Guinness Sustainable Global Equity Fund

INVESTMENT COMMENTARY – October 2021

About the Fund

The Fund is a global growth fund designed to provide exposure to high quality growth companies, with sustainable products and practices. The Fund holds a concentrated portfolio of midcap companies in any industry and in any region.

Fund size	£10.9m
Fund launch date	15.12.2020
Managers	Sagar Thanki Joseph Stephens

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

Performance

Since the fund was launched on 15.12.2020 there is insufficient data to provide a useful indication of past performance to investors

Strategy	Guinness Sustainable Global Equity
Index	MSCI World Index
Sector	IA Global

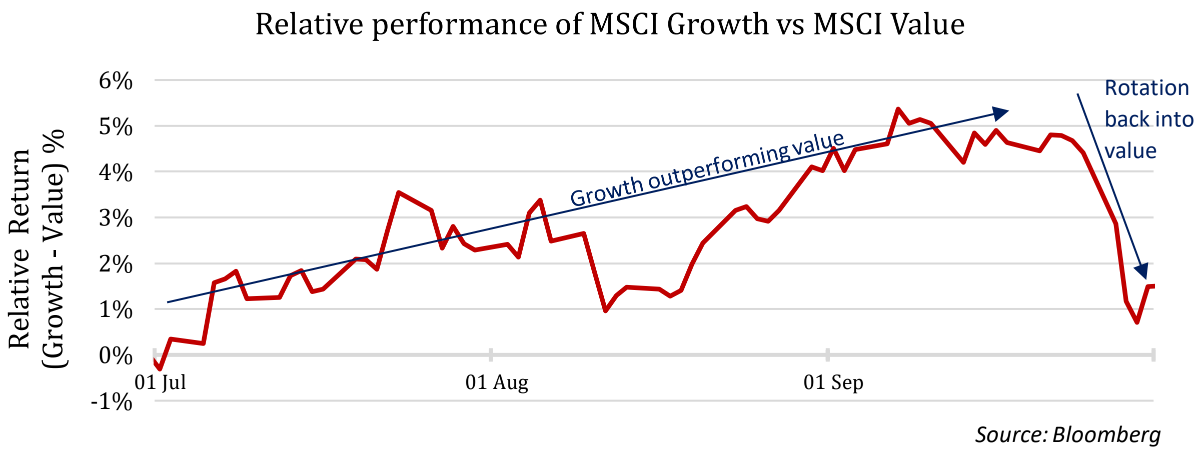
Market summary

Many of the positive economic trends seen in Q2 continued into July and August. Progress in vaccination programs allowed many developed markets to continue with the easing of social mobility restrictions. Inevitably, case numbers surged back in many countries, but without the same relative increase in hospitalisations and deaths seen previously, allowing governments to continue lifting restrictions and preventing further lockdown measures. With many investors expecting a continued and swift rebound in economic activity, positive market sentiment led equities higher, particularly in regions with strong vaccination rates.

However, events in September outweighed much of this positive sentiment, sending global equity markets sharply downwards and wiping out much of the positive ground made during the first two-months of the quarter. Covid-19 continued to disrupt emerging markets, leading to supply-chain disruptions globally. In the US, the Federal Reserve grew increasingly hawkish, confirming the Central Bank's intentions to announce tapering in November's meeting, with an expected end-date of mid-2022. Rate hikes are now expected sooner than previously thought, with Fed Officials evenly split on a rate hike in 2022. In Europe, where consumer activity reached pre-pandemic levels, soaring gas prices contributed to eurozone inflation reaching its highest level in 13 years, piling pressure on a scale-back of loose monetary policy.

Past performance should not be taken as an indicator of future performance. The value of investments and any income arising from them can fall as well as rise as a result of market and currency fluctuations.

For the first time in four months, value returned to favour, outperforming growth during September. A sharp rotation out of "high duration" growth stocks and into "reflation trade" value stocks wiped out almost all the gains growth had made during the first two months of the quarter. The return of value also wiped out any relative gains growth had previously made year to date, with the two factors performing equally since January. The return of value coincides with the Fed's September FOMC meeting, where they indicated that tighter monetary policy through tapering "may soon be warranted", alongside potential rate hikes during 2022, reducing the potential attractiveness of growth stocks' more distant cash flows.



Covid brings an element of uncertainty to the potential impact on health systems when entering the winter months, but elevated amounts of household savings will mitigate against a significant slow-down in the economic recovery. Our focus is on higher quality growth stocks, and we believe they are well placed due to their more consistent growth, strong balance sheets, and in the case of Sustainable Global Equity, secular themes underlying their long-term prospects. We expect the higher levels of inflation we are currently seeing as being unlikely to persist into the long-term, but even if they did, we believe the sustainability themes that our companies are exposed to are unlikely to be slowed down by a higher level of inflation or rising interest rates. We may see some volatility in equity prices as markets adjust their outlooks for interest rate policies but we believe the fundamental outlook for our companies remain very robust.

With that, we see several reasons to remain optimistic on the Guinness Sustainable Global Equity Fund, with its focus on quality growth midcap businesses:

- Increasing legislation aimed at Big Tech regulation (including on-going anti-trust cases).
- Potential minimum tax rate talks between the OECD would more negatively affect stocks with larger international exposure (larger cap businesses).
- As earnings momentum slows post the economic recovery, we believe higher quality growth stocks that can produce consistent growth (driven by long-term structural shifts) will be rewarded.

During the quarter, relative portfolio performance can be attributed to the following:

- Whilst the fund's overweight position to Industrials was a drag on performance, strong stock selection more than made up for this with Tetra Tech, in particular, up 22.6% (USD) over the quarter.

- Conversely, the fund's overweight position to IT stocks was a positive for performance. However, in this instance, stock selection was a drag with hardware stocks, such as Delta Electronics, the main culprit. Nevertheless, the fund's semiconductor exposure was one bright spot with KLA Corp and Entegris both performing well, whilst Teradyne, our third semiconductor stock, was sold during July, which subsequently went on to fall 13% until quarter end.

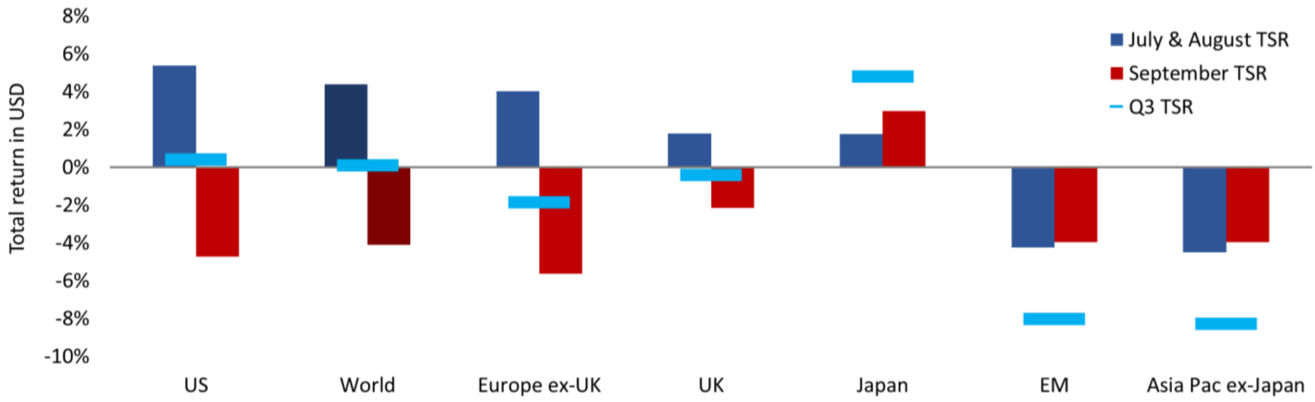
- Whilst growth stocks have performed better year to date, September saw a return to outperformance from value, negatively impacting the fund. Not surprisingly, the sectors that are most sensitive to the economic cycle – such as Energy and Financials – performed best over the quarter and created a drag on the portfolio's performance. In the Fund, we have no exposure to the Energy or Financial sectors.

- From a market capitalisation perspective, while midcaps underperformed their small and large cap counterparts over the quarter – resulting in negative asset allocation for the fund – stock selection within the group was positive, with the fund's emphasis on quality companies with underlying growth themes, reaping rewards.

Quarter in review

Over the quarter, Global equity performance was very much divided into two distinct periods. Whilst July and August built on Q2's strong performance, September served to wipe out any previous gains the US and Europe had made. Emerging Markets and Asia Pacific suffered negative performance throughout the period, a result of continually weak Chinese equity performance.

MSCI World Regional Indices Performance: 30th June – 30th September



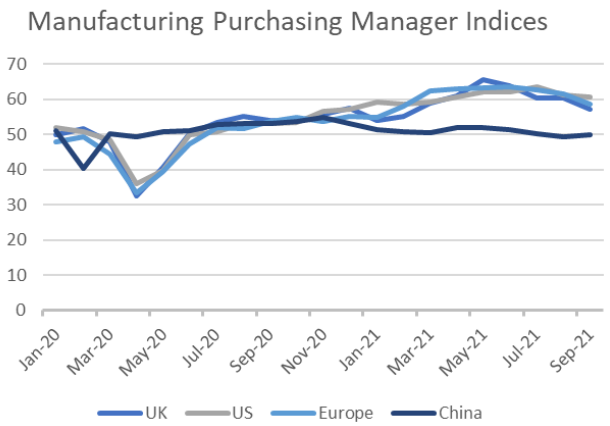
Source: Bloomberg

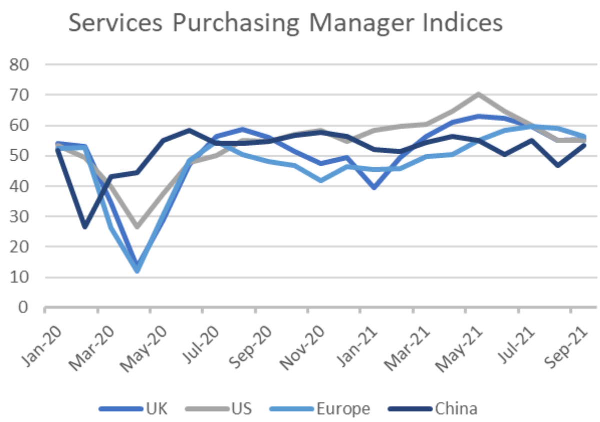
The global vaccination effort continued at speed into the third quarter, with 46% of the global population now vaccinated with at least one dose (up from 24% at the end of Q2), and 34% fully vaccinated (up from 8% at the end of Q2).

In the UK, which has one of the most successful vaccination programs in the world, it appears the link had been broken between new infections and deaths. As seen in the chart below, despite case numbers (7 day rolling average) reaching c. 60% of peak levels, daily deaths (7 day rolling average) are at just c. 10% of peak values. A similar picture can be seen across much of Europe, although in France and Spain, low case numbers are yet to stress-test the efficacy of their vaccine programs.

In the US, however, the country is struggling to disconnect rising Covid-19 cases with rising deaths, partially a consequence of vaccine hesitancy in the South-East of the country. A number of measures give reason for confidence in the US covid-outlook, including: vaccine mandates; the authorisation of jabs for children aged 5-12; the authorisation of booster shots; Merck's antiviral pill and vastly improving infection and death data in recent weeks.

Despite cases and deaths being above 50% of peak numbers for much of the quarter, markets held much of their attention elsewhere. July and August saw a continuation of trends from Q2, with broad positive economic indicators continuing to buoy equity markets higher. However, in September, some of these numbers began to turn. Purchasing Managers' Indices (PMIs) pointed to economic expansion (levels above 50) across most regions, with the exception of China, yet began trending lower, suggesting a potential slowdown in global growth. This was true for both Manufacturing and Services PMI's. Strains on global supply chains have shown little sign of easing as of yet, with coronavirus continuing to cause issues in lower economically developed countries which typically have lower vaccination rates.





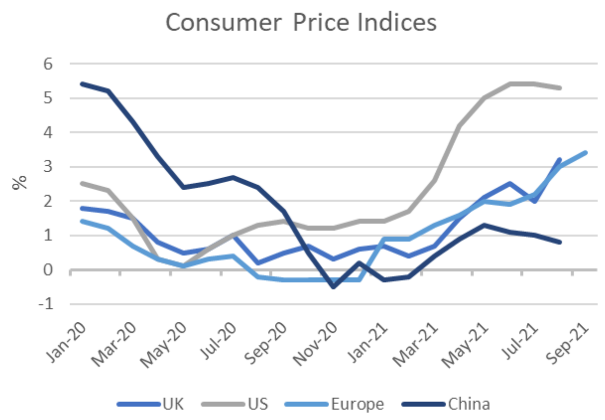
Source: Bloomberg

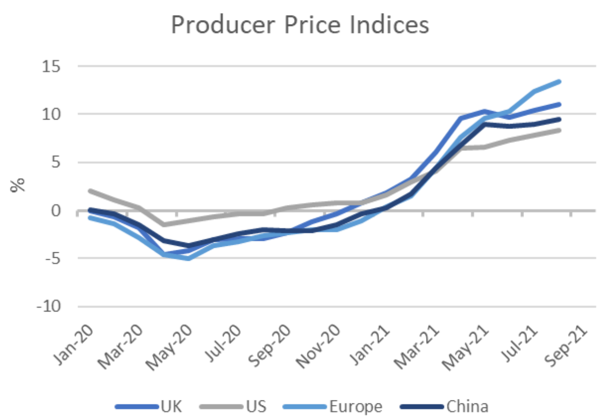
In the US, the consumer confidence index slid to its lowest level since February, back when cases were high and the vaccination rate was low. Whilst some of this concern from US consumers stemmed from rising gas and food prices, the largest concern was the delta variant. To add to this, US job growth stalled for two consecutive months, with the 194,000 jobs added in September short of the expected 500,000. Despite these factors, there were still some signs of strong demand in the economy, with retail sales rising 0.7% over August and initial jobless claims remaining near a pandemic low. Households also have a historically high level of savings. Paired with the recent improvement in new infections and hospitalisations, this is likely to aid consumer confidence and activity into the fourth quarter.

In the UK, concerns around rising fuel prices and high headline inflation lead to the consumer confidence index sliding to a 5-month low, after climbing continuously every month since January

2021. Retail footfall fell 16.8% in September, when compared to pre-pandemic figures in 2019. In Europe, the picture was slightly better with consumer activity returning to pre-pandemic levels. The OECD weekly tracker of economic activity rose above 2019 levels at the beginning of September for most eurozone countries. Consumer confidence also remained strong, with levels similar to those last seen in 2018.

Arguably the largest topic of conversation throughout the quarter was inflation.





Source: Bloomberg

In the US, the latest headline Consumer Price Index (CPI) reading cooled 10 bps to 5.3%, driven by elevated levels of energy commodity prices (+41.9% YoY) and used cars and trucks (+31.9% YoY). This added fuel to the argument that inflation is temporary, since inflation was not only seen to be losing steam, but is driven by just two core components. The global shortage over semiconductors for carmakers has dented supply in new vehicles, pushing consumers into the second-hand market. The vast majority of remaining CPI components remained below the 5.3% average, suggesting inflation is not as extreme as the headline figure suggests. European and UK CPI continues to lag that of the US, but remains at elevated levels. Here, CPI is driven not just by elevated fuel and vehicle prices, but "re-opening" sector goods and services, such as restaurants and hotels. Accommodative fiscal policy, the release of pent-up demand and accumulated savings is likely a factor driving inflation here.

When inflation is likely to curtail has been a key question of market participants over the quarter. The Federal Reserve Chair Jay Powell has consistently dubbed the recent inflation spike as 'transitory', despite recently updating their 2021 inflation outlook to 3.7% in 2021. The IMF is of a similar view, expecting headline inflation to decline to c. 4% in developed economies in the final months of 2021, before declining to 2% by mid-2022. Whilst we view inflation as a risk, we believe there is sufficient evidence to suggest these views of inflation being relatively short-term have merit.

Throughout the quarter, with broadly expansionary data, investors once again looked to the US FOMC meeting for indications of monetary tightening. The Federal Reserve announced in September's meeting that they would probably begin dialling back its $120bn-a-month stimulus programme in November, since the economy had made "clear progress" in its recovery. There was also a marked shift in projections for interest rate increases, with the 18-person committee evenly split on rate hikes in 2022, and an additional (third) rate rise in 2023. In Europe, an unpublished internal inflation estimate suggested the European Central Bank could raise interest rates in just over two years, ahead of estimates. Inflation has remained elusive in the continent, where deposit rates are at a record low of minus 0.5%. However, ECB President Christine Lagarde distanced the ECB from excessively tight monetary policy, not wanting to “overreact to transitory supply shocks”. Despite this, the ECB did slow the rate of bond-buying as the European economy improved. In the UK, commentary was rather more hawkish, with Andrew Bailey stating that every member of the Monetary Policy Committee was “ready to raise interest rates before Christmas” if necessary, pushing UK government bond yields to their highest level in two-and-a-half years.

The implications of tighter monetary policy led to a rotation out of high-duration growth stocks, having a negative effect on the fund. The valuation of growth stocks is weighted heavily towards cash flows in the future, meaning they are more sensitive to changes in interest rates used to discount those earnings. We continue to monitor the macro situation and how it may affect the outlook for our underlying companies. We believe that the higher levels of inflation we are currently seeing are unlikely to persist in the long-term, but we do not rule it out. As mentioned previously, we believe the secular growth trends and sustainability themes that our companies are exposed to are unlikely to be slowed down materially by a higher level of inflation or rising interest rates. We may see some volatility in equity prices as markets adjust their outlooks for interest rate policies, but we believe the fundamental outlook for our companies remain very robust.

Stock performances over Q3 2021 (all total return in USD):

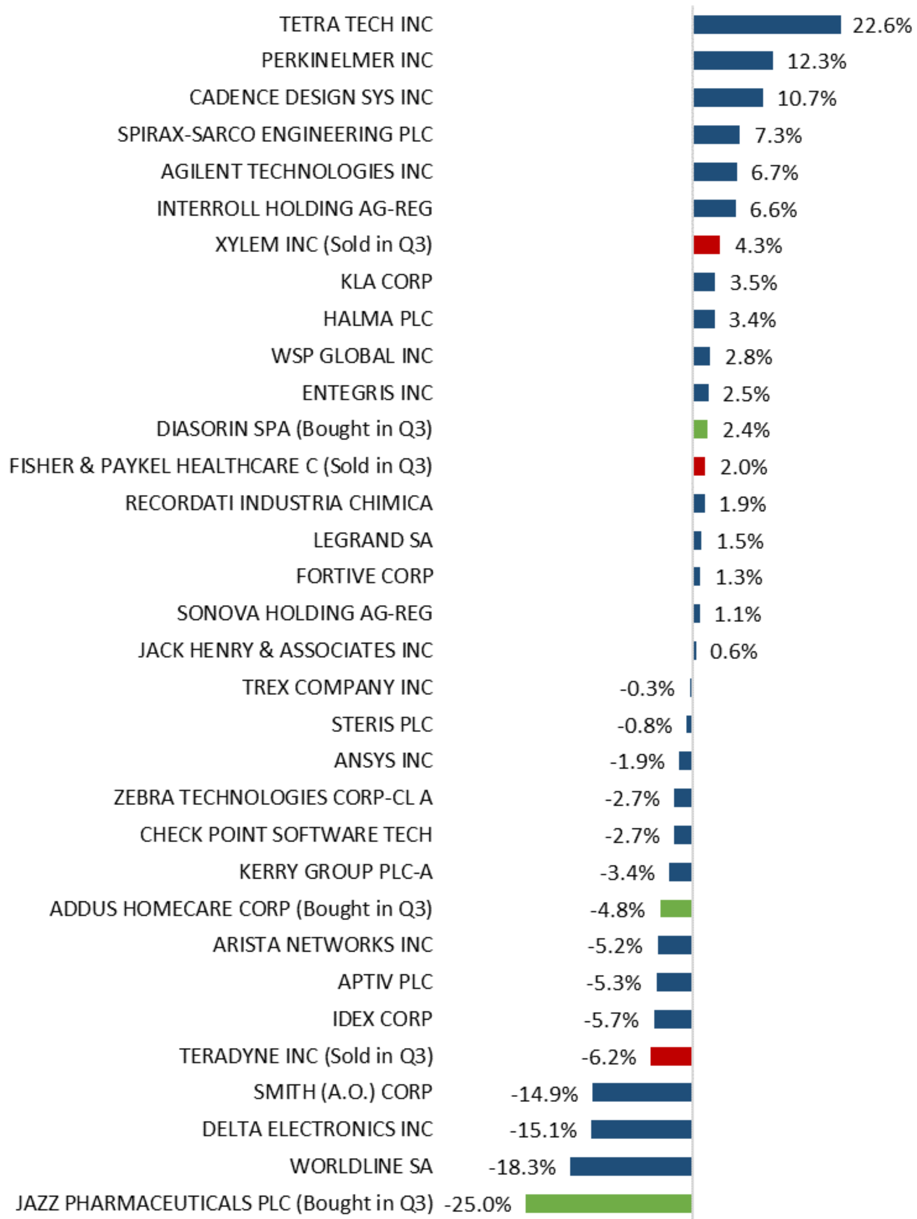


Figure 2: Performances of fund constituents. Source: Guinness Asset Management, Bloomberg, (total return in USD)

Tetra Tech:

Tetra Tech is a leading provider of consulting and engineering services supporting global commercial and government clients focused on water, environment, sustainable infrastructure, renewable energy, and international development. Tetra Tech's strong performance came as the company reported robust earnings in July – the company was able to grow its organic revenue by 11.6% yoy, with a record backlog to support the high expectations of improving government budgets in particular. With good momentum in demand for Tetra Tech services, as governments increase spending on sustainable-orientated projects, alongside improving fundamentals, we believe the company continues to have further runway.

Jazz Pharmaceutical:

Jazz Pharmaceuticals, a new addition to the fund, was unfortunately the worst performer over the quarter. As we mention later on, we believe Jazz presents an opportunity to get exposure to a company repositioning itself for growth and diversifying its portfolio, whilst trading on subdued multiples. The underperformance mainly comes as Jazz's main drug, Xyrem, nears its patent cliff with investors worrying about generic entry. We believe investors have become too pessimistic about this, particularly when considering the company's on-going attempts to transfer existing (and obtain new customers) onto its low-sodium version of Xyrem, Xywav, alongside its recent acquisition of GW Pharma. Much of the weakness in the quarter subsequently came as Jazz was able to switch more customers to Xywav than had been anticipated, which may enable generic entry sooner than anticipated - a negative consequence of an otherwise positive result. Consequently, our investment thesis remains the same and we continue to top up our position in light of share price underperformance – in-line with our equal-weighting philosophy.

Changes to the portfolio:

Over the quarter we made 3 changes to the portfolio, selling positions in Fisher & Paykel, Teradyne, and Xylem, whilst initiating new positions in Jazz Pharmaceutical, Diasorin, and Addus Homecare - 3 healthcare positions, each providing a different type of healthcare exposure.

Jazz Pharmaceutical:

With the first FDA approved drug for type 1 narcolepsy, Xyrem, Jazz had seen strong growth since its approval in 2002. However, more recently investors had become worried about the impending generic entry in 2023, and the over reliance on this main drug. That left the company trading on subdued multiples despite recent efforts to reposition the business. Indeed, Jazz has been attempting to transfer existing patients (whilst taking on new patients) to its new (considerably) lower-sodium version of Xyrem, Xywav. This should help curtail generic entry whilst possibly making the drug more accessible to new patients given its lower sodium make-up. Moreover, Jazz has recently completed its acquisition of GW Pharma – a business which includes blockbuster drug, Epidiolex, a cannabinoid seizure drug (and only US approved cannabinoid drug). The result is a more diversified revenue stream, and strong exposure to the potential growth in cannabinoid drugs. Subsequently, at suppressed multiples, there was a good chance the company would surprise to the upside going forward.

Diasorin:

Diasorin is a specialist diagnostic company – particularly in the in-vitro market for infectious diseases commanding a 20% market share in immunodiagnostics and 12% in the more fragmented molecular diagnostics market. In recent years, the business has transitioned to an instrument sales model whereby systems are leased to customers in exchange for recurring reagent contracts with minimal purchase agreements (along the lines of the razor and blade model). This has meant over 90% of Diasorin's revenues can now be considered recurring giving the business more transparency into future earnings. While the company has been a beneficiary of the pandemic, manufacturing covid-19 tests, this is likely to become more suppressed going forward. However, we felt diagnostic tests are likely to see more prolonged tailwinds from the pandemic vs instruments used when individuals are hospitalised (such as respiratory equipment sold by Fisher & Paykel, which we sold over the quarter). Aside from covid tailwinds, Diasorin is a high-quality growth business, yielding profit margins above 25%, negative net debt to EBITDA, and earnings that have grown double-digits for 4 of the last 5 years (excluding 2020, where adjusted EPS grew >40% mostly from covid-related tailwinds).

Addus Homecare:

Addus is the leading provider of personal care in the US homecare market. While the company is primarily focused on the personal care segment (non-medically orientated services administered at patients' home), Addus also provides exposure to the remaining two segments of the homecare market in hospices (end of life care) and home health (medically orientated services). The industry continues to be a beneficiary of the aging population; however, the business also benefits from lower at-home service costs vs care facilities/hospitals, changing patient preference towards home care vs care facilities, and continued consolidation of the fragmented industry. Having seen its share price fall >30% since its January peak on covid-related weakness and state revenue concentration, we felt this presented a good entry point and that the recent weakness could easily be reversed as covid-related concerns roll off and the business diversifies its revenue concentration.

Fisher & Paykel:

A manufacturer of products and systems for respiratory care and sleep apnea, Fisher & Paykel had sustained strong earnings growth pre-covid. However, with the company a more direct beneficiary of covid-related hospitalisations, and with vaccine rollouts making considerable headway in most developed economies, we felt the near-term share price momentum would be to the downside. Moreover, whilst we like the longer-term prospects for the business, the valuation had become considerably stretched, presenting a good time to exit the position.

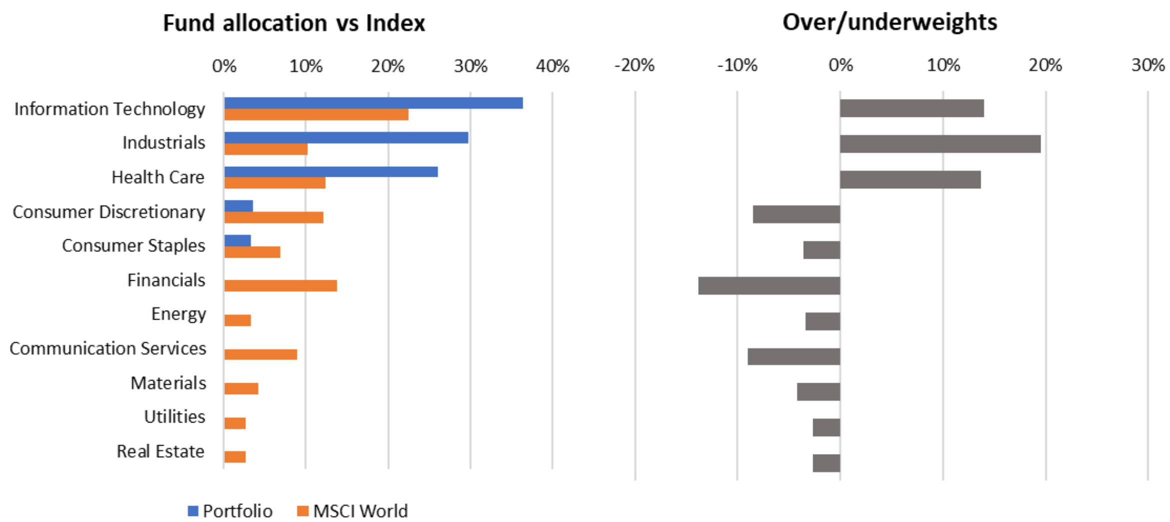
Teradyne:

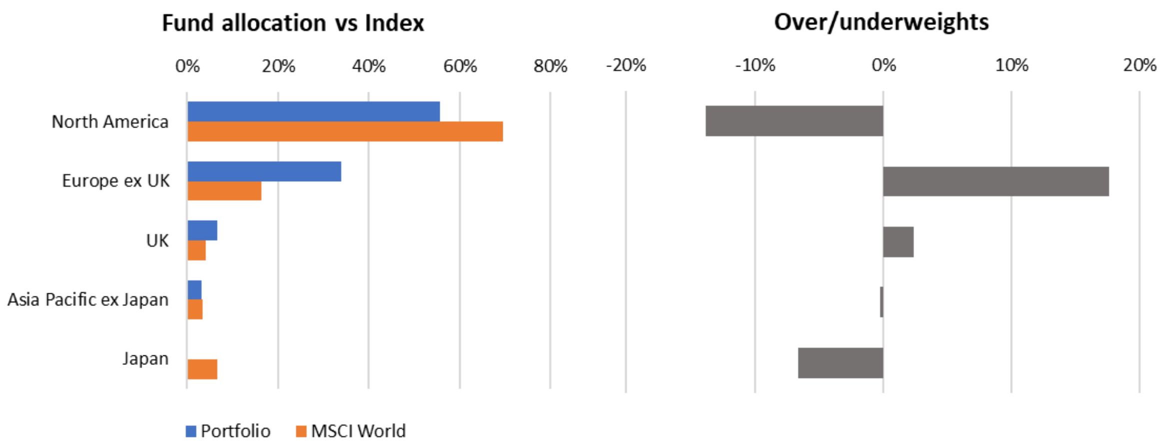
Teradyne is the largest producer of semiconductor testing equipment whilst also commanding leadership in robotics and automation, primarily through its acquisition of collaborative robot manufacturer, Universal Robots. Whilst we like the quality, growth and value characteristics of the business, Teradyne ultimately failed on ESG grounds, as its exposure to human capital risks became too great. Specifically, the company settled a workforce discrimination case this January, which was on top of existing inadequate human capital practices. Having re-reviewed the company after the settlement announcement, in addition to engaging with the company, we felt the company's ESG risks outweighed broader positive characteristics at this point in time.

Xylem:

A leading water technology company committed to solving the world's water, wastewater, and energy needs, Xylem's technologies cover the majority of the water cycle from pumps, filtration and disinfection systems to transportation, treatment and analytical systems. Whilst we like Xylem's ESG credentials, it has been on our watchlist as its valuation became stretched after very good share price performance versus fairly slow growth and lower quality characteristics. We subsequently felt it was a good time to sell with better investment opportunities available.

Portfolio characteristics



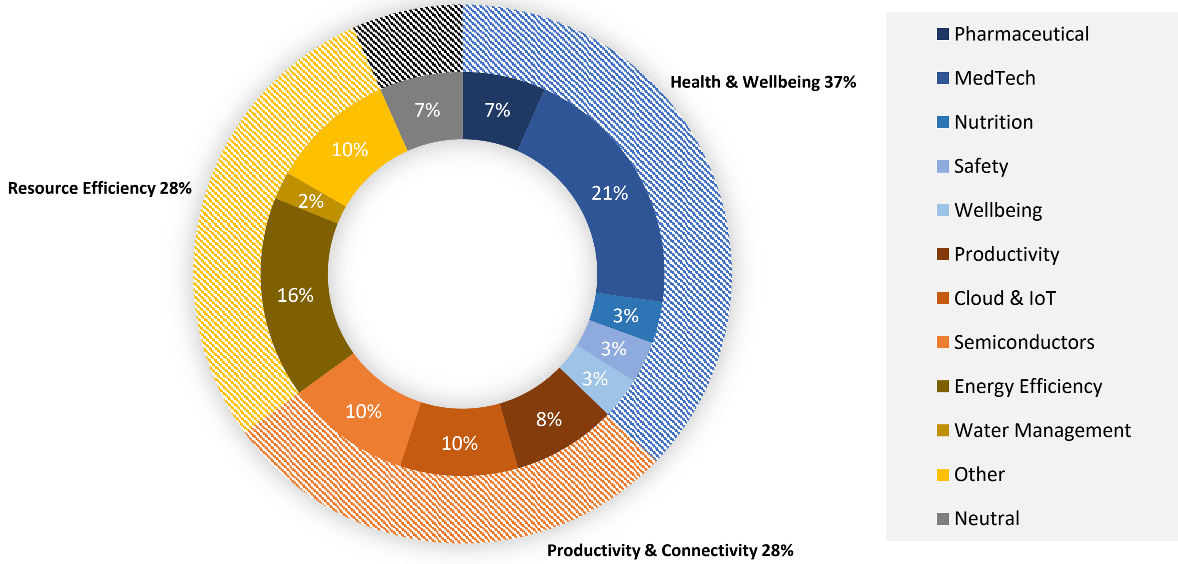


Source: Bloomberg

With the 3 switches made during the quarter, the fund's net exposure to IT decreased, whilst increasing the fund's exposure to healthcare. Further, these changes increased the fund's net exposure to the US by one position.

However, as noted in previous reports, we believe the GICS sector breakdown not to be the most logical way of informing investors of the fund's exposures. Using our sustainability themes and associated sub-themes, we have broken down each holdings' revenue exposure into categories to give better colour to the fund's exposures. This is particularly true for the 3 healthcare holdings we bought during the quarter. Whilst each is categorised as a healthcare stock, each has a very different type of exposure to one another: Addus Homecare primarily in non-medical home personal and hospice care (wellbeing); Diasorin in diagnostics (medtech); and Jazz Pharmaceutical in pharmaceutical medicine (pharmaceutical).

The fund's subsequent theme exposure is as follows:



Source: Guinness Asset Management, Bloomberg

Key Fund Metrics

Sustainability: We focus on companies whose products and services are enabling the transition to a more sustainable economy; these are likely to experience persistent top line growth as nations and consumers continue to change preferences. Ultimately, we believe that sustainable companies are likely to be strategically placed for long-term growth with more forward-thinking management teams able to better capitalise on future opportunities.

Quality: We focus on companies with a history of persistently high and improving return on capital. Our analysis shows that these businesses are highly likely to maintain their profitability in the future. We also seek companies with strong balance sheets and avoid those which have taken on significant leverage in order to fuel their growth. This filter is perhaps more important when looking at smaller companies which may not have the ability to refinance at low rates.

Growth: We focus on growth through a midcap lens. Over the long-term midcaps have grown their revenues and earnings faster than their large and small cap counterparts. Further, we often find that there is significant crowding in large-cap names when searching for sustainability. By focusing on midcap companies, not only do we differentiate ourselves, but we also tend to find more pure-play sustainable businesses.

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 portfolio's active share versus the MSCI World Index is currently 99%, giving investors a truly different exposure.

The table below illustrates the four key tenets of our approach in the portfolio today.

		Fund	MSCI World Index
Sustainability	% MSCI ESG Leaders	41%	33%
	% MSCI ESG Laggards	0%	5%
	CO2 emissions (tons)/$m invested	6.2	96.3
Quality	Return-on-Capital	13%	4%
	EBIT Margin	20%	9%
	Weighted average net debt / equity	10%	54%
Growth (& valuation)	Trailing 5-year sales growth (annualised)	8%	2%
	Estimated earnings growth (2022 vs 2021)	10%	7%
	PE (2021e)	31.8	19.4
Conviction	Number of stocks	30	1630
	Active share	99%	-

Figure: Guinness Asset Management, Credit Suisse HOLT, Bloomberg (data as at 30th September 2021)

We thank you for your continued support.

Portfolio Managers
Joseph Stephens
Sagar Thanki

Past performance should not be taken as an indicator of future performance. The value of investments and any income arising from them can fall as well as rise as a result of market and currency fluctuations.

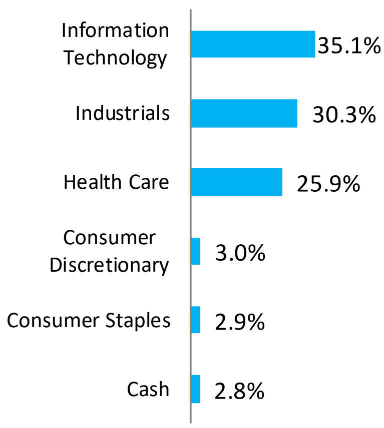
PORTFOLIO

30/09/2021

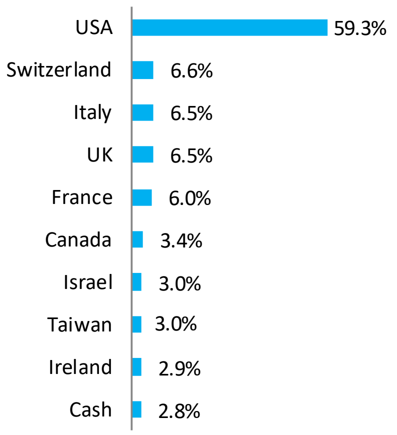
Fund top 10 holdings

Tetra Tech Inc	3.9%
KLA-Tencor	3.6%
Trex Co Inc	3.6%
Entegris Inc	3.6%
Agilent Technologies Inc	3.5%
DiaSorin SpA	3.5%
Fortive Corp	3.5%
PerkinElmer Inc	3.4%
WSP Global Inc	3.4%
Cadence Design Systems I	3.4%
% of Fund in top 10	35.4%
Total number of stocks	30

Sector analysis



Geographic allocation



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 Sustainable Equity 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 Sustainable Equity 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.