Guinness Global Innovators Fund

Innovation | Quality | Growth | Conviction

INVESTMENT COMMENTARY – March 2020

About the Fund

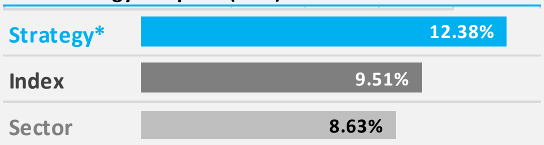
The Fund is a global growth fund designed to provide exposure to companies benefiting from innovations in technology, communication, globalisation or innovative management strategies. The Fund holds a concentrated portfolio of large and medium-sized companies in any industry and in any region.

Fund size	£211m
AUM in strategy	£341m
Fund launch date	31.10.14
Strategy launch date	01.05.03
Managers	Dr. Ian Mortimer, CFA Matthew Page, CFA
Analysts	Sagar Thanki Joseph Stephens

Performance 29.02.20

Cumulative % total return (GBP)	1 year	3 years	5 years	10 years
Strategy*	17.8	32.5	73.1	277.9
Index	9.0	20.2	61.0	175.7
Sector	6.9	18.0	49.1	131.5
Position in sector	**12** /325	**38** /287	**40** /251	**4** /174

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 GBP.

Summary performance

For the month of February, the Guinness Global Innovators Fund produced a total return of -1.86% (in GBP) against the MSCI World Index net total return of -5.52%. The fund therefore outperformed the benchmark by 3.66%.

Global equity markets rallied in the first half of February but fell particularly sharply between 19th February and the month end; the MSCI World Index fell 10.64% in GBP. Over the same period the fund fell 9.54%, outperforming by 1.10%.

This year, the fund has produced a total return of -1.59% (GBP) against the MSCI World -5.63%, ranking the fund 19th out of 337 funds in the IA Global Sector.

The fund performed very well over a month of distress and volatility, with strong stock selection the main contributor. Although the fund has an overweight exposure to Asia Pacific stocks relative to the MSCI World, the underlying holdings in this region have held up well. In fact, two of the fund's domestically focused Chinese holdings, New Oriental Education (+5.2% in USD) and Tencent (+3.1% in USD), were the second and third-best performers over the month. The fund has no exposure to the particularly hard-hit areas of the market such as travel & tourism, airlines, and the energy sector, which also benefitted relative performance.

Over both the short and long term, it is pleasing to see that the Fund's strategy remains strong versus its IA Global Equity Sector peers, ranking in the first quartile over 1, 3, 5 and 10 years.

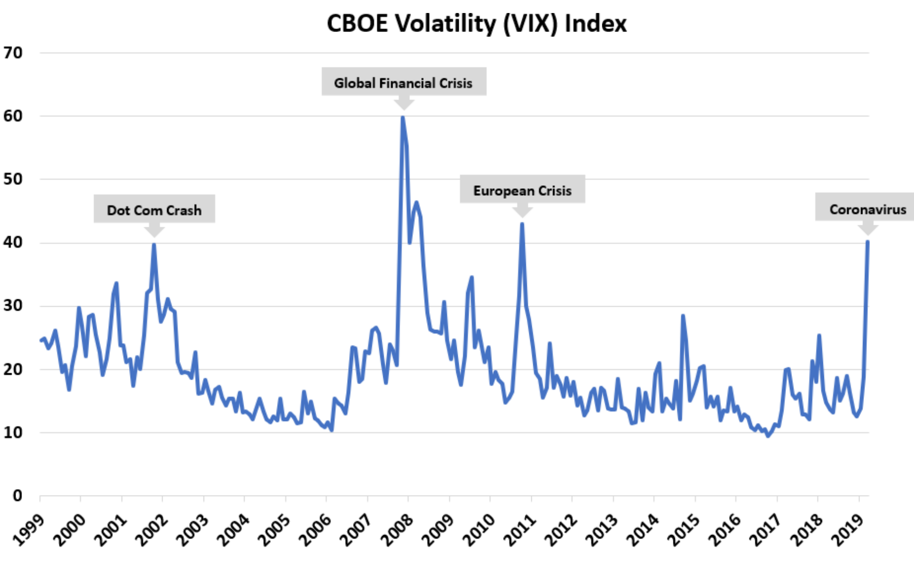
	YTD	1yr	3yr	5yr	10yrs
Fund	-1.59	17.77	32.51	73.12	277.87
Index	-5.63	8.96	20.15	61.03	175.67
IA sector average	-6.09	6.94	17.96	49.05	131.51
Rank vs peers	19/337	12/325	38/287	40/251	4/174
Quartile	**1st**	**1st**	**1st**	**1st**	**1st**

Source: Global Innovators strategy total return, % in GBP, Financial Express (data as at 29.02.2020)

February in review

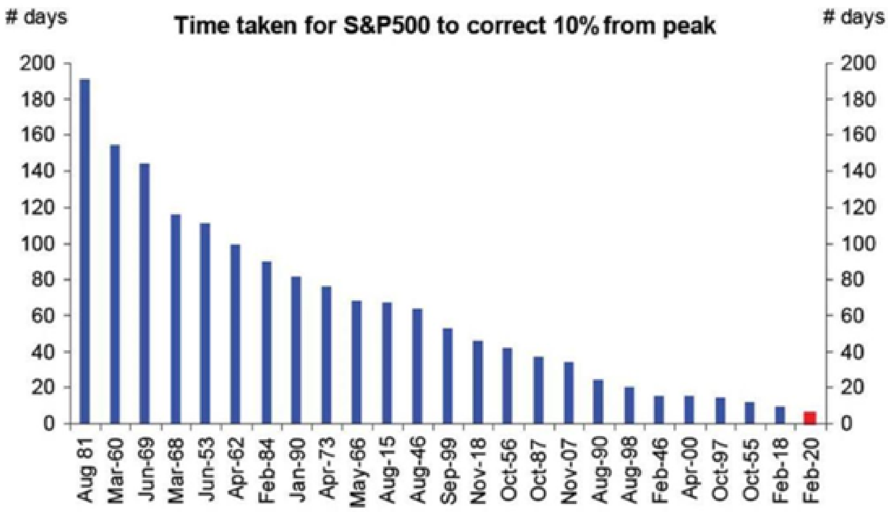
The coronavirus outbreak, which originated in China in January, spread further around the world in February. Outside China, South Korea and Italy have had the largest number of cases. The extinguishing of January's hopes that this would be a China-only issue has knocked market confidence and increased uncertainty. Equity markets sold off particularly hard over the last week of February after rapid growth in the number of cases in South Korea and Italy and the number of new countries reporting cases increased each day.

The VIX Index of volatility – otherwise known as the 'fear gauge' – spiked upwards in February and currently stands at levels similar to those seen during the European Crisis, Global Financial Crisis and Dot-Com Crash.



Source: Bloomberg. Monthly data between 31st December 1999 and 29th February 2020.

The coronavirus uncertainty clearly alarmed markets and in the last week of February the S&P500 suffered its quickest correction on record, falling 10% from its recent peak in just six days.



Source: Bloomberg, as of 29th February 2020

On Monday 2nd March the OECD lowered its growth forecast for the global economy in 2020 from 2.9% to 2.4% but said a "longer lasting and more intensive coronavirus outbreak" could reduce global growth to 1.5% in 2020.

Exogenous shocks such as this are impossible to predict. They are the 'unknown unknowns' or 'black swans'. They are events which are unpredictable and often unprecedented. We know neither when they will happen or how they will proceed.

There is no real precedent to this coronavirus outbreak. Neither the Spanish flu, SARS, MERs, Ebola, etc. are particularly useful in forecasting what will happen next. Health officials and governments appear to be operating on the basis that this virus will spread further, and all current efforts are focused on minimising the spread. Meanwhile, efforts are made to develop a vaccine – a process that could take up to a year.

The global economy is therefore facing both a supply-side shock due to efforts to contain the virus leading to factories being shut in China (which can have a knock-on effect on supply chains) and a potential demand-led shock from concerned consumers and lower corporate spending.

Put simply, global growth is a function of Consumption + Investment + Government spending + Trade.

Last year we saw the effect that a trade war between the US and China had on global growth forecasts by dampening the Trade part of the equation. Consumption, however, was strong, as consumers continued to increase the amount spent on basic goods (food, etc.) and discretionary goods (smartphones, cars, etc.), offsetting a reduction in Trade.

The way the Coronavirus outbreak is affecting this equation so far is as follows:

1. In an effort to contain the virus, many factories in China were temporarily closed, meaning they were unable to manufacture and send their goods to their customers. This has the effect of reducing Trade.

2. Many people in China have had restrictions placed on their movements and the fear of the virus spreading has meant people have not been out spending as much money, affecting Consumption.

3. This uncertainty has meant manufacturers don't know when they will receive the components they need or when they will be able to ship goods to their customers. This has led to a downturn in the outlook for Investment from these companies, as reflected by the recent Purchasing Managers Index data from China which was very weak.

Over the last few days major central banks around the world have demonstrated their willingness and readiness to take action by providing liquidity and cutting interest rates. Indeed, some are projecting a 50bps cut later this month by the US Federal Reserve and potentially another 50bps cut later in the spring. This would be a dramatic fall in interest rates and would help some companies that need to borrow, thereby providing companies with the ability to invest when they might otherwise have been constrained. This would also provide some support to equity markets and make dividend yields even more attractive relative to bonds. However, central bank easing is clearly not going to stop the spread of a virus.

The other element left to support global growth is Government spending, and we will wait to see what fiscal stimulus governments around the world may be willing to implement, but it looks necessary in China and will likely be necessary in other countries if the virus cannot be sufficiently contained.

So, while the last week of February was painful, we now find ourselves at the beginning of March with central banks ready to cut interest rates, governments likely to provide a fiscal stimulus and equities trading at lower valuations. Historically this has been a good environment for equities.

The fund's performance in the recent market environment has been pleasing since we would usually expect a growth-orientated fund to underperform in a sharply falling market (and outperform in rising markets). Positive performance from Nvidia (+14.30% in USD over February), New Oriental Education (+5.22%) Tencent (+3.11%), and Applied Materials (+0.55%) aided relative performance, and 22 out of 30 stocks held in the portfolio outperformed the benchmark in the month. Of the 22 stocks that outperformed the benchmark, some were software companies that could be considered less exposed to a manufacturing supply shock (such as Adobe, Paypal, Facebook, Amazon, Alphabet), but some also were more cyclical businesses such as Industrials (Continental, Schneider Electric, Eaton, Roper) or semiconductor equipment manufacturers (Applied Materials, Lam Research, KLA) that might typically underperform in such a market environment. All these companies have the characteristics that we seek for the portfolio:

Innovation: We seek companies exposed to secular growth themes which should therefore be more insulated from cyclical growth cycles. Our Industrials exposure, for example, includes companies such as Schneider Electric, which is growing strongly in areas such as building efficiency and automation.

Quality: We only invest in companies with good (and ideally growing) returns on capital and strong balance sheets. In the recent sell-off a clear distinction was seen between businesses with strong balance sheets and those with weak ones. Companies which have taken on too much debt have been 'propped up' by low interest rates, but a shock to revenues has the potential to alter the balance and the market quickly discounted this scenario.

Growth and valuation: We aim to buy good growth companies at reasonable valuations. Specifically, we try to avoid paying too high a premium for expected future growth as it is inherently less predictable. The recent market turmoil began at a point when market valuations were elevated and a return to higher growth in 2020 was predicted (compared to the slower growth seen in 2019). The S&P500 started the year at a forward multiple of 19X and expected earnings growth of around 14%. Simply adjusting the expected growth to zero (as we saw occur in the 2019 earnings compared to 2018) would account for the drop in the index over the sell-off in February. If we were then to adjust down the market multiple to reflect this lower-growth environment, then the index price would drop commensurably again. This is not our prediction of what will occur necessarily, or indeed how the market reacted to recent events, but it does highlight the risks of paying too high a price for future growth, since expectations can change very rapidly and can have the compounding effect of multiple compression alongside.

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.

If we consider the portfolio on each of these metrics today we see the fund continues to own less capital-intensive businesses with higher returns on capital and almost no net debt which are exposed to better growth areas whilst trading at cheaper valuations on a FCF yield basis compared to the benchmark MSCI World Index.

		Fund	MSCI World Index
Innovation	R&D / Sales	9%	7%
	CAPEX / Sales	5%	9%
Quality	CFROI (median 2019)	16%	8%
	Weighted average net debt / equity	3%	80%
Growth (& valuation)	Trailing 3-year sales growth (annualised)	14%	9%
	Estimated earnings growth (2020 vs 2019)	17%	11%
	FCF yield	5.1%	5.0%
	PE (2020e)	18.5	15.9
Conviction	Number of stocks	30	1652
	Active share	92%	-

Portfolio metrics versus index. As of 28th February 2020
Source: Guinness Asset Management, Credit Suisse HOLT, Bloomberg

Black swans, as we mentioned, are unpredictable and unprecedented. We don't know when they will occur and what the outcome will be. They come out of the blue and can affect markets rapidly, and therefore we believe our portfolio always needs to be prepared for such eventualities. However, for the patient investor with a long enough time horizon this black swan offers the opportunity to buy good quality, innovative growth companies a lot more cheaply than was possible a few weeks ago.

Portfolio Managers

Dr Ian Mortimer, CFA
Matthew Page, CFA

Analysts

Joseph Stephens
Sagar Thanki

Data sources

Fund performance: *Financial Express, Total return in GBP*

Index and stock data: *Bloomberg*

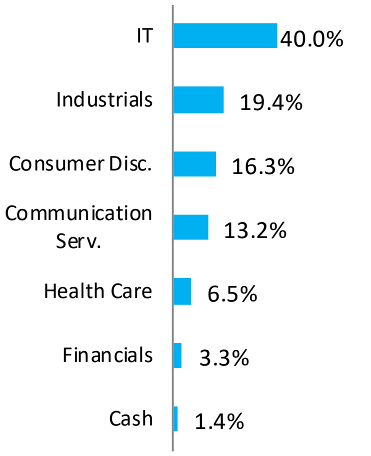
PORTFOLIO

29/02/2020

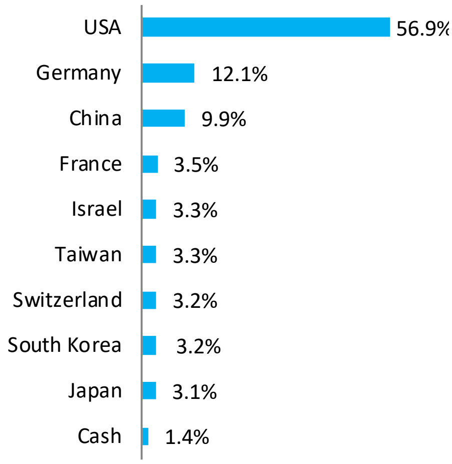
Fund top 10 holdings

Nvidia Corp	4.0%
Amazon.com	3.6%
Adobe Systems Inc	3.6%
New Oriental Education &	3.5%
Schneider Electric	3.5%
Lam Research	3.5%
Tencent Holdings	3.4%
Paypal	3.4%
Eaton	3.4%
Applied Materials	3.4%
% of Fund in top 10	35.2%
Total number of stocks	30

Sector analysis

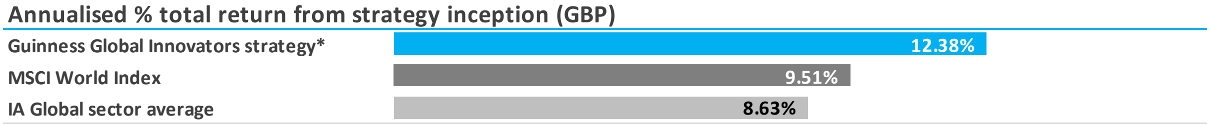


Geographic allocation



29/02/2020

Annualised % total return from strategy inception (GBP)



Discrete years % total return (GBP)	Feb '16	Feb '17	Feb '18	Feb '19	Feb '20
Guinness Global Innovators strategy*	-3.5	35.4	18.1	-4.7	17.8
MSCI World Index	-1.3	35.8	6.0	4.0	9.0
IA Global sector average	-3.7	31.2	8.5	1.7	6.9

Cumulative % total return (GBP)	1 month	Year-to-date	1 year	3 years	5 years	10 years
Guinness Global Innovators strategy*	-1.9	-1.6	17.8	32.5	73.1	277.9
MSCI World Index	-5.5	-5.6	9.0	20.2	61.0	175.7
IA Global sector average	-6.3	-6.1	6.9	18.0	49.1	131.5

RISK ANALYSIS

29/02/2020

Annualised, weekly, 5 years, in GBP	Index	Sector	Strategy*
Alpha	0	0.23	0.98
Beta	1	0.81	1.10
Information ratio	0	-0.26	0.25
Maximum drawdown	-14.03	-17.08	-19.65
R squared	1	0.81	0.85
Sharpe ratio	0.45	0.37	0.49
Tracking error	0	6.07	6.58
Volatility	13.93	12.45	16.63

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***Composite simulation of performance. Guinness Global Innovators Fund (UCITS) launched on 31.10.14. Performance data prior to this date is based on the actual returns of a US mutual fund managed by the same investment team using the same investment process as applied to the UCITS version. The past performance of the US mutual fund is not indicative of the future performance of Guinness Global Innovators Fund. Fund returns are for share classes with a current Ongoing Charges Figure (OCF) stated above; returns for share classes with a different OCF will vary accordingly**
Source: Financial Express, bid to bid, total return, in GBP

Important information

Issued by Guinness Asset Management Limited, authorised and regulated by the Financial Conduct Authority.

This report is primarily designed to inform you about Guinness Global Innovators Fund. It may provide information about the Fund's portfolio, including recent activity and performance. It contains facts relating to the equity markets and our own interpretation. Any investment decision should take account of the subjectivity of the comments contained in the report.

This document is provided for information only and all the information contained in it is believed to be reliable but may be inaccurate or incomplete; any opinions stated are honestly held at the time of writing but are not guaranteed. The contents of the document should not therefore be relied upon. It should not be taken as a recommendation to make an investment in the Fund or to buy or sell individual securities, nor does it constitute an offer for sale.

Risk

The Guinness Global Innovators Fund is an equity fund. Investors should be willing and able to assume the risks of equity investing. The value of an investment and the income from it can fall as well as rise as a result of market and currency movement, and you may not get back the amount originally invested. Details on the risk factors are included in the Fund's documentation, available on our website.

Documentation

The documentation needed to make an investment, including the Prospectus, the Key Investor Information Document (KIID) and the Application Form, is available from the website www.guinnessfunds.com , or free of charge from:-

- the Manager: Link Fund Manager Solutions (Ireland) Limited, 2 Grand Canal Square, Grand Canal Harbour, Dublin 2, Ireland; or,
- the Promoter and Investment Manager: Guinness Asset Management Ltd, 18 Smith Square, London SW1P 3HZ.

Residency

In countries where the Fund is not registered for sale or in any other circumstances where its distribution is not authorised or is unlawful, the Fund should not be distributed to resident Retail Clients.

NOTE: THIS INVESTMENT IS NOT FOR SALE TO U.S. PERSONS.

Structure & regulation

The Fund is a sub-fund of Guinness Asset Management Funds PLC (the "Company"), an open-ended umbrella-type investment company, incorporated in Ireland and authorised and supervised by the Central Bank of Ireland, which operates under EU legislation. If you are in any doubt about the suitability of investing in this Fund, please consult your investment or other professional adviser.

Switzerland

This is an advertising document. The prospectus and KIID for Switzerland, the articles of association, and the annual and semi-annual reports can be obtained free of charge from the representative in Switzerland, Carnegie Fund Services S.A., 11, rue du Général-Dufour, 1204 Geneva, Switzerland, Tel. +41 22 705 11 77, www.carnegie-fund-services.ch. The paying agent is Banque Cantonale de Genève, 17 Quai de l'Ile, 1204 Geneva, Switzerland.

Singapore

The Fund is not authorised or recognised by the Monetary Authority of Singapore ("MAS") and shares are not allowed to be offered to the retail public. The Fund is registered with the MAS as a Restricted Foreign Scheme. Shares of the Fund may only be offered to institutional and accredited investors (as defined in the Securities and Futures Act (Cap.289)) ('SFA') and this material is limited to the investors in those categories

Telephone calls will be recorded and monitored.