Guinness Sustainable Global Equity Fund

INVESTMENT COMMENTARY – July 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

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

Summary performance

As the first half of 2021 comes to a close, investors may take some solace that covid-19 vaccination programs progress for many regions with covid-19 deaths flatlining and mobility restrictions easing. With that, activity across many regions is picking up, with economic indicators broadly pointing to economic expansions and rebounds.

However, with investors expecting swift rebounds in economic activity, and with governments and central banks continuing their accommodative fiscal and monetary policies, investors have since become cautious due to increases in inflation in some countries. While the US Fed has reiterated its stance that current spikes in inflation are more transitory, they did acknowledge the potential need to taper their bond buying programme and raise rates earlier than expected. With this in mind, Q2 saw a reversal of the market trends that dominated Q1, with growth stocks returning to favour and so-called 'reflation trade' stocks underperforming. Market participants began to re-rate 'higher duration' equites such as growth stocks and also focussed more on 'quality' companies, which as a factor had lagged in 2021. Higher quality stocks were deemed to be well placed due to their more consistent growth and strong balance sheets. These stocks' (quality, growth) relative valuations also looked more compelling as the multiple expansion that had driven value and cyclical stocks in the recovery phase reached higher levels.

We believe that the outlook continues to be positive with a strong economic recovery underway in the US and Europe, supported by

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.

accommodative central bank policies and fiscal support, and that higher quality growth stocks are well placed due to their more consistent growth, strong balance sheets, and in the case of companies in the Sustainable Global Equity Fund, secular themes underlying their long-term prospects.

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

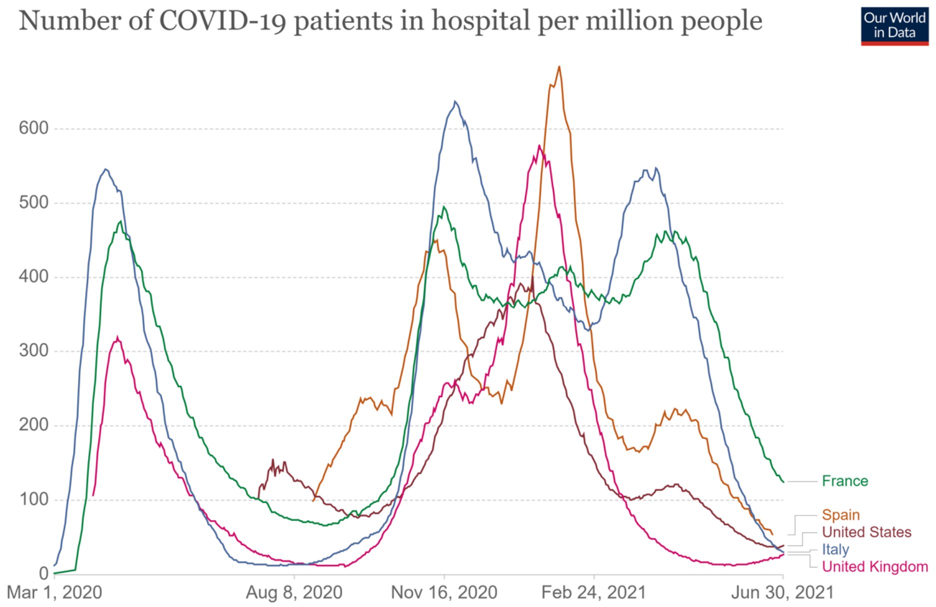
- Increasing legislation aimed at Big Tech regulation (including on-going anti-trust cases).
- Potential minimum tax rate talks between the OECD would more negatively affect stocks with larger international exposure (larger cap businesses).
- As earnings momentum slows post the economic recovery, we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

During the quarter, the fund's main performance drivers were as follows:

- The fund's overweight exposure to IT - the best performing sector over the quarter – was a positive contributor to relative performance from asset allocation perspective. However, stock selection was a drag with big tech names outperforming (the fund focuses on midcap businesses).
- The fund's exposure to health care stocks was the biggest contributor to relative performance primarily through stock selection in the medtech holdings.
- More broadly, whilst value had outperformed growth stocks in Q1, the latter returned to favour as the recovery phase that was driven by value stocks faded.
- From a market cap perspective, while midcaps generally underperformed their small and large cap counterparts over the quarter (owing to negative asset allocation), stock selection more than offset this.

Quarter in Review

Moving into 2H 2021, vaccination rollouts continued to rise across countries with the share of the global population with at least one dose at 25%. And while the UK has seen a pickup in cases due to the newer Delta variant, this has not translated into proportionate hospitalisations thanks to vaccine protection.



Source: Our World in Data

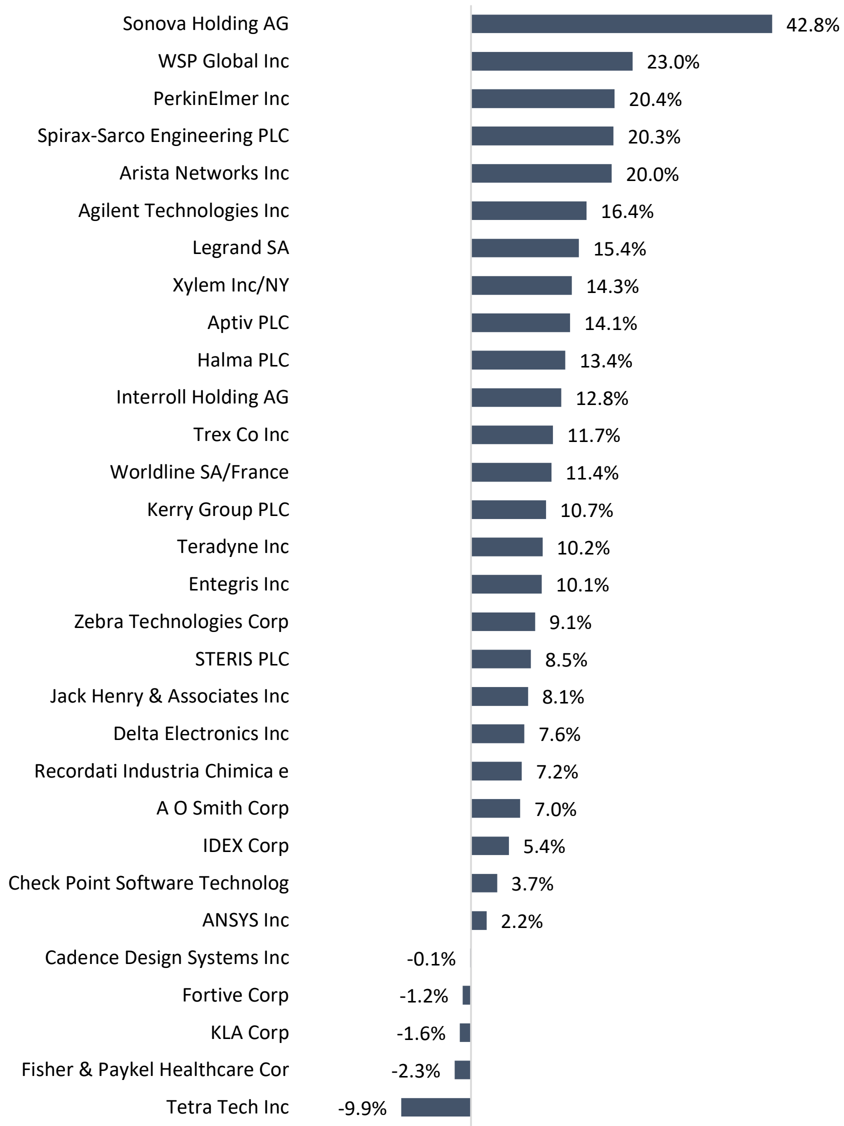
With covid-19 hospitalisations broadly trending lower, countries have continued to ease mobility restrictions which has supported improvements in economic activity. Indeed, manufacturing Purchasing Managers' Indices (PMIs) have continued to point to economic expansion (levels above 50), with the US PMI at its highest level since 1983.

However with economic activity picking up, coupled with sustained accommodative fiscal and monetary policies, inflation has continued to pick up with many regions. In the US, the core Consumer Price Index (CPI) for May came in at 3.8% (well above the US Fed's long-term target of 2%). And while the US fed continues to view the heightened inflation numbers as transitory, their June FOMC meeting showed they had become more hawkish than the dovish stance taken in the Q1, with the median dot plot now suggesting two rate hikes in 2023.

Moreover, Q1 was characterised by rising bond yields and inflation expectations leading to a rotation into value and cyclical stocks as the so-called 'reflation' trade took hold on expectations of a fast rebound in those stocks that had been hit hardest. However, Q2 saw trends reverse with bond yields falling/flattening on the Fed's more hawkish stance. This was beneficial to long-duration stocks with growth stocks once again returning to vogue.

The trends which have played out post the March market crash have been consistent with post-pandemic stages of recovery with the 'hope' phase transitioning to a 'growth' phase. Going forward, factor analysis tends to be less clear but a focus on cash generative growth companies – quality compounders that can continue to grow consistently such as those found in the Sustainable Global Equity Fund – tend to ensue.

Stock performance over Q2 2021 (all total return in USD):



Source: Guinness Asset Management, Bloomberg, (total return in USD)

Data as of 30th June 2021

Stock performance

Sonova (+42.8% USD):

Sonova, the European leader in hearing aids and implants, reported earnings results over the quarter that pointed to sustainably new and higher margins, and resulted in large upgrades by brokers. Indeed, management guidance implied 26% EBITDA margins – 4% higher than their peak margins in 2014, and 2.5% higher than 2019 – with cost saving programmes which began pre-covid, the primary driver. This was positive news for the industry as margins in the hearing aid space have been flat for several years even with cost saving plans underway. The company's new margin expansion story should drive higher valuations for the stock.

Fisher & Paykel (-2.3% USD):

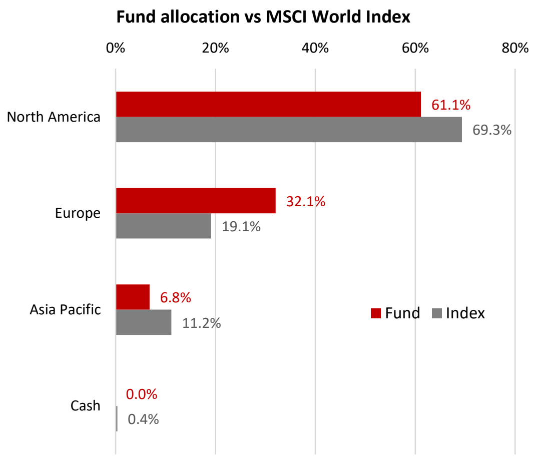
Fisher & Paykel has been a beneficiary of the COVID-19 outbreak, providing respiratory equipment required in hospitals to provide care for patients. However, with hospitalisation rates in most developed regions slowing, this temporary tailwind looks to be winding down. While the company remains exposed to structural healthcare trends, including leadership in sleep apnea, the potentially tailing off of the COVID-19 demand driver has investors re-evaluating the company's short-term growth prospects. This is not a surprise, and we remain confident in Fisher & Paykel's underlying leadership in respiratory technology.

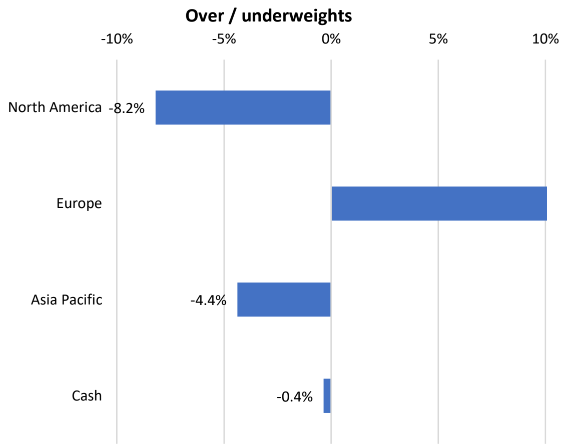
Changes to the portfolio:

During the quarter, we made no changes to the portfolio.

Portfolio Positioning

The Fund's regional allocation is not dissimilar to that of the MSCI World Index. The Fund currently has an 8.2% underweight to North America, whilst exhibiting a 10% overweight to Europe.

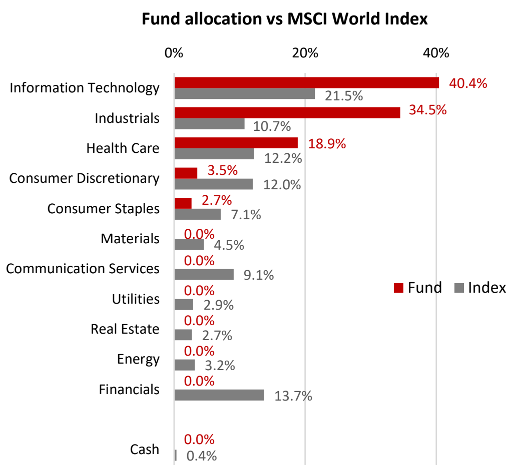


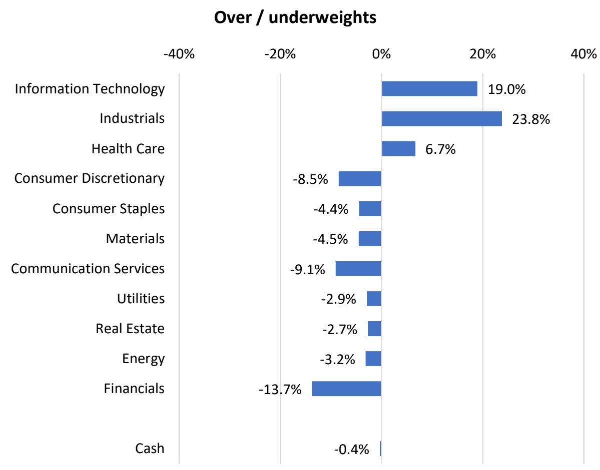


Regional breakdown of the Fund versus MSCI World Index.

Source: Guinness Asset Management, Bloomberg. Data as of 30th June 2021

On a sector level, the Fund continues to have a large overweight to IT (19.0%) and Industrials (23.8%), while the Fund's 0% exposure to Materials, Communications, Utilities, Real Estate, Energy, and Financials leaves these areas underweight relative to the benchmark.





Sector breakdown of the Fund versus MSCI World Index.

Source: Guinness Asset Management, Bloomberg. Data as of 30th June 2021

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 and valuation: 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 approximately 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	37%	31%
	CO_2 emissions (tons)/$m invested	6.2	96.3
Quality	Return-on-Capital	14%	4%
	EBIT Margin	20%	9%
	Weighted average net debt / equity	11%	56%
Growth (& valuation)	Trailing 5-year sales growth (annualised)	9%	2%
	Estimated earnings growth (2022 vs 2021)	9%	14%
	PE (2021e)	31.9	20.7
Conviction	Number of stocks	30	1630
	Active share	99%	-

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

We thank you for your continued support.

Portfolio Managers

Joseph Stephens
Sagar Thanki

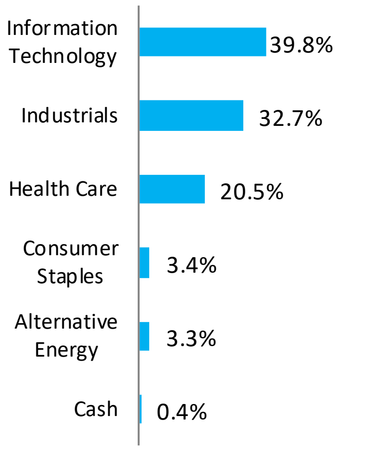
PORTFOLIO

30/06/2021

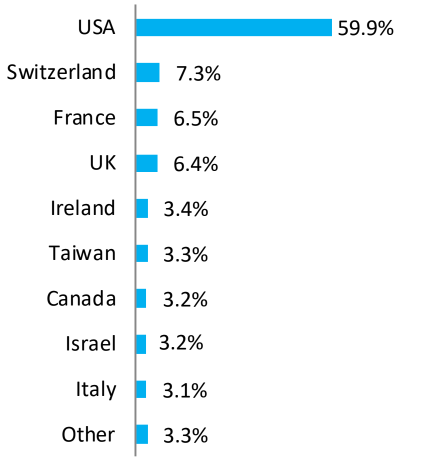
Fund top 10 holdings

Sonova	3.8%
Cadence Design Systems I	3.5%
PerkinElmer Inc	3.5%
ANSYS Inc	3.4%
Interroll Holding	3.4%
A O Smith Corp	3.4%
STERIS	3.4%
Entegris Inc	3.4%
Zebra Technologies Corp	3.4%
Trex Co Inc	3.4%
% of Fund in top 10	34.8%
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 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.