Guinness Global Innovators Fund

Innovation | Quality | Growth | Conviction

INVESTMENT COMMENTARY – October 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	£281m
AUM in strategy	£425m
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 30.09.20

Cumulative % total return (GBP)	**1 year**	**3 years**	**5 years**	**10 years**
Strategy*	25.7	48.2	142.5	364.2
Index	5.2	29.8	92.8	198.6
Sector	7.2	26.8	83.8	149.7
Position in sector	**37** /335	**56** /295	**14** /261	**3** /174

Annualised % total return
from strategy inception (GBP)

Strategy*	13.30%
Index	9.80%
Sector	9.04%

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.

ELITE RATED by FundCalibre.com™

Summary performance

For the third quarter of 2020, the Guinness Global Innovators Fund provided a total return of 6.81% (GBP) against the MSCI World Index net total return of 3.15% (GBP). Hence, the fund outperformed the benchmark by 3.66% (GBP). Having outperformed in each quarter thus far in 2020, the fund has now produced a total return of 21.89% (GBP) year-to-date, compared to the MSCI World net total return of 4.22% (GBP).

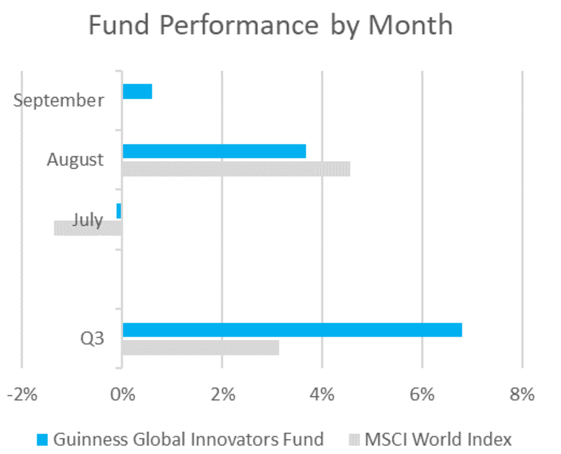


Figure 1: Fund vs benchmark returns in Q3 (total return GBP). Source: FE

At quarter end, the MSCI World remains 1.5% below its February peak versus the Guinness Global Innovators Fund which has since recovered all its losses, and now sits 12.4% (in GBP) ahead of its February peak.

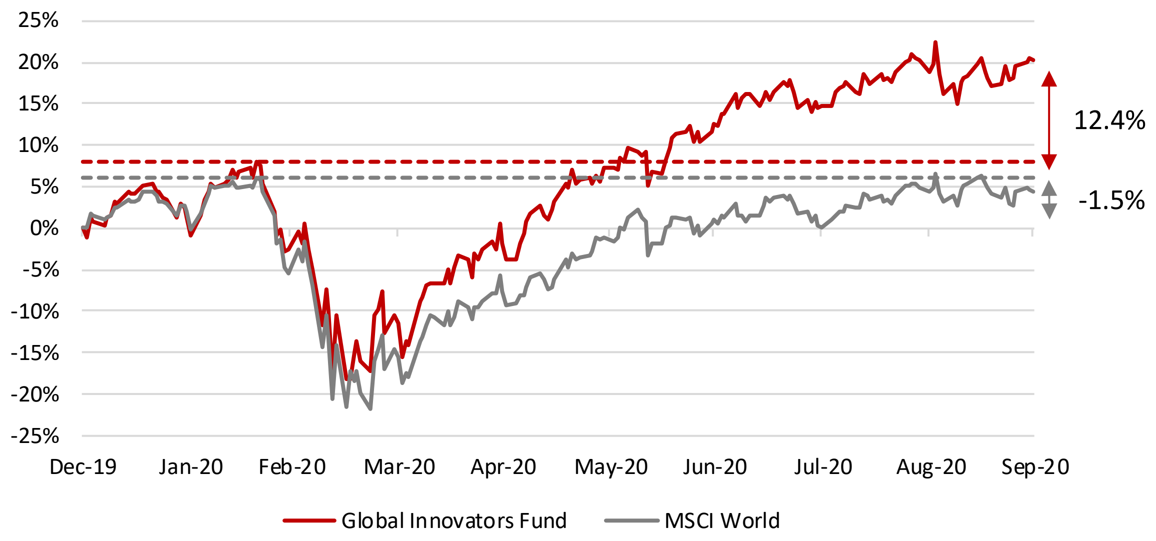


Figure 2: Fund vs benchmark cumulative performance year-to-date (total return GBP). Source: Bloomberg

Equity markets began the quarter where Q2 left off, with a strong rally in markets as investors looked to easing in lockdown restrictions. However, hopes were tempered as COVID cases in many regions began to rise, most notably in the US in early July before parts of Europe (Spain and France) surpassed previous highs. On the other hand, vaccine trials did begin later in the quarter, principally from Oxford University, which could be a catalyst for a rally in markets and an easing of lockdowns down the line – although much is still uncertain.

The most prominent news over the quarter came from the US where election debates began, President Trump and the First Lady contracted COVID-19, and tensions between the US and China once again made headlines with the possible banning of social media apps TikTok and Tencent's WeChat and the blacklisting of Chinese semiconductor foundry, SMIC. This meant the fund's holdings in Tencent and semiconductor equipment manufacturers such as Applied Materials were weaker (relative) in the quarter. However, markets were buoyed by the US Fed's decision in August to shift policy and target an average inflation rate of 2%, which was quickly interpreted as implying interest rates would be more likely to stay lower for longer.

Overall, during the quarter, the fund's performance can be attributed to:

- Positive returns from healthcare stocks held in the portfolio. These companies were the largest contributor to sector performance in the quarter with strong stock selection from MedTech companies Thermo Fisher (up 21.9% in USD over Q3), Danaher (up 21.9%) and Medtronic (up 14.0%).
- The fund's 0% exposure to Energy stocks was the 2nd biggest sector contributor to the fund's relative performance as the energy sector continued to underperform.
- Conversely, a lack of exposure to Materials was a drag on performance along with weaker stock selection in Industrials. This was primarily driven by a weak quarter from Roper Technologies (up 1.9% in USD over Q3) and a lack of exposure to transportation stocks – the

2nd best performing industry group over the quarter as a boom in parcel delivery continued (DPD, for example, announced the hiring of 20,000 new staff).

- Regionally, the fund was broadly positive, with chief outperformance coming from Europe, where in particular, companies with exposure to the sustainable energy transition such as Infineon (up 19.7% in USD over Q3), ABB (up 13.0%) and Schneider Electric (up 11.8%), resulted in positive stock selection from the region.

- The fund's largest regional exposure, the US, was also positive with Nvidia (up 42.5% in USD over Q3) and Nike (up 28.3%) the fund's top 2 performances over the quarter.

- The Covid-19 pandemic has accelerated growth prospects in the near-term for companies in a number of our themes such as Advanced Healthcare, Payments & Fintech, Cloud Computing, and Next Gen Consumer, while also improving the long-term growth prospects for companies in the Clean Energy & Sustainability and Robotics & Automation themes as fiscal stimulus packages are rolled out in Europe and other countries and as companies seek to increase resilience in their operations and supply chains.

Over both the short and long-term, it is pleasing to see that the Fund's strategy remains in the top quartile across all periods versus its IA Global Equity sector peers. In particular, we are pleased to see the fund rank 3rd out of 174 funds over the last 10 years.

	YTD	1 year	3 years	5 years	10 years
Global Innovators	21.49	25.66	48.19	142.48	364.23
Index	4.22	5.24	29.78	92.81	198.64
Sector	5.19	7.19	26.81	83.83	149.66
Position in sector	34/341	37/335	56/295	14/261	3/174
Quartile	1st	1st	1st	1st	1st

Figure 3: Global Innovators strategy performance (total return in GBP). Source: FE

Quarter in review

Moving into Q3, the US was battling its second wave of infections – bigger than its initial peak experienced in April. However, since then the rate of infection has been slowing for the region but that was not enough to stop the President from catching the coronavirus. Although seemingly mild in symptoms, the news brought the President's health record into light and could have implications for the upcoming November elections. Elsewhere, regional increases in cases as restrictions began easing gave investors pause, particularly in European countries France and Spain. This all resulted in cumulative COVID-19 deaths surpassing 1,000,000 for the first time in September. However, there were some bright spots with vaccine trials recommencing, principally the Oxford trial which entered phase III. While the road ahead remains uncertain, any further positivity around a vaccine, for which Goldman Sachs expects a late 2020 approval as the most likely scenario, will be a boost to growth going into 2021, especially for some of those industries hardest hit including Consumer Discretionary and Industrials.

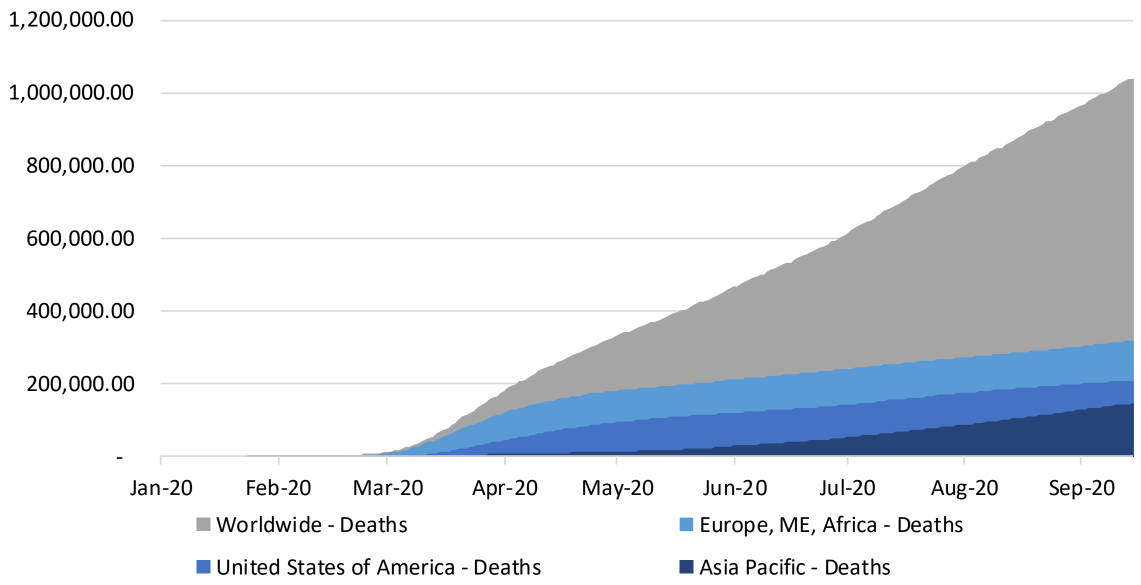


Figure 4: Cumulative COVID-19 deaths. Source: Bloomberg

US Fed policy change:

During August, the US Fed announced a change in how the FOMC looks to adjust interest rates. Specifically, the FOMC now seeks to achieve an *average* inflation of 2% over time (although no time period was specified). This is a divergence from the previous method of pre-emptively adjusting rates and may allow inflation to run over 2% following a period of sub-2% inflation. All this acted as a further support for equity prices as markets noted interest rates may therefore likely be lower for longer. This had the knock-on effect of continuing to drive the US dollar weaker which should benefit US sectors such as IT and Energy which derive higher proportions of revenue from abroad. However, a weaker US dollar is a worry for the European Central Bank (ECB), as a relatively stronger Euro will weigh on exports, drag down asset prices and force the ECB's hand into further stimulus. This, in addition to regional rises in COVID-19 cases from EU countries including Spain and France, led to a relatively weak performance from European stocks during that August, while US stocks benefited.

US-China relations:

Tension between the world's two largest economies continued over the quarter as President Trump sought to ban Chinese-owned social media apps TikTok and WeChat, while China ordered the closure of the United States' consulate in Chengdu in retaliation for the closure of a Chinese consulate in Houston over spying concerns. Further sanctions were also placed on Chinese company Huawei. The new set of sanctions require companies to obtain a licence before selling any microchip to Huawei made using US equipment or software. This is an escalation from previous sanctions that allowed the sale of chips to the business as long as they were not designed by the Chinese company or its subsidiaries. The news, cited as a 'death sentence' for the Chinese business by some analysts, was taken as a negative for the fund's semiconductor equipment manufacturers in general as analysts looked to a reduction in demand for US equipment from the Chinese market. Weakness for the semiconductor holdings was further compounded after the US placed sanctions on China's leading semiconductor foundry, Semiconductor Manufacturing International Corporation (SMIC), requiring companies to acquire a license before exporting software or equipment to the business. This left our three semiconductor manufacturing companies, Lam Research (up 2.9% in USD over Q3), KLA Corp (flat over Q3) and Applied Materials (down 1.3%), as three of the worst performing six companies within the fund over the quarter.

In order to continue monitoring our exposures, we look at each of our holding's revenue exposure to China over the last full fiscal year available (taking a conservative view if China is not broken out specifically – for example, using Asia Pacific as a proxy). This enables us to understand not only the fund's exposure overall to China but, perhaps more importantly in the current environment, the average US holding's exposure to China. Taking a closer look at the figure below, we find the average fund holding has a 23% exposure to China sales, while the average US holdings only has a 13% exposure, primarily from the semiconductor holdings which derive on average 28% of revenues from China. The overall fund average sales exposure (23%) is somewhat skewed by our domestic China holdings which have close to 100% of their revenue from China (Anta Sports, New Oriental Education, Tencent). If we remove these from the calculation, then the average decreases to 14%. While supply chains are more complex than these numbers suggest, this approximate 'ceiling' exposure gives us comfort that the fund is not overly concentrated in products possibly caught up in US-China relations, while still giving the fund good exposure to the fast growing region of China.

Average exposure to China	**23%**
Average exposure to China for US companies only	**13%**

Company	Country	Sector	Industry	China exposure	Actual/Estimate
Tencent Holdings Ltd	CHINA	Communication Services	Interactive Media & Services	96%	A
New Oriental Education & Techr	CHINA	Consumer Discretionary	Diversified Consumer Services	100%	A
ANTA Sports Products Ltd	CHINA	Consumer Discretionary	Textiles, Apparel & Luxury Goo	100%	A
Schneider Electric SE	FRANCE	Industrials	Electrical Equipment	14%	A
Infineon Technologies AG	GERMANY	Information Technology	Semiconductors & Semiconductor	34%	A
SAP SE	GERMANY	Information Technology	Software	11%	E
Medtronic PLC	IRELAND	Health Care	Health Care Equipment & Suppli	16%	E
Check Point Software Technolog	ISRAEL	Information Technology	Software	12%	E
Samsung Electronics Co Ltd	SOUTH KOREA	Information Technology	Technology Hardware, Storage &	17%	A
ABB Ltd	SWITZERLAND	Industrials	Electrical Equipment	32%	E
Alphabet Inc	UNITED STATES	Communication Services	Interactive Media & Services	17%	E
Facebook Inc	UNITED STATES	Communication Services	Interactive Media & Services	22%	A
Comcast Corp	UNITED STATES	Communication Services	Media	0%	A
Amazon.com Inc	UNITED STATES	Consumer Discretionary	Internet & Direct Marketing Re	0%	A
Intercontinental Exchange Inc	UNITED STATES	Financials	Capital Markets	0%	A
Danaher Corp	UNITED STATES	Health Care	Health Care Equipment & Suppli	13%	A
Thermo Fisher Scientific Inc	UNITED STATES	Health Care	Life Sciences Tools & Services	11%	A
Bristol Myers Squibb Co	UNITED STATES	Health Care	Pharmaceuticals	15%	E
Roper Technologies Inc	UNITED STATES	Industrials	Industrial Conglomerates	0%	A
Cisco Systems Inc	UNITED STATES	Information Technology	Communications Equipment	15%	E
Mastercard Inc	UNITED STATES	Information Technology	IT Services	0%	A
PayPal Holdings Inc	UNITED STATES	Information Technology	IT Services	0%	A
Visa Inc	UNITED STATES	Information Technology	IT Services	0%	A
Applied Materials Inc	UNITED STATES	Information Technology	Semiconductors & Semiconductor	29%	A
KLA Corp	UNITED STATES	Information Technology	Semiconductors & Semiconductor	25%	A
Lam Research Corp	UNITED STATES	Information Technology	Semiconductors & Semiconductor	31%	A
NVIDIA Corp	UNITED STATES	Information Technology	Semiconductors & Semiconductor	25%	A
Adobe Inc	UNITED STATES	Information Technology	Software	8%	E
Microsoft Corp	UNITED STATES	Information Technology	Software	24%	E
NIKE Inc	UNITED STATES	Information Technology	Textiles, Apparel & Luxury Goo	18%	A

Figure 5: Fund exposure to Chinese sales. Source: Guinness Asset Management, Bloomberg

Further semiconductor news:

While the US sanctions on China's largest semiconductor foundry, SMIC, may accelerate the de-coupling of US and Chinese supply chains, it was not the only news out of the industry over the quarter. Firstly to Intel – the leading semiconductor foundry in the US which has lagged the global leader and Taiwanese peer, TSMC, for some time. With TSMC pushing ahead with fabricating 5nm chips Intel instead announced a further year's delay in its next generation 7nm fabrication process. The news sent Intel's stock down some 16% on the day whilst TSMC was up 10%, further solidifying its market dominance (we do not own either Intel or TSMC in the fund). However, semiconductor equipment manufacturers Lam Research, Applied Materials and KLA Corp – owned in the fund – slipped on the day as investors digested the possibility of an exit from the foundry business for Intel.

Elsewhere in the industry, Nvidia, the global leader in graphic processing units (GPU) and a long-term fund holding, announced the acquisition of ARM Holdings, a UK leader in central processing unit (CPU) designs, for a reported $40bn – which could make it the largest ever deal for the industry. Nvidia had been one of the fund's best performing stocks prior to the quarter as COVID-19 lockdowns accelerated many of the company's end-market transformations, including the shift to cloud computing (which use Nvidia's GPUs to accelerate processing). However, the ARM acquisition led the stock to rally further (it is now up 130% in USD for 2020) as investors processed Nvidia's ability to offer a full stack offering to data centres along with a more diversified revenue stream; one combining Nvidia's high-end GPU offering with CPUs where ARM has been taking market share in areas including mobile phones, laptops and servers.

Accelerating shift to renewable energy:

European holdings including industrials Infineon, Schneider Electric and ABB received a boost this quarter as Chinese President Xi announced at a virtual UN meeting in September that China, the world's largest producer of greenhouse gases, planned to be carbon-neutral by 2060. The news echoes other major economies including the UK and EU which had previously set a similar goal by 2050 but puts pressure on the US, now the largest emitter that does not have an emissions target. While the announcement was a surprise, it follows the trend of governments and their fiscal stimulus' aimed at renewable energy in response to COVID-19 including the EU's approval in July for the biggest green stimulus package to date pledging to pour more than 500bn euros into everything from renewable energy to electric vehicles. The topic is also at the heart of the upcoming US elections where Joe Biden plans to overhaul the country's energy system in favour of renewables. All this makes for an accelerating transformation which should stand to benefit our clean energy and sustainability holdings including Infineon, which produces power management semiconductors, primarily for the automotive industry, ABB which manufactures robotic arms and electric car charging infrastructure, and Schneider Electric which produces energy efficient automation and digitalisation software.

Stock performances over Q3 2020 (all total return in USD):

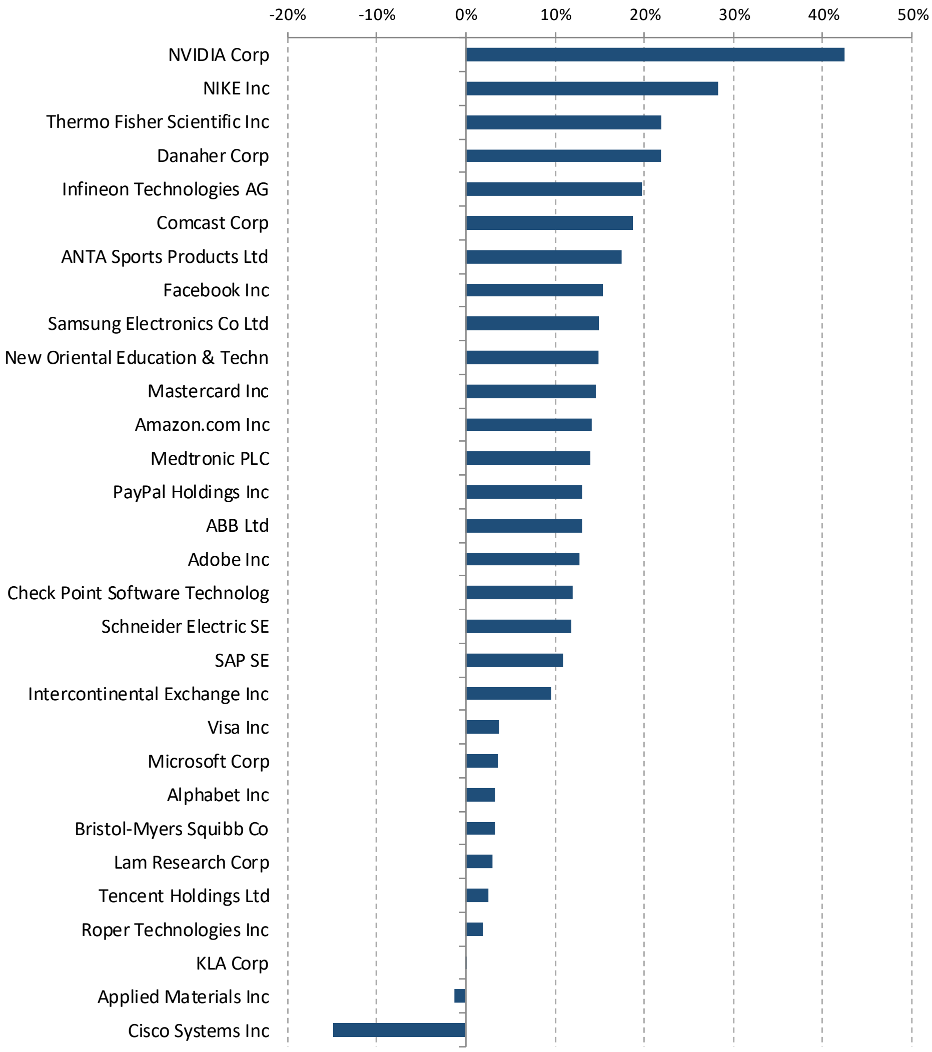


Figure 6: Performances of fund constituents. Source: Guinness Asset Management, Bloomberg, (total return in USD)

Nike, up 28.3% (in USD) over the quarter:

Nike continued to perform strongly, as it has done through this pandemic, reporting quarterly results in September that surpassed expectations with revenues down only 1% vs expectations of -14.5%. The company's focus on direct-to-consumer and digitalisation continued to provide robust growth with digital revenues growing 83% year-on-year which equated to more than 30% of sales and well on the road to the company's target of 50%. The business continues to show excellence in execution in addition to long runways for growth in athleisure wear.

Cisco, down 14.9% in USD over the quarter:

Cisco, the world's largest hardware and software supplier within the networking sector as well as the leader in cyber security systems, reported results in August that were broadly in-line with expectations for the quarter, however, the company guided lower for next quarter. This was against the trend for most companies that are past the trough in revenues and are guiding for a recovery. The primary driver of the sluggish growth was the slow recovery in enterprise IT spending. However, there were some pockets of positivity with security revenue, for instance, rising 10% year-on-year led primarily by double-digit growth in cloud security systems. Additionally, the company has broadly surpassed its 2017 targets for the business with software contributing 29% of revenues (target 30%), software & services contributing 51% (target 50%) and subscriptions as a % of software making up 78% of revenues (target 66%). While the company is facing some near-term headwinds, we remain optimistic regarding its exposure to long-term transformations including data networking and cyber security as well its internal transformation to more subscription-based services.

Changes to the portfolio:

We made no changes to the portfolio over Q3.

Portfolio characteristics

The two charts below show how the exposure of the fund has evolved since we launched the strategy back in 2003. We continue to hold no exposure to Real Estate, Energy, Materials, Consumer Staples, and Utilities. Information Technology remains our largest exposure, split between the three sub-sectors of semiconductors; software and services; and technology hardware. On a regional basis, North America continues to be the largest exposure (66%), followed by Europe (20%) and Asia Pacific (13%).

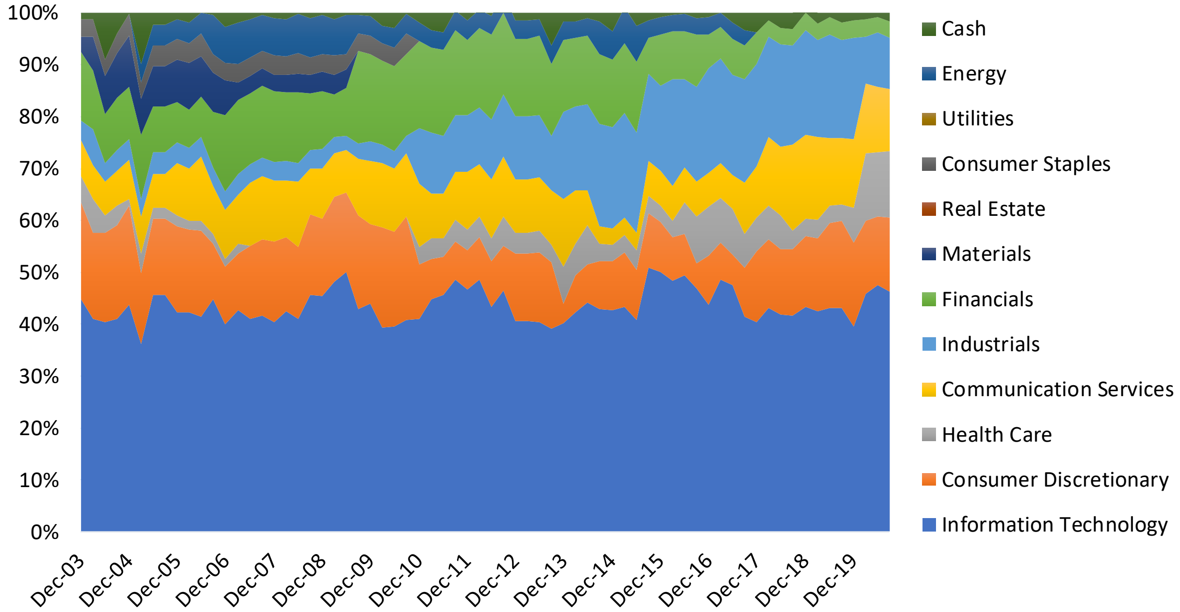


Figure 7: Portfolio sector breakdown. Source: Guinness Asset Management, Bloomberg (30.09.2020)

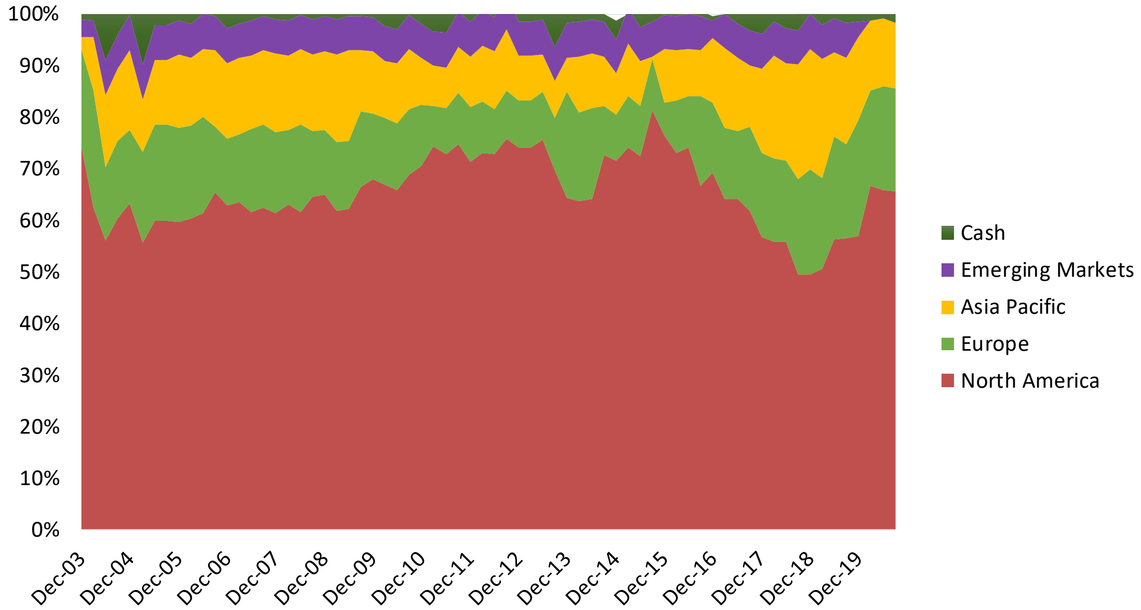


Figure 8: Portfolio geographic breakdown. Source: Guinness Asset Management, Bloomberg (30.09.2020)

As we made no changes over the quarter, the regional and sector exposures are broadly in line with that of Q2.

The fund's allocation to regions are similar to that of the MSCI World. However, this was a result of bottom-up stock picking and not a 'top down' decision.

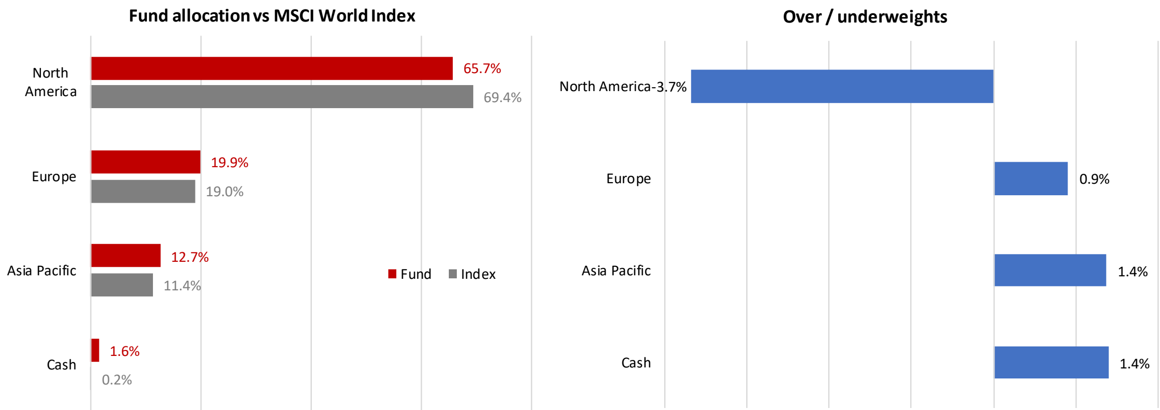


Figure 9: Fund's regional allocation versus the benchmark.
Source: Guinness Asset Management, Bloomberg (data as at 30.09.2020)

On a sector level, the fund continues to have a large overweight to IT (24.2%), while the fund's 0% exposure to Real Estate, Energy, Materials, Consumer Staples, and Utilities leaves these areas underweight relative to the benchmark.

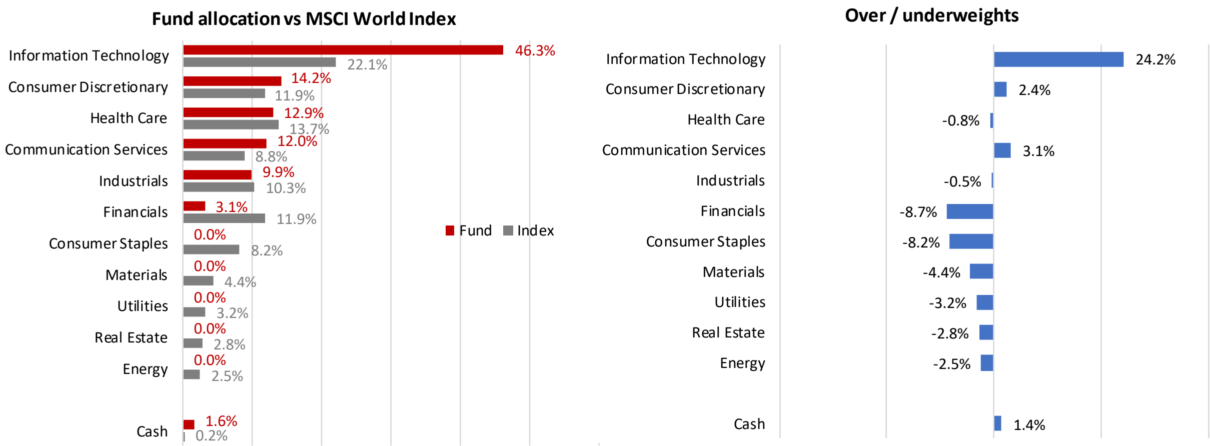


Figure 10: Fund's sector allocation versus the benchmark.
Guinness Asset Management, Bloomberg (data as at 30.09.2020)

Key fund metrics today

Innovation: We seek companies that are exposed to secular growth themes, which should therefore be more insulated to cyclical growth cycles. We have thus far seen good evidence of this, such as for semiconductor companies as demand for chips enabling technologies from cloud computing to video streaming continue to increase in response to greater numbers of consumers working from home.

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 vs weak balance sheets. 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 this balance and the market quickly discounted this scenario.

Growth and valuation: We look to buy good growth companies at reasonable valuations and specifically we try to avoid paying too high a premium for expected future growth – as this is inherently less predictable. While valuations have optically become stretched, we believe companies that are able to continue growing, such as those exposed to our innovation themes, will justify a greater premium.

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

		Fund	MSCI World Index
Innovation	R&D / Sales	10%	8%
	CAPEX / Sales	5%	8%
Quality	CFROI (median 2020)	18%	8%
	Return-on-Equity	25%	8%
	Weighted average net debt / equity	9%	60%
Growth (& valuation)	Trailing 3-year sales growth (annualised)	14%	11%
	Estimated earnings growth (2021 vs 2020)	20%	29%
	FCF yield	3.1%	3.9%
	PE (2020e)	27.4	24.0
Conviction	Number of stocks	30	1630
	Active share	85%	-

Figure 11: Guinness Asset Management, Credit Suisse HOLT, Bloomberg (data as at 30.09.2020)

We thank you for your continued support.

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*

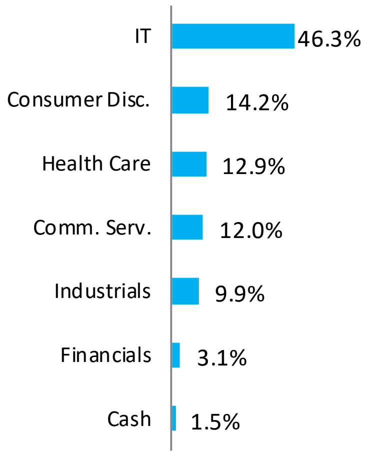
PORTFOLIO

30/09/2020

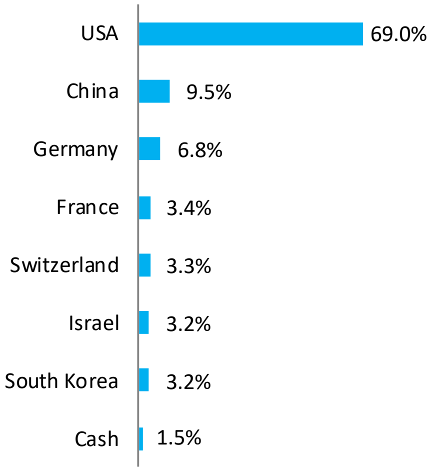
Fund top 10 holdings

Nvidia Corp	4.2%
Paypal	4.1%
Nike	3.9%
Amazon.com	3.7%
Infineon Technologies	3.5%
Adobe Systems Inc	3.5%
Anta Sports Products	3.4%
Thermo Fisher Scientific	3.4%
Schneider Electric	3.4%
ABB	3.3%
% of Fund in top 10	36.3%
Total number of stocks	30

Sector analysis

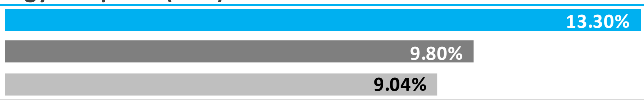


Geographic allocation



30/09/2020

Annualised % total return from strategy inception (GBP)



Discrete years % total return (GBP)	Sep '20	Sep '19	Sep '18	Sep '17	Sep '16
Guinness Global Innovators strategy*	25.7	8.4	8.8	24.1	31.8
MSCI World Index	5.2	7.8	14.4	14.4	29.8
IA Global sector average	7.2	6.0	11.6	14.9	26.1

Cumulative % total return (GBP)	1 month	Year-to-date	1 year	3 years	5 years	10 years
Guinness Global Innovators strategy*	1.2	21.5	25.7	48.2	142.5	364.2
MSCI World Index	0.0	4.2	5.2	29.8	92.8	198.6
IA Global sector average	0.6	5.2	7.2	26.8	83.8	149.7

RISK ANALYSIS

30/09/2020

Annualised, weekly, 5 years, in GBP	Index	Sector	Strategy*
Alpha	0	1.02	4.47
Beta	1	0.82	1.06
Information ratio	0	-0.20	0.71
Maximum drawdown	-24.58	-21.61	-22.23
R squared	1	0.83	0.85
Sharpe ratio	0.66	0.63	0.89
Tracking error	0	6.44	6.96
Volatility	15.52	13.92	17.83

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 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

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Singapore

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Telephone calls will be recorded and monitored.