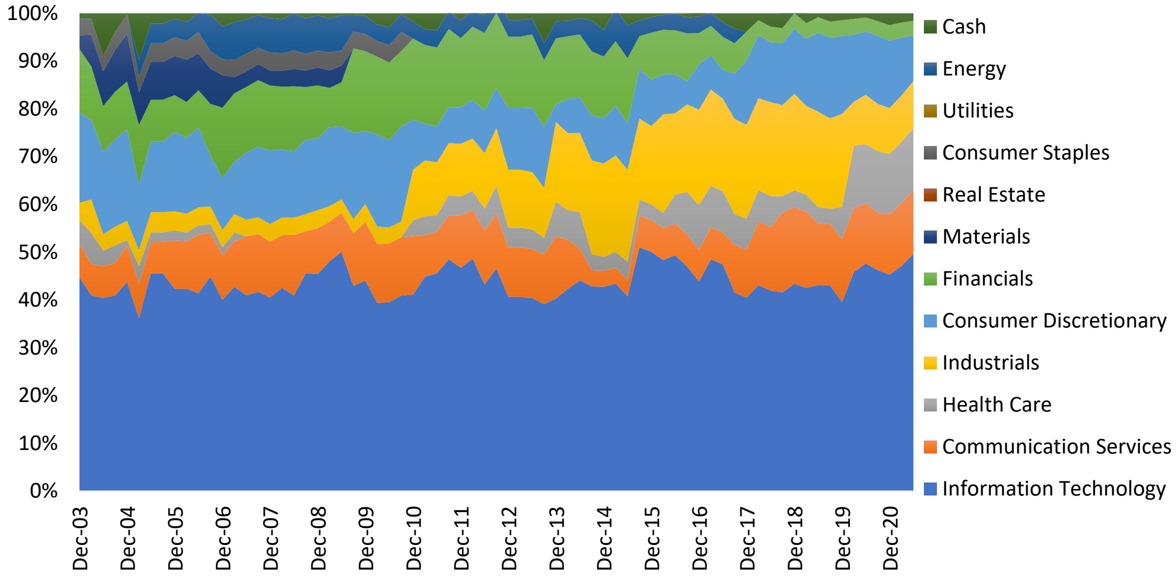


Figure 3: Portfolio sector breakdown. Guinness Asset Management, Bloomberg (30.06.2021)

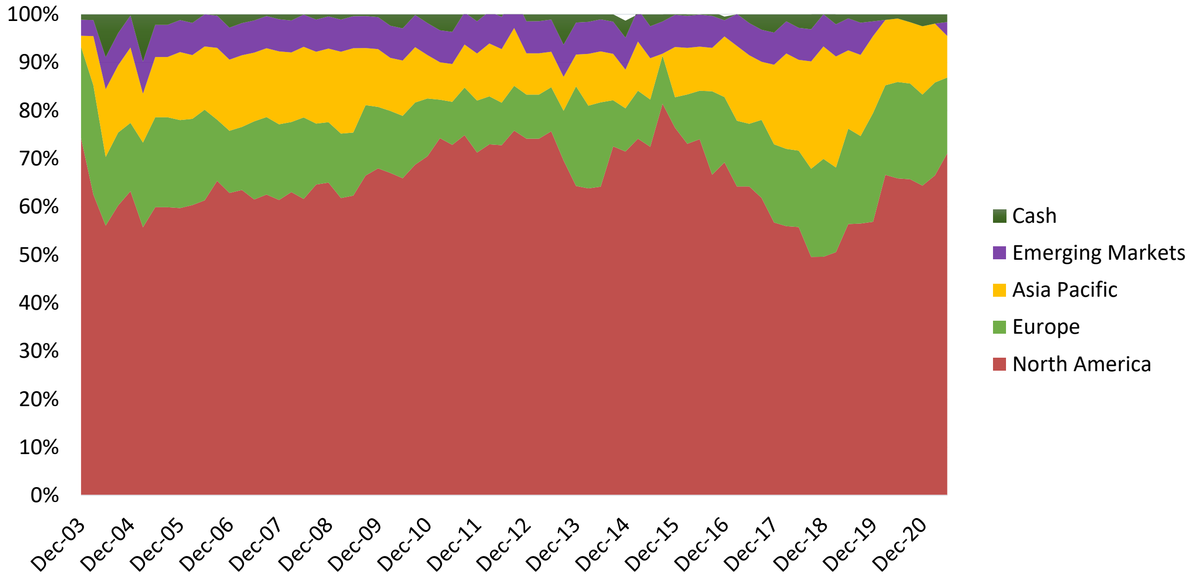


Figure 4: Portfolio geographic breakdown. Guinness Asset Management, Bloomberg (30.06.2021)

In selling Check Point Software and New Oriental Education, and buying TSMC and Apple, the net effect on the portfolio was an increased exposure to North America and IT, whilst reducing the exposure to Europe and Consumer Discretionary.

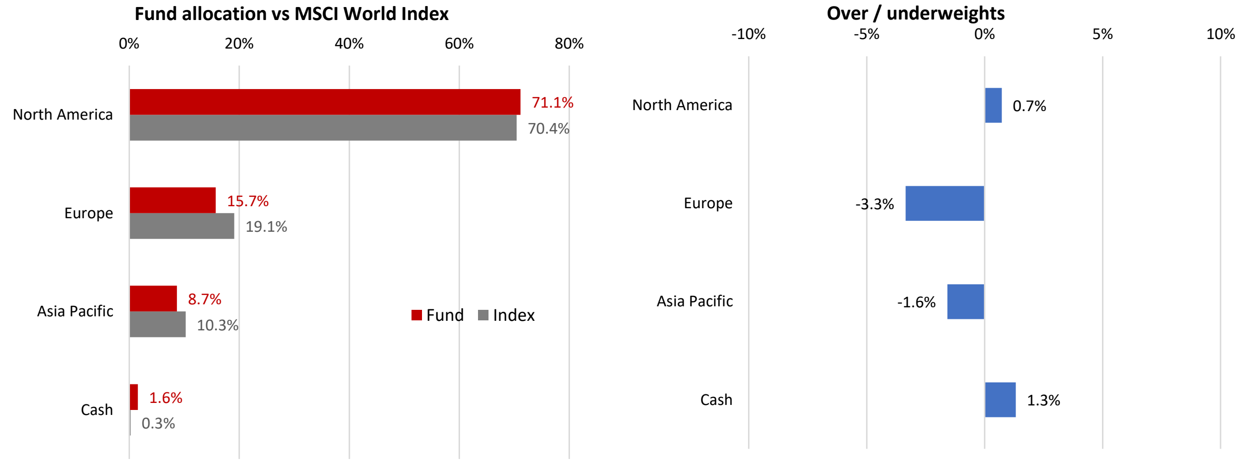


Figure 5: Guinness Asset Management, Bloomberg (data as at 30.06.2021)

On a sector level, the fund continues to have a large overweight to IT (27.7%), while the fund's 0% exposure to Real Estate, Energy, Materials, Consumer Staples, and Utilities leaves these areas underweight relative to the benchmark.

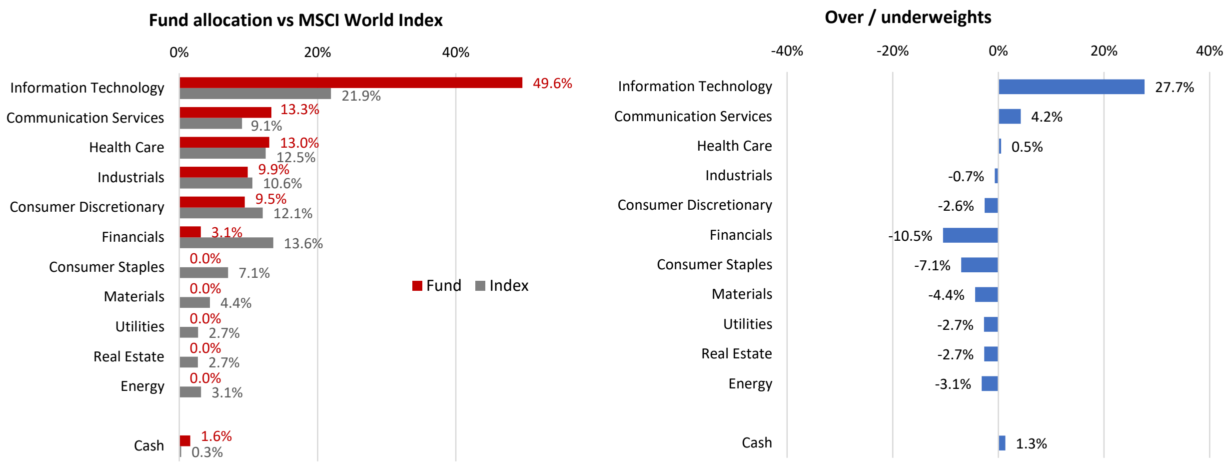


Figure 6: Guinness Asset Management, Bloomberg (data as at 30.06.2021)

Key fund metrics today

Innovation: We seek companies that are exposed to secular growth themes, which should therefore be more insulated to cyclical cycles. We have thus far seen good evidence of this, such as for semiconductor companies as demand for chips enabling technologies from cloud computing to video streaming continue to increase in response to more consumers working from home.

Quality: We only invest in companies with good (and ideally growing) returns on capital and strong balance sheets. In the recent sell off a clear distinction was seen between businesses with strong vs weak balance sheets – companies which have taken on too much debt have been 'propped up' by low interest rates but a shock to revenues has the potential to alter this balance and the market quickly discounted this scenario.

Growth and valuation: We look to buy good growth companies at reasonable valuations and specifically we try to avoid paying too high a premium for expected future growth – as this is inherently less predictable. While valuations have optically become stretched, we believe companies that are able to continue growing, such as those exposed to our innovation themes, will continue to justify a greater premium.

Conviction: Although we run a concentrated portfolio of 30 stocks, we equally weight each position. This caps stock specific risk to approximately 3.3% thereby limiting the impact to the overall portfolio of a single company performing particularly poorly.

The table below illustrates these four key tenets of our approach in the portfolio today.

		Fund	MSCI World Index
Innovation	R&D / Sales	10%	8%
	CAPEX / Sales	6%	8%
Quality	CFROI (median 2021)	18%	8%
	Return-on-Equity	29%	8%
	Weighted average net debt / equity	9%	56%
Growth (& valuation)	Trailing 5-year sales growth (annualised)	14%	2%
	Estimated earnings growth (2022 vs 2021)	13%	10%
	FCF yield	3.0%	5.6%
	PE (2021e)	25.9	22.9
Conviction	Number of stocks	30	1630
	Active share	81%	-

Figure 7: Guinness Asset Management, Credit Suisse HOLT, Bloomberg (data as at 30.06.2021)

We thank you for your continued support.

Portfolio Managers

Dr Ian Mortimer, CFA
Matthew Page, CFA

Analysts

Joseph Stephens
Sagar Thanki
William van der Weyden

Data sources

Fund performance: *Financial Express, in GBP unless otherwise stated*

Index and stock data: *Bloomberg*

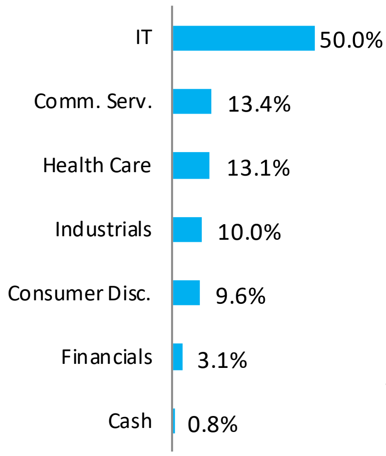
PORTFOLIO

30/06/2021

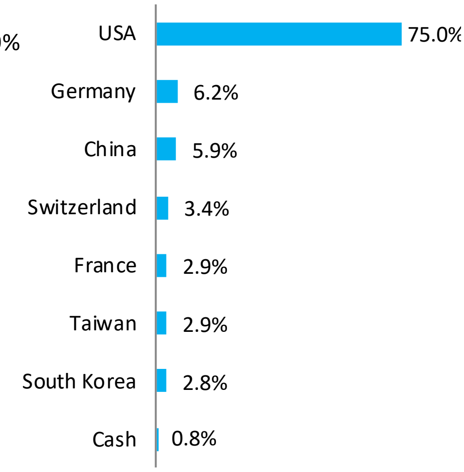
Fund top 10 holdings

Facebook	4.0%
Applied Materials	3.7%
Adobe Systems Inc	3.7%
Roper Industries Inc	3.6%
Paypal	3.6%
Alphabet	3.5%
Cisco Systems	3.5%
Danaher Corp	3.4%
Visa	3.4%
Lam Research	3.4%
% of Fund in top 10	35.9%
Total number of stocks	30

Sector analysis



Geographic allocation



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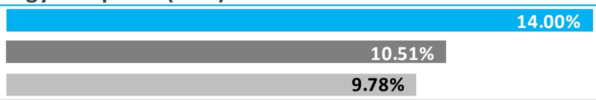
Annualised % total return from strategy inception (GBP)



Discrete years % total return (GBP)	Jun '21	Jun '20	Jun '19	Jun '18	Jun '17
Guinness Global Innovators strategy*	31.1	24.1	3.4	13.9	32.2
MSCI World Index	24.4	5.9	10.3	9.3	21.6
IA Global sector average	25.9	5.4	7.5	9.1	23.7
IA Global sector ranking	89/434	25/400	335/375	49/332	23/313
IA Global sector quartile	1st	1st	4th	1st	1st

Cumulative % total return (GBP)	1 month	Year-to-date	1 year	3 years	5 years	10 years
Guinness Global Innovators strategy*	6.8	13.2	31.1	68.2	153.3	401.4
MSCI World Index	4.4	11.9	24.4	45.3	93.2	219.8
IA Global sector average	3.7	10.3	25.9	42.6	92.5	172.5

RISK ANALYSIS

30/06/2021

Annualised, weekly, 5 years, in GBP	Index	Sector	Strategy*
Alpha	0	1.91	5.17
Beta	1	0.83	1.06
Information ratio	0	-0.05	0.81
Maximum drawdown	-24.58	-21.61	-22.23
R squared	1	0.85	0.84
Sharpe ratio	0.68	0.73	0.95
Tracking error	0	5.86	6.98
Volatility	15.09	13.57	17.43

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 investment team using the same investment process as applied to the UCITS version. The past performance of the US mutual fund is not indicative of the future performance of Guinness Global Innovators Fund. Fund returns are for share classes with a current Ongoing Charges Figure (OCF) stated above; returns for share classes with a different OCF will vary accordingly.** Source: Financial Express, bid to bid, total return, in USD.

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, 18 Smith Square, London SW1P 3HZ.

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

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Telephone calls will be recorded and monitored.