Guinness Global Innovators Fund

Innovation | Quality | Growth | Conviction

INVESTMENT COMMENTARY – July 2020

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	£241m
AUM in strategy	£380m
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

Performance 30.06.20

Cumulative % total return (GBP)	1 year	3 years	5 years	10 years
Strategy*	24.2	46.2	112.9	378.2
Index	5.9	27.7	77.7	212.7
Sector	5.4	23.6	63.1	157.7
Position in sector	17 /329	39 /291	20 /259	3 /175

Annualised % total return
from strategy inception (GBP)

Strategy*	13.08%
Index	9.75%
Sector	8.91%

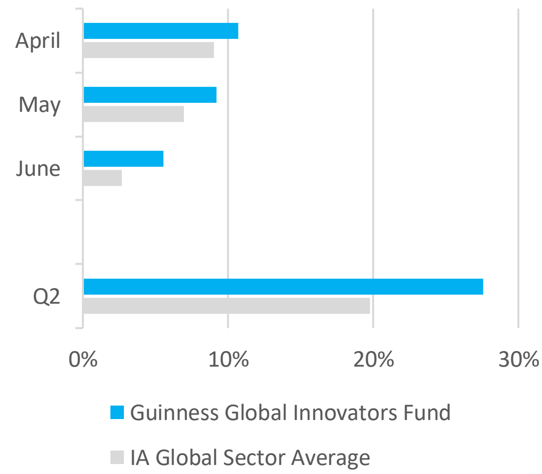
Strategy	Guinness Global Innovators*
Index	MSCI World Index
Sector	IA Global

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 second quarter of 2020, the Guinness Global Innovators Fund provided a total return of 27.6% (in GBP) against the MSCI World Index net total return of 19.8%. Hence the fund outperformed the benchmark by 7.8% (in GBP). After outperforming during the first quarter, including the drawdown beginning in February, the fund has since extended its outperformance in the equity market rally.

Fund Performance by Month



At quarter-end, the MSCI World Index has recovered around three quarters of the losses sustained in the drawdown while the Guinness Global Innovators Fund has recovered all of its losses and sits 4.4% (in GBP) ahead of its February peak. This year, therefore, the fund is now up 14.1% (GBP) while the MSCI World net total return is 1.0% (GBP).

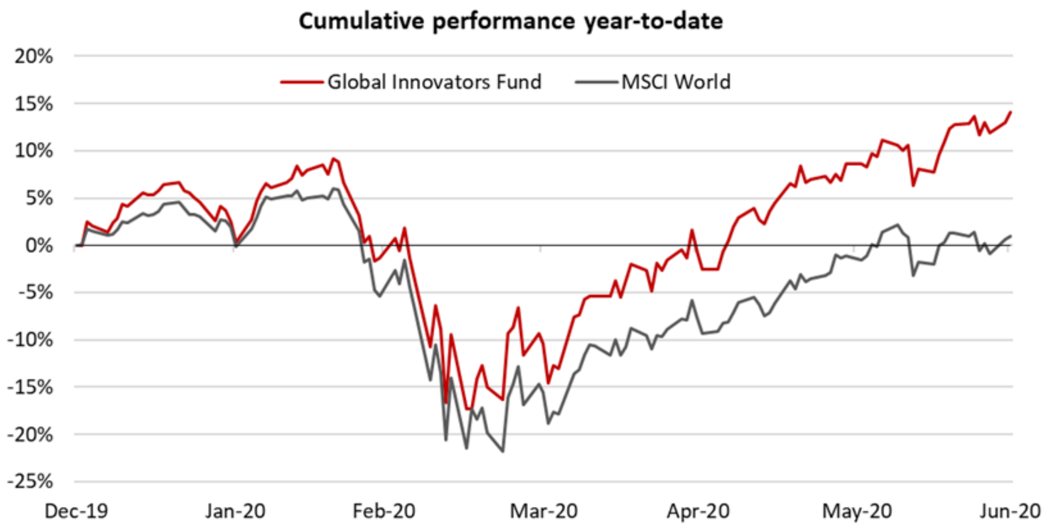


Figure 2: Global Innovators strategy total return GBP, Bloomberg

Equity markets recorded one of the best quarters in recent decades as COVID-19 cases decreased in many regions and central banks continued to support their economies with unprecedented packages of loose monetary policies including ultra-low interest rates. As governments balance precariously the opening up of economies with the risk of further spikes in cases, many regions including Europe and parts of Asia (notably China) have case numbers low enough for governments to allow businesses such as restaurants, pubs and barbers to open. However, no vaccine has yet been approved and other regions have so far been unable to contain the virus, such as India and the US, where case numbers have begun rising once more. As a result, there remains a cautious tone despite the optimism equity markets have shown during the quarter. With this in mind we remain confident that our investment approach of investing in quality businesses exposed to innovative themes will be able to weather further turbulence, while taking advantage of the accelerated digital transformation the outbreak has enabled.

During the quarter, the fund’s performance can be attributed to:

- Positive asset allocation from the fund’s largest absolute and relative overweight exposure, Information Technology (IT). Additionally, good stock selection within IT aided performance with seven of the fund’s top 10 performers (led by PayPal, up 82.0% in USD) from the sector. A slight drag, however, was not owning Apple, the largest position in the MSCI World, which returned 43.8% (in USD) over the quarter.

- The fund’s exposure to Industrials, which is at a slight underweight relative to the MSCI World, was a minor drag on performance from an asset allocation perspective. However, positive stock selection more than offset this, with our three positions, Schneider, ABB and Roper Technologies, all showing robust performance as many regional manufacturing PMIs bounced back strongly after a poor few months: China’s manufacturing PMI now stands at 51.2 from lows of 40.3 in February, while the manufacturing PMI in the US rose to 52.6 from lows of 41.5 in April.

- From a regional viewpoint, positive stock selection from our US stocks was the main contributor to our outperformance, led primarily by IT names within the region.

- The COVID-19 pandemic has accelerated growth prospects in the near term for companies in a number of our themes such as Advanced Healthcare, Payments & Fintech, Cloud Computing, and Next Gen Consumer, while also improving the long-term growth prospects for companies in the Clean Energy & Sustainability and Robotics & Automation themes as fiscal stimulus packages are rolled out in Europe and other countries and as companies seek to increase resilience in their operations and supply chains.

Over both the short and long term, it is pleasing to see that the fund's performance remains in the top quartile across key periods versus its IA Global Sector peers. In particular, we are pleased to see the fund rank 3rd out of 175 funds over the last 10 years.

Cumulative % total return, in GBP, to 30/06/2020	YTD	1 year	3 years	5 years	10 years	Launch*
Guinness Global Innovators	14.1	24.2	46.2	112.9	378.2	726.8
MSCI World Index	1.0	5.9	27.7	77.7	212.7	394.5
IA Global sector average	1.0	5.4	23.6	63.1	157.7	333.3
IA Global sector ranking	30/337	17/329	39/291	20/259	3/175	7/93
IA Global sector quartile	1	1	1	1	1	1

Figure 3: Global Innovators strategy total return GBP, Source: FE Analytics

We reiterate comments made in the last quarterly review which have since been echoed by business leaders:

"While the companies in the fund are by no means immune to a global slowdown, the short-term impacts of COVID-19 could give way to long-term opportunities for many of the businesses we invest in. Specifically, the current environment has forced companies into revaluating their business models which could ultimately lead to an acceleration in global digital adoption:

- *Better online presence by businesses who now more than ever recognise the need to have continuous communication and distribution channels with consumers in all environments*

- *Businesses recognising the importance of being flexible regarding working conditions – accelerating the need for cloud-based remote working infrastructure*

- *A change in the psychological behaviour of the consumer – increased demand for online classes from fitness to education.*

These changes will be powered by many of the innovative themes we seek, from cloud computing to ecommerce and internet, media and entertainment. By taking a long-term view and investing in companies exposed innovative themes, the recent sell-off could provide a fantastic opportunity to buy into long-term winners at reduced valuations." – Guinness Asset Management, Global Innovators Fund Q1 2020 Review

Quarter in review

While Q1 saw the initial outbreak in COVID-19 cases, leading governments to lock down countries to halt the spread of coronavirus, Q2 saw sharp equity market rallies as investors looked to the gradual easing of lockdown measures and the substantial stimulus packages governments continued to introduce. This led to some sector rotation which put sectors generally held to be defensive such as Health Care and Consumer Staples among the weaker performers, having been some of the strongest over Q1. Accordingly, Medtronic, the largest pure-play medical technology firm in the world, and Bristol-Myers Squibb, one of the largest oncology businesses, were the fund's two worst performers over the quarter (although both still produced positive total returns). With lockdown in many regions easing, manufacturing PMIs across major regions rebounded sharply, helping labour-intensive Industrials begin their recovery, while the reopening of high street shops helped Consumer Discretionary businesses perform strongly over the quarter.

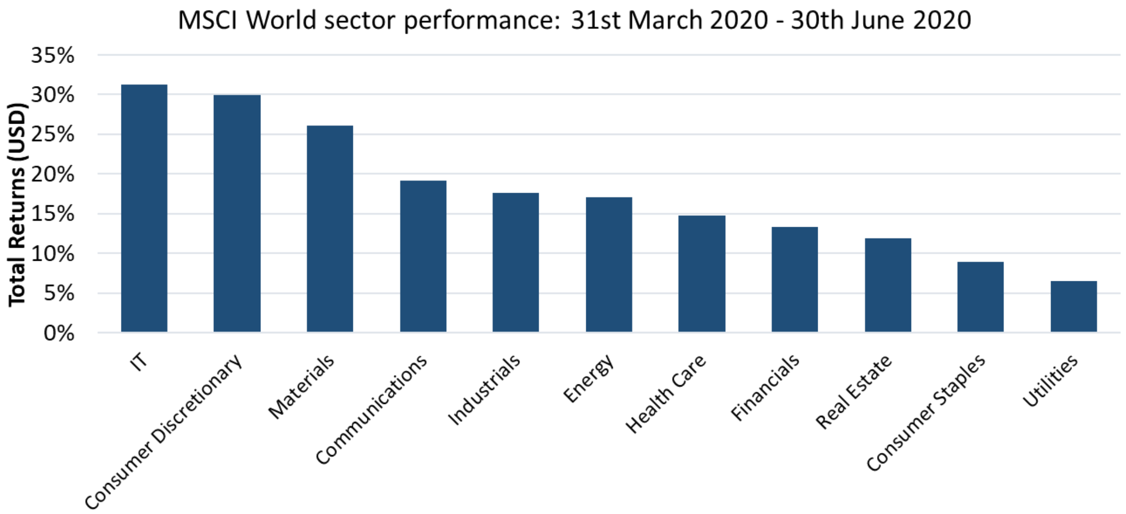


Figure 4: Bloomberg (data as of 30.06.2020)

IT remained something of an outlier as the top performer in the second quarter and second best performer over the first quarter. This comes down to technology's often mission-critical status in many businesses, including cloud computing, and its helping consumers cope with more free time whilst in lockdown: video streaming and gaming have both seen substantial increases in active users (Netflix, for instance, reported 16m new viewers in Q1 – double its target). This made IT the fund's largest contributor to outperformance versus the MSCI World, with semiconductor businesses such as Infineon (up 63.4% USD) and Nvidia (up 44.2% USD) in particular driving performance. In fact, five of the fund's top 10 performing stocks were semiconductor companies. It has been particularly pleasing to see this strong performance given that historically semiconductors have underperformed in recessionary periods. We continue to believe that semiconductors are a growing and critical component in our innovation themes and as such may be less susceptible to cyclical pressures.

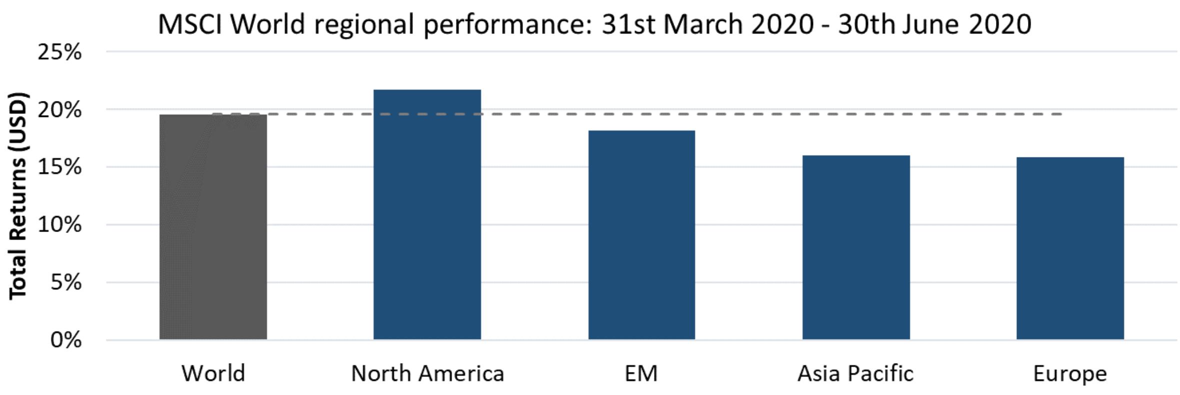


Figure 5: Bloomberg (data as of 30.06.2020)

Regionally, the US was the best performer despite the resurgence in COVID-19 case numbers towards the end of the quarter. Numbers for May showed the US unexpectedly added 2.5m jobs, reducing the unemployment rate from 14.7% to 13.3%. Retail sales in the US rose 17% month-on-month, while the manufacturing PMI jumped to 52.6 from April's figure of 41.5 (figures below 50 indicate contraction while figures above 50 show expansion). Stock selection was the main contributor to the fund's performance with US technologies companies the main drivers.

Although growth continues to outperform value, with earnings still relatively difficult to predict and valuations spiking back up to historic highs for many companies, many believe markets have now become overstretched. We believe, however, there may be a few reasons why the market is correct to price in historically high multiples today:

1. **The discount rate has fallen dramatically.** Central banks have slashed interest rates, are creating huge amounts of money through quantitative easing, and are guiding that interest rates will remain low for a long period of time. This is different to the Financial Crisis, when it took much longer for central banks to act.

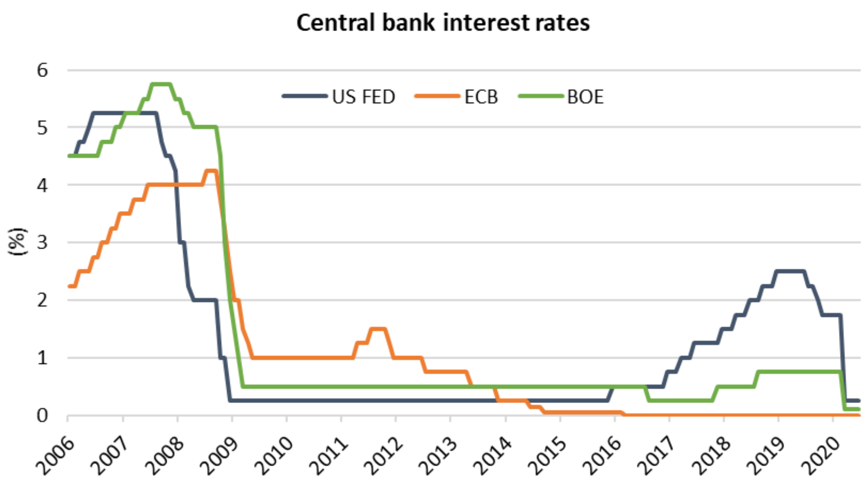


Figure 6: Bloomberg (data as of 30.06.2020)

2. **Information Technology makes up a larger proportion of the global index today** and is dominated by companies that are able to grow through this period (e.g. the FAANGs+).

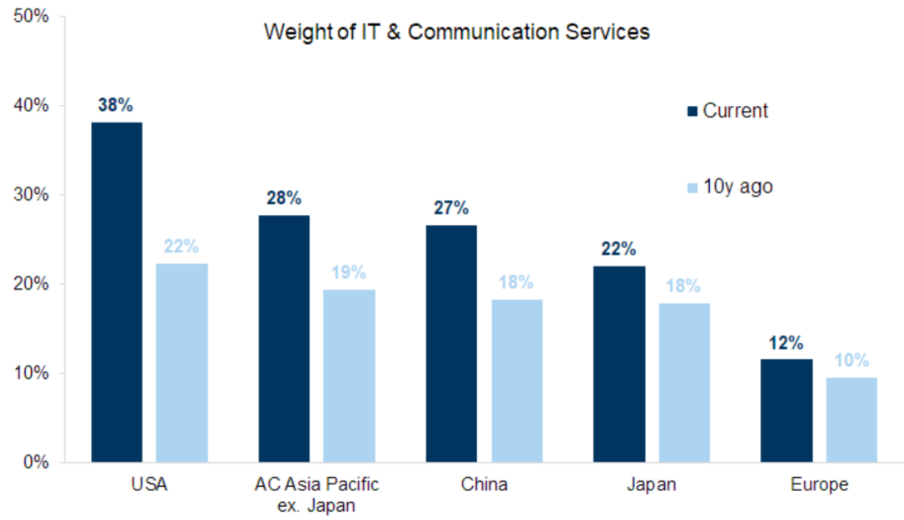


Figure 7: Goldman Sachs Investment Research, DataStream, Worldscope

3. **A fall in the discount rate justifies a proportionally higher multiple for a company that is growing compared to a company that is not.**

Either way, it is difficult to see how the multiple will expand considerably from here and therefore the next equity market rally will need to be driven by companies that can grow their earnings. These are going to be harder to find and will therefore justify a premium multiple.

To this end, we believe growth will remain scarce and as such, **growth companies will continue to prosper**, while debt levels will be higher and consequently, **strong balance sheet companies will prosper**. With the fund's focus on businesses with strong balance sheets (fund net debt/equity 9% vs MSCI World 90%), and companies exposed to innovative themes transforming industries, whether that be artificial intelligence, cloud computing, clean energy or the internet of things, we believe this fund is well positioned to find those scarce sources of growth.

Stock performances over Q2 2020 (total returns USD):

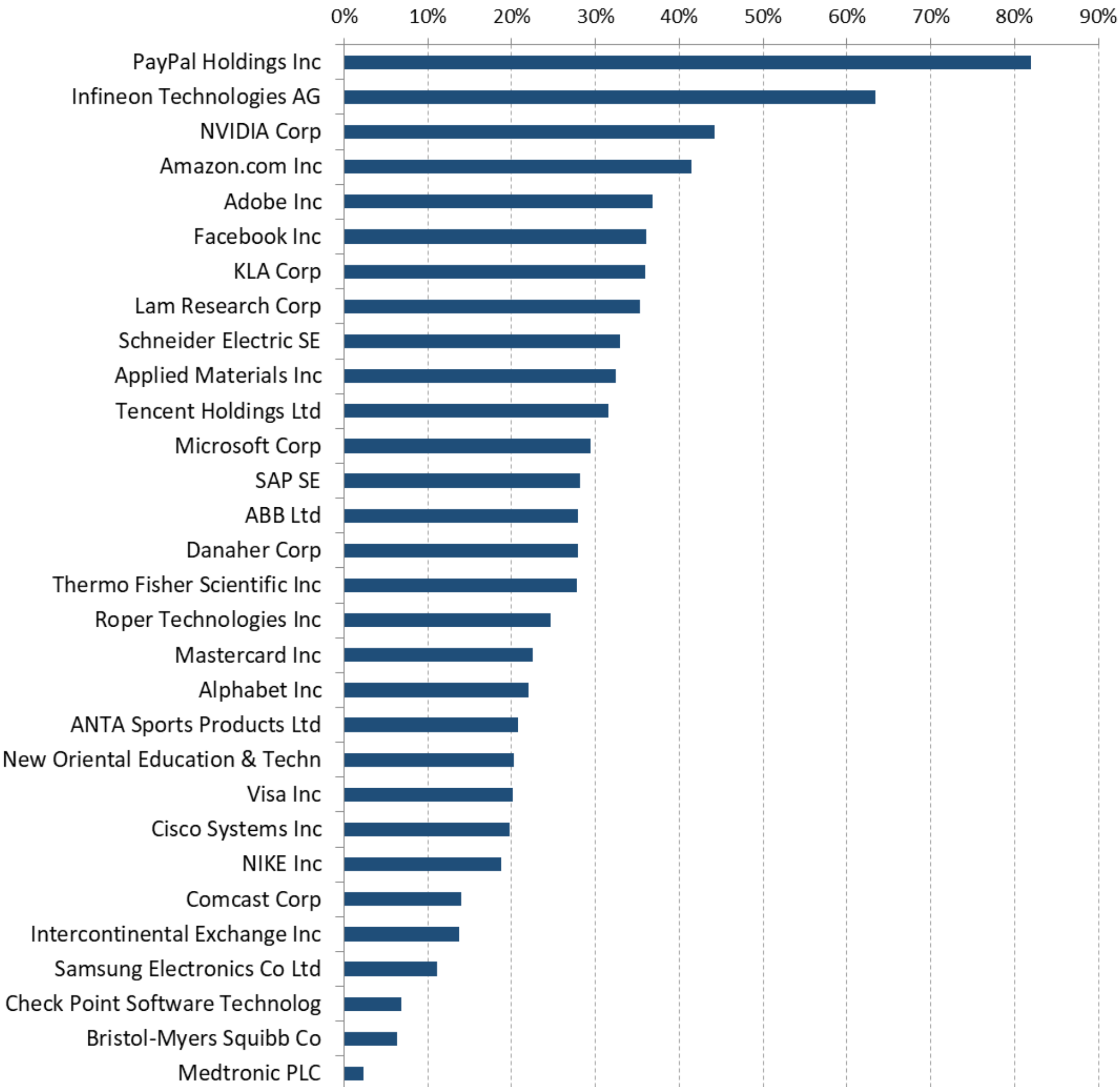


Figure 8: Individual performances of fund constituents. Guinness Asset Management, Bloomberg

PayPal

PayPal's headline sales and EPS figures (released early May) missed estimates for the first quarter because of slowing consumer spending and large credit loss reserves which were driven by higher unemployment. However, PayPal finished the quarter as the fund's best-performing stock as investors looked to better-than-estimated guidance and accelerating new users. Indeed, management pointed to a 20% growth in revenues for April along with a surge in user growth with 7.4m net new adds in April versus a typical full-quarter addition of c.9m. PayPal has benefitted from the acceleration in the shift to digital payments as ecommerce surges and the use of physical cash has been discouraged.

Infineon

Semiconductors were a bright spot in general over the quarter, showing more robust resilience to drawdowns than history might have suggested as these products become more prevalent in everyday technologies. Indeed, with consumers working from home and streaming more online content, semiconductor companies owned in the fund, particularly in cloud computing data centres, have remained relatively robust as vendors strengthen their infrastructure in order to cope with new demand. While Infineon will have benefited from this demand, the primary reason for its strong performance over the quarter was the rebound in car sales from the world's two largest markets, China and the US. Infineon produces power management chips and is a direct beneficiary of the transition to Electric and Autonomous Vehicles with 43.6% of 2019 revenue derived for the automotive segment. Indeed, in China, a V-shaped recovery in car sales appeared evident as car sales rose to 4.4% YoY in April and 14.5% in May, having slumped to a decline of 42.4% YoY from January to March.

Facebook

Facebook was in the top half of performers over the quarter, although headlines of large businesses boycotting the business's advertising services made for a cautious read. During June, several high-profile brands announced the boycotting of Facebook's advertising service as part of the Stop Hate for Profit campaign. The brands, which include Unilever, Ford, and Coca-Cola, argue there has been a failure to tackle hate speech on the platform and are demanding more transparency and controls over what content their adverts appear beside. Facebook has since held several calls with their biggest advertisers whilst announcing new policies on content moderation. In terms of revenue impact, we note that of Facebook's c.$70bn ad revenue in 2019, its top 100 advertisers only contribute around 25%, with thousands of small and medium-sized businesses providing the bulk of revenues. While this remains an on-going risk, especially from an ESG perspective, we continue to review the situation.

Medtronic

Medtronic underperformed during the quarter with its latest figures (reported in May) below estimates on both sales and EPS. While the company has significantly ramped up ventilator production (revenues from this product were up almost double compared to last year), the deferral of elective procedures has hampered the company's growth with management pointing to a reduction in bulk orders. However, it is important to note that while many competitors have quarter ends in March, Medtronic's quarter finishes at the end of April which meant its numbers were more negatively impacted by COVID-19 than those of some peers. We continue to see good long-term growth for the world's largest pure-play medical technology company, with many near-term procedures *deferred* as opposed to cancelled. In addition, Medtronic has been working hard to combat the outbreak, making its PB560 ventilator design specifications available at no cost so other manufacturers can use them in manufacturing, while it has also partnered with Intel to develop a solution to adjusting ventilator settings remotely.

Changes to the portfolio

We made no changes to the portfolio over Q2.

Portfolio characteristics

The two charts below show how the exposure of the fund has evolved since we launched the strategy in 2003. We continue to hold no exposure to Real Estate, Energy, Materials, Consumer Staples and Utilities. Technology remains our largest exposure, split between three sub-sectors: semiconductors, software and services, and technology hardware. On a regional basis, North America continues to be the largest exposure (67%), with Europe (20%) and Asia Pacific (13%) sharing similar exposures.

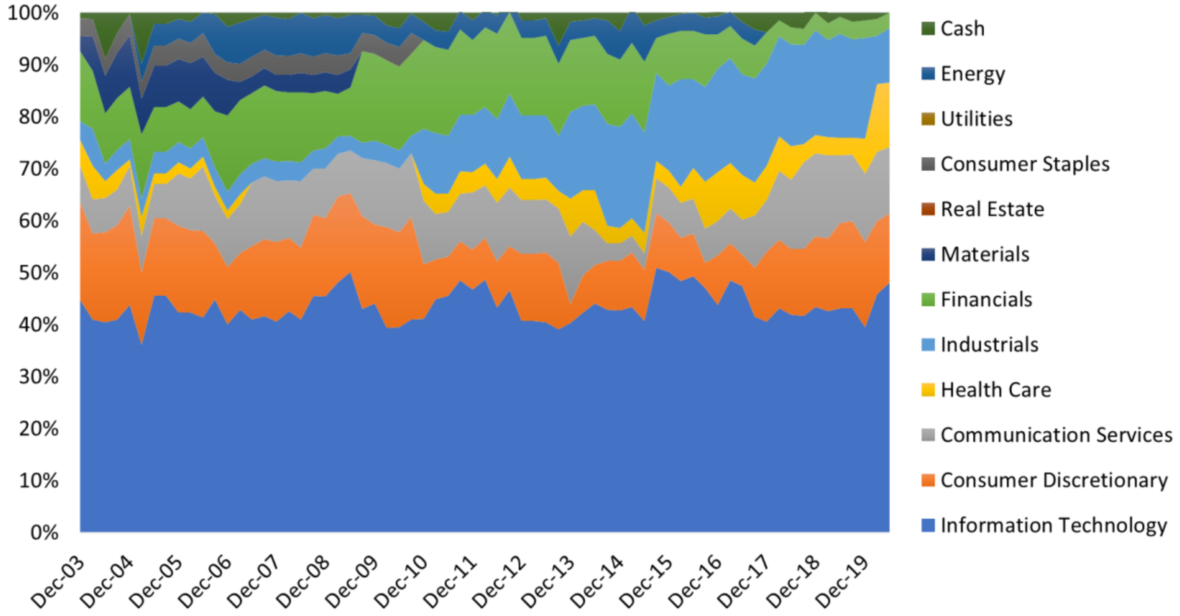


Figure 9: Portfolio sector breakdown. Guinness Asset Management, Bloomberg (30.06.2020)

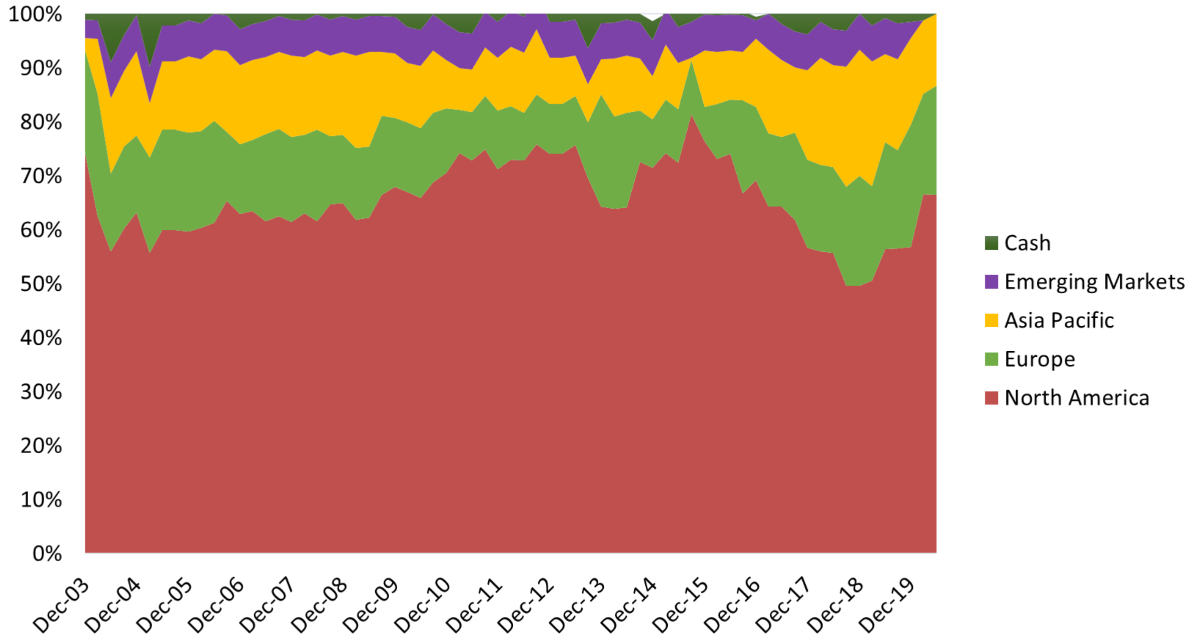


Figure 10: Portfolio geographic breakdown. Guinness Asset Management, Bloomberg (30.06.2020)

As we made no changes over the quarter, the regional and sector exposures are broadly in line with that of Q1.

The fund's allocation to regions are now similar to that of the MSCI World. However, this was a result of bottom-up stock picking and not a 'top-down' decision.

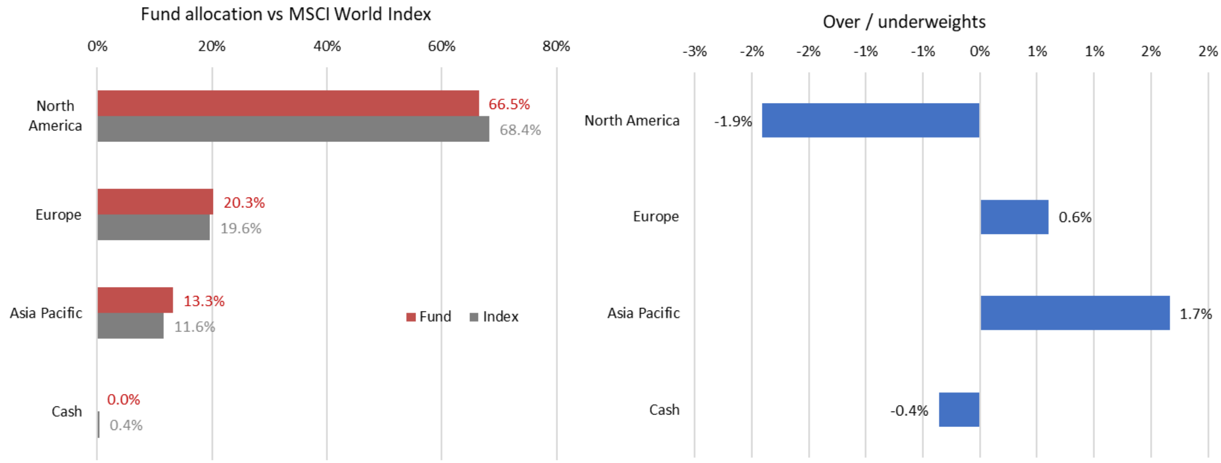


Figure 11: Guinness Asset Management, Bloomberg (data as at 30.06.2020)

On a sector level, the fund continues to have a large overweight to IT (26.9%), while the fund's 0% exposure to Real Estate, Energy, Materials, Consumer Staples and Utilities leaves these areas underweight relative to the benchmark.

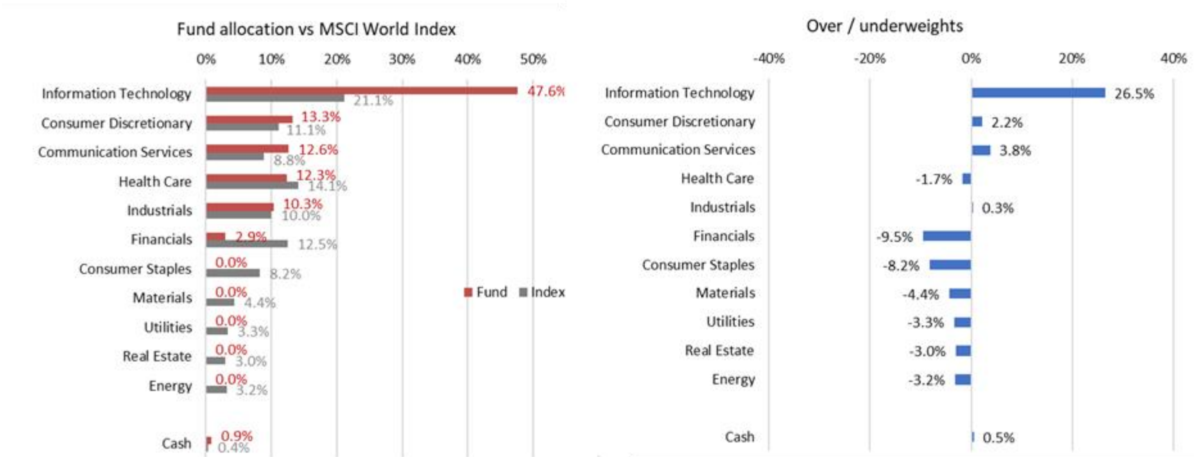


Figure 12: Guinness Asset Management, Bloomberg (data as at 30.06.2020)

Key fund metrics today

Innovation: We seek companies that are exposed to secular growth themes and which should therefore be more insulated to cyclical growth cycles. This year has seen good evidence of this, such as with semiconductor companies, as demand for chips (enabling technologies from cloud computing to video streaming) continues 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 and weak balance sheets. Companies which have taken on too much debt and have been 'propped up' by low interest rates are vulnerable to a shock to revenues which 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 become optically stretched, we believe companies that are able to continue growing, such as those exposed to our innovation themes, will 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 four key tenets to our approach are innovation, quality, growth, and conviction. The table below shows how these are reflected at the portfolio level.

		Fund	MSCI World Index
Innovation	R&D / Sales	10%	8%
	CAPEX / Sales	5%	8%
Quality	CFROI (median 2020)	18%	8%
	Return-on-Equity	16%	10%
	Weighted average net debt / equity	9%	90%
Growth (& valuation)	Trailing 3-year sales growth (annualised)	14%	11%
	Estimated earnings growth (2021 vs 2020)	20%	28%
	FCF yield	3.9%	5.5%
	PE (2020e)	26.2	23.0
Conviction	Number of stocks	30	1190
	Active share	85%	-

Figure 13: Guinness Asset Management, Credit Suisse HOLT, Bloomberg (data as at 30.06.2020)

We thank you for your continued support.

Portfolio Managers

Dr Ian Mortimer, CFA
Matthew Page, CFA

Analysts

Joseph Stephens
Sagar Thanki

Data sources

Fund performance: *Financial Express, Total return in GBP*

Index and stock data: *Bloomberg*

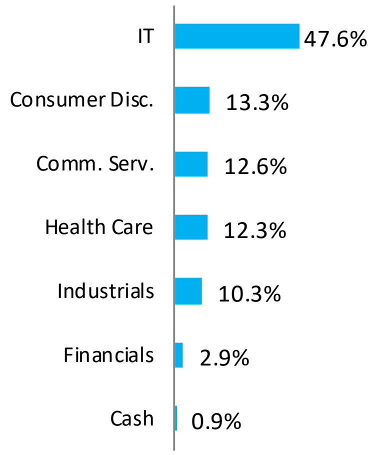
PORTFOLIO

30/06/2020

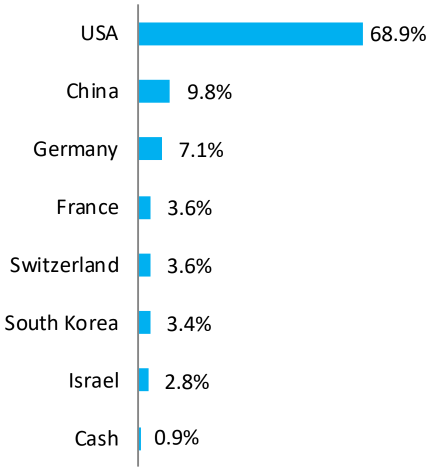
Fund top 10 holdings

Paypal	4.4%
Amazon.com	3.9%
Adobe Systems Inc	3.7%
Lam Research	3.7%
Schneider Electric	3.6%
Nvidia Corp	3.6%
ABB	3.6%
Infineon Technologies	3.6%
SAP AG	3.5%
New Oriental Education 8	3.5%
% of Fund in top 10	37.1%
Total number of stocks	30

Sector analysis



Geographic allocation



30/06/2020

Annualised % total return from strategy inception (GBP)

Discrete years % total return (GBP)	Jun '20	Jun '19	Jun '18	Jun '17	Jun '16
Guinness Global Innovators strategy*	24.2	3.4	13.9	32.2	10.2
MSCI World Index	5.9	10.3	9.3	21.6	14.4
IA Global sector average	5.4	7.5	9.1	23.7	6.7

Cumulative % total return (GBP)	1 month	Year-to-date	1 year	3 years	5 years	10 years
Guinness Global Innovators strategy*	5.6	14.1	24.2	46.2	112.9	378.2
MSCI World Index	2.7	1.0	5.9	27.7	77.7	212.7
IA Global sector average	2.6	1.0	5.4	23.6	63.1	157.7

RISK ANALYSIS

30/06/2020

Annualised, weekly, 5 years, in GBP	Index	Sector	Strategy*
Alpha	0	0.76	3.53
Beta	1	0.81	1.07
Information ratio	0	-0.20	0.59
Maximum drawdown	-24.58	-21.61	-22.23
R squared	1	0.82	0.86
Sharpe ratio	0.51	0.47	0.69
Tracking error	0	6.71	6.76
Volatility	15.66	13.92	17.99

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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.

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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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Singapore
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Telephone calls will be recorded and monitored.