Guinness Global Innovators Fund

Innovation | Quality | Growth | Conviction

INVESTMENT COMMENTARY – August 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.

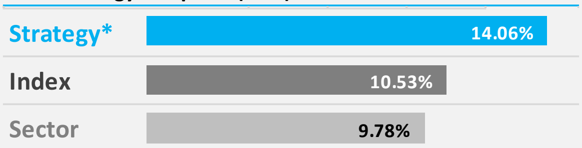
Fund size	£531m
AUM in strategy	£696m
Fund launch date	31.10.14
Strategy launch date	01.05.03
Managers	Dr. Ian Mortimer, CFA Matthew Page, CFA
Analysts	Sagar Thanki Joseph Stephens William van der Weyden

Performance **31.07.21**

Past performance does not predict future returns

Cumulative % total return (GBP)	1 year	3 years	5 years	10 years
Strategy*	31.5	66.0	142.1	440.8
Index	27.5	41.6	86.2	236.8
Sector	26.8	40.0	81.7	180.6
Position in sector	**90** /439	**41** /377	**19** /314	**5** /207

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 USD.

Summary performance

For the month of July, the Guinness Global Innovators Fund provided a total return of 1.80% (GBP) against the MSCI World Index net total return of 1.14% (GBP). Hence the fund outperformed the benchmark by 0.66% (GBP). Year to date, the fund has produced a total return of 15.25% (GBP) against the MSCI World 13.14% (GBP).

Delta variant concerns, Chinese regulation and high levels of inflation offset much of the optimism felt from the ongoing vaccine rollout, the re-opening of economies and continued economic growth.

With the more infectious delta variant accounting for up to 87% of new U.S. infections and with just half of the U.S. fully vaccinated, the market became increasingly concerned about the sustainability of economic momentum. In Q2, US GDP grew 6.5% compared to the previous quarter, yet failed to reach expectations of 8.4%. In contrast, eurozone GDP (2.0% compared to the previous quarter) beat consensus by 0.5%, with consumer and business confidence rebounding strongly.

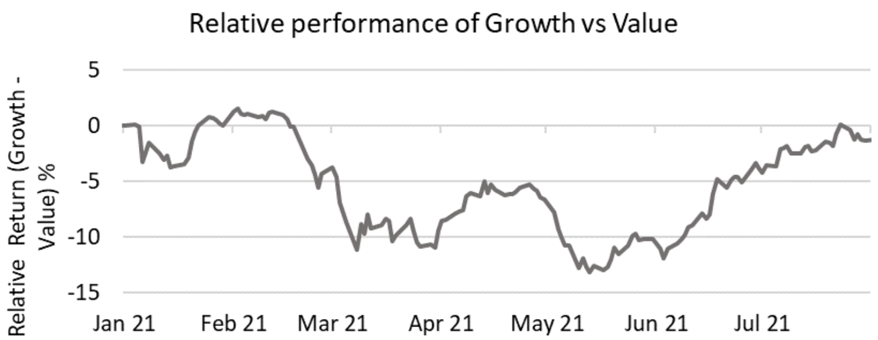
US inflation surprised to the upside for the fourth consecutive month, with the CPI at 5.4% to the previous year – 0.10% ahead of consensus. Inflation in energy commodities (+41.2%), alongside the easing of restrictions, led to significant increases across other products, such as airline fares (+19.0% YoY), intercity transportation (+11.4%), car and truck rental (+73.5%), as well as a used cars and trucks (+41.7%). Food away from home also contributed, up 6.6% compared to the previous year. And whilst the market expects inflation to curtail to 2.2% in 3Q22, the Fed's latest FOMC meeting suggested the committee was beginning to accept that inflation was slightly less transient than they had previously expected. The Fed had become noticeably more hawkish in tone since June, with their latest dot plot indicating two rate hikes between now and the end of 2023. With increasing pressure to taper asset purchases, the Fed also acknowledged progress in economic activity and employment, yet said the threshold of "substantial progress" had not yet been made.

In the UK, Boris Johnson removed the majority of pandemic restrictions despite a new wave of infections from the Delta variant, citing the UK's strong vaccine record as the enabler. The UK is now being seen as a test case for other countries with high vaccine counts, who are also looking to remove restrictions.

In Asia, an active Chinese regulator dominated investor focus. The Chinese private education sector, worth $100bn in sales annually, took the largest hit when reports broke that Beijing may plan to turn the sector non-profit. Firms such as New Oriental Education (sold by the fund in June) dropped in share price by over 70% (in USD). The latest regulatory crackdown also heavily impacted large internet stocks such as Tencent and Didi, causing four days of heavy selling in the region. Anxieties over political risk factors in China are now at the forefront of investor's minds, alongside where the regulator may turn their attention to next.

Overall, fund performance vs the benchmark can be attributed to:

- Strong stock selection led to the Industrials sector being the fund's largest contributor to outperformance during July, with all three holdings (ABB, Schneider and Roper) delivering strong returns.
- Strong stock selection within the Healthcare sector, particularly from the fund's MedTech holdings, was a positive contributor to fund performance.
- As the benchmark's second-best performer this month, high exposure to the IT Sector was a positive for the fund from an asset allocation perspective. However, over-exposure to semiconductor stocks such as Infineon, TSMC and Lam Research more than offset this benefit, with the chip industry suffering a period of weakness.
- Our lack of exposure to the Energy sector also made a positive contribution to returns as it was the worst-performing sector in July.



Source: Bloomberg; in GBP, to 31st July 2021

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There has been strong outperformance from growth since mid-May, when the YTD performance spread between growth and value was at its widest. Year to date, the performance of the two factors was almost equal at the end of July. As a result, the fund's relative positioning against competitors has continued to improve, now ranking in the top quartile. Considering Growth and Value's equal performance year to date, the fund being in the top quartile is a good result. The fund's performance has therefore 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.

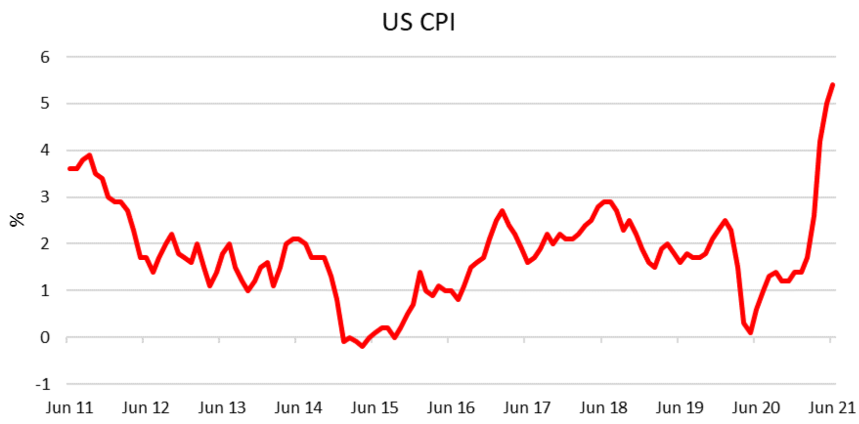
	YTD	1 year	3 years	5 years	10 years
Global Innovators	15.25	31.52	66.00	142.08	440.75
Index	13.14	27.51	41.60	86.20	236.79
Sector	10.93	26.79	39.97	81.69	180.58
Position in sector	58/449	90/439	41/377	19/314	5/207
Quartile	1st	1st	1st	1st	1st

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

July in review:

US bond yields declined sharply in July, with the 10-year falling from 1.47% to 1.23% – a result of both macro and technical factors. From a technical side, strong demand and weak supply in the bond market contributed to this fall. We are seeing higher levels of demand than usual, with the Fed's continuation of expansionary monetary policy from the recession last year leading to a high level of asset purchases. On the supply side, the suspension of the US debt ceiling expired in July, meaning the Treasury Department will begin conducting emergency cash-conservation steps to avoid issuing new debt for the next 2-3 months. From a macro perspective, we also saw indications of a declining economic growth outlook. Delta variant concerns and GDP below market expectations led to a flight to both quality stock names and bonds. Additionally, inflation remained at 5.4%, far exceeding the Fed's 2% target. Whilst standing behind their belief that inflation remains transient, there was an acceptance that the time horizon may be incrementally longer than first expected, especially when taking in to account continued pressure on commodities, disrupted supply chains, and wage inflation. After acknowledging good progress in economic activity and jobs, the tapering of asset purchases is now on the horizon. Pairing this with two expected rate hikes in 2023, we can therefore expect yields to move higher in the mid-term.

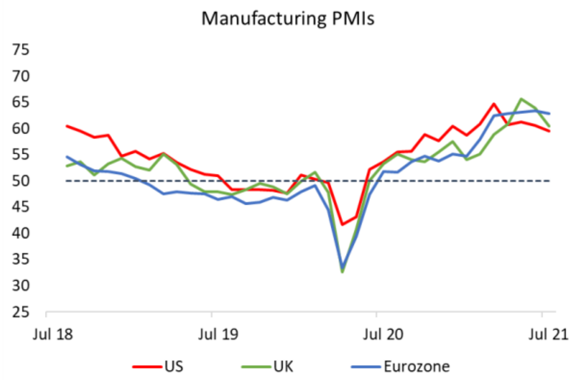
This is the first period since 2008 that CPI has breached the 5% level. In contrast, European inflation is lagging, with inflation ticking up 0.3% to 2.2% – a result of supply bottlenecks pushing up prices and the removal of COVID restrictions increasing demand. During the period, the ECB tweaked its inflation target to 2%, rather than below 2%.

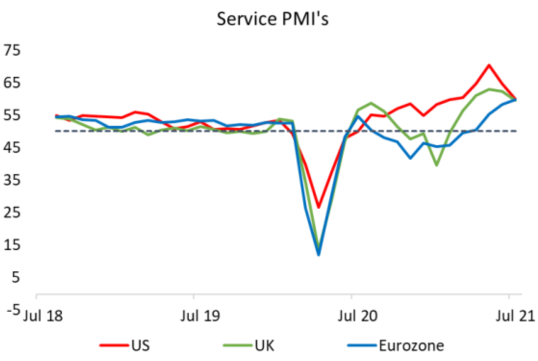


Source: Bureau of Labor Statistics

Strength in equities was buoyed by a stellar results season, despite volatility from Delta concerns and Chinese regulation. The S&P 500 reached an all-time high during the month. US Q2 earnings season saw an unusually high number of companies in the S&P 500 beat EPS consensus numbers: 87.1% of companies reported a beat to earnings consensus, with a mean beat of +17.9% (source: Bloomberg). This compares to a 5-year average of 75%, with a mean beat of +7.8%. Interestingly, whilst health care delivered one of the lowest aggregate earnings surprises, it had the largest price reaction, contributing positively to fund performance. Equity strength was also driven by a fall in bond yields during the month, helping to drive up valuations.

Whilst concerns over sustained inflation exist, positive indicators for economic growth remain. Manufacturing PMI's across regions remain in expansionary territory, despite the UK and Eurozone regions dipping slightly – a result of supply chain disruption. However, this modest decline in manufacturing was more than offset by robust improvement in service sector activity in the Eurozone. Conversely, US Manufacturing PMI's rose slightly, offset by weaker Services PMI's due to labour shortages. Eurozone businesses reported their fastest expansion in more than two decades.





Source: Bloomberg

Stock performances:

Danaher Corp (10.85% USD over July):

Danaher was the strongest contributor to the fund during July, driven by a strong set of Q2 results, capping off a half year in which the stock rose 29%. The Washington D.C. based medical company posted EPS growth of 71% year-over-year, revenue growth of 36% (+7% to consensus) and net income growth of 93%. Life Sciences (39% of revenues) and diagnostics (37% of revenues) were up 35% and 37% year-on-year respectively. What was particularly attractive to us was company guidance, with Q3 core business growth in the mid-to-high teens – including both high single-digit growth in the base business and Covid-related business. The firm has undoubtedly been a beneficiary of the pandemic, with tailwinds expected to be prolonged due to the likely requirements of vaccines for younger generations and booster shots. Management also reiterated just a small drop off in 2022 test volumes. Whilst modest inflationary pressures in the company's supply chain exist, Danaher possess an attractive group of businesses across multiple end-markets, in which their non-Covid core activities are experiencing a strong recovery; are exposed to continued expenditure on healthcare research; and have a renewed and brighter outlook on Covid tailwinds. Strategic acquisitions should also continue to add value to the business, such as that of Aldevron and GE's biopharma business.

Alphabet (7.9%), Apple (6.5%), Microsoft (5.2%), Facebook (2.5%):

Big Tech delivered another blowout quarter, with profits continuing to surge as the global economy emerges from the pandemic. Apple, Amazon, Alphabet, Microsoft and Facebook (all held in the fund) made $75bn in after-tax profits for Q2, up 90% on the year before and 30% above consensus estimates. Alphabet was the standout performer of the group, announcing strong financials across the board during their Q2 earnings release. A strong recovery in ads, an outlook containing margin upside, and continued cloud earnings growth, led to a wave of analyst upgrades, followed by a 4% re-rating on the day of results. YouTube's advertising business was a particular standout, with revenue growth of 84%. Apple and Microsoft also performed well during the month, with iPhone sales jumping 50% and Microsoft's cloud platform, Azure, growing in excess of this. Amazon (-3.3%) was the sole detractor of the Big Tech group in the fund, suffering from a miss to revenue consensus for Q2 results of -8%, an uninspired Q3 outlook (a revenue fall of 1%, despite historically tending to offer a 9% increase in Q3), a record fine from the European Union (a breach of GDPR rules), and increasing worries of regulation following Lina Khan's appointment to FTC chair in June. Whilst enhanced regulation continues to be a risk, each of these companies benefits from strong, economic moats within their industries, alongside long-term growth trends across a diverse range of revenue streams. Their ability to continue surprising to the upside should not be underestimated.

Infineon (-5.3%), TSMC (-2.8%), Nvidia (-2.5%), Lam Research (-2.0%):

Semiconductor stocks had thus far performed very well this year. However, July offered a rare occurrence of negative growth. Nvidia, Infineon and Lam Research fell 11%, 9% and 6% respectively over a four-day period – seemingly a negative read-across of TSMC's Q2 earnings. There was limited news flow for these stocks elsewhere. TSMC fell 3.9% after short to mid-term gross margin guidance disappointed investors, despite raising their outlook and reaching the top-end of their sales guidance. This outlook was based on a rapid increase in sales contribution from expensive, 5-nanometer semiconductors. However, investors were unimpressed with margin guidance at two percentage points lower than consensus, and the suggestion that margin erosion is likely to continue. Heavy and sustained capital investing is required to maintain their trend of capacity expansion, whilst a significantly weakened US dollar (comparative to TWD) continues to dilute gross margins, and large depreciation costs are due from 5-nanometer-chip equipment. However, we view TSMC's growth and capacity expansion commentary as a positive for the firm. The majority of news surrounding TSMC related to expansion efforts, in particular on potential new sites in Germany and Japan, alongside the 60% capacity expansion of their Nanjing plant. TSMC also did not rule out further expansion of production capacity in Arizona, where the firm will start mass production in 2024. We believe the outlook for TSMC remains strong. Demand is likely to outstrip supply, with the global chip shortage expected to last into the back-end of next year, and increasing capacity through large investments will cement their position as an industry leader. Other chip stocks are also likely to benefit, as demand for high performing chips continues to rise, through 5G, IoT, Cloud etc.

Anta (-7.5%):

Anta went from the fund's top-performing stock in June (+14.0%) to the bottom performer in July (-7.5%). During the month, Anta hit a record high of $191, before dropping to $153 (-20%) just 12 days later. Whilst not all of June's gains were wiped out, a very active Chinese regulator over the period weighed heavily on investor sentiment. Underperformance was led by Chinese tech stocks, with the Nasdaq Golden Dragon China Index falling 22% over the period – their worst month since the financial crisis. Mega-caps Alibaba and Tencent fell c. 18% and 10% respectively. Beijing had recently implemented a regulatory crackdown across multiple fronts: overseas listing rules; cyber security and privacy concerns (e.g. Didi); anti-competitive practices (Alibaba); and restrictions on private education (New Oriental Education). This regulatory assault across multiple sectors worried investors across the spectrum, with Beijing even holding a call with executives from global investors in an attempt to ease concerns. Brands such as Anta suffered as collateral damage, with investors pulling funds out of China. We remain comfortable with Anta's positioning, with long-term structural tailwinds and limited narrative surrounding the regulation of apparel. China continues to promote exercise and sports, pouring billions into initiatives such as China's "Action Plan to Stimulate Sports Consumption (2019-

2020)", the "Healthy China 2030" Plan and the "National Fitness Program" (2016-2020), which should serve to lift the sports industry's contribution to GDP. China wants to increase the number of people exercising regularly by more than 18% by 2022, and a further 29% by 2030. China's per capita spending on sportswear remains comparatively low at $31, and analysts expect this to rise to a similar level as Japan ($110) by 2030 (US $307). These underlying factors will serve to boost Anta's revenue profile into the long term, and despite the regional risk that it entails (Anta is now the fund's only Chinese stock), we remain bullish on the firm's outlook.

Changes to the Portfolio:

Tencent 腾讯

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.

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*

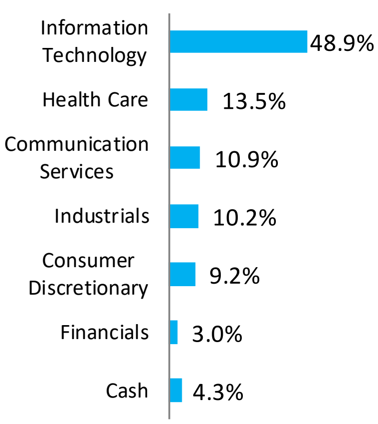
PORTFOLIO

31/07/2021

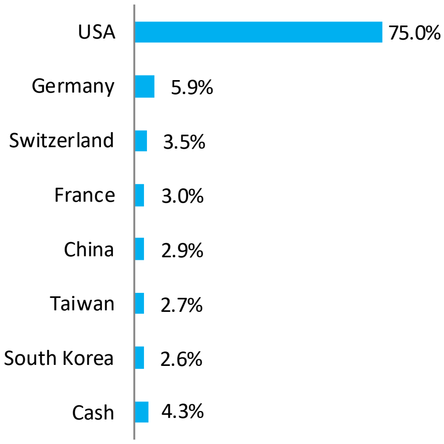
Fund top 10 holdings

Facebook	3.9%
Adobe Systems Inc	3.7%
Alphabet	3.7%
Danaher Corp	3.7%
Roper Industries Inc	3.7%
Applied Materials	3.5%
ABB	3.5%
Cisco Systems	3.5%
Visa	3.5%
KLA-Tencor	3.5%
% of Fund in top 10	36.2%
Total number of stocks	29

Sector analysis



Geographic allocation



Performance

31/07/2021

Past performance is not a guide to future returns

Annualised % total return from strategy inception (GBP)

Guinness Global Innovators strategy*	14.06%
MSCI World Index	10.53%
IA Global sector average	9.78%

Discrete years % total return (GBP)	Jul '21	Jul '20	Jul '19	Jul '18	Jul '17
Guinness Global Innovators strategy*	31.5	19.4	5.6	15.0	26.8
MSCI World Index	27.5	0.0	11.0	12.4	16.9
IA Global sector average	26.8	0.5	9.8	10.2	17.8
IA Global sector ranking	90/439	24/405	298/376	71/335	21/313
IA Global sector quartile	1st	1st	4th	1st	1st

Cumulative % total return (GBP)	1 month	Year-to-date	1 year	3 years	5 years	10 years
Guinness Global Innovators strategy*	1.8	15.3	31.5	66.0	142.1	440.8
MSCI World Index	1.1	13.1	27.5	41.6	86.2	236.8
IA Global sector average	0.6	10.9	26.8	40.0	81.7	180.6

RISK ANALYSIS

31/07/2021

Annualised, weekly, 5 years, in GBP	Index	Sector	Strategy*
Alpha	0	1.78	4.93
Beta	1	0.83	1.06
Information ratio	0	-0.05	0.77
Maximum drawdown	-24.58	-21.61	-22.23
R squared	1	0.85	0.84
Sharpe ratio	0.62	0.67	0.89
Tracking error	0	5.83	6.90
Volatility	15.08	13.58	17.34

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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 USD.

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.