Guinness Global Innovators Fund

Innovation | Quality | Growth | Conviction

INVESTMENT COMMENTARY – September 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	£550m
AUM in strategy	£720m
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

This is a marketing communication. Please refer to the prospectus and KIID for the Fund before making any investment decisions.

Performance 31.08.21

Past performance does not predict future returns

Cumulative % total return (GBP)	1 year	3 years	5 years	10 years
Strategy*	30.9	70.5	141.0	491.3
Index	26.3	43.5	90.0	272.1
Sector	26.5	42.3	84.9	215.5
Position in sector	**90** /442	**31** /381	**21** /316	**5** /210

Annualised % total return
from strategy inception (GBP)

Strategy*	14.17%
Index	10.68%
Sector	9.92%

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 GBP.

Summary performance

For the month of August, the Guinness Global Innovators Fund provided a total return of 3.17% (GBP) against the MSCI World Index net total return of 3.54% (GBP). The fund therefore marginally underperformed the benchmark by -0.37% (GBP). Year to date, the fund has produced a total return of 18.91% (GBP) against the MSCI World 17.14% (GBP).

While inflationary concerns, debates over the timing of central bank monetary tightening, and the COVID-19 delta variant persisted into August, broadly positive economic data and the gradual reopening of economies enabled global equity markets to advance over the month. Overall, fund performance vs the benchmark can be attributed to the following:

- The fund's significant overweight exposure to IT – the 2nd best performing sector over the month – was a positive from an asset allocation perspective. However, individual performances from the fund's IT holdings was a more mixed picture as two semiconductor IT holdings finished the month as the top two performers (Nvidia and Infineon), whilst two IT software holdings ended the month as the weakest performers (Mastercard and Visa). Overall, the fund's IT exposure was a slight detractor from relative performance.

- The fund's 0% exposure to Materials, Consumer Staples, and Energy, were all positive contributors to fund performance as the sectors underperformed the broader market over the month.

- Positive stock selection from the fund's Communication Services exposure, namely through Alphabet and Facebook, was also a positive contributor.

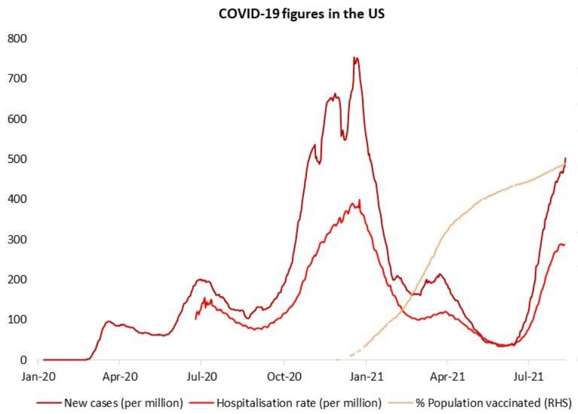
The fund's performance has remained strong across all time frames, sitting in the top quartile versus its IA Global Equity sector peers over the year-to-date – as well as over 1, 3, 5, and 10 year periods.

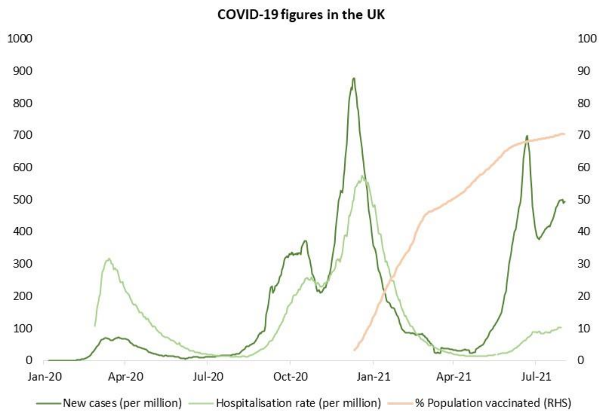
	YTD	1 year	3 years	5 years	10 years
Global Innovators	18.91	30.89	70.52	140.95	491.31
Index	17.14	26.25	43.50	90.01	272.11
Sector	14.70	26.45	42.27	84.90	215.50
Position in sector	66/453	90/442	31/381	21/316	5/210
Quartile	1st	1st	1st	1st	1st

Source: Financial Express. Cumulative Total Return in GBP, as of 31st August 2021

August in review:

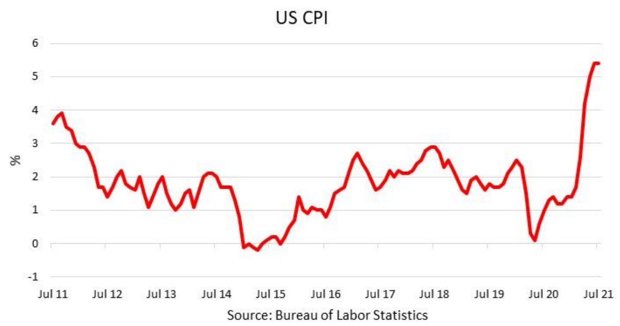
In the month where the US ended its withdrawal from Afghanistan, bringing an end to its 20-year war, back home the country continued to struggle to disconnect rising COVID-19 cases with rising hospitalisations. Within the UK, however, where 70% of the populations has now had at least one dose of vaccine, the rising case numbers have not led to a proportionate rise in hospitalisation, enabling the economy to remain open. Indeed it is likely more developed regions with high vaccination uptakes will lead the recovery, whilst other regions may lag causing ongoing disruptions to supply chains. Further still, talk of waning vaccination protection has led a number of countries to announce booster programmes.

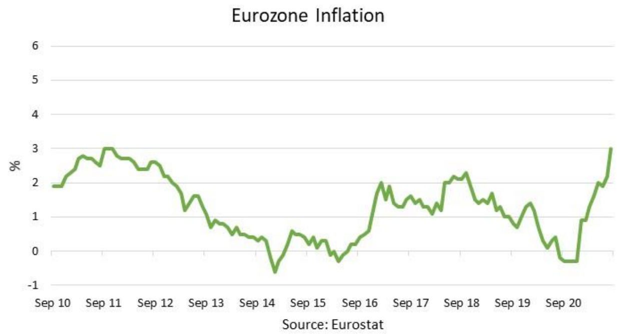


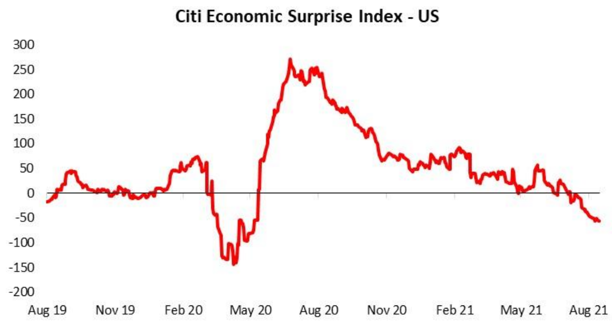


Source: Bloomberg

Although the delta variant continues to be a concern, broad macroeconomic data remains positive: manufacturing and service PMIs in the US came in at 61.2 and 55.4 respectively, while the Eurozone printed 61.5 and 59.5 respectively – pointing to continued economic expansion. However, with broad reopening of economies and ongoing loose monetary and fiscal policies, concerns that economies may run too hot persisted. In the US, headline CPI delivered 5.4%, while in the Eurozone, CPI came in at 3.0% - both surpassing economist's expectations whilst remaining at decade highs. Further, the momentum of economic data, having now rolled off the troughs of 2020, seems to be losing steam: the Citi Economic surprise indices for the US and Eurozone – an indication of whether data was surprising to the upside or downside – both made their way into negative territory.







Source: Bloomberg

However, with broadly expansionary data, investors once again looked to the US FOMC (Federal Open Market Committee) meeting for indications of monetary tightening. And indeed, Jerome Powell gave a clear signal that the US Fed could begin dialling back its stimulus programme this year as the economy had made "clear progress" in its recovery. In the month's meeting, Jerome Powell commented that the US central bank had met the first two of its goals before it begins unwinding its bond buying programme, with substantial progress towards its goal of averaging 2% inflation and maximum employment.

Elsewhere, China continued its regulatory tightening across sectors, with gaming now firmly in its sights. At the end of the month, new rules were released by Chinese State media, that would only allow children (under 18s) to play video games for one hour on Fridays, Saturdays, and Sunday. Having sold Tencent – the world's largest gaming company – in July, the fund was not exposed to the increasingly tight regulatory environment enforced upon many of China's biggest internet businesses. Within the fund, we only hold exposure to one Chinese stock – Anta Sports, the country's leading sports apparel producer – which we do not currently expect to be caught up in the ongoing regulatory changes.

Stock performances:

Nvidia +14.8% USD:

Over the month, Nvidia continued its impressive run for the year, reporting results that were ahead of expectations as demand in data centres and gaming persisted – although they did point to supply chain constraints as being a potential challenge. Further still, Nvidia's revenue guidance for Q3 was also ahead of expectations coupled with gross margin guidance of 67% vs estimates of 66.1%. Aside from results, Nvidia CEO Jensen Huang commented that he was confident regulators would clear the planned acquisition of Arm, however admitted that discussions with regulators had taken longer than expected. While the acquisition would be an obvious benefit to Nvidia's full suite product offerings, Nvidia continues to perform strongly as demand from end-markets have accelerated the need for the company's high-end graphic processing units – a trend that does not look to be easing in a post-pandemic world and which has left the stock as the fund's top performer year-to-date.

Infineon +11.8%:

Having been the fund's second worst performer over July, Infineon ended August as the fund's second best performer. The semiconductor business, which primarily focuses on power management units for industrial and automotive markets, reported quarterly earnings at the beginning of August that were broadly in-line with estimates however raised their margin and free cash flow outlooks. Although the company has been affected by reduced semiconductor outputs from Malaysia which is dealing with new Covid outbreaks, alongside broader supply constraints in the automotive sector, the company's book-to-bill ratio of 2.4x continues to indicate strong demand for the business as constraints ease. Infineon is one of the leading power semiconductor manufacturers globally, with exposure to long-term growth drivers including the electrification of vehicles, and clean energy generation, and which we believe will continue to benefit going forward.

Mastercard -10.3% and Visa -6.9%:

While there was a lack of direct news for Visa, the company suffered from the read-across from ongoing anticompetitive court battles that Mastercard is involved in. Over the month, a UK court ruled that a lawsuit of more than £10bn on behalf of 46m consumers could be brought against Mastercard. The lawsuit, which had previously been rejected, is intended to compensate consumers and small retailers for what they believe to be anti-competitive interchange fees set by Mastercard – a fee charged to retailers for card use. Whilst the potential payout is significant, the claim has been reduced in value from around £14bn and could be expected to reduce further. We continue to monitor the situation, however remain bullish on the longer-term potential for both payment giants with the transition to a cash-less society providing an extended growth runway.

Anta -5.6%:

Anta Sports, the largest domestic sports apparel business in China, was one of the fund's weakest performers over the month. While active Chinese regulators weighed on the broad Chinese equities market, the company also reported semi-annual results during the month which were taken as a negative read for investors. While Anta reported revenue and profit that beat expectations, a resurgence in Covid cases in a few tier 1-2 cities within China caused a slowdown in August sales. With the resurgence temporary, we remain positive on the long-term outlook for the company given the government's promotion of sport and healthy living, as well as the company's ongoing share gains from western brands Nike and Adidas.

Changes to the Portfolio:

As reported in the previous commentary, we sold the fund's position in Tencent in July, with the following extract providing a rationale:

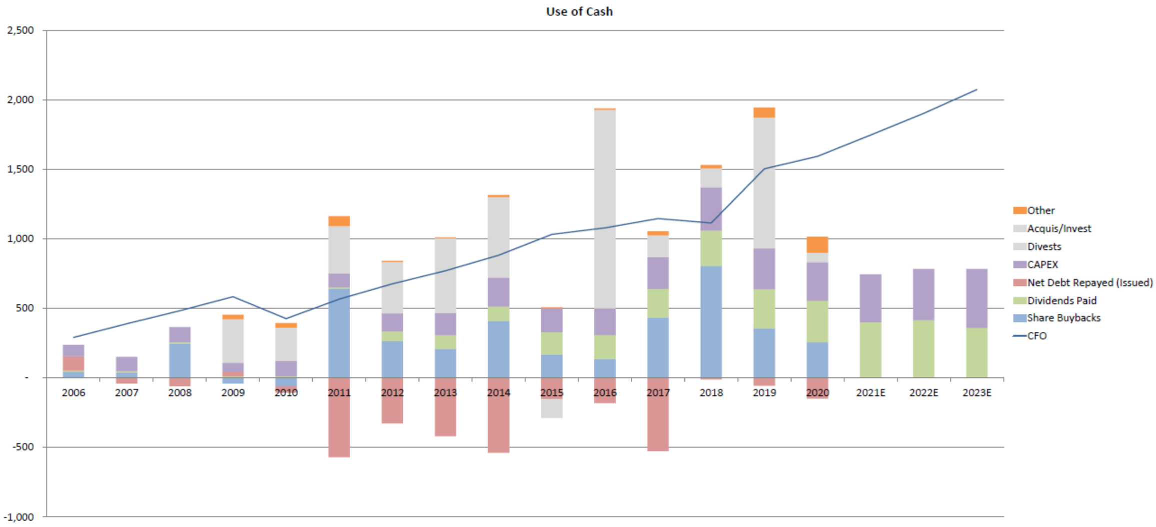
We sold Tencent on the 6th July. Increased scrutiny from the Chinese regulator on monopolistic behaviour, data security and financial stability adds an inherent level of risk to investments within the region – particularly in large, mega-cap tech stocks. At the beginning of the month, Tencent was blocked from combining gaming platforming Douyu and Huya on anti-competitive grounds. Two-weeks later, regulators ordered Tencent to end exclusive music contracts with copyright holders. Following their 2016 acquisition of China Music Group, Tencent was left controlling more than 80% of "exclusive music library resources", preventing rivals from entering the market. The firm was given 30 days to end exclusive music copyright contracts. Subsequently, the stock fell over 18% during the month. Such is the density of the interactions the regulator is having with Tencent, the drastic measures felt across a range of industries (such as those felt by the $100bn Chinese private education industry) and hefty fines (Alibaba fined a record $2.8bn in April for abusing market dominance), the recent swing in the balance of risks is dominating the conversation around Chinese tech stocks, and is likely to continue weighing heavily on the stock price.

In line with the fund's one-in-one-out policy, we have since initiated a new position in Amphenol, bringing fund holdings back up to 30.

Amphenol sits in the IT sector and hardware industry group but it could arguably sit in the Industrial sector. They are a market leader in the design, manufacture and marketing of interconnects and related components and systems – essentially pieces of kit that allow power or data to be transferred from one device to another. These components are in demand from a broad group of industries including data communications, automotive, aerospace, *etc*., and therefore the company has exposure to a number of our innovation themes and sub-themes: Clean Electric vehicles, Robotics and Automation, Cloud Computing, AI & Big Data, and 5G.

The company is managed in a very decentralised manner with 120 general managers given the freedom and responsibility to generate the target P&L in the manner they see fit. Partly this is a consequence of the fact they have grown by making small acquisitions as you can see from the grey bars in the chart below (they have made around 50 acquisitions since 2010).

Amphenol's use of cash, 2006–2023E



Source: Bloomberg, company reports

We believe they will continue to grow in this manner for the foreseeable future as the industry is highly fragmented with Amphenol being a market leader with only c.5% market share. Further still, the interconnects and systems the company manufactures are often customised for individual clients and are often critically important components which increases switching costs for customers creating an economic moat for the company.

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*

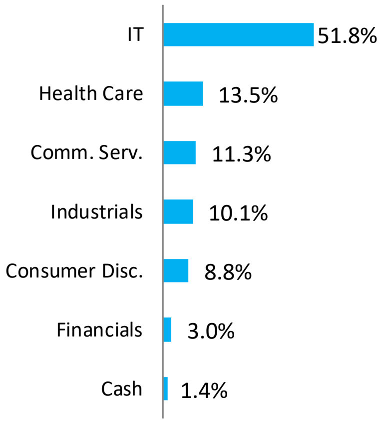
PORTFOLIO

31/08/2021

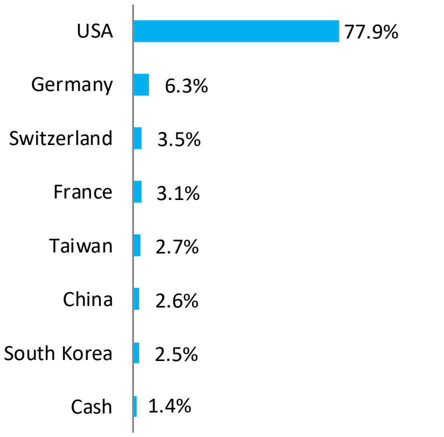
Fund top 10 holdings

Facebook	4.1%
Danaher Corp	3.9%
Adobe Systems Inc	3.9%
Alphabet	3.9%
Cisco Systems	3.6%
Microsoft	3.5%
Roper Industries Inc	3.5%
Apple	3.5%
Nvidia Corp	3.5%
ABB	3.5%
% of Fund in top 10	36.9%
Total number of stocks	30

Sector analysis



Geographic allocation

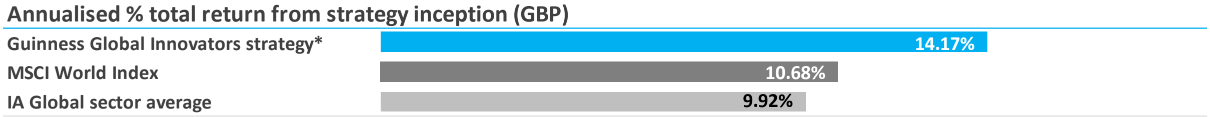


Performance

31/08/2021

Past performance is not a guide to future returns

Annualised % total return from strategy inception (GBP)



Discrete years % total return (GBP)	Aug '21	Aug '20	Aug '19	Aug '18	Aug '17
Guinness Global Innovators strategy*	30.9	26.1	3.3	12.0	26.2
MSCI World Index	26.3	6.2	7.0	12.1	18.1
IA Global sector average	26.5	6.7	5.4	10.5	17.6
IA Global sector ranking	90/442	30/409	254/379	145/336	24/314
IA Global sector quartile	1st	1st	3rd	2nd	1st

Cumulative % total return (GBP)	1 month	Year-to-date	1 year	3 years	5 years	10 years
Guinness Global Innovators strategy*	3.2	18.9	30.9	70.5	141.0	491.3
MSCI World Index	3.5	17.1	26.3	43.5	90.0	272.1
IA Global sector average	3.4	14.7	26.5	42.3	84.9	215.5

RISK ANALYSIS

31/08/2021

Annualised, weekly, 5 years, in GBP	Index	Sector	Strategy*
Alpha	0	1.60	4.74
Beta	1	0.83	1.06
Information ratio	0	-0.10	0.74
Maximum drawdown	-24.58	-21.61	-22.23
R squared	1	0.85	0.84
Sharpe ratio	0.69	0.72	0.94
Tracking error	0	5.83	6.97
Volatility	15.04	13.51	17.33

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***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 GBP.

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 in English from www.guinnessfunds.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 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. The paying agent is Banque Cantonale de Genève, 17 Quai de l'Ile, 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

Telephone calls will be recorded and monitored.