

# Guinness Global Innovators Fund

Innovation | Quality | Growth | Conviction

## INVESTMENT COMMENTARY – June 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.

<b>Fund size</b>	£226m
<b>AUM in strategy</b>	£359m
<b>Fund launch date</b>	31.10.14
<b>Strategy launch date</b>	01.05.03

**Managers** Dr. Ian Mortimer, CFA  
Matthew Page, CFA

**Analysts** Sagar Thanki  
Joseph Stephens

### Performance 31.05.20

Cumulative % total return (GBP)	1 year	3 years	5 years	10 years
<b>Strategy*</b>	26.4	38.4	88.7	292.0
<b>Index</b>	8.9	24.1	64.0	185.6
<b>Sector</b>	7.7	19.9	50.9	139.0
<b>Position in sector</b>	16 /330	47 /290	30 /258	8 /176

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

<b>Strategy*</b>	12.80%
<b>Index</b>	9.63%
<b>Sector</b>	8.80%

<b>Strategy</b>	Guinness Global Innovators*
<b>Index</b>	MSCI World Index
<b>Sector</b>	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

In May, the Guinness Global Innovators Fund provided a total return of 9.20% (in GBP) against the MSCI World Index net total return of 6.95%. Hence the fund outperformed the benchmark by 2.25% (in GBP). This year, the fund has produced a total return of 8.11% against the MSCI World - 1.63%.

Equity markets continued to rebound in May as countries remained geared towards relaxation of COVID-19 lockdown measures. This led to outperformance in growth stocks vs value stocks, led by IT companies. While the fund's largest sector exposures are to IT, Industrials and Consumer Discretionary – three of the four best-performing sectors – it was strong selection from our North American IT exposure that drove the majority of outperformance. PayPal and Nvidia were the fund's top performers over the month, rising 26.0% (USD) and 21.5% (USD) respectively on positive earnings commentary.

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.

	YTD	1yr	3yr	5yr	10yrs
<b>Fund</b>	8.11%	26.36%	38.36%	88.74%	292.00%
<b>Index</b>	-1.63%	8.88%	24.05%	63.95%	185.58%
<b>IA sector average</b>	-1.55%	7.68%	19.91%	50.88%	138.95%
<b>Rank vs peers</b>	38/339	16/330	47/290	30/258	8/176
<b>Quartile</b>	1st	1st	1st	1st	1st

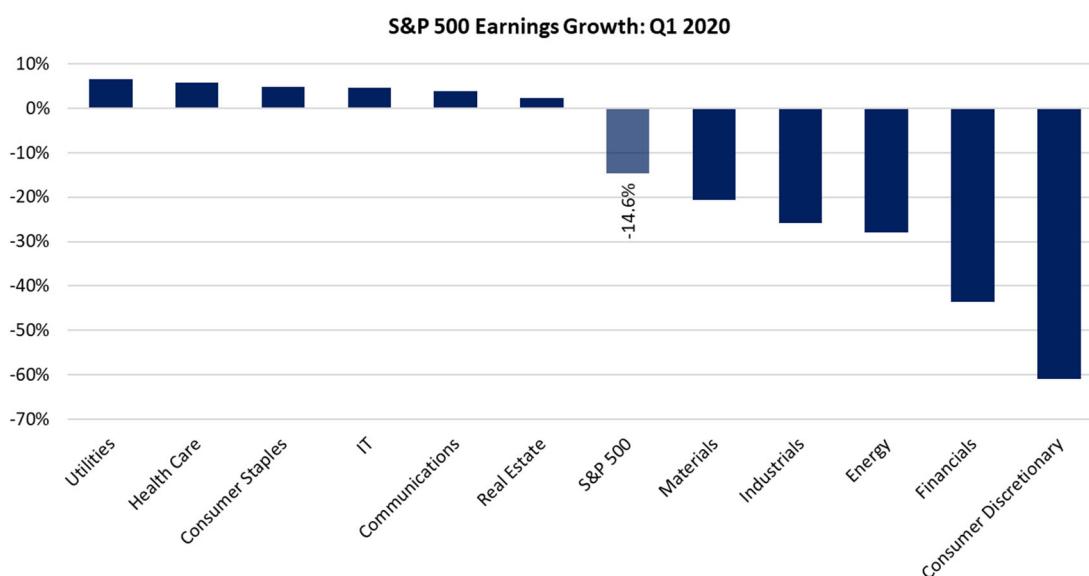
Source: Global Innovators strategy total return, % in GBP, Financial Express (data as at 31.05.2020)

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Economic data out of many regions continued to be weak; in the US, the unemployment rate for April reached 14.7%, the highest level in post-war history, and the manufacturing PMI for April came in at 41.5 (although this was above the median estimate). At the time of writing this figure did show some signs of recovery, coming in at 43.1 for May. A more pronounced trend continued to emerge in China, where the manufacturing PMI for May stood at 50.6 – well above the lows of 35.7 experienced in February. Both sets of figures pointed to a gradual recovery in economic activity, which helped equity markets in their ascent. Away from economic data, governments continued in their attempts to stimulate their economies. The ECB, for example, announced a new addition to its recovery plan which would enable borrowing a further 750bn EUR in financial markets (c.5.4% of EU GDP) for further grants and loans.

The US and China continued to exchange blows as President Trump condemned Beijing’s new security laws on Hong Kong which would erode the autonomy of the former British colony under the ‘one country, two systems’ model. The move was met by the possible revoking of special trade privileges Hong Kong currently enjoys which have enabled it to become one of the world’s financial hubs. Tensions were further escalated when TSMC, the world’s largest contract semiconductor manufacturing company, announced plans to build a \$12bn plant in the US, succumbing to President Trumps’ calls to boost domestic production and shift reliance away from Asia. Although the plant is relatively small compared to TSMC’s operations, the move was positive for the fund’s semiconductor equipment manufacturing businesses, KLA Corp, Applied Materials and Lam Research, whose equipment would be needed for the new plant, expected to be operational by 2024.

With US earnings season for the first quarter coming to a close, defensive sectors Utilities, Healthcare, and Consumer Staples showed resilience in their EPS growth. However, IT also showed its strength with EPS growth up 5% (in USD) as it evolves from a once discretionary sector into an integral part of modern businesses activity. As coronavirus forced regions into lockdown, long-term shifts in technology accelerated, from cloud-based working and e-commerce to video streaming and digital payments. This has enabled IT businesses to be the top-performing sector over May and the year to date.

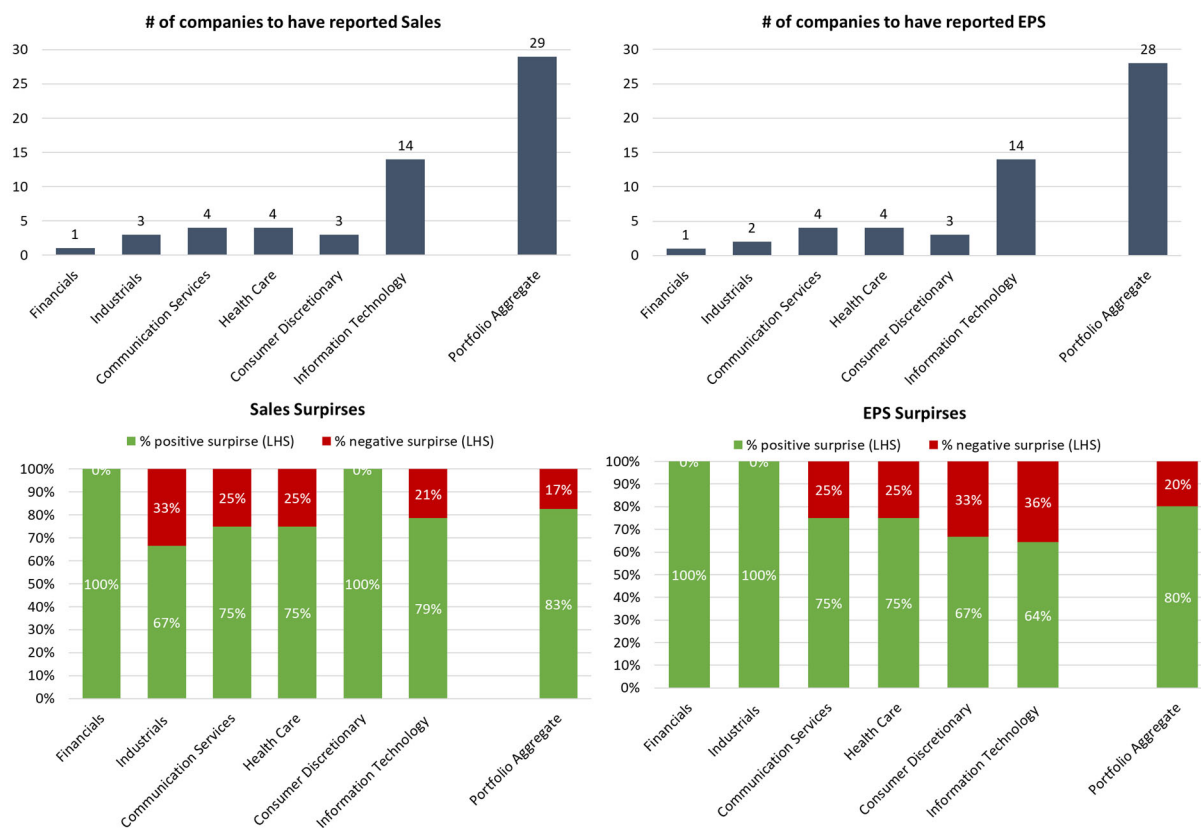


Source: FactSet. Data in USD, as of 31st May 2020

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## Guinness Global Innovators Fund

Looking more closely at the fund, we reflect upon recent results from portfolio constituents in unprecedented times. We see below that of the 29 companies to report sales figures over the quarter, 83% reported sales figures which beat estimates, while of the 28 companies to report EPS, 80% beat EPS estimates.



**Source: Bloomberg, Guinness Asset Management. Data as of 31st May 2020**

Although the specific periods for these results vary, and the effects of COVID-19 appear to be more pronounced within the next quarter's results, commentary from some of the later results is providing useful insights into the near-term outlook for many of these businesses. Looking at the individual companies, we see good resilience over the quarter, especially in the sales growth of these businesses: of the 29 companies to report, 23 reported growth in sales YoY. This has given us confidence that the types of businesses we seek – quality companies exposed to long-term innovative themes such as advanced healthcare or cloud computing – have been able not only to show resilience as others have suffered but also to experience growth in demand for their products and services.

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## Guinness Global Innovators Fund

Company	Report date	Report Period	Period Ending	Sales surprise	Earnings surprise	Actual sales growth YoY	Actual EPS growth YoY
NIKE INC -CL B	24/03/2020	2020:C3	29/02/2020	6%	47%	5%	13%
BRISTOL-MYER SQB	07/05/2020	2020:C1	31/03/2020	13%	19%	82%	56%
NEW ORIENTAL-ADR	21/04/2020	2020:Q3	29/02/2020	0%	18%	16%	35%
TENCENT	13/05/2020	2020:Q1	31/03/2020	7%	17%	26%	37%
CISCO SYSTEMS	13/05/2020	2020:C3	30/04/2020	2%	14%	-8%	1%
ABB LTD-REG	28/04/2020	2020:Q1	31/03/2020	4%	12%	-9%	-4%
MICROSOFT CORP	29/04/2020	2020:C3	31/03/2020	4%	10%	15%	23%
KLA CORP	05/05/2020	2020:C3	31/03/2020	2%	8%	30%	37%
THERMO FISHER	22/04/2020	2020:C1	31/03/2020	2%	8%	2%	5%
NVIDIA CORP	21/05/2020	2021:C1	30/04/2020	3%	7%	39%	105%
MASTERCARD INC-A	29/04/2020	2020:C1	31/03/2020	1%	6%	3%	3%
COMCAST CORP-A	30/04/2020	2020:C1	31/03/2020	-1%	5%	-1%	-7%
ROPER TECHNOLOGI	28/04/2020	2020:C1	31/03/2020	4%	5%	5%	-8%
CHECK POINT SOFT	27/04/2020	2020:Q1	31/03/2020	2%	4%	3%	8%
INTERCONTINENTAL	30/04/2020	2020:C1	31/03/2020	1%	3%	23%	39%
VISA INC-CLASS A	30/04/2020	2020:C2	31/03/2020	2%	3%	7%	6%
DANAHER CORP	06/05/2020	2020:C1	31/03/2020	0%	3%	-11%	-2%
LAM RESEARCH	22/04/2020	2020:C3	31/03/2020	-1%	2%	3%	8%
FACEBOOK INC-A	29/04/2020	2020:C1	31/03/2020	3%	2%	18%	-3%
ADOBE INC	12/03/2020	2020:C1	29/02/2020	2%	2%	19%	33%
APPLIED MATERIAL	14/05/2020	2020:C2	30/04/2020	-2%	-2%	12%	27%
SAMSUNG ELECTRON	07/04/2020	2020:C1	31/03/2020	0%	-4%	6%	-4%
SAP SE	21/04/2020	2020:Q1	31/03/2020	0%	-7%	7%	-6%
PAYPAL HOLDINGS	06/05/2020	2020:C1	31/03/2020	-2%	-12%	12%	-15%
ALPHABET INC-A	28/04/2020	2020:C1	31/03/2020	3%	-17%	14%	-9%
MEDTRONIC PLC	21/05/2020	2020:A	30/04/2020	-2%	-21%	-26%	-62%
INFINEON TECH	04/05/2020	2020:Q2	31/03/2020	0%	-21%	0%	-46%
AMAZON.COM INC	30/04/2020	2020:C1	31/03/2020	2%	-45%	26%	-45%
SCHNEIDER ELECTR	-	-	31/03/2020	-5%	-	-8%	-

Source: Bloomberg, Guinness Asset Management. Data as of 31st May 2020

### PayPal – up 26.02% (in USD) in May:

PayPal’s headline sales and EPS figures missed estimates for the first quarter after slowing consumer spending and large credit loss reserves which were driven by higher unemployment. However, PayPal finished the month as the fund’s best-performing stock as investors looked to better-than-estimated guidance and accelerating new users. Indeed, management pointed to a 20% growth in revenues for April along with a surge in user growth with 7.4M net new adds in the month versus a typical full-quarter addition of c.9M. PayPal is a beneficiary of the shift to digital payments which has accelerated due to coronavirus.

### Nvidia – up 21.47% (in USD) in May:

Nvidia has been one of the stand-out performers this year and one of the many companies in the fund benefitting from the acceleration in technology adoption caused by the pandemic. The world’s largest producer of Graphic Processor Units (GPUs) has seen increased demand for its products (group revenues up 40% YoY), in particular from data centres (revenues up 80% YoY) as more people work from home, and the company’s largest division, gaming (revenues up 27% YoY).

### Medtronic – up 0.97% (in USD) in May:

Medtronic underperformed during May with its latest figures below estimates on both sales and EPS. While the company has significantly ramped up ventilator production (revenues from this product were almost double those of last year), the deferral of elective procedures has hampered the company’s growth, with management pointing to a reduction in bulk orders that usually comes near the end of the month. However, it is important to note that while many competitors have quarter ends in March, Medtronic’s quarter finishes at the end of April, which means its numbers were more negatively impacted than some other peers. We continue to see good long-term growth for the world’s largest pure-play medical technology company, with many near-term procedures *deferred* as opposed to cancelled. In addition, Medtronic has been working hard to combat the outbreak, making

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its PB560 ventilator design specifications available without cost to enable other manufacturers to use them and partnering with Intel to develop a solution to adjusting ventilator settings remotely.

We end with yet another company pointing to an acceleration in digitalisation. **Applied Materials'** CEO said in its earnings call:

*"...the global pandemic is acting as an accelerator for key technology inflections that were already underway. Working from home, learning from home and e-commerce are driving investments in cloud data centers and communications infrastructure.*

*We expect companies to build stronger business continuity plans which will include geographic redundancy and increased use of automation and IoT technologies, and the adoption of AI and Big Data remains non-discretionary for many companies. As I have said before, these game-changing technologies will transform entire industries and there will be big winners and losers through the transition. My personal view is that we will see significant and permanent changes in the way companies operate and prioritize their investments."*

**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*

## Guinness Global Innovators Fund

### PORTFOLIO

31/05/2020

Fund top 10 holdings	Sector analysis	Geographic allocation
Paypal 4.2%	IT 47.4%	USA 70.9%
Amazon.com 3.7%	Consumer Disc. 13.5%	China 9.5%
Nvidia Corp 3.6%	Health Care 13.2%	Germany 6.8%
Facebook 3.5%	Communication Serv. 12.9%	France 3.5%
Adobe Systems Inc 3.5%	Industrials 10.2%	South Korea 3.4%
Schneider Electric 3.5%	Financials 3.3%	Switzerland 3.3%
Thermo Fisher Scientific 3.5%	Cash -0.5%	Israel 3.0%
SAP AG 3.4%		Cash -0.5%
Infinion Technologies 3.4%		
Medtronic 3.4%		
% of Fund in top 10 35.7%		
Total number of stocks 30		

31/05/2020

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

Guinness Global Innovators strategy*	12.80%
MSCI World Index	9.63%
IA Global sector average	8.80%

### Discrete years % total return (GBP)

	May '20	May '19	May '18	May '17	May '16
Guinness Global Innovators strategy*	26.4	-5.2	15.5	39.8	-2.4
MSCI World Index	8.9	5.3	8.2	31.3	0.7
IA Global sector average	7.7	2.7	8.5	30.4	-3.5

### Cumulative % total return (GBP)

	1 month	Year-to-date	1 year	3 years	5 years	10 years
Guinness Global Innovators strategy*	9.2	8.1	26.4	38.4	88.7	292.0
MSCI World Index	7.0	-1.6	8.9	24.1	64.0	185.6
IA Global sector average	6.0	-1.6	7.7	19.9	50.9	139.0

### RISK ANALYSIS

31/05/2020

Annualised, weekly, 5 years, in GBP	Index	Sector	Strategy*
Alpha	0	0.38	2.63
Beta	1	0.80	1.07
Information ratio	0	-0.23	0.45
Maximum drawdown	-24.58	-21.61	-22.23
R squared	1	0.82	0.86
Sharpe ratio	0.46	0.39	0.58
Tracking error	0	6.70	6.75
Volatility	15.51	13.78	17.87

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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

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## 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](http://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](http://www.carnegie-fund-services.ch). The paying agent is Banque Cantonale de Genève, 17 Quai de l'Île, 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.

**GUINNESS**

ASSET MANAGEMENT

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