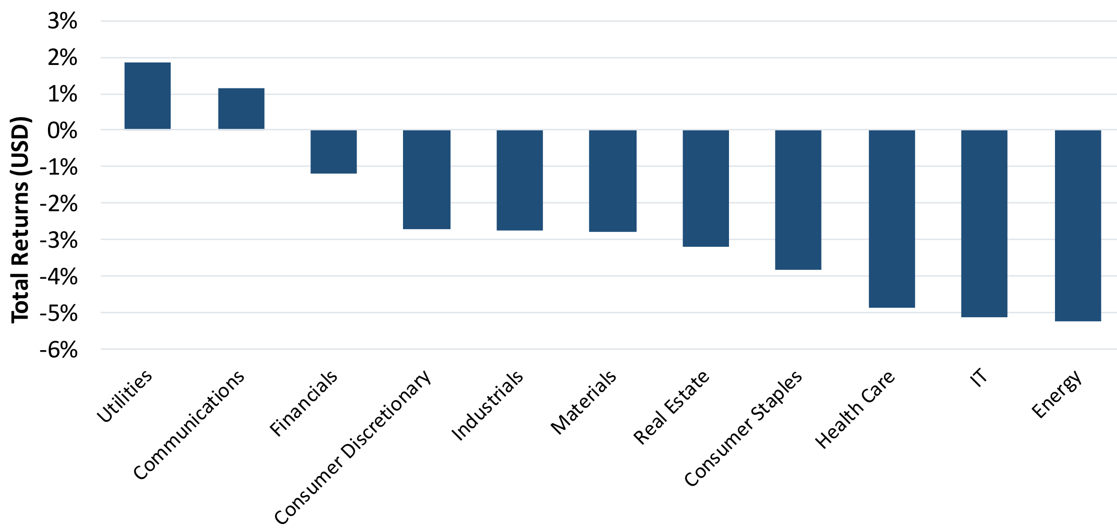
Guinness Atkinson

Global Innovators Fund

Managers Update – November 2020

October in review:

With equity markets that continued to rebound strongly in Q3 post the initial COVID-19 sell-off in March, October set a stark change as investors rotated into more defensive sectors in preparation for increasingly uncertain events. Indeed, the last week of October saw the S&P 500 drop 5.6% USD with IT stocks, having been a key driver in the previous market rebound, suffering – the Nasdaq ended the month down 2.3% USD. Indeed, investors looked to a resurgence in COVID-19 cases in many regions, most notably Europe, implications of the upcoming US election and the balance between continued strength in many Technology business' earnings and a landmark anti-trust case against Alphabet by the US Justice department which may set a precedent for future cases.



MSCI World Sector Index returns. Source: Bloomberg in USD, as of October 31st 2020

Winter is coming:

As we entered the final quarter of the year, governments continued to wrestle with balancing the opening of economies with resurgences in case numbers which look to only worsen as winter sets and season flu follows. In the US, gross domestic product (GDP) rose 33.1% in Q3 (seasonally adjusted) following the sharp contraction in Q2 of 31.4%. However, COVID-19 case numbers rose to record highs late in October, although the increase in testing capabilities has to be considered. Nevertheless, it was Europe that has appeared to suffer most over the month as a second wave hit many regions forcing governments to impose stricter measures including a second lockdown in the UK and similar measures in France and Germany. This left for unwelcome reading for many of the worst hit sectors during the first lockdowns including hospitality, travel and restaurants. This also included the oil & gas sector, as the price of Brent Crude oil dropped the most since April on concerns new lockdown measures would stifle demand for the fuels.

We reiterate what we wrote in our previous reports, the fund owns no businesses within these sectors, while continuing to own businesses that have benefited from an acceleration in innovative secular transformations including Nvidia in cloud computing, Visa as consumers shift to a cashless society and Amazon as consumers prepare for an online Christmas shopping experience.

Battle in Big Tech:

While IT stocks had led the recovery in equity markets since the March trough, October's sell-off came as investors rotated into more defensive sectors on market uncertainty. The month also brought about a landmark anti-trust case against Alphabet, parent of Google, from the Department of Justice (DoJ) in a first attempt to take on Big Tech's dominance. The DoJ's accusation is of Alphabet stifling competition by using billion-dollar agreements with the likes of Apple to keep Google's search engine as the default engine on most smartphones. While this reflects an escalation in Washington's attempts to combat Big Tech's growing dominance, the lawsuit is not likely to reach courts until 2022 combined with possible appeals, the impact on Alphabet's income statement is not likely to be felt (if at all) for a sustained period, even if DoJ were to win the case.

Aside from this, Big Tech (with some exceptions) shook off market worries to post a strong rebound in earnings, with fund constituents, **Alphabet**, **Amazon** and **Facebook** all beating analyst revenue expectations as online advertising and ecommerce continued to take share from their offline counterparts. Alphabet's advertising revenue rebounded 6% after falling 10% in the previous quarter, Facebook's revenue was up 22% as it shrugged off a boycott of its platform by several brands, while Amazon's revenue was up 37% helped by a 51% increase in its advertising revenue. However, the increased demand for Amazon's ecommerce services, particularly going into the holiday period, meant the company guided lower than expected for the upcoming quarter as the business continued to expand into new facilities to meet demand. The results left Alphabet as the fund's second-best performing stock over the month (up 10.3% USD) with Facebook modestly positive (up 0.5% USD) and Amazon slipping 3.6% USD.

Earnings season:

KLA Corp, the world's leading semiconductor equipment manufacturer specializing in process control and yield management, reported strong earnings over the month that beat street expectations on both actual results and guidance. The firm continues to benefit from increasingly diverse end-markets that includes 5G, automotive, smartphones and data centers, while the complexity of required chips (including the move to 5nm and 3nm chips and sophisticated techniques such as extreme ultraviolet lithography) necessitates increasingly sophisticated process control. Management also commented that the new US restrictions on products sold to SMIC, the largest semiconductor foundry in China (of whom KLA only derives low single digits of their revenue from), would likely be immaterial as part of their shipments are manufactured offshore (no license required) and a small portion manufactured in the US would require a license (which the business has applied for, but would not be material if not granted). KLA ended the month up 1.8% (USD) - a robust performance given the weak markets.

In contrast, **SAP**, Europe's largest IT business and leading Enterprise Resource Planning (ERP) software provider, struggled, falling 21.9% on the day of earnings release, finishing the month as the fund's weakest performer (down 30.9% USD). The German business, which is the middle of transforming its business into a cloud-base software provider, cut forecasts for 2020 and forewent their previous 2023 targets, instead opting for more conservative 2025 targets. The move comes as enterprises slow their spending as they continue to face uncertainty (impacting SAP's revenue growth), while an acceleration in demand for their cloud-based software - ahead of company expectations - while a positive in the long-run, reduced near-term revenue recognition and margins. While we continue to monitor the business, SAP remains an attractive investment, with increasingly 'sticky' revenue from higher proportions of subscription-based software, and the ever-increasing digitalization of business processes with enhanced analytics.

The two largest card networks in the Western world and fund constituents, **Visa** and **Mastercard**, ended the month as the fund's second and third weakest performers, down 9.1% and 14.5% (USD) respectively. Both companies reported earnings over the month which showed improving spending volume over Q3 broadly in-line with expectations. However, it was the prospect of new lockdown measures restricting international travel that overshadowed the results. Both businesses derive high-margin revenue from cross-border payments which currently make up 26% and 21% of Visa and Mastercard's total gross sales respectively. The prospect of lower sales from this segment was enough to see analysts lower their expectations for the coming quarter. While we acknowledge this poses a near-term drag for both businesses, we continue to believe both companies are robust enough to weather such challenges owing to their asset light and lowly levered businesses, whilst benefitting in the long-term from the continued shift towards a cashless society.

2020 US Election

At time of writing (11/06/2020), we are still awaiting the final results of the US Election. Biden currently leads the race with 264 electoral votes to Trumps' 214 with 60 votes yet to be called. With a 'blue wave expected by polls prior to election, Biden, although leading, has not created as much of a commanding lead as expected in the race for Presidency, nor in the Senate, leading to gains in IT stocks and falls in industrial and renewable energy stocks as the prospect for passing new infrastructure spending bills or tackling Big Tech lessens. However, the results have not been finalized, and with Trump using legal action to challenge election results, it may become a drawn-out affair. As such, we await further results and look forward to updating you in our next monthly brief.

If Biden does win the Presidency then some of his key policies which we highlight below will be more difficult to implement without Democrat control of the senate such as reversal of Trump tax cuts and a Fiscal stimulus package will likely be pared back. However, the President does not rely on Congress to make trade policy and it would be positive for S&P500 earnings if Biden were to roll back some of the tariffs that Trump placed on imports of Chinese goods.

Taxes:

One of Trump's major policies was reducing the corporate tax from 35% to 21% providing a boost to company earnings, and, enabling a record year of company share buybacks stemming from the increase in cash. Key companies that benefitted from this were US businesses with high proportions of US sales including Industrials and Consumer Staples. With increases in spending on Biden's to-do list, one of his major policies would be to increase the corporate tax rate back up to 28% - still lower than the initial 35% - to help fund an already stretched budget off the back of coronavirus stimulus packages. Additionally, Biden would look to double the Global Intangible Low-Taxed Income rate to 21%, primarily effecting asset-light high IP sectors such as IT, Communication Services and Healthcare. Although the fund has high exposure to these areas, the majority of fund holdings are multinational corporations which should help dampen any negative effects. In addition, any tax proposal would likely come further into his tenor in order to not stifle any recovery post coronavirus, and as such may likely not be a near-term risk.

Infrastructure & Clean Energy:

If Biden were to win, offsetting some negative effects from higher tax bills would be a boost to the economy arising from his proposal for a $2tn investment into infrastructure and renewable energy. As part of his plan, Biden wishes the US to rejoin the UN Paris Climate Accord and reduce carbon emissions to net zero by 2050 – currently the US is the largest economy which does not have a carbon neutral target. In contrast, President Trump's current strategy which included originally leaving the Climate Accord, would likely continue to de-emphasise renewable projects in favor of the US oil & gas industry. Should Biden win, the winners are likely to come from the industrial, transportation and renewable energy businesses with plans to build new sustainable infrastructure, electrify transportation and ultimately transition away from the oil industry. Key winners within the portfolio are likely to include Schneider Electric, which focuses on energy management and industry automation solutions, and Infineon, the power management semiconductor producer primarily used in automobiles.

China:

While there appears to be bipartisan support for a tougher stance on China, the tactics may diverge between presidential candidates. While President Trump has made extensive use of trade tariffs, with an agreement on a phase 1 deal only signed at the end of 2019, Biden is likely to take a less aggressive approach, possibly jointly with allies as opposed to a unilateral approach. With this, while a retraction of currently imposed sanctions may be a possibility, a halt in further escalations of these policies is more likely. The possibility of a clearer approach and less aggressive trade tactics would likely benefit the fund's semiconductor holdings including the equipment manufacturers KLA Corp, Lam Research and Applied Materials which have had to navigate sanctions on sales to China's chip foundry, SMIC, and leading smartphone and telecoms equipment business, Huawei.

We thank you for your continued support.

Portfolio Managers

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Summary performance

For the month of October, the Guinness Atkinson Global Innovators Fund provided a total return of -2.75% (USD) against the MSCI World Index net total return of -3.07% (USD). Hence the fund outperformed the benchmark by 0.32% (USD). Year to date, the fund has produced a total return of 15.31% (USD) against the MSCI World -1.42% (USD).

As COVID-19 case numbers rose during the month, particularly in Europe where regions are now entering new lockdown measures, and as US Election uncertainty continued, volatility increased as investors rotated into more defensive sectors including Utilities and Communication Services. However, even with IT underperforming – the fund's largest overweight relative to the benchmark – the fund outperformed the MSCI World due to positive stock selection in Healthcare holdings and positive performance from our Communication Services exposure which included the fund's two best performing stocks over the month, Tencent (up 15.5% USD) and Alphabet (up 10.3% USD).

as of 10.31.2020 (in USD)	1 year	3 years annualized	5 years annualized	10 years annualized
Global Innovators, Investor Class[1]	22.15%	10.13%	13.39%	13.81%
Global Innovators, Institutional Class[2]	22.44%	10.39%	13.66%	13.94%
MSCI World Index NR	4.36%	5.96%	8.12%	8.63%

as of 09.30.2020 (in USD)	1 year	3 years annualized	5 years annualized	10 years annualized
Global Innovators, Investor Class1	31.62%	12.82%	16.49%	14.88%
Global Innovators, Institutional Class2	31.94%	13.10%	16.77%	15.01%
MSCI World Index NR	10.41%	7.72%	10.46%	9.37%

All returns after 1 year annualized.

Performance data quoted represents past performance and does not guarantee future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance of the Fund may be lower or higher than the performance quoted. For most recent month-end and quarter-end performance, https://www.gafunds.com/our-funds/global-innovators-fund/#fund_performance or call (800) 915-6566.

[1] Investor class (IWIRX) Inception 12.15.1998 Expense ratio* 1.24% (net); 1.35% (gross)

[2] Institutional class (GINNX) Inception 12.31.2015 Expense ratio* 0.99% (net); 1.21% (gross)

[2] Performance data shown for Global Innovators, Institutional Class (GINNX), prior to its launch date on 12/31/15, uses performance data from the Global Innovators, Investor Class (IWIRX).

*The Advisor has contractually agreed to reimburse expenses (excluding Acquired Fund Fees and Expenses, interest, taxes, dividends on short positions and extraordinary expenses) in order to limit the Fund's Total Annual Operating Expenses to 0.99% for the Institutional class and 1.24% for the Investor class through June 30, 2021. To the extent that the Advisor absorbs expenses to satisfy this cap, it may recoup a portion or all of such amounts absorbed at any time within three fiscal years after the fiscal year in which such amounts were absorbed, subject to the expense cap in place at the time recoupment is sought, which cannot exceed the expense cap at the time of waiver. The expense limitation agreement may be terminated by the Board of the Fund at any time without penalty upon 60 days' notice.

Mutual fund investing involves risk and loss of principal is possible. Investments in foreign securities involve greater volatility, political, economic and currency risks and differences in accounting methods. These risks are greater for emerging markets countries. The Fund also invests in medium and smaller companies, which will involve additional risks such as limited liquidity and greater volatility. The Fund's focus on the technology, internet and communications sectors are extremely competitive and subject to rapid rates of change.

Securities mentioned are not recommendations to buy or sell any security.

Current and future portfolio holdings are subject to risk.

Top 10 holdings for Global Innovators Fund, as of 10/31/2020:

1. Tencent Holdings Ltd	4.17%
2. Danaher Corp	4.00%
3. Thermo Fisher Scientific Inc	3.84%
4. NVIDIA Corp	3.83%
5. ANTA Sports Products Ltd	3.75%
6. Infineon Technologies AG	3.70%
7. Alphabet Inc - A Shares	3.61%
8. Schneider Electric SE	3.53%
9. NIKE Inc	3.49%
10. Microsoft Corp	3.48%

For a complete list of holdings for the Global Innovators Fund, please visit: https://www.gafunds.com/our-funds/global-innovators-fund/

The Fund's investment objectives, risks, charges and expenses must be considered carefully before investing. The statutory and summary prospectuses contain this and other important information and can be obtained by calling 800- 915-6565 or visiting www.gafunds.com. Read and consider it carefully before investing.

Earnings growth is not representative of the Fund's future performance.

MSCI World Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed markets.

One cannot invest directly in an index.

Active share measures the extent of active management in a portfolio compared to the corresponding benchmark listed.

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