# Guinness Sustainable Global Equity Fund

Investment Commentary - February 2022

This is a marketing communication. Please refer to the prospectus and KIID for the Fund before making any final investment decisions. Past performance does not predict future returns.

## ABOUT THE FUND

| | |
|---|---|
| **Launch date** | 15.12.2020 |
| **Fund Size** | £14.3M |
| **Team** | **Sagar Thanki CFA**<br>**Joseph Stephens CFA** |
| **Aim** | **Long term capital appreciation** |

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.

The Fund is an equity fund investing in global companies that are aligned with the transition to a more sustainable economy. The Fund is actively managed and uses the MSCI World Index as a comparator benchmark only.

## RISK

| ◀ Lower risk | | | Risk & reward | | | Higher risk ▶ |
|---|---|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 | **6** | 7 |
| Typically lower rewards | | | | | | Typically lower rewards |

The risk and reward indicator shows where the fund ranks in terms of its potential risk and return. The fund is ranked as higher risk as its price has shown high fluctuations historically. Historic data may not be a reliable indicator for the future

## PERFORMANCE

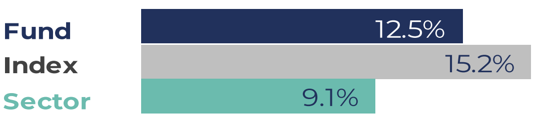
Past performance does not predict future returns

**Performance** 31.01.22

| | |
|---|---|
| **Fund** | Guinness Sustainable Global Equity |
| **Index** | MSCI World Index |
| **Sector** | IA Global |

| | 1 Yr | Launch |
|---|---|---|
| **Fund (Y Class, 0.89% OCF)** | 15.0 | 14.2 |
| **Index** | 19.3 | 17.3 |
| **Sector** | 9.4 | 10.3 |

**Annualised % total return from launch (GBP)**




Investors should note that fees and expenses are charged to the capital of the Fund. This reduces the return on your investment by an amount equivalent to the Ongoing Charges Figure (OCF). The current OCF for the share class used for the fund performance returns is 0.89%. Returns for share classes with a different OCF will vary accordingly. The performance returns do not reflect any initial charge; any such charge will also reduce the return. Source: FE fundinfo, Y class 0.89% OCF, bid to bid, total return.

## SUMMARY - PERFORMANCE

Over the last 12-months (to 31.01.22 in GBP) the Fund (Y GBP Acc) returned 14.95%, the MSCI World Index returned 19.27%, and the MSCI World Growth Index returned 13.59%.

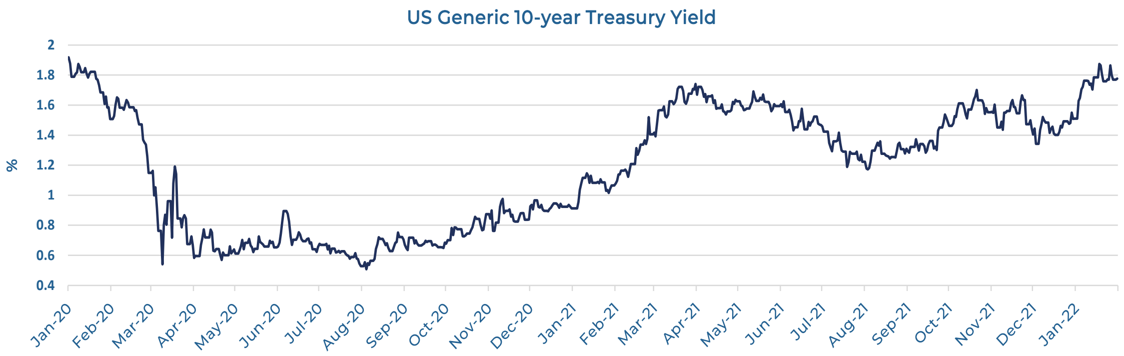
The Fund therefore underperformed the Index by 4.32% over the last 12-months but has outperformed the MSCI World Growth Index by 1.36%.

In January, despite a late rally, the MSCI World Index fell -4.40% (in GBP) over the month. Global equity markets broadly sold off as investors digested concerns over inflation, the prospects of rising interest rates, and the pace of global economic recovery. Quality stocks, which were resilient in 2021, and growth stocks – particularly those on higher valuation multiples – were most affected, whilst defensive sectors and value orientated stocks performed relatively better.

In January the Fund lacked exposure to the Energy and Banking industries (which were the best performing industries). However, whilst growth stocks broadly sold off, it was the more speculative areas of the market that were most affected – an area the Fund does not invest in. This meant the Fund avoided some of the larger stock drawdowns that can be highlighted by the Goldman Sachs Non-Profitable Tech Index's substantially weaker month.

## JANUARY IN REVIEW

2022 began with the US Federal Reserve dealing equity and bond markets with a sharp blow. On January 5th, the Fed released the minutes from December 2021's Federal Open Market Committee (FOMC) policy meeting. Whilst the Fed had already signalled that it would likely hike short-term rates, perhaps starting as early as March, the big surprise – alongside more aggressive rhetoric – was that the minutes also indicated that the Fed was considering quantitative tightening, i.e. shrinking its balance sheet. This led to equity markets selling off and the bond market also reeled, closing at its highest level in 2 years.




Source: Bloomberg, data as of 31st January 2022

Few anticipated that quantitative tightening would start so soon after rate hikes given that after the Global Financial Crisis (GFC) the Fed waited two years, after hiking rates in December 2015, to end its quantitative-easing program.

The Fed's current approach reflects the starkly different economic backdrop today compared to the years after the GFC: economic growth is high, a tight labour market is pushing up wages, and inflation has spiked to its highest level in decades. Moreover, real interest rates – i.e. adjusted for inflation expectations – have been steeply negative for the past few years, contributing to very loose financial conditions. This heightens the risk that an overheating economy will push inflation even higher, and calls for central bank intervention that balances slowing inflation vs tipping the economy into a recessionary downturn.

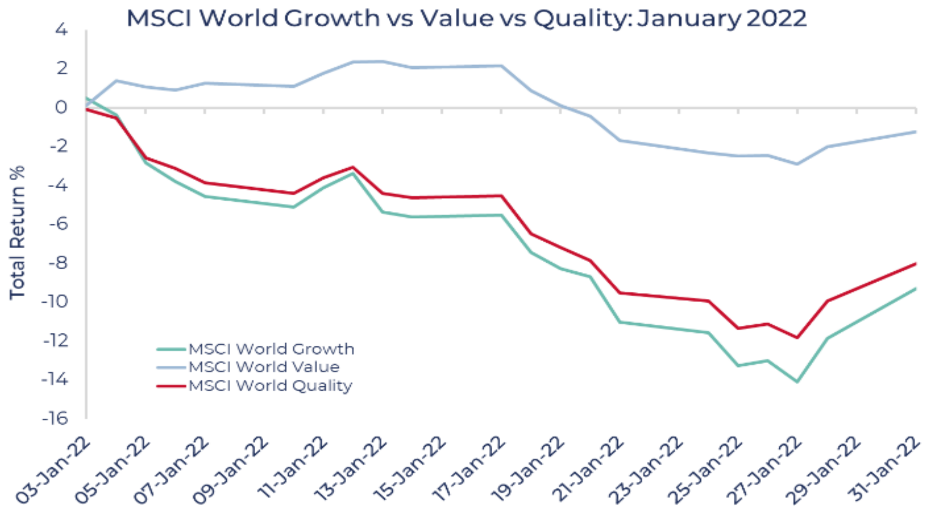
The prospect of higher interest rates has dented the performance outlook for companies with elevated stock valuations and/or weak fundamentals. The areas undergoing the most intense selling pressure are the speculative areas of the market, which all gained incredible steam in 2020 and the early part of 2021.

In the US, stocks within "frothier" segments – unprofitable tech companies, companies hit by short sellers, special purpose acquisition companies (SPACs), newer initial public offerings (IPOs), and retail crowd favourites – have weakened substantially over the past 12 months and this continued at the start of this year too:


Source: Goldman Sachs (GS), Bloomberg, as of 31/01/2022.
GS most-shorted basket: 50 highest short interest names with a market cap greater than $1bn in the Russell 3000.
GS retail favourites basket: US-listed equities that are popularly traded on retail brokerage platforms.
GS non-profitable tech basket: non-profitable US-listed companies in innovative industries.
Renaissance IPO Index: portfolio of US-listed newly public companies.

# Guinness Sustainable Global Equity Fund

Despite a late rally, IT was the worst performing sector in January, as investors took profits amid concerns that higher interest rates would reduce the present value of future cashflows for many high-growth tech companies that have been trading on high valuation multiples. This also contributed heavily to the MSCI World Growth Index underperforming its Value counterpart. In the Fund, our focus on high-quality companies at attractive value keeps us away from the richly priced areas of the market.




Source: Bloomberg, data as of 31st January 2022

## PORTFOLIO HOLDINGS

**Jazz Pharmaceuticals (+9.0% USD over the month):**

We bought Jazz in July 2021, a leader in narcolepsy drugs, under the thesis that the market was being overly pessimistic on generic entry versus the company's ability to transition to its new (considerably) lower sodium version of its headline drug, Xywav, alongside a more diversified portfolio post its acquisition of GW Pharma. Whilst the company ended 2021 relatively weak as investors digested the possibility of an accelerated generic entry given Jazz's faster than anticipated transition to Xywav (a real positive), 2022 has started strongly for the business. The company introduced its 'Vision 2025' outlook in January with expectations of $5bn in sales by 2025 – considerably higher versus market estimates. The $5bn estimate includes 60% from key new drugs, approval of at least 5 additional novel products by the end of the decade, and a 5% improvement in operating margin. We believe this new roadmap is a strong indication of management's drive to create a more balanced business alongside new growth drivers which draws parallels to our original thesis.

**Trex Co. (-32.3% USD):**

January was a disappointing start to the year for Trex, the largest manufacturer of wood-alternative decking and outdoor materials, having ended 2021 as the fund's 3rd best performing stock up 61.3% (USD). In the company's Q4 results of 2021, the company highlighted continued market share gain versus traditional decking with ample room for further growth – wood-alternative decking only contributes to c.25% of the North American decking market. However, with the broad growth sell-off in January, and with Trex trading at elevated levels versus its history, the stock was more negatively affected by the possibility of rising interest rates. With the firm now trading on 33x 1-year forward price-to-earnings, and with growth expected to remain in the high teens and profit margins of c.20%, we believe Trex offers good value given these growth and quality characteristics.

Thank you for your continued support.

**Portfolio Managers**

Joseph Stephens, CFA

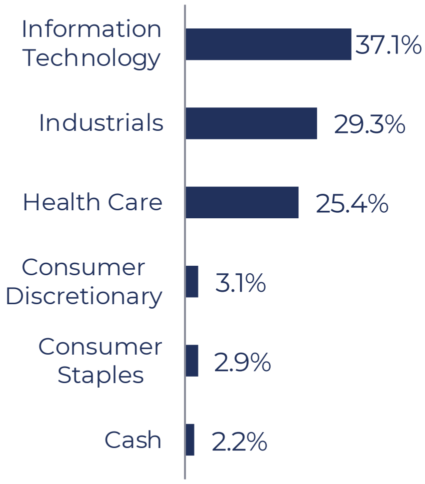
Sagar Thanki, CFA

## PORTFOLIO – 31.01.2022

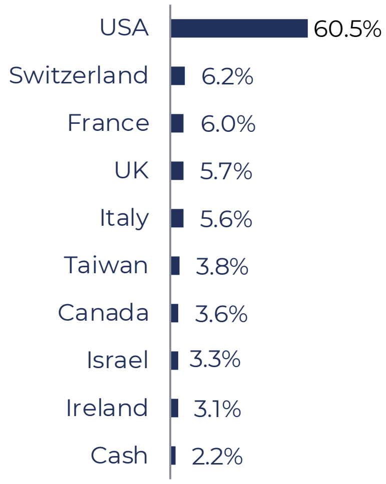
### Fund top 10 holdings

| | |
|---|---|
| Arista Networks Inc | 4.4% |
| KLA-Tencor | 3.9% |
| Delta Electronics Inc | 3.8% |
| A O Smith Corp | 3.7% |
| WSP Global Inc | 3.6% |
| Addus HomeCare | 3.5% |
| PerkinElmer Inc | 3.4% |
| IDEX Corp | 3.4% |
| Jack Henry & Associate | 3.4% |
| Jazz Pharmaceuticals | 3.3% |
| % of Fund in top 10 | 36.5% |
| Total number of stocks | 30 |

### Sector analysis



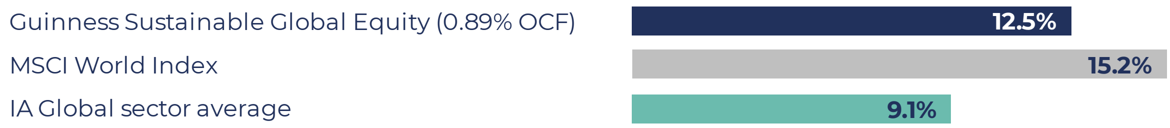

### Geographic allocation




## PERFORMANCE

**31/01/2022**

### Annualised % total return from strategy inception (GBP)




| Discrete years % total return (GBP) | Jan '22 | Jan '21 | Jan '20 | Jan '19 | Jan '18 |
|---|---|---|---|---|---|
| Guinness Sustainable Global Equity (0.89% OCF) | 15.0 | - | - | - | - |
| MSCI World Index | 19.3 | - | - | - | - |
| IA Global sector average | 9.4 | - | - | | - |

| Cumulative % total return (GBP) | 1 year | 3 years | 5 years | 10 years |
|---|---|---|---|---|
| Guinness Sustainable Global Equity (0.89% OCF) | 15.0 | - | - | - |
| MSCI World Index | 19.3 | - | - | - |
| IA Global sector average | 9.4 | - | | - |

### RISK ANALYSIS

**31/01/2022**

| Annualised, weekly, since launch, in GBP | Index | Sector | Fund |
|---|---|---|---|
| Alpha | 0.00 | -4.77 | -5.62 |
| Beta | 1.00 | 0.91 | 1.24 |
| Information ratio | 0.00 | -1.33 | -0.38 |
| Maximum drawdown | -7.31 | -10.39 | -14.76 |
| R squared | 1.00 | 0.86 | 0.76 |
| Sharpe ratio | 0.84 | 0.28 | 0.37 |
| Tracking error | 0.00 | 4.44 | 8.60 |
| Volatility | 11.72 | 11.47 | 16.66 |

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: FE fundinfo bid to bid, total return (0.89% OCF). Fund launch date: 15.12.2020.

## 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 Guinness Sustainable Global 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 Sustainable Global 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. Shareholders should note that all or part of the fees and expenses will be charged to the capital of the Fund. This will have the effect of lowering the capital value of your investment.

**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.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 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.