Guinness Global Innovators Fund

Innovation | Quality | Growth | Conviction

INVESTMENT COMMENTARY – November 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	£534m
AUM in strategy	£699m
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

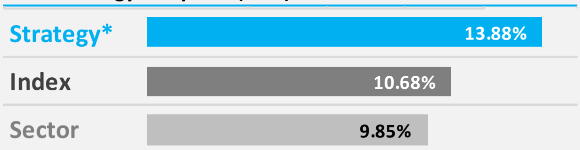
This is a marketing communication. Please refer to the prospectus and KIID for the Fund before making any investment decisions.

Performance 31.10.21

Past performance does not predict future returns

Cumulative % total return (GBP)	1 year	3 years	5 years	10 years
Strategy*	29.4	87.8	121.3	445.5
Index	32.5	54.0	82.7	272.1
Sector	28.6	53.4	76.4	206.6
Position in sector	**203** /442	**34** /377	**32** /314	**8** /213

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 GBP.

Summary performance

For the month of October, the Guinness Global Innovators Fund produced a total return of 2.19% (GBP) against the MSCI World Index net total return of 3.94%. Hence the fund underperformed the benchmark by -1.75% (GBP). This year, the fund has produced a total return of 15.92% (GBP) against the MSCI World 19.11%.

Global stock performance was broadly positive throughout October. This was a reversal from a difficult September, when stocks fell amid negative news flow including increasingly disrupted supply chains, hawkish comments from the Federal Reserve, and persistently high inflation in developed markets. This negative sentiment continued into early October.

Although many of these headwinds remain, markets soon regained momentum with the onset of a strong Q3 earnings season, as over 80% of S&P 500 companies that have so far reported beat earnings expectations, driving the index to new peaks. According to FactSet, for Q3 2021 the blended earnings growth rate for the S&P 500 is currently 36.6%, which, if the growth remains the same once all companies have reported, would mark the third-highest year-on-year earnings growth rate since 2010.

From a factor perspective, growth stocks outperformed value in October, reversing some of the weakness growth endured during September, while quality stocks (as measured by the MSCI World Quality Index) continued to outperform both growth and

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value, showing investors' continuing appetite for companies with robust balance sheets that can continue to grow in a lower-growth environment.

Over the month, fund performance can be attributed to the following:

- The largest positive stock contributor to the fund's relative performance over the month was from the fund's only Financials holding, Intercontinental Exchange, which rose 20.6% (USD) over the month.
- The fund benefitted in allocation terms from zero exposure to weaker-performing sectors over the month including Consumer Staples, Materials, and Utilities
- Broadly weaker stock selection across the fund's Consumer Discretionary, IT and Healthcare exposures were responsible for the fund's underperformance over the month. Most notably, Anta Sports within Consumer Discretionary was the fund's weakest performer (down -17.1% in USD) and PayPal was down 10.6% over the month as economic data showed a deceleration in ecommerce spending, whilst investors were mixed on the potential acquisition of Pinterest (which has since been called off).

Performance of the fund vs peers remains strong, with the fund ahead of the IA Global Equity Sector average in 2021 and over one year and ranking in the top quartile over three, five and 10-year periods.

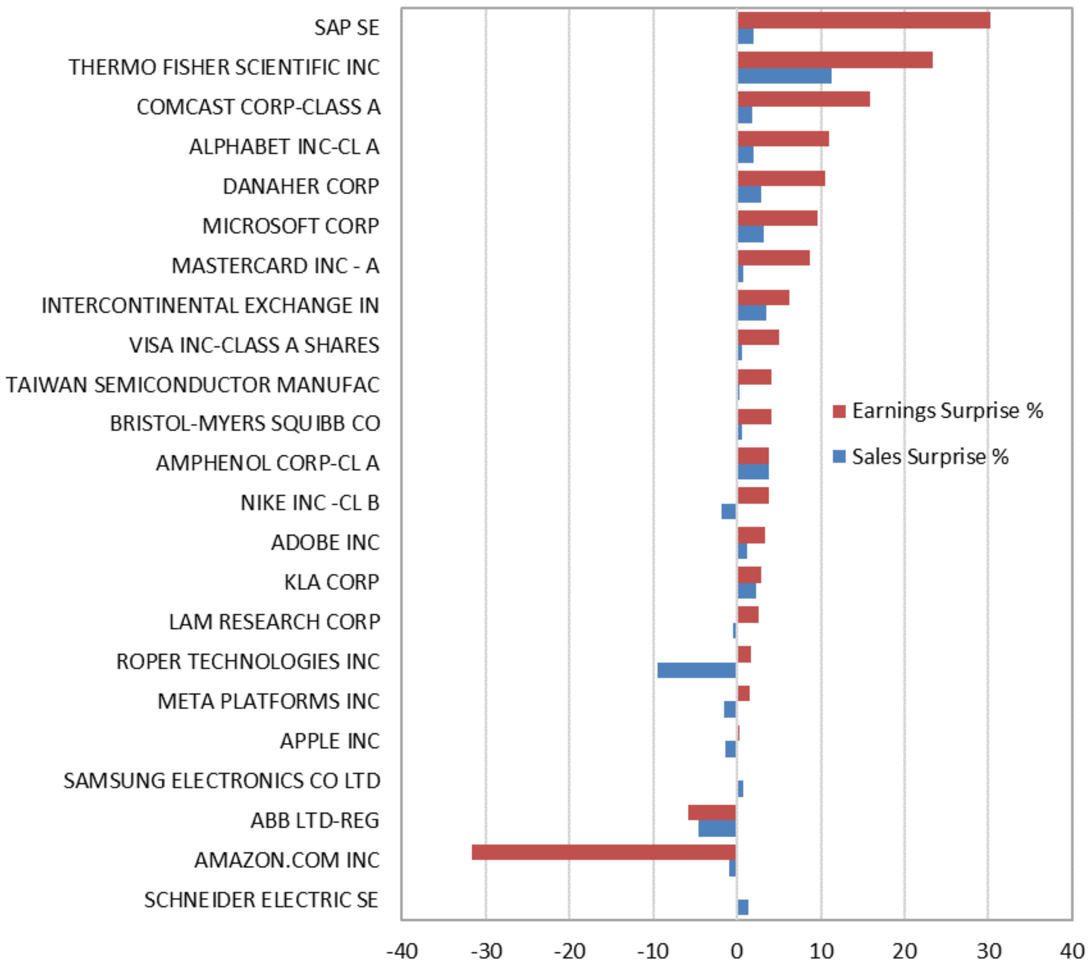
	YTD	1 year	3 years	5 years	10 years
Global Innovators	15.92	29.38	87.79	121.29	445.54
Index	19.11	32.46	53.95	82.70	272.06
Sector	15.12	28.64	53.35	76.36	206.55
Position in sector	220/451	203/442	34/377	32/314	8/213
Quartile	2nd	2nd	1st	1st	1st

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

October in review

While concern over the combination of bottlenecks in the global supply chain and inflationary pressures persisted, broadly positive earnings reports enabled the MSCI World to rise 3.94% (GBP) in the month. Indeed, according to FactSet, of the 56% of S&P 500 companies that have thus far reported earnings, 82% of companies reported a positive EPS surprise and 75% reported a positive revenue surprise, enabling the index to rise to record levels.

Fund holdings' quarterly figures vs expectations:



Source: Bloomberg, Guinness Asset Management

Within the fund, among the 23 companies that have reported (including Schneider Electric which only reported sales figures), 70% reported positive sales surprises with an average surprise of 0.7%, and 86% reported positive earnings surprises with an average surprise of 5.0%. However, one notable miss was Amazon's earnings which missed analysts' estimates by 31.7%. While revenue growth continued to be strong (in line with analyst estimates), growing 15% year-on-year, the surging demand for online goods, coupled with supply chain constraints, meant Amazon spent more than anticipated on elevated labour and input costs, as well as capital spent on vastly expanding its fulfilment network to meet demand. This weighed on net margins and resulted in the earnings miss. However, Amazon has now doubled its fulfilment network from pre-pandemic levels and should be better equipped to manage increased demand. We believe, therefore, this was a necessary spend.

The supply chain constraints faced by companies have become increasingly prominent. While the fund's holdings are not immune to these, we believe broadly they are managing them well. Over the recent earnings season we have collated a few examples of commentary taken from the quarterly conference calls.

Helping customers:

SAP – Product offerings giving customers better supply chain insights:

> *"coming back to the supply chains, indeed, many customers are just reaching out to also join the business network. Just to give you a few examples, semiconductor. There are a lot of enterprises right now who are joining our business network to get more transparency. Where are the shortages in the supply chain? Is it the next year supplier? Is it at the suppliers below? From which kind of region, from which kind of supplier can I get still some supply in the next months, in the next quarter? And really track and trace that real time. That's the business network."* - Christian Klein, CEO

Minimal impact:

Thermo Fisher – No material impact from supply chain constraints:

> *"As I think about Q3, there was no material impact in our results based on supply chain challenges. The areas that you see then, there would be manager things like freight and logistics, delivery times are a little bit slower"* - Marc Casper, CEO

Danaher – No material impact on operation performance:

> *"So we haven't really seen a material impact on our ability to meet our customers' demand, but we are seeing some modest inflationary and supply chain pressures in certain areas, just to name a couple. Of course, electronic components, freight and logistics and some labor shortages. But really this is where the Danaher Business System is a differentiator for us in this, in fact environment"* - Rainer M. Blair, CEO

Better-than-expected performance despite constraints:

Apple – Record sales despite larger-than-expected constraints:

> *"Demand was very robust and we set a new September quarter record of $83.4 billion, up 29% from last year and in line with what we discussed on our last call despite larger-than-expected supply constraints.*
>
> *We estimate these constraints had around a $6 billion revenue dollar impact driven primarily by industry wide silicon shortages and COVID related manufacturing disruptions. Even so, we set an all-time record for Mac and quarterly records for iPhone, iPad, Wearables, Home, and Accessories representing 30% year-over-year growth in products."* – Tim Cook, CEO

Microsoft – Better-than-expected PC performance despite constraints:

> *"In our consumer business, Windows OEM performance was better than expected in a growing PC market, despite ongoing supply chain constraints"* – Amy Hood, CFO

Elevated costs but some bright spots:

Amazon – Increased costs against higher sales and network expansion:

"… our capacity constraint is actually labor, which is new and not welcome, and that is what we have tried to articulate here today, and we are hoping that rectifies itself through Q4 and/or to early 2022."

"In addition, disruption to the global supply chains and inflation in the cost of materials such as steel and services such as trucking have also raised our cost of operations. We estimate the cost of labor, labor-related productivity losses, and cost inflation to added approximately $2 billion in operating cost in Q3". - Brian Olsavsky, CFO

Lam Research – Elevated costs and covid-related disruption against increasing capacity elsewhere:

"The supply chain constraints discussed earlier have resulted in elevated cost broadly, with freight and logistics costs continue to be one of the biggest headwinds. Additionally, we currently have margin dilution from our new factory in Malaysia, which is not yet operating at full capacity."

"We're adding capability pretty much everywhere internally in the network." - Doug Bettinger, CFO

ABB – Increasing backlog despite tougher-than-anticipated supply chain constraints:

"We would not deliver as much as we wanted to because of the tight supply chain. It stretched beyond component shortages, it's also logistics, and the tight labor market, where high production levels meet continued COVID constraints." - Bjorn Rosengren, CEO

"I just want to highlight that when you look at our order backlog, it has gone up from last year $2.1 billion to $16 billion. And we are really not seeing order cancellations." - Timo Ihamuotila, CFO

Schneider Electric – Challenging quarter primarily associated with electronic component shortages:

"The last one and the one that we are particularly speaking to in this quarter and we had mentioned, I think that we anticipated it would continue into the second half on the H1, is around electronic component shortages. So effectively semiconductor and the supply chain that's supplying the semiconductor factories themselves."

"In terms of how much to the top line, I'd mentioned during the call that we thought for Q3, and it's just an estimate, but we'd estimate around two points, 2% in impact from a sales standpoint, associated with those electronic component shortages mostly primarily the electronic component shortages." – Schneider Electric

Notable stock news:

Nvidia (+23.4% in USD over the month):

In the absence of quarterly earnings (due mid-November), Nvidia, the largest producer of graphic processing units, continued its strong share price performance from Q3, ending the month as the fund's top performer. Although the proposed acquisition of ARM is still being reviewed by the authorities and is unlikely to complete before the initial proposed deadline of March 2022, there was no dampening of investor appetite for Nvidia's continuing success. With growth stocks returning to favour and outperforming their value counterparts, Nvidia rallied during the month and is now up 96.0% (USD) this year. The news that Microsoft and Facebook are working on their versions of a 'metaverse' further aided Nvidia's performance, as investors considered the potential for increasing demand for Nvidia's high-end GPUs that power company data centres.

TSMC (+1.8% in USD):

During October, TSMC, the world's largest manufacturer of chips, reported solid figures that surpassed analyst expectations for sales, earnings, and perhaps most notably, gross margins. Indeed, some analysts had become increasingly bearish on the stock on the thesis that rising prices of foundry equipment – primarily photolithography equipment from ASML – would hamper TSMC's margins. However, management's last commentary went some way to dispel those notions, reporting that gross margins for the full year should be 51-53% and long-term margins should remain above 50%. The company continues to deliver strong growth on increasing use of chips across applications, with management expecting full-year revenue growth of 24% for this year.

Meta Platforms (previously Facebook Inc, -4.7% in USD):

In October, Facebook Inc announced a change of name – to Meta Platforms – to reflect its vision beyond social media and into working and playing in a virtual world, announcing "Today we are seen as a social media company, but in our DNA we are a company that builds technology to connect people, and the metaverse is the next frontier just like social networking was when we got started". Although this metaverse that the company is attempting to create remains a long way off, Meta is beginning to expand beyond its social media status with eCommerce, virtual reality and gaming, which could create an ever more prominent ecosystem than social media alone. Aside from this, Meta also reported earnings during the month that were broadly in line with investors' reduced expectations following Apple's iOS privacy policy changes and supply chain headwinds. Furthermore, Facebook is set to restructure its operations to break out revenue into 'family of apps', which encompasses Facebook, Instagram, Messenger and WhatsApp, and the 'reality labs' products including Augmented Reality and Virtual Reality as well as any related hardware.

Anta Sports (-17.1% in USD):

Chinese GDP for October was reported at 4.9%, narrowly missing estimates of 5%, but marked a slowdown from the 7.9% in the previous quarter (although this was against tougher comparators). The broader commentary on China continues to be a loss of momentum as the country faces energy shortages, property slowdowns, and ongoing regulatory shifts as President Xi pursues his 'common prosperity' strategy. While Chinese retail sales did beat estimates to grow 4.4% year-on-year, this was not enough to dispel worsening sentiment. October saw a series of analyst downgrades for Anta Sports, which, in the absence of direct company news, left the stock down 17.1% (USD) for the month.

We thank you for your continued support.

Portfolio Managers

Dr Ian Mortimer, CFA
Matthew Page, CFA

Analysts

Joseph Stephens
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William van der Weyden

Data sources

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

Index and stock data: *Bloomberg*

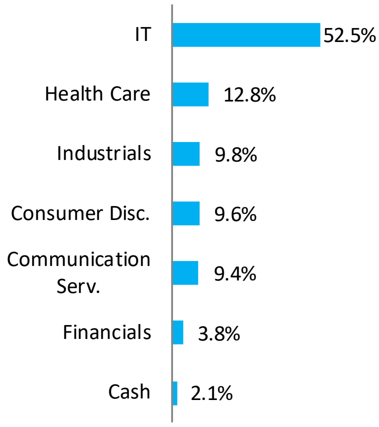
PORTFOLIO

31/10/2021

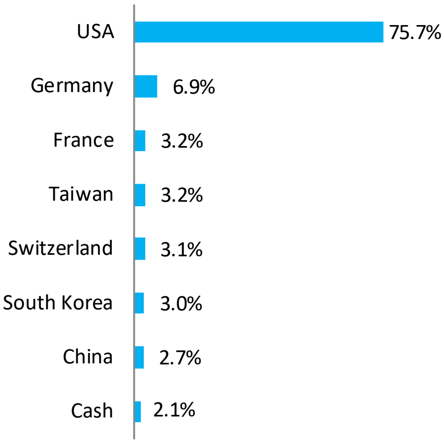
Fund top 10 holdings (%)

Nvidia Corp	4.0%
Intercontinental Exchange	3.8%
Microsoft	3.8%
Nike	3.7%
Infineon Technologies	3.6%
Adobe Systems Inc	3.6%
Thermo Fisher Scientific	3.6%
Alphabet	3.5%
Roper Industries Inc	3.5%
KLA-Tencor	3.5%
% of Fund in top 10	36.7%
Total number of stocks	30

Sector analysis (%)



Geographic allocation (%)



Performance

31/10/2021

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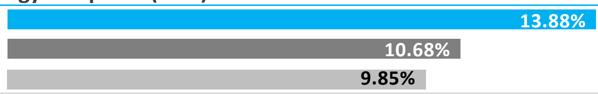
Annualised % total return from strategy inception (GBP)

Guinness Global Innovators strategy*
MSCI World Index
IA Global sector average



Discrete years % total return (GBP)	Oct '21	Oct '20	Oct '19	Oct '18	Oct '17
Guinness Global Innovators strategy	29.4	22.4	18.5	-5.8	25.0
MSCI World Index	32.5	4.4	11.3	5.1	12.9
IA Global sector average	28.6	7.3	11.1	1.0	13.9
IA Global sector ranking	203/442	56/409	28/376	317/341	9/313
IA Global sector quartile	2nd	1st	2nd	4th	1st

Cumulative % total return (GBP)	1 month	Year-to-date	1 year	3 years	5 years	10 years
Guinness Global Innovators strategy*	2.2	15.9	29.4	87.8	121.3	445.5
MSCI World Index	3.9	19.1	32.5	54.0	82.7	272.1
IA Global sector average	2.4	15.1	28.6	53.4	76.4	206.6

RISK ANALYSIS

31/10/2021

Annualised, weekly, 5 years, in GBP	Index	Sector	Strategy*
Alpha	0	1.41	3.82
Beta	1	0.83	1.06
Information ratio	0	-0.14	0.61
Maximum drawdown	-24.58	-21.61	-22.23
R squared	1	0.85	0.84
Sharpe ratio	0.70	0.71	0.89
Tracking error	0	5.71	6.99
Volatility	14.77	13.24	17.12

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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.