Guinness European Equity Income Fund

INVESTMENT COMMENTARY – November 2021

Launch date	**19.12.2013**
Manager	**Nick Edwards**

Aim

The Guinness European Equity Income Fund is designed to provide investors with exposure to high quality dividend-paying companies in the Europe ex UK region. The Fund aims to provide long-term capital appreciation and a source of income that has the potential to grow over time.

This is a marketing communication. Please refer to the prospectus and KIID for the Fund before making any final investment decisions.

Performance 31.10.21

Past performance does not predict future returns

Fund	European Equity Income (Z Class, 0.35% OCF)
Index	MSCI Europe ex UK
Sector	IA Europe ex UK

	1 year	3 years	From launch
Fund	33.6	37.1	99.0
Index	32.2	39.6	94.8
Sector	33.3	41.6	101.1

Annualised % total return from launch (GBP)

Fund	9.1%
Index	8.8%
Sector	9.3%

Risk analysis (annualised, weekly, from launch)

	Index	Sector	Fund
Alpha	0.0	1.5	0.9
Beta	1.0	0.9	0.9
Info ratio	0.0	0.1	0.1
Max drawdown	-25.0	-24.4	-30.3
Tracking error	0	5	5
Volatility	15.7	14.6	15.6
Sharpe ratio	0.3	0.4	0.4

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. 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. For further details on fund performance, please refer to the penultimate page of this document.

Source: Financial Express, Z class 0.35%, bid to bid, total return.

Summary performance

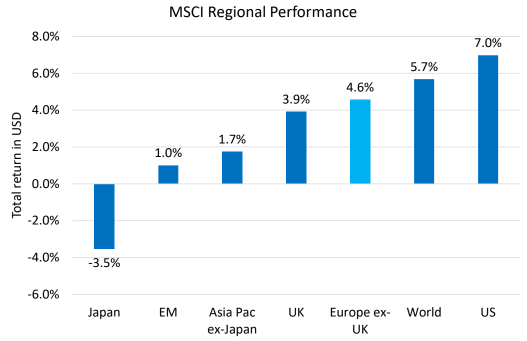
In October, the Guinness European Equity Income Fund produced a total return of 1.82% (in GBP) versus the MSCI Europe ex UK Index return of 2.94% (in GBP), meaning the fund underperformed its benchmark by 1.12%.

Past performance does not predict future returns	1 month	YTD	1 Yr	3 Yr	5 Yr	Since Launch
Fund	**1.8%**	**16.9%**	**33.6%**	**37.1%**	**49.5%**	**99.0%**
Index	2.9%	14.2%	32.2%	39.6%	55.5%	94.8%
Sector	2.1%	13.9%	33.3%	41.6%	56.4%	101.1%

Figure 1: Performance data.
Source: Financial Express 0.35% OCF. Cumulative Total Return in GBP as of 31.10.2021

The largest positive contributors to performance over the month of October (in EUR) were **Epiroc** +20.5%, **Salmar** +14.7%, **Novo Nordisk** +13.3%, **Bakkafrost** +11.8% and **Capgemini** +1.7%

The biggest detractors from performance were **Thales** -5.3%, **Fresenius SE** -4.8%, **Danone** -4.6%, **Kaufman & Broad** -4% and **Henkel** -3.3%.



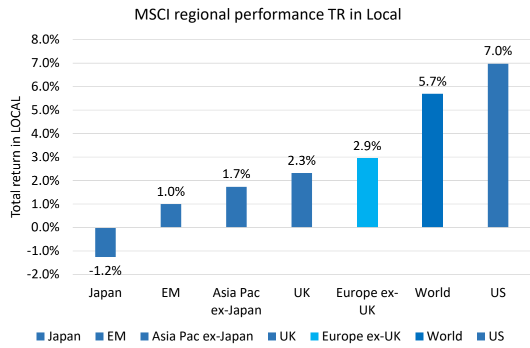


Figure 2: MSCI World Index geographic total return breakdown for October 2021, in USD (left) and Local currency (right). Europe ex UK in light blue. Source: Bloomberg data

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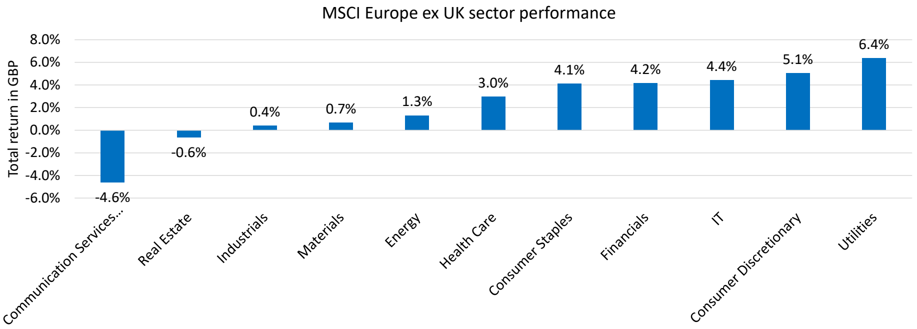


Figure 3: MSCI Europe ex UK Index sector total return breakdown for October 2021, in GBP. Source: Bloomberg

October Markets Review

October 2021 saw ongoing sector volatility as markets continued to work their way through pandemic impacts characterised by supply struggling to keep up with resurgent demand and excess liquidity. The cyclical and regulated seesaw continued with commodity prices falling from highs resulting in a rebound in Utilities as concerns over input costs abated somewhat. German October consumer price inflation reached a post-pandemic high of +4.6% YoY, while the unemployment rate fell back to 5.4% vs. >7% at crisis peak and 5% pre-crisis. Rising inflation accompanied by far smaller increases in nominal interest rates (German 10Y still negative at -0.1%) resulted in real interest rates continuing to decline further into negative territory, making European equity income look still more attractive versus cash, bonds and other regional dividend yields.

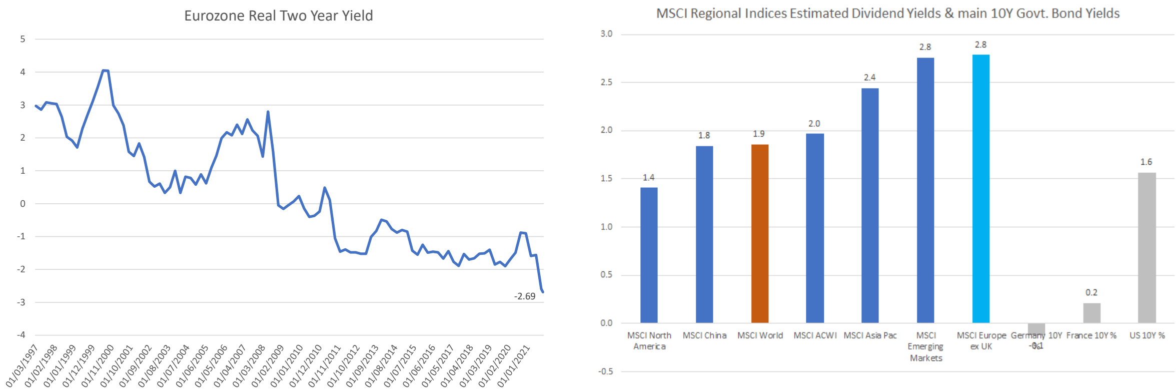


Figure 4: Eurozone real two-year yield (LHS) and MSCI regional dividend yields vs bond yields (RHS). Source: Bloomberg

The ECB's governing council concluded that favourable financing conditions can be maintained with a moderately lower pace of net asset purchases and that the pandemic emergency purchase programme (PEPP) won't end before March 2022. This led to a meaningful uptick in the risk barometer for Italy, with Germany 10Y yield spreads up to c.1.3% from just over 1% as the market worried about waning support for peripheral debt. In our view, the pace of purchases will only gradually slow with another purchase programme set to take the place of the PEPP, and small rate rises may materialise from 2023. Central banks are incentivised to keep nominal rates low and remain behind the curve after taking on more debt, supported by memories of the last cycle where US real rates turning positive saw expansion turn to contraction (not to mention the longer-term backdrop of deflationary forces including debt, ageing demographics and technology now supported by the digital fast forward). The impact of supply chain bottlenecks, higher input costs (energy and labour) and related curve flattening may result in central banks adopting a more dovish stance in early 2022. However, on a medium-term view, activity looks set to remain robust with an upturn in capex supported by ample liquidity, the climate transition and multiple green and digitally focused fiscal packages. Altogether these suggest **a supportive backdrop for quality equity income of higher growth and investment alongside only moderately higher nominal but still negative real rates.**

Whatever the weather your portfolio continues to look well placed, being balanced across quality value cyclicals (60% of portfolio - Eurozone regional beta to MSCI World >1.1) and defensives (40%), and characterised by persistent high cash returns, strong balance sheets and structural growth drivers. Sector rotation may well support certain highly cyclical and regulated areas of the market in the short term, but Q3 results continued to highlight **our portfolio of leaders as emerging stronger from the crisis with a growing opportunity set** irrespective of the current inflation and input cost debate. The evidence suggests all our companies will (once again) manage to pass costs through **and some look set to positively benefit as temporary margin impacts then fade**.

Passing on costs and navigating bottlenecks:

- **Daimler:** TSMC confirms chip supply shortage "greatly reduced", may take a few months for automakers to feel the impact. C. C. Wei (CEO)
- **Kering:** "I think that all (our) brands will be able to reflect this price increase" Jean-Marc Duplaix (CFO)
- **Nestlé:** "when you are at the turning point of when it's pointing up, then certainly it is a headwind for a limited period of time" Mark Schneider (CEO).
- **Unilever:** "we were able to partner with trade to get to price increases in record six weeks" Fabian Garcia (Pres. North America)
- **Henkel:** sees pricing being 100% passed through, to recover margin in 2022.
- **Konecranes:** "we will be able to compensate with price increases and our own efficiency" Teo Ottola (Interim CEO)
- **Assa Abloy:** "a higher inflation world helps and fuels from a pricing perspective" Nico Delvaux (CEO)
- **Deutsche Post:** "inflation will be converted back to customer" Frank Appel (CEO)
- **Smurfit Kappa:** "it's an inevitability and a requirement to recover all cost input pressures" Ken Bowles (CFO)

Getting stronger

- **Assa Abloy** launched connected home with Bosch, mobile ticketing for NFC enabled devices.
- **Capgemini** highlights synergies between physical world of Altran and digital leadership.
- **Thales** launched sovereign cloud with Google, Ritek radar collaboration in Norway, sale of Transport to Hitachi, France defence budget +4%, software over hardware potential.

- **Konecranes** component impacts Port Solutions vs Services EBITDA margin 18.9% all time high.
- **ABB** launched eMine all-electric mining technologies, and Terra 360, world's fastest EV charger
- **Danone** new CEO Antoine de Saint Afrique refocusing on culture, brand innovation, execution.
- **Bakkafrost** sees 40% increase in output next 5Y: investments, idle licences and >cap utilisation
- **Recordati** strong drug data (Eligard/Rare Diseases revs +20%) eclipsed by temporary pandemic impact on seasonal flu medications.
- **Roche** Diagnostics division sales +39% YoY indicating potential for higher recurring revenues, followed by news of buyback of Novartis' 53.3m / $20.7bn of 33% of Roche bearer shares.
- **Deutsche Boerse** on track for 10% 2023e CAGR not including cyclical potential from rates.
- **Euronext** recurring revenues up to 56% of sales vs. 49% YoY.
- **Mapfre** reinsurance pricing +15%, interim dividend ahead of expectations.
- **Daimler** strong pricing, -20% to fixed costs, underutilised brands, Mercedes pure play, all electric 2030…
- **Kering** Xi Jinping targeting inequality could suggest flatter but wider customer base
- **Smurfit Kappa** cites step change in industry prospects and demand for sustainable packaging.

The dividend looks to be in reasonable shape after the recent disruptions, yielding 3.3% on a prospective basis before withholding tax, in line with the MSCI Europe ex UK index on 2.7%; and approximately in the middle of closer Europe ex UK income peer funds (4/8, range 2.6% - 4.4%). For 2021 the Class Z GBP dividend looks set to have grown nearly 20% and on track to regain 2019 levels in 2022, resulting in a lifetime CAGR of 5.2% vs. 8.4% pre crisis and 4.7% for the MSCI Europe ex UK – a spread that we fully expect to widen.

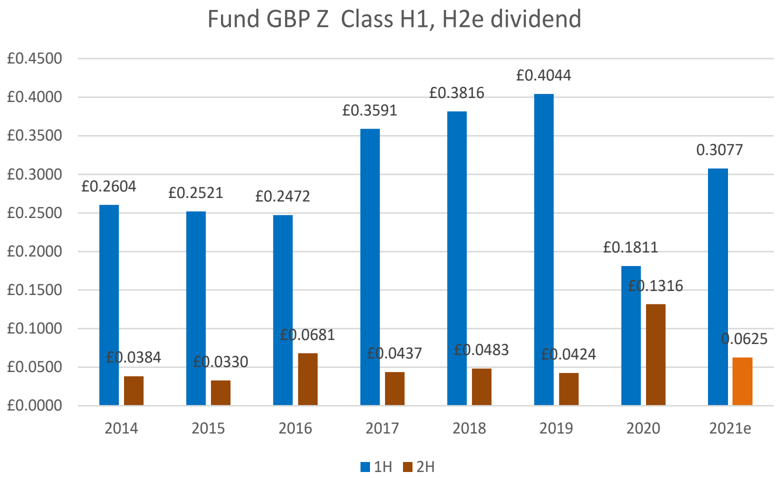


Figure 5: Fund dividend history since inception (blue July payment, orange January). Source Bloomberg data, Guinness estimates.

Notable positive dividend news over the month included Mapfre declaring a higher-than-expected final dividend supported by improved pricing and cash inflow from the secession of the Bankia JV. Just one portfolio company (Danone) has recorded a lower dividend in 2021 vs 2020. However perhaps of greater interest is the income profile vs 2019. We hold nine companies where dividends remain below 2019 levels, all with the potential to show meaningful uplift in 2022. Among these, Konecranes looks set to pay a near 4% special dividend next year ahead of the merger with Cargotech, and the Daimler dividend should normalise under Mercedes-Benz once Trucks is spun out as management forecast an ongoing c.40% payout ratio. The salmon farmers, held back by pandemic impacts, are seeing improvements in cash flow off the back of strong pricing; and Kering, Thales and Kaufman & Broad all hold the potential to pay higher dividends off improved trading in 2021/22.

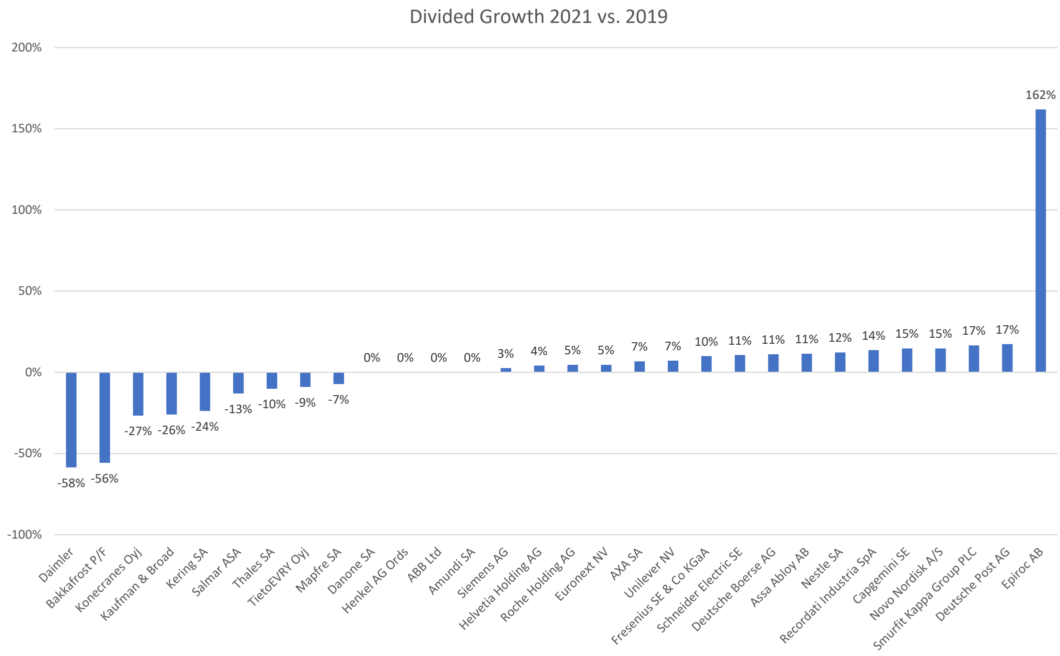


Figure 6: Fund dividend growth 2021 vs 2019. Source: Bloomberg data, Guinness estimates.

Portfolio metrics meanwhile continue to look significantly more attractive than the market, offering nearly double the return for half the leverage, at a near 10% price earnings discount vs the benchmark. This is supported by a pay-out ratio of 44%, well below the market, highlighting the potential for ongoing reinvestment to fuel future capital growth and a growing dividend.

		Guinness European Income Fund	MSCI Europe ex UK Index	Guinness Delta vs. MSCI Europe
Quality	Debt / equity %	83.0	208.9	-125.9
	Net debt / Equity %	39.9	51.5	-11.6
	ROE %	21.5	10.8	10.7
Value	PE (2022e)	15.3	16.7	-1.4
	FCF Yield %	7.4	5.7	1.7
Dividend	Dividend Yield (Best) % gross	3.3	2.7	0.6
	Weighted average payout ratio %	44.0	72.5	-28.5
Conviction	Number of stocks	30	344	-314.0
	Active share	85	NA	

Source: Bloomberg, Guinness data

Figure 7: Fund portfolio metrics vs MSCI Europe ex UK index as at end Oct 2021. Source Bloomberg

We thank you for your continued support.

Nick Edwards (Portfolio Manager)

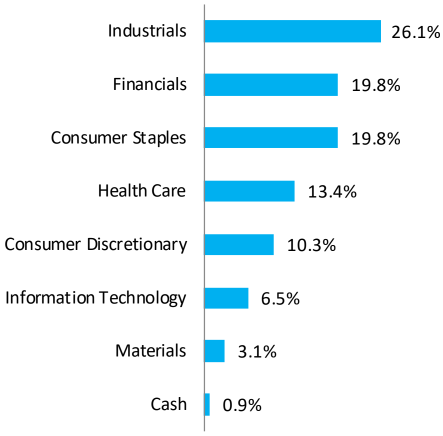
PORTFOLIO

31/10/2021

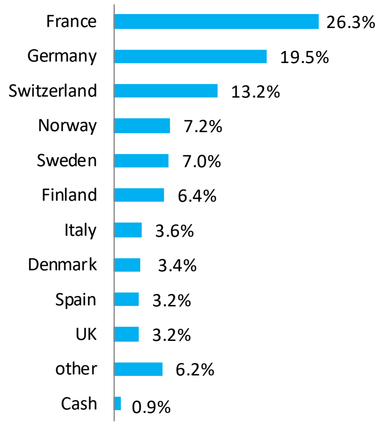
Fund top 10 holdings

Daimler AG	4.0%
Epiroc AB	3.9%
Salmar	3.7%
AXA	3.6%
Recordati SpA	3.6%
Helvetia Holding	3.5%
Bakkafrost	3.5%
Capgemini SE	3.5%
Novo Nordisk	3.5%
Roche Holding	3.4%
% of Fund in top 10	36.3%
Total number of stocks	30

Sector analysis



Geographic allocation



PERFORMANCE *Past performance does not predict future returns*

31/10/2021

Annualised % total return from launch (19/12/2013 in GBP)

Discrete years % total return (GBP)	Oct '21	Oct '20	Oct '19	Oct '18	Oct '17
Fund (0.35% OCF)	33.6	-8.5	12.1	-3.1	12.5
MSCI Europe ex UK Index	32.2	-4.8	10.9	-6.2	18.7
IA Europe ex UK sector average	33.3	-2.1	8.5	-7.0	18.7
Fund vs sector	0.3	-6.4	3.6	4.0	-6.3

Cumulative % total return (GBP)	1 month	Year-to-date	1 year	3 years	5 years	From launch
Fund (0.35% OCF)	1.8	16.9	33.6	37.1	49.5	99.0
MSCI Europe ex UK Index	2.9	14.2	32.2	39.6	55.5	94.8
IA Europe ex UK sector average	2.1	13.9	33.3	41.6	56.4	101.1

RISK ANALYSIS

31/10/2021

Annualised, weekly, from launch on 19.12.13, in GBP	Index	Sector	Fund
Alpha	0.00	1.46	0.93
Beta	1.00	0.88	0.94
Information ratio	0.00	0.08	0.08
Maximum drawdown	-25.02	-24.43	-30.29
R squared	1.00	0.89	0.90
Sharpe ratio	0.33	0.39	0.36
Tracking error	0.00	5.26	5.01
Volatility	15.71	14.58	15.64

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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 (0.35% OCF). Fund launch date: 19.12.2013.

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 equities and equity markets invested in by the Guinness European Equity Income 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 European Equity Income 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. The Fund invests only in stocks of companies that are traded on European stock exchanges or that do at least half of their business in Asia; it is therefore susceptible to the performance of that region, and can be volatile. Details on the risk factors are included in the Fund's documentation, available on our website. Shareholders should note that all or part of the fees and expenses will be charged to the capital of the Fund. This will have the effect of lowering the capital value of your investment.

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

- the Manager: Link Fund Manager Solutions (Ireland) Ltd (LFMSI), 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.

LFMSI, as UCITS Man Co, has the right to terminate the arrangements made for the marketing of funds in accordance with the UCITS Directive.

Investor Rights
A summary of investor rights in English is available here:https://www.linkgroup.eu/policy-statements/irish-management-company/

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.