MID-CAPS: A SWEET SPOT FOR GROWTH AND SUSTAINABLE INVESTING

GUINNESS SUSTAINABLE GLOBAL EQUITY FUND

This is a marketing communication. Please refer to the prospectuses, KIDs and KIIDs for the Funds, which contain detailed information on their characteristics and objectives, before making any final investment decisions.

POSITIVELY DIFFERENT

GUINNESS GLOBAL INVESTORS

CONTENTS

RISK

The Guinness Sustainable Global Equity Fund and TB Guinness Sustainable Global Equity Fund are equity funds. 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).

The Sustainable Global Equity Funds are designed to provide exposure to high quality growth companies with sustainable products and practices. The Funds hold a concentrated portfolio of mid-cap companies in any industry and in any region. The Funds are actively managed and use the MSCI World Index as a comparator benchmark only.

Past performance does not predict future returns.

INTRODUCTION

Often misunderstood or overlooked, mid-capitalisation ("mid-cap") stocks can offer investors attractive characteristics and risk-adjusted returns compared to their small and large-cap counterparts. Many investors look to small or large-cap stocks for their portfolio allocations, not considering mid-cap as 'sellable' or regarding it as sitting in the middle and not worth the same consideration. We believe the opposite is true, and that in fact, investors' lesser interest in mid-caps results in more attractive, under-researched investment opportunities. Having overcome the growing pains of small firms, while having room for growth and expansion, mid-caps are the best potential pool of companies that could indeed be tomorrow's leaders.

In this paper, we will outline why we believe mid-cap stocks should be on every investor's radar. Further, with the greater prominence of sustainable investing, we outline why mid-cap stocks by nature exhibit positive ESG characteristics and how despite this, investors often crowd within the large-cap space in their search for sustainable stocks.

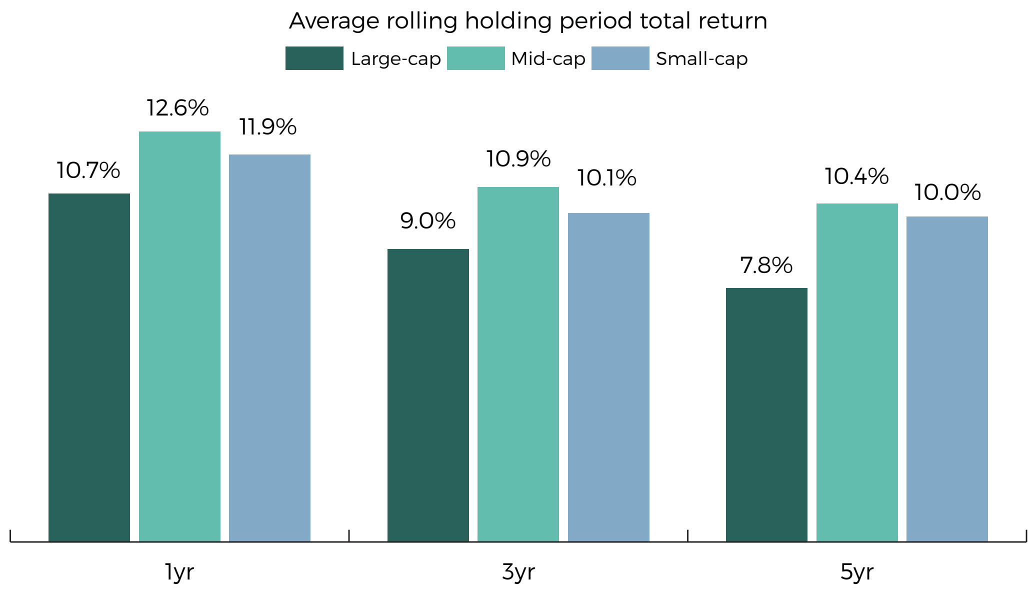
WHY INVEST IN MID-CAPS?

WHAT ARE MID-CAPS?

There is no universal definition of a mid-cap stock. Depending on who you ask, it may be a stock with market capitalisation from $1-10bn, $0.5-25bn or anything in between. The S&P 400 index, the mid-cap index beneath the better-known S&P 500 index, tries to capture stocks within the 85th-93rd percentile of all available US stocks. The constituents of the MSCI World Mid Cap Index range between $1.5bn and $38bn at time of writing. 'Mid-cap' is thus a relative term and will imply different ranges in different regions and industries. Broadly speaking, mid-caps sit somewhere beneath the largest businesses in the world and above the smallest.

WHY NOT JUST INVEST IN LARGE OR SMALL-CAPS?

There are many reasons we believe mid-caps to be an attractive investment proposition, but generally the factor most important to investors is return on investment. Despite popular belief, mid-caps have in fact outperformed their small and large-cap counterparts not only over the longer term but also over the average rolling 1, 3, and 5-year periods since 1996.



Source: Guinness Global Investors, Bloomberg. Period analysed: 1st Jan 1996 – 31st Dec 2022, monthly series, USD.

For the purposes of back-testing, we use the S&P 500, S&P 400 and S&P 800 due to their long performance histories.

What's more, the mid-cap index has outperformed with a better risk-adjusted return – so it's not merely a case of being rewarded for taking on higher risk.

	Large-cap	Mid-cap	Small-cap
Annualised Return	9.0%	10.9%	9.9%
Annualised Volatility	15.6%	18.1%	19.5%
Return/Risk	0.58x	0.60x	0.51x

Source: Guinness Global Investors, Bloomberg. Period analysed: 1st Jan 1996 – 31st December 2022, monthly series, USD.

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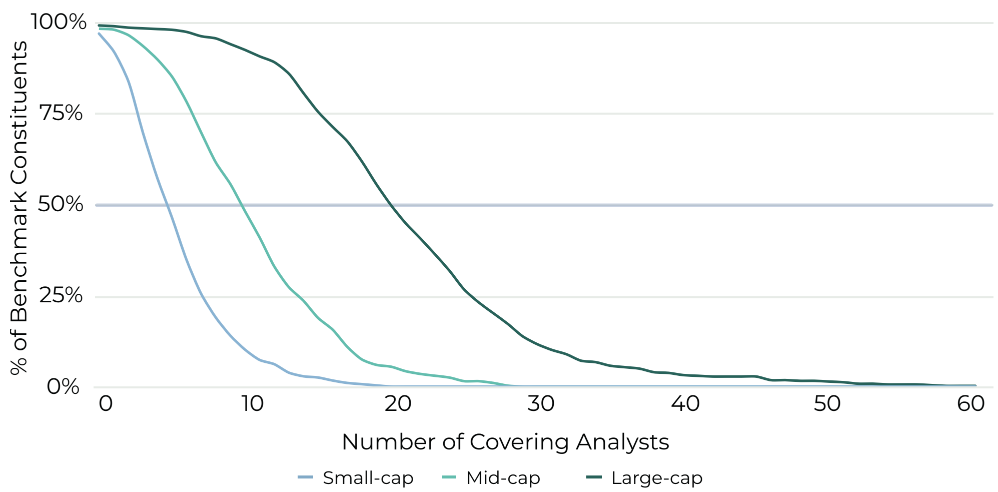
Thinking about why this might be, there are three strong arguments: mid-cap stocks are under-researched and under-utilised by investors, creating more 'alpha' opportunities; mid-caps have grown revenues faster than small and large-cap counterparts; and mid-cap stocks tend to be the targets of acquisitions by larger competitors looking to expand or solidify their market position.

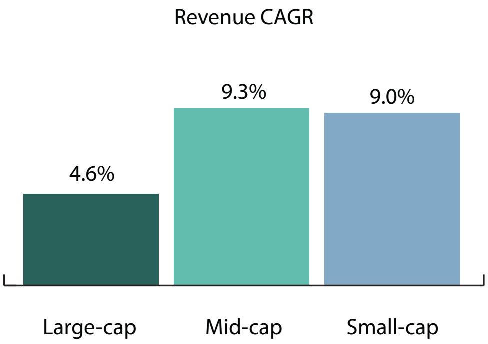
% of benchmark covered by varying number of analysts

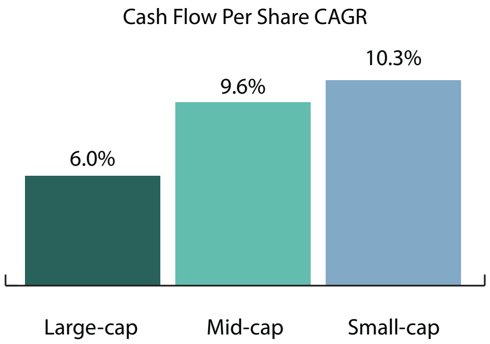


Source: Guinness Global Investors, Bloomberg. Data as of 31.12.2022

1. **UNDER-RESEARCHED:** Research analysts and investment banks focus primarily on large-cap stocks – and for good reason, with large-caps representing the majority of global market capitalisation. *In fact, 50% of the S&P 500 is covered by at least 21 analysts, while mid-caps are only covered by 10, and small-caps by 5.* Consequently, the lack of coverage as you move down the market cap spectrum opens up investment opportunities as you could reasonably assume stock valuations are less likely to price in all available information.

2. **FASTER GROWTH:** Fundamentally, the price of stocks should reflect growth in economic value. Below we see that mid-caps have grown their revenues faster than both small and large-caps but have also grown their cash flows almost as fast as small-caps (and significantly faster than large-caps).

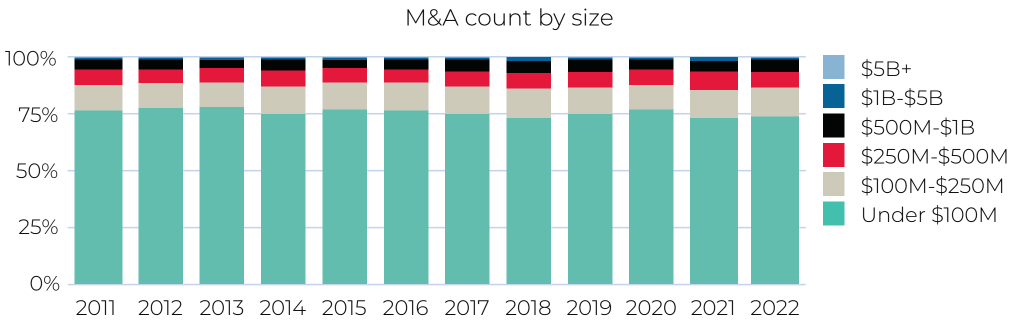




Source: Guinness Global Investors, Bloomberg. Period analysed: 1st Jan 1996 – 31st December 2022, monthly series, USD.

For the purposes of back-testing, we use the S&P 500, S&P 400 and S&P 800 due to their long performance histories.

3. **ACQUISITION TARGETS:**
   Finally, another driver of mid-cap returns is that they are more likely to be acquired compared to large-caps. Mid-caps may hold leading positions in niche markets which larger businesses may seek to acquire in order to consolidate their market share or push into a new vertical. As the chart shows, the vast majority of M&A takes place well below the $5bn-plus level of the most widely publicised deals.



Source: PitchBook 2022 Global M&A Report. Data as of 31.12.2022

BUT AREN'T THEY HIGH-RISK?

A common misconception of mid-caps is that they are too illiquid or too 'high-risk'. But this is not necessarily the case. Inevitably, they are more illiquid than their large-cap counterparts but that by no means makes them illiquid. If you define risk as volatility, then they will tend to be 'higher-risk' than their large-cap counterparts, but as we have seen previously, mid-caps have returned a disproportionately higher return relative to their volatility since 1996. Finally, if you take 'risk' to be the permanent loss of capital, then these fears should be eased when it is considered that these are not start-ups but multi-billion-dollar companies, often specialists in niche markets, looking to take their next step in market expansion.

MID-CAPS: A SWEET SPOT FOR INVESTORS

In summary, we believe mid-caps offer investors a chance to invest in tomorrow's leaders that have been shown to outperform their small and large-cap counterparts with better risk-adjusted returns. An often-overlooked area of the market, mid-cap stocks offer a sought-after trade-off, having outgrown their high-risk smaller stage and being able to focus on profitable growth and business expansion. For these reasons, we focus on mid-cap businesses and believe they should be a core part of investors' portfolios.

ARE MID-CAPS SUITABLE FOR SUSTAINABLE INVESTING?

WHAT IS SUSTAINABLE INVESTING?

We define the Guinness Sustainable Global Equity Fund as a 'Sustainable' fund – a strategy in which we prioritise the identification of companies whose products and services have a *positive* environmental or social effect and whose ESG practices are good or improving. We do not target a specific environmental or social objective at the Fund level. However, we do target businesses that *individually* contribute to their own, possibly overlapping, environmental or social outcomes.

CAN YOU INVEST IN SUSTAINABILITY WITHIN THE MID-CAP SPACE?

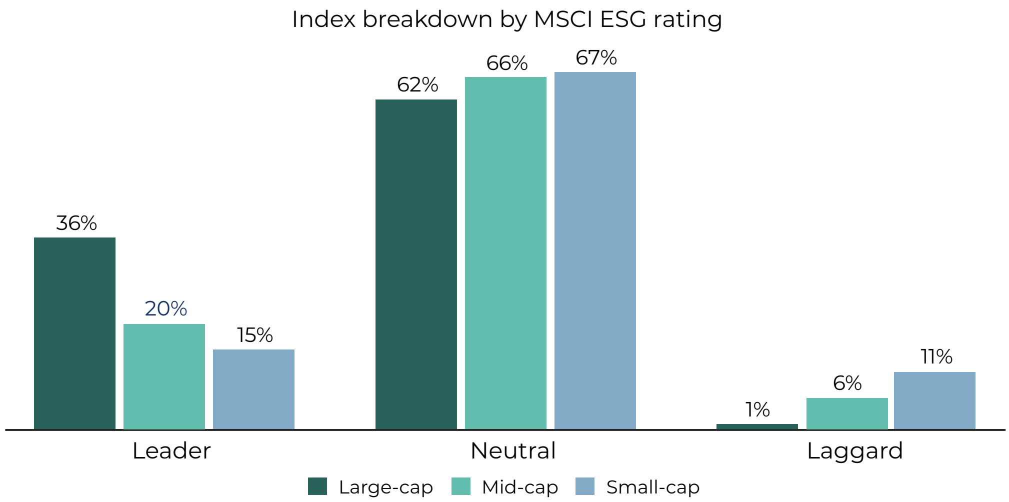
We believe so, and that the natural characteristics of mid-cap businesses make them strong candidates for the types of investments required in a sustainable Fund. We view sustainability through two lenses – the products and services of a business and what positive environment and social effects they have on the world, and the operational practices of a business from an environmental, social, and governance perspective. We examine these here.

PRODUCTS AND SERVICES

By function of their size, mid-caps tend to have fewer reporting segments or business lines than their large-cap counterparts and tend to be more pure-play in their products. Seeking mid-cap businesses in sustainability areas thus leads us to businesses with greater intentionality and materiality within those areas. Such businesses tend to have products and strategies centred around one issue (in this case a sustainability issue), as opposed to conglomerates with multiple reporting segments, separate strategies for each underlying business segment, and generally a lower degree of intentionality.

PRACTICES

Companies are generally rewarded for improvement – be it in their sales growth, margins, or subsequent cash flow generation. In a similar vein, if a business is able to improve its operations from an ESG perspective, that may be reflected in improving fundamentals but also investor flows as they seek a portfolio of more highly rated businesses. Hence, whilst mid-caps are generally rated lower than large-caps from an ESG perspective (fewer 'leaders' and more 'laggards'), either due to lack of research or the increasing ESG disclosure burden companies face, there is a greater runway for improvement.



Source: Guinness Global Investors, MSCI. Data as of 31.12.2022

'Leader' refers to companies with MSCI ESG ratings AAA or AA, 'Neutral' refers to A, BBB or BB, and 'Laggard' B or CCC.

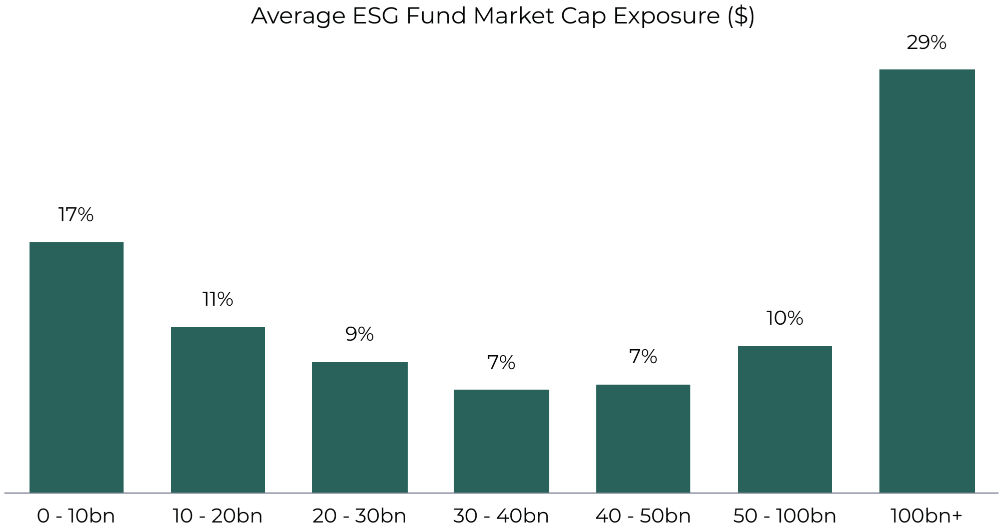
A more subtle point, and one which reverts back to mid-cap businesses' greater degree of intentionality, is the higher proportion of management alignment. Indeed, the table shows that mid-cap businesses tend to have CEOs with longer tenures and who own a higher proportion of equity in the business. From a governance perspective, whilst founder-led businesses or entrenched management can pose their own risks, we think this lends itself to a greater alignment with the company's long-term strategy.

	% CEO with 5+ years service	% shares held by CEO	% CEO Founders	% shares held by insiders
Large-cap	48.3%	0.4%	4.8%	1.6%
Mid-cap	53.7%	1.1%	7.5%	3.0%
Small-cap	53.9%	2.2%	9.3%	4.8%

Source: Guinness Global Investors, Bloomberg. Data as of 31.12.2022

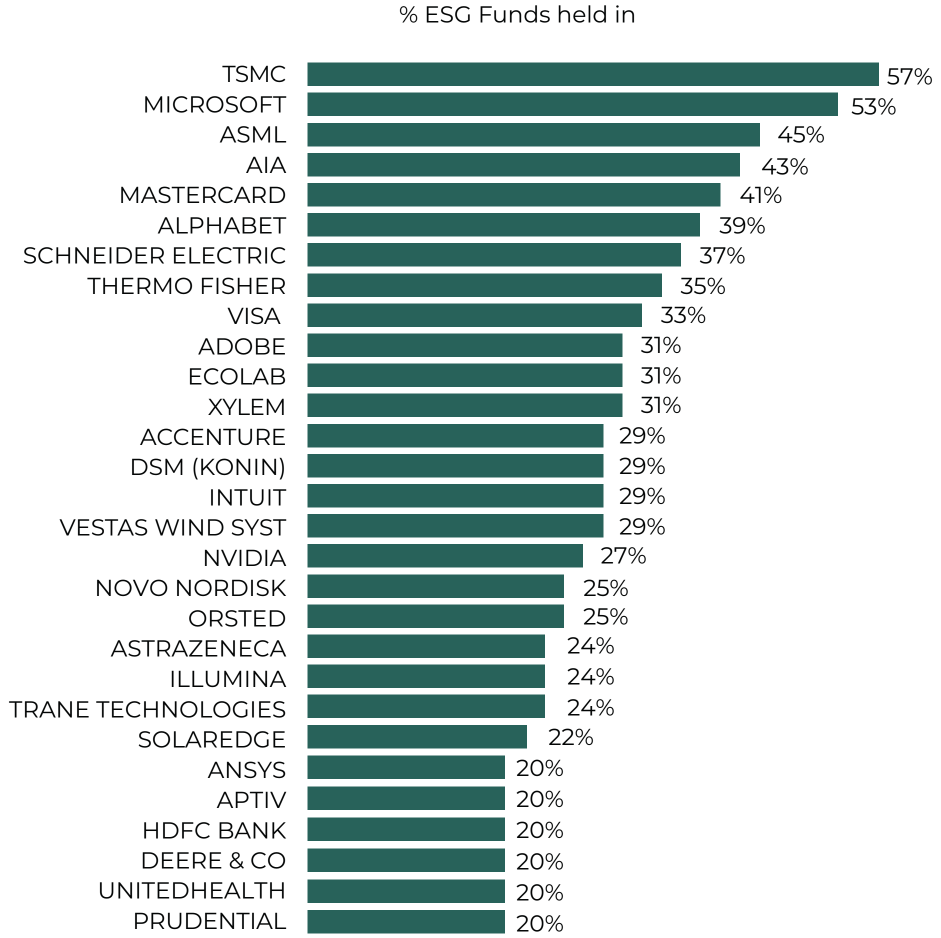
OVERCROWDING IN THE LARGE-CAP SPACE

Despite the advantages we've outlined of investing in the mid-cap space, when we look more closely at ESG investing – from using ESG as a risk management tool, to impact investing – we find that ESG Funds tend to invest heavily in the large-cap space, and particularly the $100bn+ portion.



Source: Guinness Global Investors, Bloomberg. Data as of 31.12.2022
A custom universe of 71 funds created by screening the IA Global Sector for all Responsible, Sustainable and Impact funds

What's more, ESG funds have a tendency to invest in the *same* large-cap stocks. The chart below shows the proportion of ESG funds that invest in each stock (displaying only those within 20% or more funds). Notably, we see that over half of the ESG funds in the Investment Association Global Equity sector invest in TSMC and Microsoft.



Source: Guinness Global Investors, Bloomberg. Data as of 31.12.2022

A custom universe of 71 funds created by screening the IA Global Sector for all Responsible, Sustainable and Impact funds. Reference to specific securities is for illustrative purposes only.

Thus, we believe the mid-cap space is not only desirable from a fundamental perspective, but also attractive for the differentiation it offers. Investors may find that their ESG funds are not only heavily invested in businesses with lower ESG intentionality but are also doubling up on many large-cap stocks held in non-ESG fund allocations.

ABOUT GUINNESS SUSTAINABLE GLOBAL EQUITY

The Guinness Sustainable Global Equity strategy is a quality growth strategy focused on investing in businesses contributing to the transition to a more sustainable economy, whilst actively avoiding businesses we believe have the opposite, undesirable, effect. We believe that sustainability-driven innovators enable and contribute to long-term growth drivers, underpinned by changing behaviours, and have lasting competitive advantages. We therefore also believe this puts the strategy in good stead going forward, positioning investors for robust future growth whilst in the knowledge that these businesses are positively contributing to a sustainable future.

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' portfolios, 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 Investor Information Document (KIID), Key Information Document (KID) and the Application Form, is available in English from 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. 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.

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 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

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.

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