Guinness Global Innovators Fund

Innovation | Quality | Growth | Conviction

INVESTMENT COMMENTARY – November 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	£281m
AUM in strategy	£425m
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 31.10.20

Cumulative % total return (GBP)	1 year	3 years	5 years	10 years
Strategy*	22.5	36.8	116.2	329.7
Index	4.5	22.2	76.5	183.1
Sector	7.3	20.4	68.9	138.3
Position in sector	**45** /334	**59** /294	**21** /261	**4** /174

Annualised % total return from strategy inception (GBP)

Strategy*	13.05%
Index	9.55%
Sector	8.87%

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.

ELITE RATED by FundCalibre.com

SCOPE A Fonds Rating Oktober 2020

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Summary performance

For the month of October, the Guinness Global Innovators Fund provided a total return of -2.59% (GBP) against the MSCI World Index net total return of -3.08% (GBP). Hence the fund outperformed the benchmark by 0.49% (GBP). Year to date, the fund has produced a total return of 18.35% (GBP) against the MSCI World 1.00% (GBP).

As COVID-19 case numbers rose during the month, particularly in Europe where regions are now entering new lockdown measures, and as US Election uncertainty continued, volatility increased as investors rotated into more defensive sectors including Utilities and Communication Services. However, even with IT underperforming – the fund's largest overweight relative to the benchmark – the fund outperformed the MSCI World Index due to positive stock selection in Healthcare holdings and positive performance from our Communication Services exposure which included the fund's two best performing stocks over the month, Tencent (up 15.5% USD) and Alphabet (up 10.3% USD).

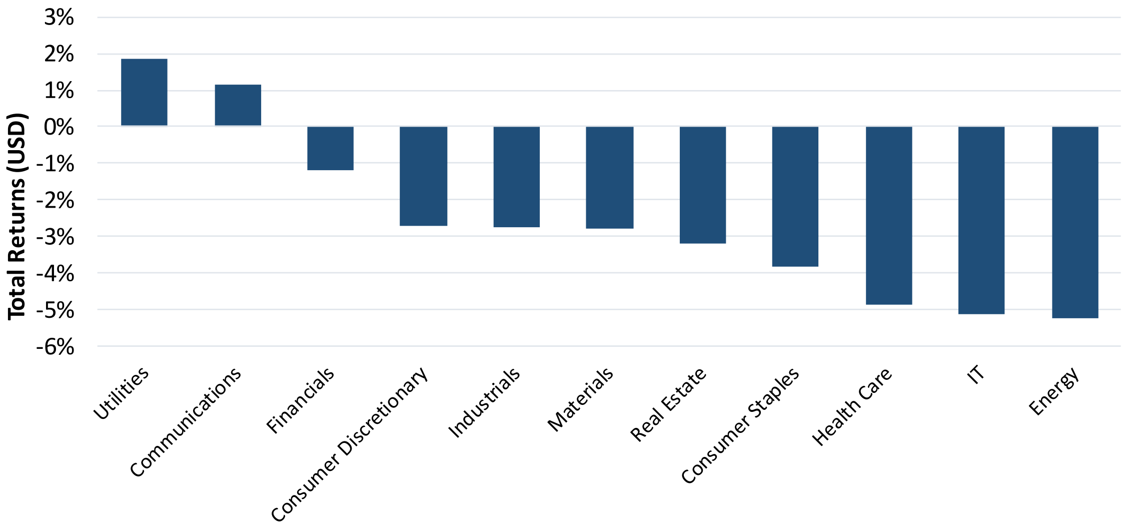
Over both the short and long-term, it is pleasing to see that the Fund has delivered strong performance versus its IA Global Equity sector peers.

	YTD	1 year	3 years	5 years	10 years
Global Innovators	18.35	22.46	36.79	116.17	329.69
Index	1.00	4.45	22.19	76.54	183.11
Sector	3.15	7.29	20.38	68.93	138.26
Position in sector	38/339	45/334	59/294	21/261	4/174
Quartile	1st	1st	1st	1st	1st

Source: Financial Express. Cumulative Total Return in GBP, as of 31st October 2020

October in review

With equity markets continuing to rebound strongly in Q3 following the initial COVID-19 sell-off in March, October set a stark change as investors rotated into more defensive sectors in preparation for increasingly uncertain events. Indeed, the last week of October saw the S&P 500 drop 5.6% USD with IT stocks, having been a key driver in the previous market rebound, suffering – the Nasdaq ended the month down 2.3% USD. Indeed, investors looked to a resurgence in COVID-19 cases in many regions, most notably Europe, implications of the upcoming US election and the balance between continued strength in many Technology business' earnings and a landmark anti-trust case against Alphabet by the US Justice department which may set a precedent for future cases.



MSCI World Sector Index returns. Source: Bloomberg in USD, as of 31st October 2020

Winter is coming:

As we entered the final quarter of the year, governments continued to wrestle with balancing the opening of economies with resurgences in case numbers which look to only worsen as winter sets in and seasonal flu follows. In the US, GDP rose 33.1% in Q3 (seasonally adjusted) following the sharp contraction in Q2 of 31.4%. However, COVID-19 case numbers rose to record highs late in October, although the increase in testing capabilities has to be considered. Nevertheless, it was Europe that has appeared to suffer most over the month as a second wave hit many regions forcing governments to impose stricter measures including a second lockdown in the UK and similar measures in France and Germany. This left for unwelcome reading for many of the worst hit sectors during the first lockdowns including hospitality, travel and restaurants. This also included the oil & gas sector, as the price of Brent Crude oil dropped the most since April on concerns new lockdown measures would stifle demand for the fuels.

We reiterate what we wrote in our previous reports, the fund owns no businesses within these sectors, while continuing to own businesses *benefitting* from an acceleration in innovative secular transformations including Nvidia in cloud computing, Visa as consumers shift to a cashless society and Amazon as consumers prepare for an online Christmas shopping experience.

Battle in Big Tech:

While IT stocks had led the recovery in equity markets since the March trough, October's sell-off came as investors rotated into more defensive sectors on market uncertainty. The month also brought about a landmark anti-trust case against Alphabet, parent of Google, from the Department of Justice (DoJ) in a first attempt to take on Big Tech's dominance. The DoJ's accusation is of Alphabet stifling competition by using billion-dollar agreements with the likes of Apple to keep Google's search engine as the default engine on most smartphones. While this reflects an escalation in Washington's attempts to combat Big Tech's growing dominance, the lawsuit is not likely to reach courts until 2022 combined with possible appeals, the impact on Alphabet's income statement is not likely to be felt (if at all) for a sustained period, even if DoJ were to win the case.

Aside from this, Big Tech (with some exceptions) shook off market worries to post a strong rebound in earnings, with fund constituents, **Alphabet**, **Amazon** and **Facebook** all beating analyst revenue expectations as online advertising and ecommerce continued to take share from their offline counterparts. Alphabet's advertising revenue rebounded 6% after falling 10% in the previous quarter, Facebook's revenue was up 22% as it shrugged off a boycott of its platform by several brands, while Amazon's revenue was up 37% helped by a 51% increase in its advertising revenue. However, the increased demand for Amazon's ecommerce services, particularly going into the holiday period, meant the company guided lower than expected for the upcoming quarter as the business continued to expand into new facilities to meet demand. The results left Alphabet as the fund's second-best performing stock over the month (up 10.3% USD) with Facebook modestly positive (up 0.5% USD) and Amazon slipping 3.6% USD.

Earnings season:

KLA Corp, the world's leading semiconductor equipment manufacturer specialising in process control and yield management, reported strong earnings over the month that beat street expectations on both actual results and guidance. The firm continues to benefit from increasingly diverse end-markets that includes 5G, automotive, smartphones and data centres, while the complexity of required chips (including the move to 5nm and 3nm chips and sophisticated techniques such as extreme ultraviolet lithography) necessitates increasingly sophisticated process control. Management also commented that the new US restrictions on products sold to SMIC, the largest semiconductor foundry in China (of whom KLA only derives low single digits of their revenue from), would likely be immaterial as part of their shipments are manufactured offshore (no licence required) and a small portion manufactured in the US would require a licence (which the business has applied for, but would not be material if not granted). KLA ended the month up 1.8% (USD) – a robust performance given the weak markets.

In contrast, **SAP**, Europe's largest IT business and leading Enterprise Resource Planning (ERP) software provider, struggled, falling 21.9% on the day of earnings release, finishing the month as the fund's weakest performer (down 30.9% USD). The German business, which is the middle of transforming its business into a cloud-base software provider, cut forecasts for 2020 and forewent their previous 2023 targets, instead opting for more conservative 2025 targets. The move comes as enterprises slow their spending as they continue to face uncertainty (impacting SAP's revenue growth), while an acceleration in demand for their cloud-based software - ahead of company expectations - while a positive in the long-run, reduced near-term revenue recognition and margins. While we continue to monitor the business, SAP remains an attractive investment, with increasingly 'sticky' revenue from higher proportions of subscription-based software, and the ever-increasing digitalisation of business processes with enhanced analytics.

The two largest card networks in the Western world and fund constituents, **Visa** and **Mastercard**, ended the month as the fund's second and third weakest performers, down 9.1% and 14.5% (USD) respectively. Both companies reported earnings over the month which showed improving spending volume over Q3 broadly in-line with expectations. However, it was the prospect of new lockdown measures restricting international travel that overshadowed the results. Both businesses derive high-margin revenue from cross-border payments which currently make up 26% and 21% of Visa and Mastercard's total gross sales respectively. The prospect of lower sales from this segment was enough to see analysts lower their expectations for the coming quarter. While we acknowledge this poses a near-term drag for both businesses, we continue to believe both companies are robust enough to weather such challenges owing to their asset light and lowly levered businesses, whilst benefitting in the long-term from the continued shift towards a cashless society.

2020 US Election

At time of writing (06/11/2020), we are still awaiting the final results of the US Election. Biden currently leads the race with 264 electoral votes to Trumps' 214 with 60 votes yet to be called. With a 'blue wave' expected by polls prior to election, Biden, although leading, has not created as much of a commanding lead as expected in the race for Presidency, nor in the Senate, leading to gains in IT stocks and falls in industrial and renewable energy stocks as the prospect for passing new infrastructure spending bills or tackling Big Tech lessens. However, the results have not been finalised, and with Trump using legal action to challenge election results, it may become a drawn-out affair. As such, we await further results and look forward to updating you in our next monthly brief.

If Biden does win the Presidency then some of his key policies which we highlight below will be more difficult to implement without Democrat control of the senate such as reversal of Trump tax cuts and a Fiscal stimulus package will likely be pared back. However, the President does not rely on Congress to make trade policy and it would be positive for S&P500 earnings if Biden were to roll back some of the tariffs that Trump placed on imports of Chinese goods.

Taxes:

One of Trump's major policies was reducing the corporate tax from 35% to 21% providing a boost to company earnings, and, enabling a record year of company share buybacks stemming from the increase in cash. Key companies that benefitted from this were US businesses with high proportions of US sales including Industrials and Consumer Staples. With increases in spending on Biden's to-do list, one of his major policies would be to increase the corporate tax rate back up to 28% - still lower than the initial 35% - to help fund an already stretched budget off the back of coronavirus stimulus packages. Additionally, Biden would look to double the Global Intangible Low-Taxed Income rate to 21%, primarily effecting asset-light high IP sectors such as IT, Communication Services and Healthcare. Although the fund has high exposure to these areas, the majority of fund holdings are multinational corporations which should help dampen any negative effects. In addition, any tax proposal would likely come further into his tenor in order to not stifle any recovery post coronavirus, and as such may likely not be a near-term risk.

Infrastructure & Clean Energy:

If Biden were to win, offsetting some negative effects from higher tax bills would be a boost to the economy arising from his proposal for a $2tn investment into infrastructure and renewable energy. As part of his plan, Biden wishes the US to rejoin the UN Paris Climate Accord and reduce carbon emissions to net zero by 2050 – currently the US is the largest economy which does not have a carbon neutral target. In contrast, President Trump's current strategy which included originally leaving the Climate Accord, would likely continue to de-emphasise renewable projects in favour of the US oil & gas industry. Should Biden win, the winners are likely to come from the industrial, transportation and renewable energy businesses with plans to build new sustainable infrastructure, electrify transportation and ultimately transition away from the oil industry. Key winners within the portfolio are likely to include Schneider Electric, which focuses on energy management and industry automation solutions, and Infineon, the power management semiconductor producer primarily used in automobiles.

China:

While there appears to be bipartisan support for a tougher stance on China, the tactics may diverge between presidential candidates. While President Trump has made extensive use of trade tariffs, with an agreement on a phase 1 deal only signed at the end of 2019, Biden is likely to take a less aggressive approach, possibly jointly with allies as opposed to a unilateral approach. With this, while a retraction of currently imposed sanctions may be a possibility, a halt in further escalations of these policies is more likely. The possibility of a clearer approach and less aggressive trade tactics would likely benefit the fund's semiconductor holdings including the equipment manufacturers KLA Corp, Lam Research and Applied Materials which have had to navigate sanctions on sales to China's chip foundry, SMIC, and leading smartphone and telecoms equipment business, Huawei.

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*

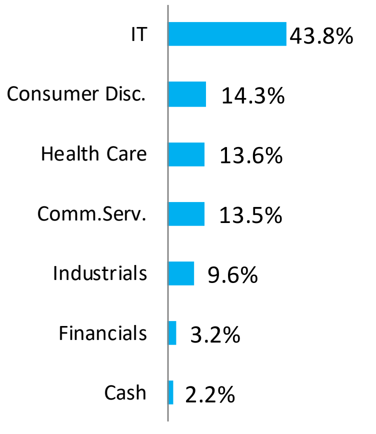
PORTFOLIO

31/10/2020

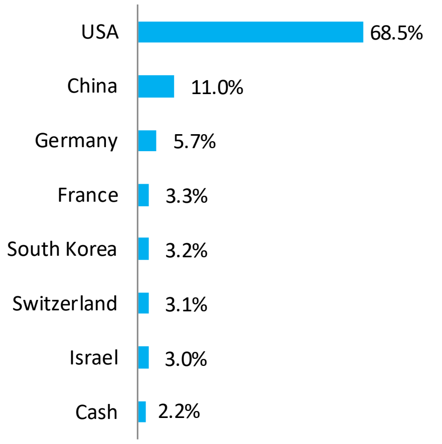
Fund top 10 holdings

Tencent Holdings	3.9%
Nvidia Corp	3.9%
Paypal	3.8%
Nike	3.7%
Alphabet	3.7%
Anta Sports Products	3.6%
Thermo Fisher Scientific	3.6%
Amazon.com	3.5%
New Oriental Education &	3.5%
Infineon Technologies	3.5%
% of Fund in top 10	36.6%
Total number of stocks	30

Sector analysis

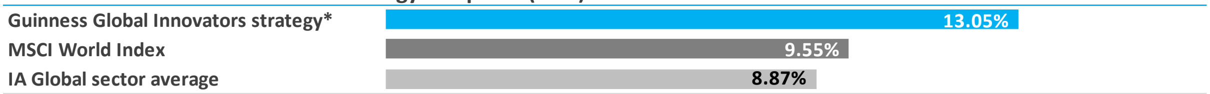


Geographic allocation



31/10/2020

Annualised % total return from strategy inception (GBP)



Discrete years % total return (GBP)	Oct '20	Oct '19	Oct '18	Oct '17	Oct '16
Guinness Global Innovators strategy*	22.5	18.5	-5.8	25.0	26.3
MSCI World Index	4.5	11.3	5.1	12.9	27.9
IA Global sector average	7.3	11.1	1.0	13.9	23.2

Cumulative % total return (GBP)	1 month	Year-to-date	1 year	3 years	5 years	10 years
Guinness Global Innovators strategy*	-2.6	18.4	22.5	36.8	116.2	329.7
MSCI World Index	-3.1	1.0	4.5	22.2	76.5	183.1
IA Global sector average	-1.9	3.2	7.3	20.4	68.9	138.3

RISK ANALYSIS

31/10/2020

Annualised, weekly, 5 years, in GBP	Index	Sector	Strategy*
Alpha	0	1.27	3.77
Beta	1	0.82	1.06
Information ratio	0	-0.11	0.60
Maximum drawdown	-24.58	-21.61	-22.23
R squared	1	0.84	0.85
Sharpe ratio	0.51	0.52	0.70
Tracking error	0	6.43	6.93
Volatility	15.64	14.03	17.95

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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 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

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.