

# GUINNESS SUSTAINABLE GLOBAL EQUITY FUND



This is a marketing communication. Please refer to the prospectus and KID/KIID for the Fund, which contain detailed information on the fund's characteristics and objectives, before making any final investment decisions.

**POSITIVELY DIFFERENT**

**GUINNESS**  
GLOBAL INVESTORS

## RISK AND PERFORMANCE

**Risk:** The Guinness Sustainable Global Equity 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. Further details on the risk factors are included in the Funds' documentation, available on our website ([guinnessgi.com/literature](https://guinnessgi.com/literature)).

The Fund is actively managed with the MSCI World Index used as a comparator benchmark only. The Fund invests in global companies that are aligned with the transition to a more sustainable economy.

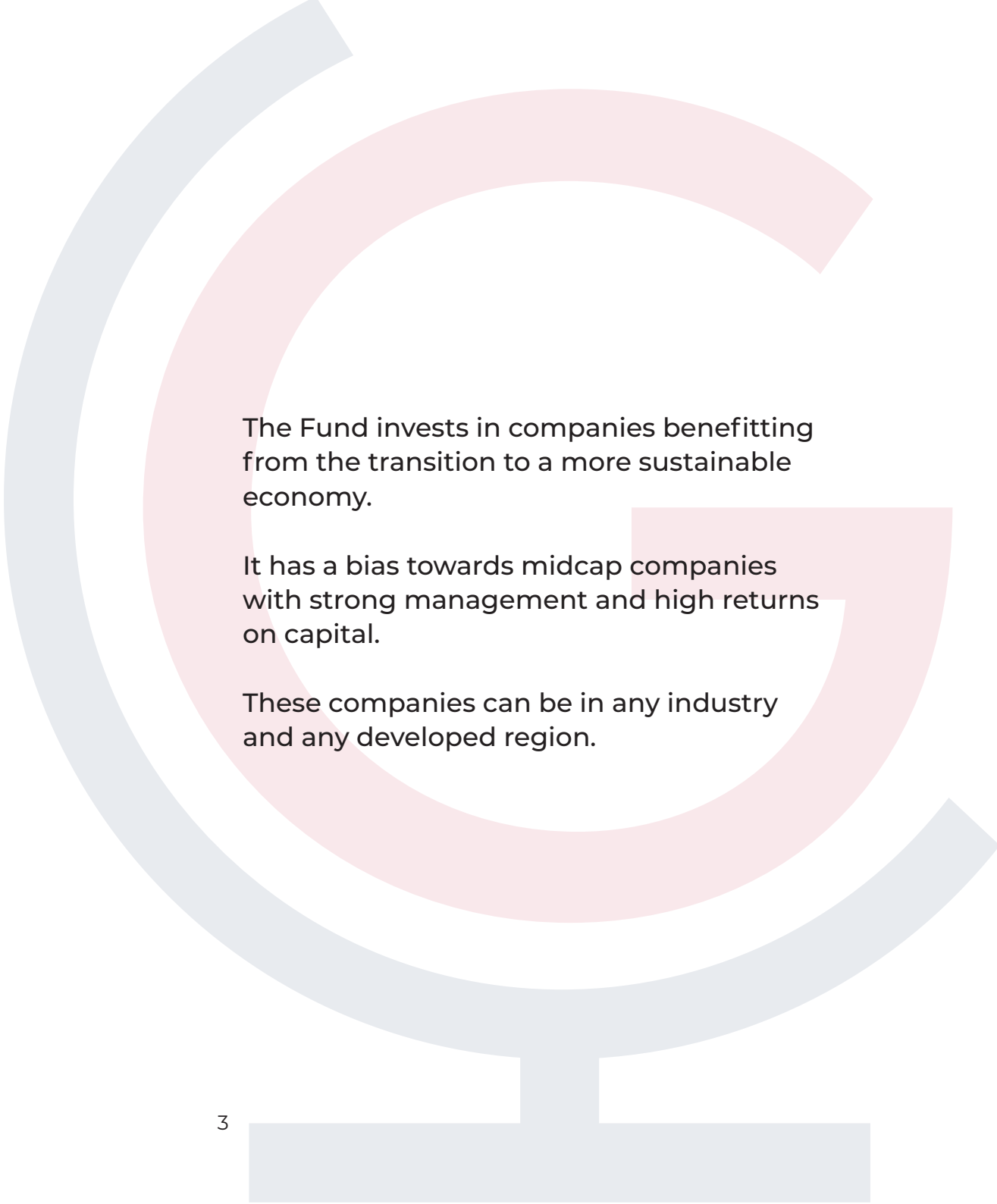
**Performance:** Past performance does not predict future returns.

Investors should note that fees and expenses are charged to the capital of the Fund. This reduces the return on your investment by an amount equivalent to the Ongoing Charges Figure (OCF). The fund performance shown has been reduced by the current OCF of 0.89% per annum. Returns for share classes with different OCFs will vary accordingly. Transaction costs also apply and are incurred when a fund buys or sells holdings. Performance returns do not reflect any initial charge; any such charge will also reduce the return.

**TB Guinness Sustainable Global Equity Fund:** UK investors should be aware that the Guinness Sustainable Global Equity Fund is also available as a UK domiciled fund denominated in GBP. Details of all share classes and the documentation needed to make an investment, including the Prospectus, the Key Investor Information Document (KIID) and the Application Form, is available on our website ([guinnessgi.com/literature](https://guinnessgi.com/literature)).

# CONTENTS

	Page
Introduction	4
Why buy the Fund?	5
How we run the Fund	9
Fund Managers	13



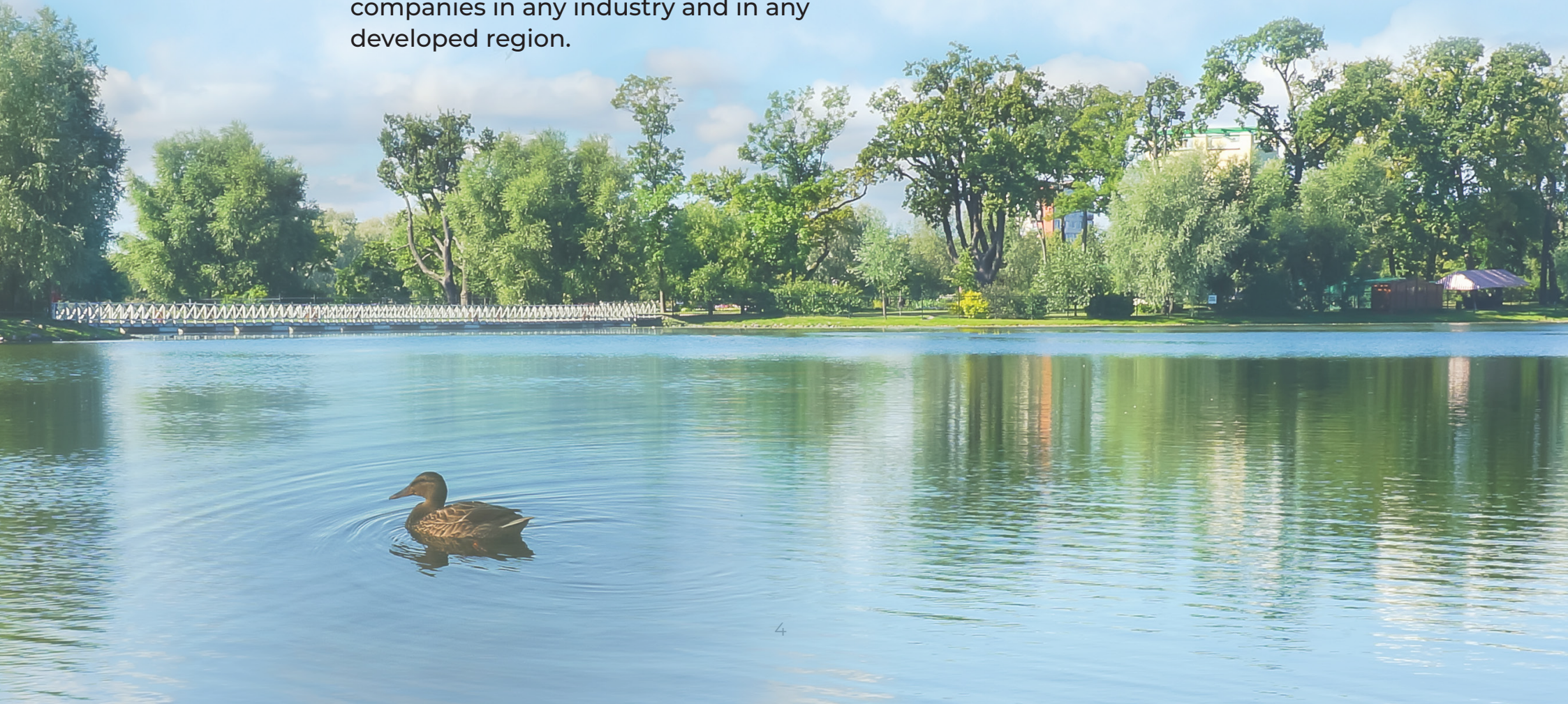
The Fund invests in companies benefitting from the transition to a more sustainable economy.

It has a bias towards midcap companies with strong management and high returns on capital.

These companies can be in any industry and any developed region.

## SUSTAINABLE GLOBAL EQUITY FUND

- Designed to provide investors with exposure to companies benefiting from the transition to a more sustainable economy.
- Managed for capital growth, with a concentrated portfolio of quality growth businesses, biased towards mid-cap companies in any industry and in any developed region.
- A high-conviction portfolio of 30 equally weighted stocks, with low turnover and no benchmark-driven constraints on sector or regional weightings.



## WHY BUY THE FUND?

### 1. We focus on opportunities created by the shift to a more sustainable economy

- Companies whose products and services are enabling the transition to a more sustainable economy are likely to experience persistent top-line growth as nations and consumers continue to change preferences.
- Businesses with strong and improving ESG practices are likely to reduce their operational risk, whilst better alignment of management remuneration incentivises long-term value creation.
- We believe that sustainable companies are likely to be strategically placed for long-term growth, with more forward-thinking management teams able to better capitalise on future opportunities.
- We use exclusionary screens, sustainability themes and a combination of proprietary and third-party ESG research to help identify and assess such businesses.

#### *Key attributes of success*

*We believe that sustainable businesses which have generated a persistently high return on capital, and where management has a strong and improving ESG focus, are able to produce superior shareholder returns through:*

- *Persistent earnings growth in the future; and*
- *Forward-thinking management able to capitalise on secular opportunities and generate future economic value.*

### 2. Our investment process specifically targets quality companies

- We focus on companies with a history of persistently high and improving return on capital. Our analysis shows that these businesses are highly likely to maintain their profitability in the future.
- We seek companies with strong balance sheets and avoid those which have taken on significant leverage in order to fuel their growth - especially when looking at smaller companies, which may not have the ability to refinance at low rates.
- Our back-testing indicates that quality businesses – as defined by our criteria – exhibit share price outperformance vs the MSCI World Index.

#### *Key attributes of success*

*We find that quality businesses, with a history of high and improving return on capital and low leverage, are highly likely to:*

- *Continue generating a high return on capital in the future; and*
- *Translate this economic value creation into share price outperformance*

*Sustainable businesses which have generated a persistently high return on capital are able to produce superior shareholder returns.*

## WHY BUY THE FUND?

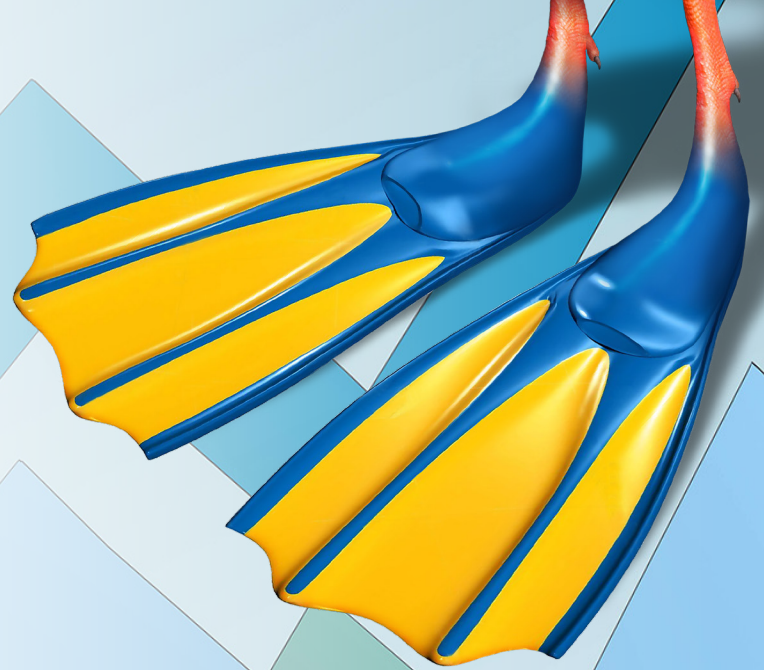
### 3. We focus on growth through a mid-cap lens

- Over the long term, mid-caps have grown their revenues and earnings faster than both large-caps and small-caps. This has led to outperformance and better risk/return ratios.
- We often see significant crowding in large-cap names in the search for sustainability. By focusing on mid-caps, not only do we build a differentiated portfolio, but we also find more pure-play sustainable businesses.

#### *Growth at attractive valuations*

- *We recognise that sentiment and hype can sometimes drive up the valuations of growth companies and so we try to maintain a strict growth-at-a-reasonable-value discipline.*

*Looking in the mid-cap space is a good place to start when searching for growth and seeking more pure-play businesses.*



#### 4. Our equally weighted portfolio provides a sensible balance between risk and return

- **High active share**

An equally weighted portfolio will have a high active share by design. Each of our 30 holdings is comfortably larger than its weight in the MSCI World Index.

- **Rebalancing effect**

Sensible periodic rebalancing forces us to go against market movement by buying more of a company that has underperformed (assuming our original rationale still stands) and trimming ones that have outperformed. If our longer-term conviction proves correct, the Fund will benefit materially.

- **One in, one out**

It can be easier to identify companies we would like to buy than to find one we already own that we should be selling. Having a one in, one out policy forces us to consider which position in the portfolio we like the least.

- **Limited stock-specific risk**

Having an equally weighted portfolio limits stock-specific risk. Index-weighted portfolios can have higher weightings in large-cap companies, and therefore higher stock risk.

- **Conviction in every position**

Some argue equally weighting suggests we have limited conviction in any one company. We believe it demonstrates higher conviction to have equal weights in all our 30 holdings rather than larger weights in a few names, and small weights in the rest.

*The portfolio's active share versus the MSCI World Index is currently 99%, giving investors truly differentiated exposure.*

*Loss aversion is one of the key behavioural biases that portfolio managers must confront. The discipline of equal weighting counteracts it. We can never grow a long tail of 'legacy losers' in which we no longer have conviction.*

*When we identify a company to buy, we cannot just add another position – we also have to sell something. This keeps the portfolio up to date with our current best ideas.*

*Large-caps can make up a significant proportion of index-weighted portfolios. There are many examples of larger companies that do not turn out to be good investments.*

*Our equally weighted portfolio means we have the same weight in a \$1 billion company as in a \$10 billion company. In our minds that demonstrates high conviction.*

*Equal-weighting and a one-in-one-out policy creates a high conviction portfolio of our best current ideas.*

## WHY BUY THE FUND?

### 5. We employ a repeatable, robust process

We believe we have developed an investment process that is clear, robust, transparent, and scalable. This approach filters out much of the noise and hype that surrounds companies and allows us to focus on the true signals that drive company valuations.

By performing our own company research and analysis using our own proprietary modelling systems, we try to avoid some of the behavioural biases associated with being unduly influenced by market sentiment.

The investment process applied to the Fund was developed in-house by its managers.



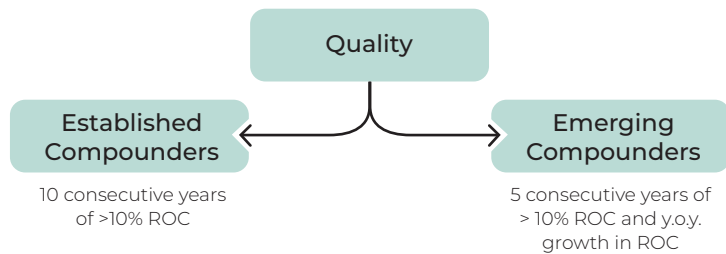


# HOW WE RUN THE FUND

## 1. Quality Screen

Although the Fund is designed to invest in sustainable companies, our starting point in assembling our investment universe is to identify companies with persistently high and/or improving return on capital (ROC). Specifically, we look for two separate – but not distinct – groups of companies:

- **Established Compounders** that have a return on capital of greater than 10% in each of the previous 10 years; and
- **Emerging Compounders** that have a return on capital of greater than 10% in each of the previous 5 years, with that return on capital growing across the previous 5-year period.

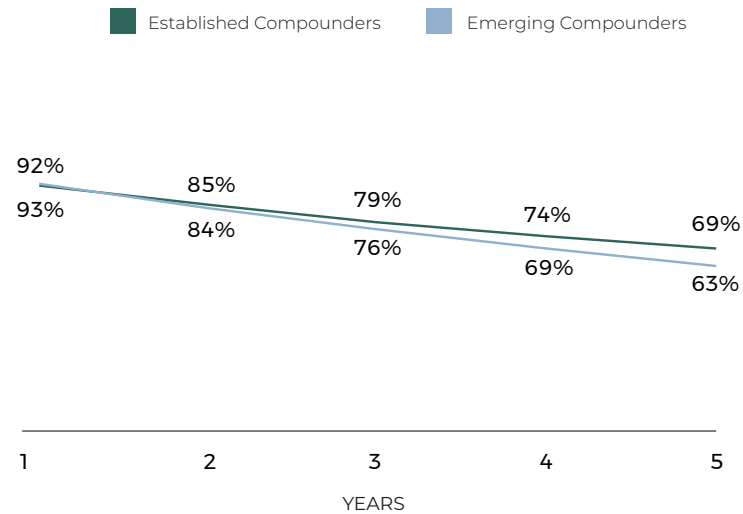


Our analysis shows that Established and Emerging Compounders are highly likely to continue generating persistently high return on capital in the future.

Emerging Compounders are therefore highly likely to turn into Established Compounders in the future.

Together, these factors mean that these businesses should continue to create shareholder value.

Probability of ROC remaining above 10% after N years



Source: Guinness Global Investors, CS HOLT as at 31.03.2022

On average, only 5% of global listed companies achieve our threshold. We then exclude highly leveraged businesses (net debt/EBITDA > 3), leaving a pool of around 650 companies.

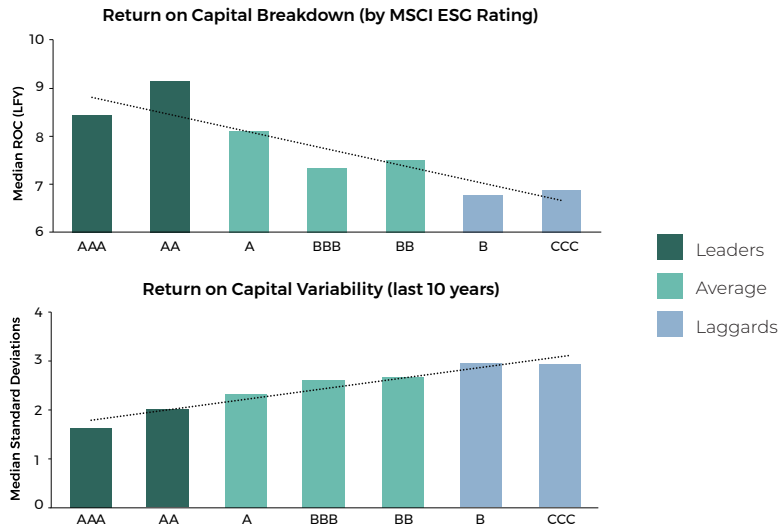
*It's a rare achievement for a company to meet our investment criteria and we think it shows a mark of genuine quality. And this is where our portfolio starts – consistent high return on capital.*

## HOW WE RUN THE FUND

### 2. Identifying sustainable companies

We find that quality characteristics exhibited by a company positively correlate with better ESG scores, using MSCI ESG methodology. Hence, we find that by first screening for high-quality businesses, we indirectly exclude many businesses that have been deemed to have below average or inadequate management of ESG issues.

**Companies with a higher ROC and lower ROC variability tend to have better ESG ratings**



Source: Guinness Global Investors, MSCI ESG Rating as at 31.03.2022

Intuitively, when seeking to invest in sustainable businesses that can create value over the long term, filtering for quality businesses which have already demonstrated an ability to create above-average economic value without taking on excessive debt, makes sense.

However, this alone does not yield a pool of companies all of which are deemed sustainable. To refine the universe further, we apply exclusionary screens in order to filter out companies whose products or services are harmful or whose ESG practices are sub-standard. We exclude companies which derive material revenue from:

Alcohol
Coal
Fossil Fuels
Gambling
Nuclear Energy
Palm Oil
Tobacco
Weapons

We also exclude companies ranked as laggards (B or CCC rating) by MSCI and those on the Norwegian Council on Ethics exclusion list. Such businesses tend to display inadequate or worsening management of ESG issues and are vulnerable to ESG-related disruptions and controversies.

After applying these exclusions our universe falls from c.650 to c.580 – a mere 11% reduction, demonstrating the effectiveness of the quality screen in excluding businesses which lack sustainability.

*We apply screens to filter out companies whose products or services are harmful and where ESG practices are sub-standard.*

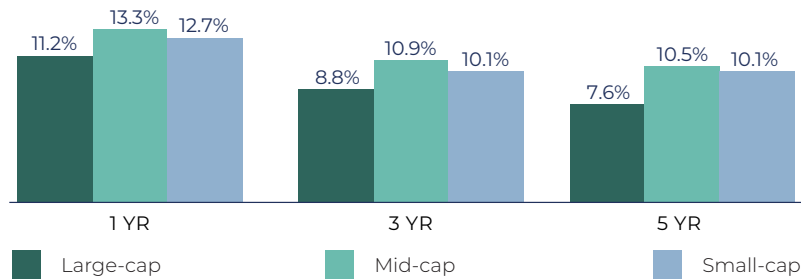
### 3. Identifying growth

The Fund invests in high-growth businesses. With no single metric identifying companies which will exhibit high future growth, we believe that looking in the mid-cap space is an attractive place to start. Mid-caps have outperformed both large-caps and small-caps over the long term by growing their earnings and revenues faster – and with a better risk-return ratio.

We also find that many of the pure-play sustainable businesses that we seek tend to be smaller in size.

We define mid-cap companies as those with market capitalisation between \$1bn and \$20bn. This final filter screens out a further 20% of businesses, leaving around 450 eligible companies for further due diligence.

Average rolling holding period total return 31/12/1995 – 31/12/2021

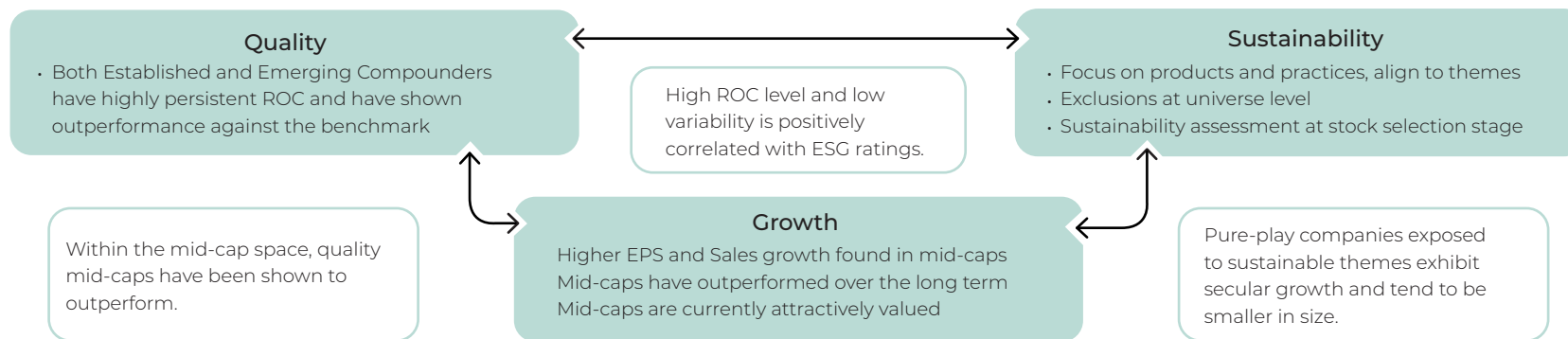


	Large-cap	Mid-cap	Small-cap
Annualised Return	10.2%	11.9%	11.1%
Annualised Volatility	15.2%	17.8%	19.2%
Return/risk	0.67x	0.67x	0.58x

Source: Bloomberg. Monthly data in USD. Based on S&P indices as a proxy.

*Mid-caps have outperformed both large-caps and small-caps over the long term, and with a better risk-return ratio.*

#### Universe construction summary



## HOW WE RUN THE FUND

### 4. Further research and stock selection

From this universe, we then seek to identify which companies are the most attractive long-term investment propositions. We apply screening and utilise scorecards based on quality, sustainability, growth, and valuation to prioritise candidates for extended due diligence.

We then subject all potential investments to detailed fundamental analysis and use sustainability themes and associated sub-themes to initially identify whether a business's products and services can be deemed sustainable – and to what extent.

The 3 broad sustainable themes and associated sub-themes currently employed are:

Health & Wellbeing	Productivity & Connectivity	Resource Efficiency
Pharmaceuticals	Productivity	Clean Energy
MedTech	Cloud Computing	Energy Efficiency
Active Lifestyle	IoT	Water Management
Nutrition	Semiconductors	
Safety		

*The Fund aims to invest in companies whose primary business aligns with at least one of our sustainable themes.*

### 5. Sell discipline

It is often easier to find companies to buy that look cheap than it is to identify those companies you own which should be sold. We consider sell discipline as important as selecting companies for purchase and continuously monitor the companies we hold in the Fund. The six core reasons we may sell a company are outlined below.

1. The company no longer qualifies as sustainable
  - The company now derives a material portion of revenue from harmful products
  - The company's ESG practices have deteriorated materially
2. The balance sheet becomes stretched
3. The valuation becomes too rich, or no longer offers compelling upside
4. There is a change in a company's capital budgeting approach
5. Our original investment thesis no longer holds
6. We find a more compelling investment idea

## FUND MANAGERS



**SAGAR THANKI, CFA**

Sagar joined Guinness Global Investors in 2017 and is portfolio manager of the Guinness Sustainable Global Equity Fund, as well as an analyst on the Guinness Global Equity Income and Guinness Global Innovators funds.

Prior to joining Guinness, Sagar worked at Bloomberg as an Equity and Portfolios Product Specialist, within the Financial Analytics and Sales department. Sagar started his career at Barclays Wealth as an Equity Analyst, working in the Discretionary Portfolio Management team. Sagar graduated from Selwyn College, University of Cambridge, with a Master's degree in Economics. Sagar is a CFA Charterholder and has a Diploma in Investment Management, having passed the IMC Certificate and CFA Certificate in ESG Investing.



**JOSEPH STEPHENS, CFA**

Joseph joined Guinness Global Investors in 2018 and is portfolio manager of the Guinness Sustainable Global Equity Fund, as well as an analyst on the Guinness Global Equity Income and Guinness Global Innovators funds.

Prior to joining Guinness, Joseph interned at Goldman Sachs within the Operations department. He has a Master's degree in Investment Management from Henley Business School and a Master's degree in Mathematics from the University of Bath. He is a CFA Charterholder and has passed the CFA Certificate in ESG Investing.

*The Fund's investment process was developed in-house by its managers.*

## IMPORTANT INFORMATION

### ISSUED BY GUINNESS GLOBAL

**INVESTORS** which is a trading name of Guinness Asset Management Limited which is authorised and regulated by the Financial Conduct Authority.

This report is primarily designed to inform you about the Guinness Sustainable Global Equity Fund and the TB Guinness Sustainable Global Equity Fund. It may provide information about the Funds' 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 Funds or to buy or sell individual securities, nor does it constitute an offer for sale.

### GUINNESS SUSTAINABLE GLOBAL EQUITY FUND

#### DOCUMENTATION

The documentation needed to make an investment, including the Prospectus, the Key Information Document (KID), Key Investor Information Document (KIID) and the Application Form, is available in English from [www.guinnessgi.com](http://www.guinnessgi.com) or free of charge from:-

- the Manager: Link Fund Manager Solutions (Ireland) Ltd (LFMSI), 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.

LFMSI, as UCITS Man Co, has the right to terminate the arrangements made for the marketing of funds in accordance with the UCITS Directive.

### INVESTOR RIGHTS

A summary of investor rights in English is available here: <https://www.linkgroup.eu/policy-statements/irish-management-company/>

### 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

This is an advertising document. The prospectus and KID 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.

### SINGAPORE

The Fund is not authorised or recognised by the Monetary Authority of Singapore ("MAS") and shares are not allowed to be offered to the retail public. The Fund is registered with the MAS as a Restricted Foreign Scheme. Shares of the Fund may only be offered to institutional and accredited investors (as defined in the Securities and Futures Act (Cap.289)) ('SFA') and this material is limited to the investors in those categories.

## **TB GUINNESS SUSTAINABLE GLOBAL EQUITY FUND**

### **Documentation**

The documentation needed to make an investment, including the Prospectus, the Key Investor Information Document (KIID) and the Application Form, is available in English from [www.tbaileyfs.co.uk](http://www.tbaileyfs.co.uk) or free of charge from:-

T. Bailey Fund Services Limited ("TBFS")  
64 St James's Street  
Nottingham  
NG1 6FJ  
General enquiries: 0115 988 8200  
Dealing Line: 0115 988 8285  
E-Mail: [clientservices@tbailey.co.uk](mailto:clientservices@tbailey.co.uk)

T. Bailey Fund Services Limited is authorised and regulated by the Financial Conduct Authority.

### **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.

### **Structure & regulation**

The Fund is a sub-fund of TB Guinness Investment Funds, an investment company with variable capital incorporated with limited liability and registered by the Financial Conduct Authority.

Telephone calls will be recorded and monitored.



Guinness Global Investors is a trading name of Guinness Asset Management Ltd., which is authorised and regulated by the Financial Conduct Authority (223077).