# Guinness European Equity Income Fund

Investment Commentary – April 2022

This is a marketing communication. Please refer to the prospectus and KIID for the Fund before making any final investment decisions. Past performance does not predict future returns.

## ABOUT THE FUND

| | |
|---|---|
| **Launch date** | 19.12.2013 |
| **Index** | MSCI Europe ex UK |
| **Sector** | IA Europe excluding UK |
| **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. The Fund is actively managed and uses the MSCI Europe Ex UK Index as a comparator benchmark only.

## RISK

| ◀ Lower risk | | | Risk & reward | | | Higher risk ▶ |
|---|---|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 | **6** | 7 |

Typically lower rewards — Typically higher rewards

The risk and reward indicator shows where the fund ranks in terms of its potential risk and return. The fund is ranked as higher risk as its price has shown high fluctuations historically. Historic data may not be a reliable indicator for the future.

## PERFORMANCE

Past performance does not predict future returns

| 31/03/2022 | 1 year | 3 years | Launch* |
|---|---|---|---|
| **Fund** | 7.1 | 28.7 | 85.4 |
| **Index** | 5.5 | 29.1 | 84.3 |
| **Sector** | 4.2 | 31.7 | 88.5 |

**Annualised % total return from launch* (GBP)**


Full discrete 12m performance is shown at the end of this commentary. Source: FE fundinfo, 0.89% OCF, bid to bid, total return to 31.03.2022. *Launch date 19.12.13. Investors should note that fees and expenses are charged to the capital of the Fund. This reduces the return on your investment by an amount equivalent to the Ongoing Charges Figure (OCF). The performance shown has been reduced by the current OCF of 0.89% per annum. Returns for share classes with different OCFs will vary accordingly. The performance returns do not reflect any initial charge; any such charge will also reduce the return.

## SUMMARY

At the close of Q1 2022 the Guinness European Equity Income Fund had produced a total return of -4.07% in the quarter (in GBP) versus the MSCI Europe ex UK Index return of -7.39% (in GBP). The fund has therefore outperformed the index by 3.32% over the year to date. It is also pleasing to see that both the short and long-term performance of the fund's strategy remains ahead versus the smaller group of IA Europe ex UK Sector peers with income mandates.

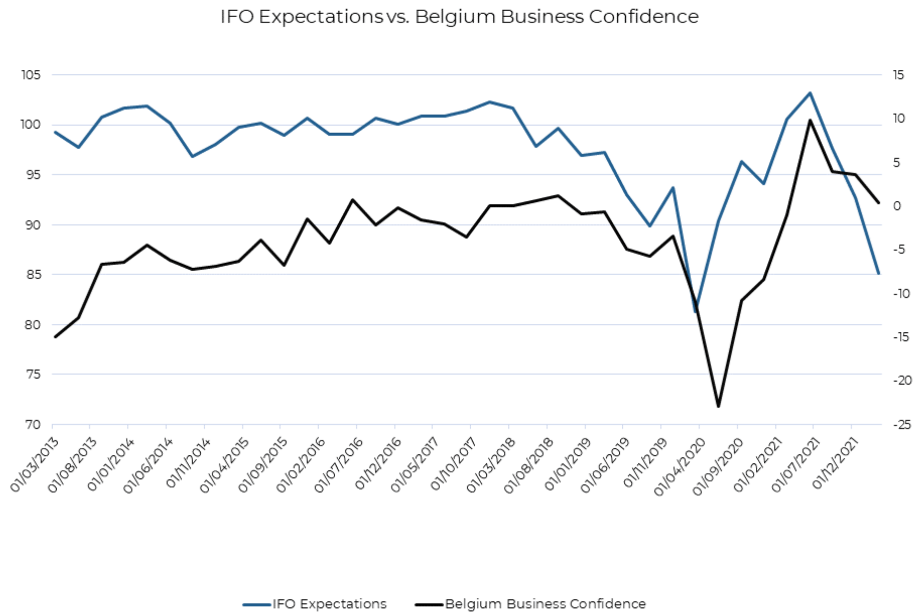
## QUARTER IN REVIEW

Nearly two years to the day after coronavirus sparked the fastest sell-off in history, Russia launched its invasion of Ukraine on 23rd February 2022. Since then, the MSCI Europe ex UK Index is still in negative territory for the year but has regained levels prior to the invasion, as investors look to equities for an inflation hedge as nominal assets like bonds become even less appealing. Sector rotation has been meaningful, and the long-term outlook is undoubtedly altered.

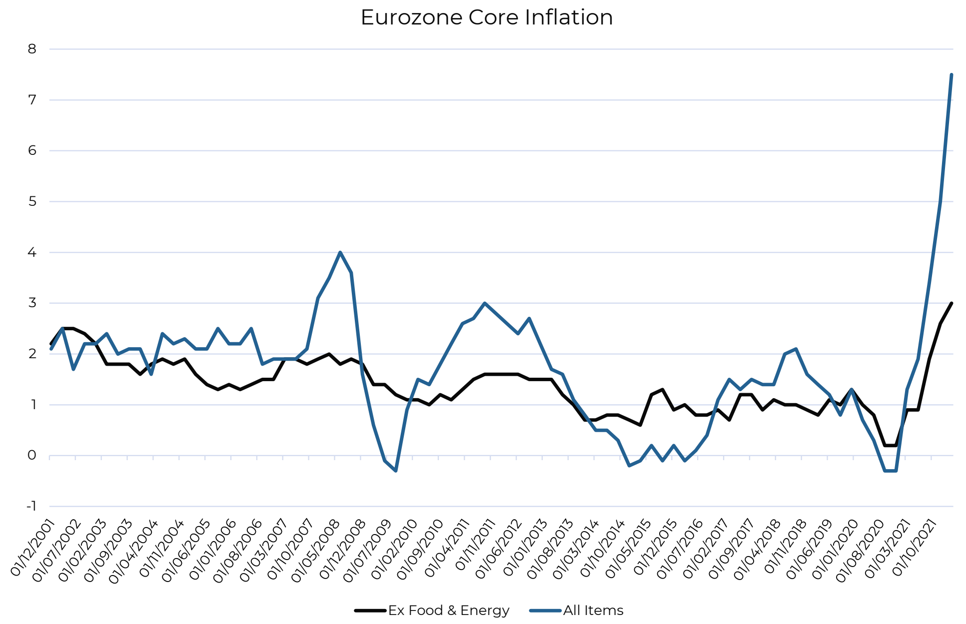
*Commentary continues overleaf.*

## QUARTER IN REVIEW - CONTINUED

Thankfully your fund is focused on companies characterised by persistent high cash returns and strong balance sheets and is well balanced across defensives and high-quality cyclicals largely removed from this sad crisis.




*10Y German Business confidence (IFO Expectations) and Belgium Business Confidence. Source: Bloomberg.*



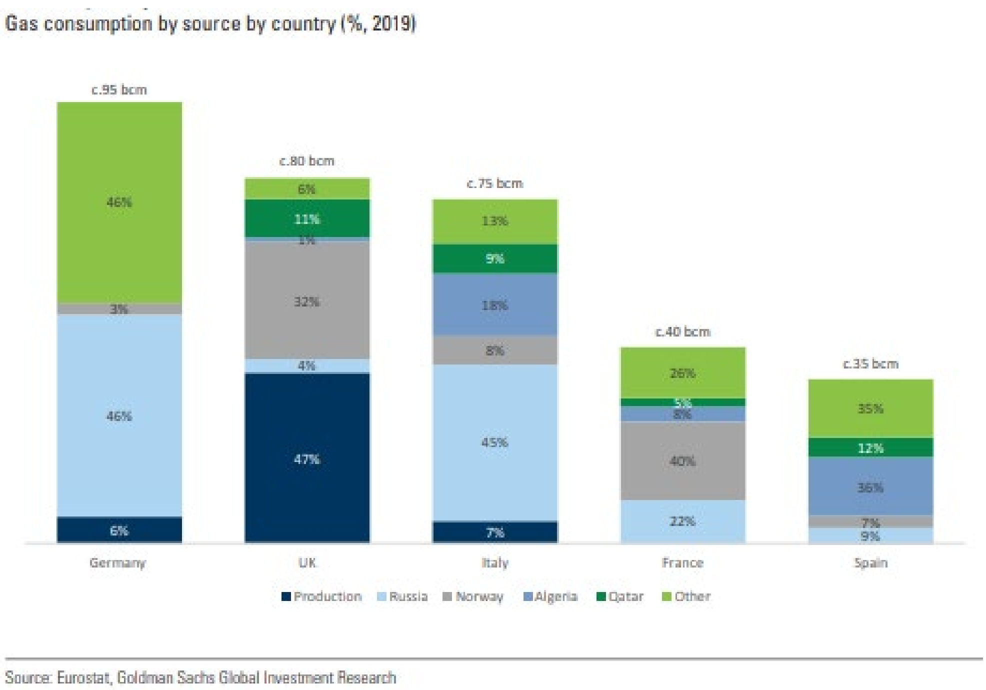

*20Y Eurozone Core Inflation all items (>7%) and ex food and energy (+3%). Source: Bloomberg.*

**We see a number of positives for Europe ex UK equities against the backdrop of uncertainty and slowing growth expectations linked to Russia's invasion of Ukraine.**

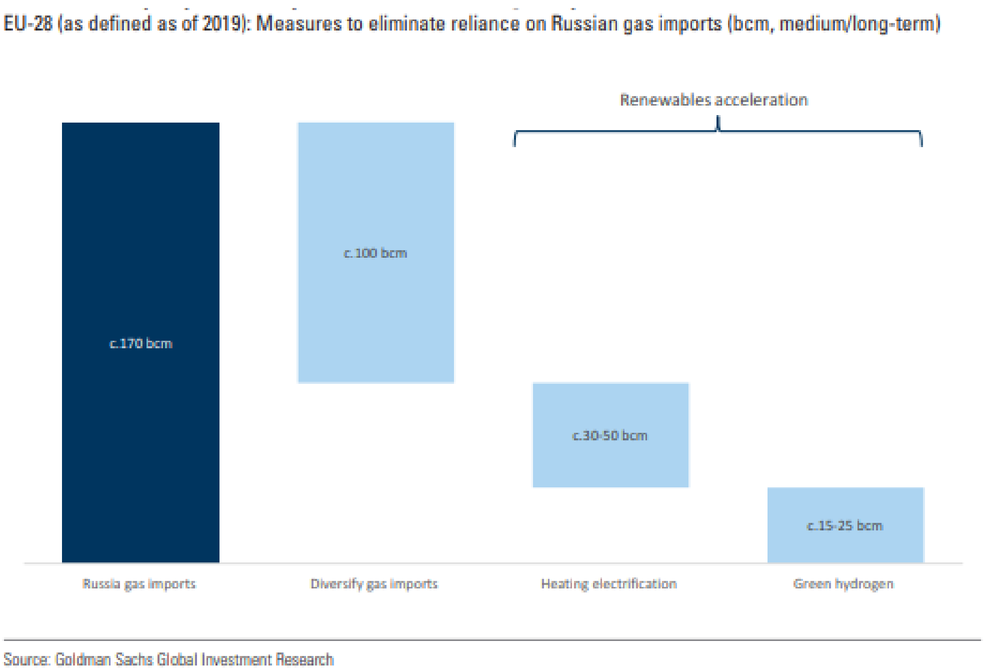
- Russia's invasion of Ukraine looks likely to prove positive for long-term European policy coordination and decision making.
- Fund exposure to the crisis is low and related risks look manageable.
- Relative yields and valuations across Europe's globally leading sectors and companies look attractive.
- Balance sheets and payout ratios have the capacity to support growing cash returns.

Against all historic measures, Europe's response to the crisis has been decisive, with quick decisions around financing and arming Ukraine. Germany has broken with its long-standing policy of banning defence exports, and now appears set to the become the largest defence spender in Europe with a €75bn budget for 2022 or 2% of GDP, compared to €50bn in 2021 or 1.3% of GDP. Germany's second gas pipeline project with Russia, Nordstream II, has been scrapped, and the EU has implemented a no-fly zone for Russian aircraft. Meanwhile, in conjunction with the US, certain Russian banks were blocked from the SWIFT payment network, and significantly, the assets of the Russian central bank were frozen, effectively blocking some two thirds of Russian reserves.

The impact of higher energy costs on European GDP growth is by most counts more than double that in the US, where energy costs remain relatively low. The IFO Institute has cut its forecast for German GDP growth to 2.2–3.1% in 2022 from 3.7%, based on oil prices of €140 by May and over €120 end of year. The task of weaning one of the world's most energy-dependent regions off Russian energy is large but not insurmountable. Around 25% of European energy comes from natural gas and approximately 35% of that demand is supplied from Russia, with Germany and Italy highly exposed at nearly 45% of natural gas consumption. Beyond that, shifting to imported LNG will require significant investment, given the lack of storage capacity in Germany.




*Gas consumption by main European country % 2019. Source: Eurostat, Goldman Sachs research.*




*EU measures to eliminate reliance on Russian gas imports (bcm, medium/long-term). Source: Eurostat, Goldman Sachs research.*

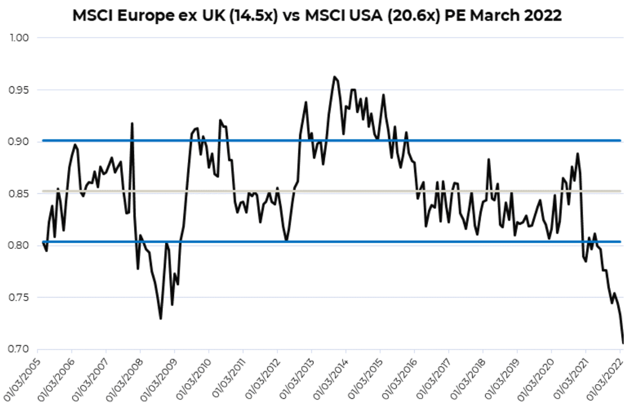
It remains deeply troubling that while supplying nearly $1bn of military aid to Ukraine the EU is sending nearly $1bn a day to Russia through the purchase of hydrocarbons. Germany has pledged to exit Russian coal imports by this summer, oil imports by the end of this year and gas by end 2024 alongside full electrification with renewable power by 2035. The EU's REPowerEU plan has as its near-term goal to reduce Russian gas imports by 2/3rds by year-end from 170 billion cubic meters (BCM) gas to 55bcm principally via diversification of import sources (20-30bcm) and running coal and nuclear plants for longer (50-60bcm equivalent). The medium to longer-term goal is to reduce Russian gas imports to zero well before 2030 (170-0bcm) via acceleration of investment in renewables, electrification and green hydrogen (up to 75bcm) and further diversification of gas imports (c.100bcm). The REPowerEU plan builds upon the recent pre-crisis €3.7trn EU Fit for 55 plan which targets a 55% reduction in European GHG emission through 2030 vs 1990 levels.

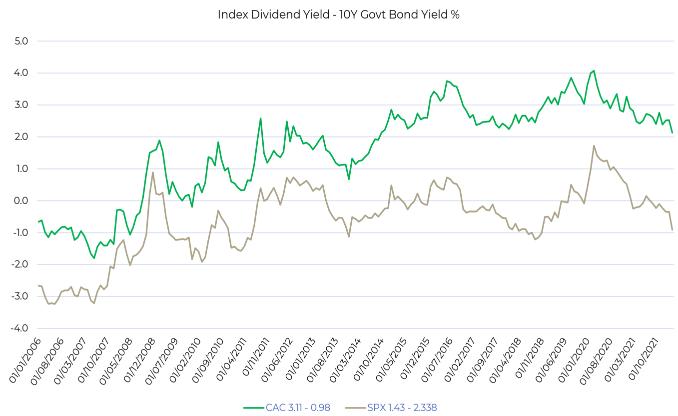
In the meantime, there remains the risk of gas or power rationing in the event Russia were to cut off gas supplies entirely. At the end of March the German government raised the warning level to Early, the first of three levels (followed by Alarm and Emergency). Such a move by Russia seems unlikely as it would further reduce cash flows to the Kremlin at a time when its own earnings power has been reduced and foreign currency reserves have been cut off via sanctions. If such an event took place gas dependent industries such as blast furnaces and the German chemicals industry (15% of total German gas consumption) would be most impacted. Industry bodies VIK and BDEW estimate a supply cut of over 50% from existing levels would have to be seen before capacity was closed as demand destruction would reduce demand elsewhere first and 1/3rd of Russian imports could be replaced by deliveries from other countries. Companies dependent on oil products, largely a global market, would be rather better off as would those dependent on power where gas can be substituted for coal or nuclear plants could be restarted as an interim measure. Of the six German companies held in the Fund, all the Industrials companies are globally-facing, thus limiting risks (with sales exposure to Europe ranging from 35%-55%) and only Henkel has direct sales exposure to the chemicals industry, while auto-exposed names Mercedes-Benz and Siemens have second-order auto-related exposure to the chemicals industry. By contrast, Deutsche Boerse (exchanges) and Fresenius (Healthcare) shoulder no meaningful risk, while Deutsche Post has exposure to oil-based input costs including jet fuel and petrol.

Against all of this there are attractive valuations across the Industrial and cyclical areas of the market, while sizeable economic counterbalancing measures are on the way, notably a strengthened fiscal impulse focused on defence spending and acceleration of the energy transition, alongside relaxation of EU state aid rules. Meanwhile the pandemic resulted in joint EU-wide borrowing and the creation of a pan-European yield curve, along with a greater willingness towards further European integration and a positive reassessment of Southern attitudes towards Germany and its place in the EU. This crisis looks nearly certain to cement Germany's position in Europe as it becomes the region's largest defence spender, and to result in a more cohesive and agile EU – a clear long-term positive for the region as a destination for investment.

Fund exposure to the crisis-affected countries is low, with approximately 1.4% of sales, primarily resulting from our holdings in Consumer Staples / food producers, with Nestle (2% sales), Danone and Henkel (6% each) all having local operations in Russia. What our holdings in Industrials might lose in terms of short-term activity, they should more than make up for from an accelerated energy transition, and in Thales' case an outright positive from higher European defence spending. In Financials our insurers may see a lower peak in interest rates, but on the other hand our exchange holdings benefit from volatility, notably Deutsche Boerse with its EEX energy exchange business. Fund sales exposure to domestic Europe is approximately 55%, with the balance split between the US at 23%, Asia at 18% and the rest of the world at 4%.

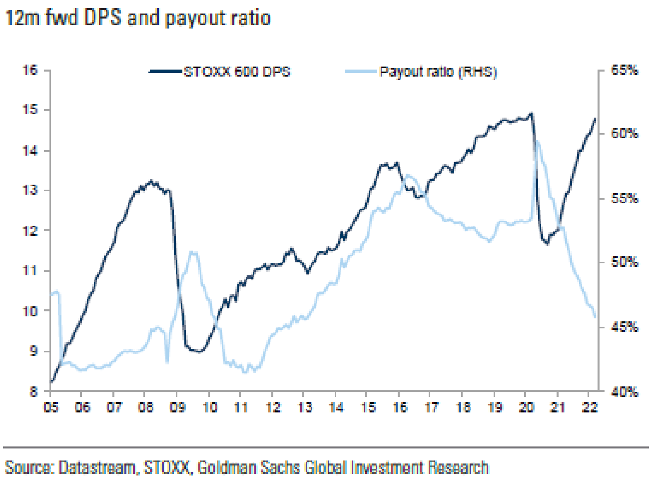
Against an inflationary and slower growth backdrop, quality equity income looks attractive in terms of its historic ability to generate real returns over and above inflation, at a time when nominal assets such as bonds, in (which the market is heavily invested) look set to generate negative real returns. Readers of our white paper Why Dividends (Still) Matter know that returns from the dividend component of total return (vs the price component) tend to rise in slower-growth periods. In this respect, European quality equity income specifically looks well placed relative to other asset classes, offering higher levels of yield at favourable valuations vs. other main regions. The two charts below show that the spread between MSCI Europe ex UK current multiples and MSCI US is at post 2005 lows (LHS), and the France CAC40 dividend yield minus French 10Y govt bond yield positive >2% whereas the MSCI USA dividend yield minus the US 10Y yield is negative at just under -1% (RHS). The combination of an outlook for relatively shallower European interest rate rises and a slower pace of growth alongside the region's fair valuations and higher dividend yields makes Europe an attractive destination for income, particularly when one considers Europe's larger value component vis-à-vis the US and the quality of some of the companies on offer, particularly in Northern Europe.

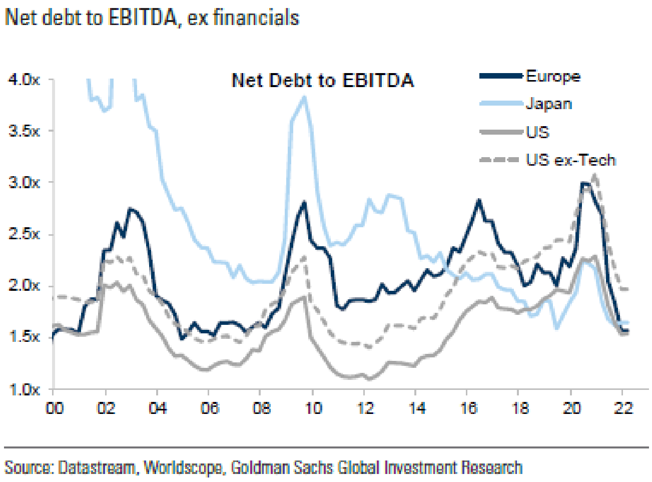



*MSCI Europe ex UK PE relative to MSCI USA PE (LHS). CAC40 (France) dividend yield – 10Y govt. bond yield vs S&P500 dividend yield – US 10Y yield (RHS). Source: Bloomberg*

At the same time the dividend paying capacity of European equities is in the best shape for some time post pandemic, with aggregate pay-out ratios close to 10Y lows of c.46% and Net Debt / Ebitda ratios at near 15Y lows of just over 1.5x. All of which suggests good potential for high-quality cash-generative companies with resilient and high gross margins, like those held in your Fund, to translate rising inflation into dividend growth.

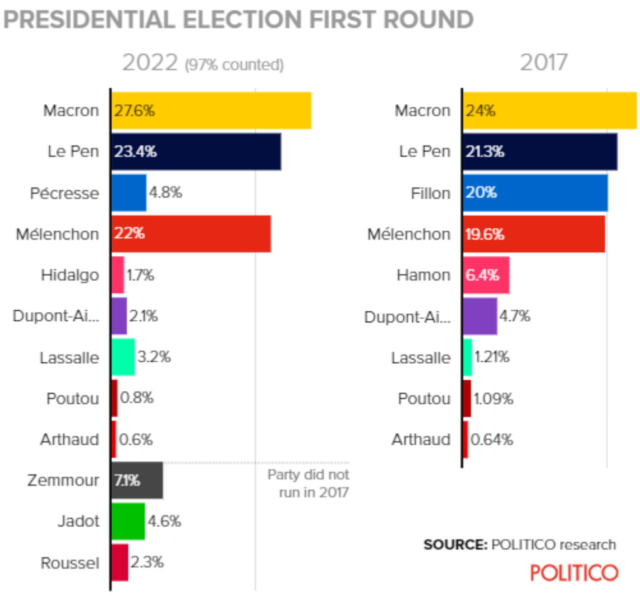



*Stoxx 600 DPS vs Payout ratio (LHS). Net debt to Ebitda for Europe, Japan, US (RHS). Source Goldman Sachs research.*

**French Elections**

French equities have underperformed marginally since quarter end as Macron's lead over Marine Le Pen narrowed ahead of the first round of voting on 10th April and second round on 24th April. After the closer-than-expected first round result of 28% to Macron and 23% for Le Pen, it still seems relatively unlikely that Le Pen will prevail given her historic enthusiasm for Putin, but success would nevertheless be a serious negative for confidence in the region. While Le Pen has withdrawn her damaging policies of withdrawing France from the Eurozone she maintains plans to repudiate the primacy of EU law and establish a preference for hiring French workers. Still, a closer-run contest than 2017 when Macron prevailed 66-34 over Le Pen may be no bad thing, forcing Macron into closer cooperation with the opposition, which would likely prove a positive for fiscal spending. Current estimates put Macron on 53% vs. Le Pen on 47%.




*French first round election results (97% counted) vs 2017. Source: Politico.*

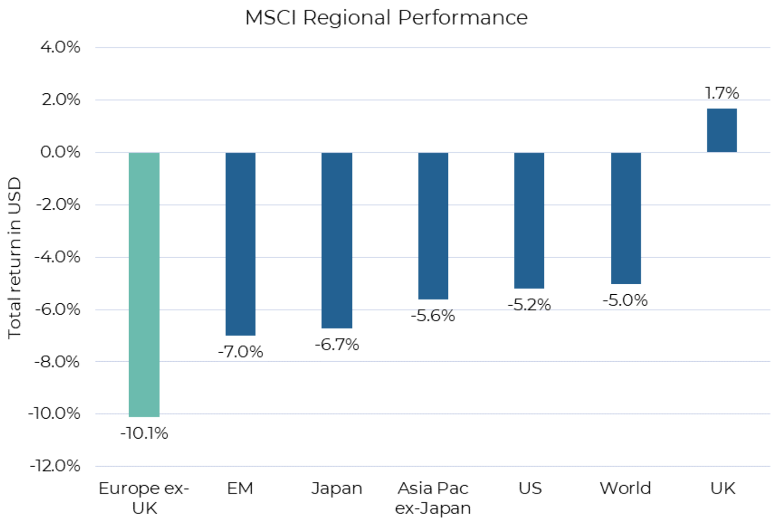
## DIVIDENDS

At the end of the first quarter of 2022, we now have strong visibility over income for the full year, with all companies having declared 2021 final dividends to be paid in 2022, set to be paid out by the fund in July; and only a small portion of income in the form of 2022 interim dividends to be confirmed towards the Fund's final dividend in January 2023. To date, 25 companies look set to have grown their dividend YoY and 5 companies have held their dividend flat (excluding the YoY effect of special dividends). Over the longer term, this suggests an eight-year dividend growth CAGR of over 5%.

This also means the Fund dividend is on track to at least approach 2019 levels in 2022, suggesting at the current fund price of £15.24 for the Z Class GBP shares (0.35% OCF) a post withholding tax dividend yield of around 3.1%, in line with the gross MSCI Europe ex UK Index yield. (Historic yield reflects the distributions declared over the past 12 months expressed as a percentage of the mid-market price, as at the date shown. It does not include any preliminary charges. Investors may be subject to tax on the distribution.)

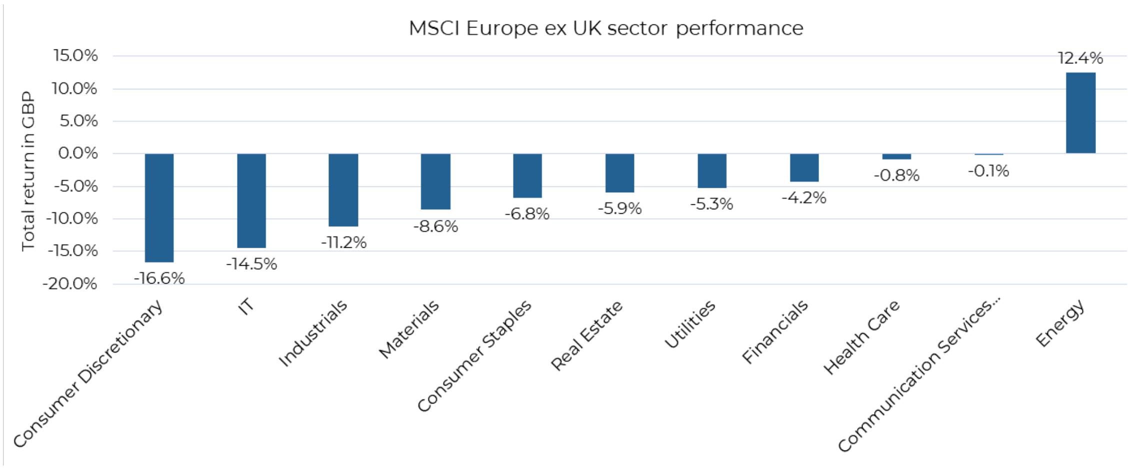
Our focus on business model and balance sheet strength alongside long runways leading to potential for persistent high cash returns means our companies should prove well placed to navigate current headwinds and pass on inflationary pressures in the form of a steadily rising stream of dividends.

## PERFORMANCE DRIVERS



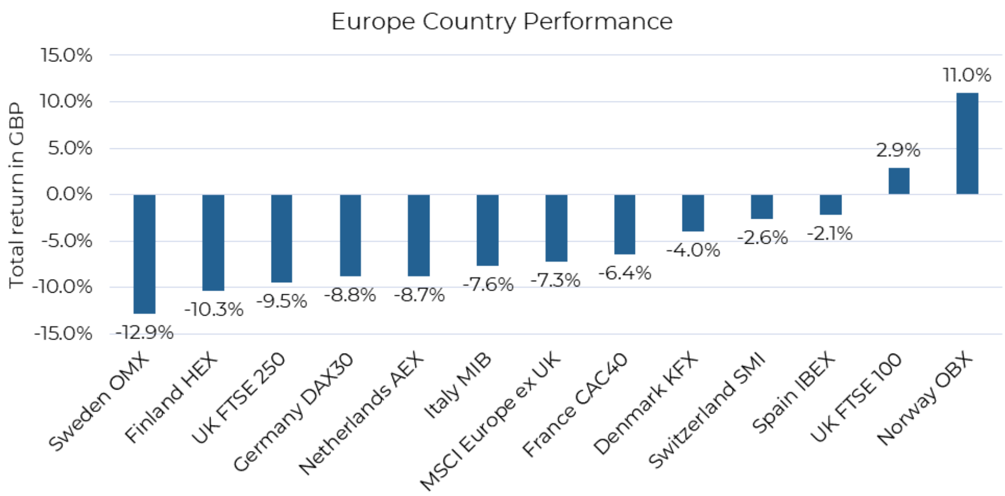

*MSCI World Index geographic total return breakdown for Q1 2022, in USD. Source: Bloomberg*

MSCI Europe ex UK was the weakest-performing main region in USD terms over Q1 2022 as Russia's invasion of Ukraine translated into higher equity risk premia and a slowing pace of growth as energy and input costs rose more than in North America. Your fund holds no regulated companies like banks and utilities, the latter suffering from higher input costs and captive to the risks of regulatory clawbacks on excess profits. We also hold no highly cyclical and capital intensive companies in the areas of oil or mining. The former is the best-performing sector over this quarter. Our overweight positions in Financials, Consumer Staples and Industrials alongside near index-weight positions in Health Care and Consumer Discretionary provided good portfolio balance over the quarter, and our stock picking contributed meaningfully to performance vs benchmark. Europe remains a meaningful underweight in most portfolios which stands at odds with the quality price and yield on offer in the region, in our view.




*MSCI Europe ex UK Index sector total return breakdown for Q1 2022, in GBP. Source: Bloomberg*

By country, Norway was of course the significant outperformer as the market reassessed near-term prospects for its large oil sector, followed by the more defensive markets of Switzerland and Denmark with their significant weightings towards Health Care, and Spain, relatively removed from the crisis. At the other end of the spectrum the market marked down countries neighbouring Russia and Eastern Europe and those likely to suffer from more significant input cost and or supply chain disruption like Germany.

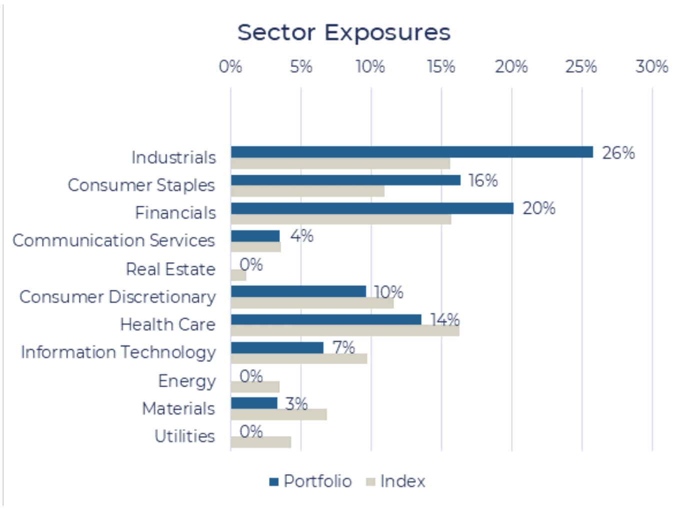


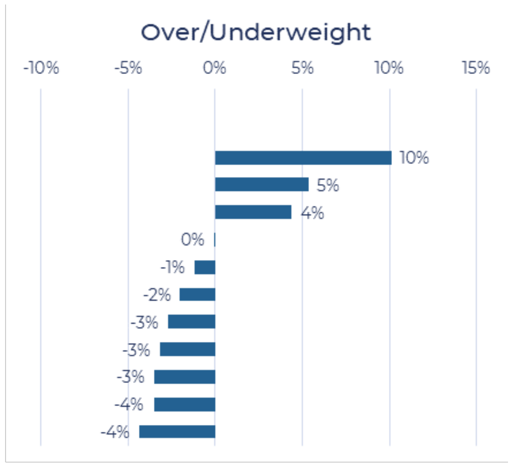

*MSCI Europe ex UK Index country total return breakdown for Q1 2022. Source: Bloomberg*

## POSITIONING

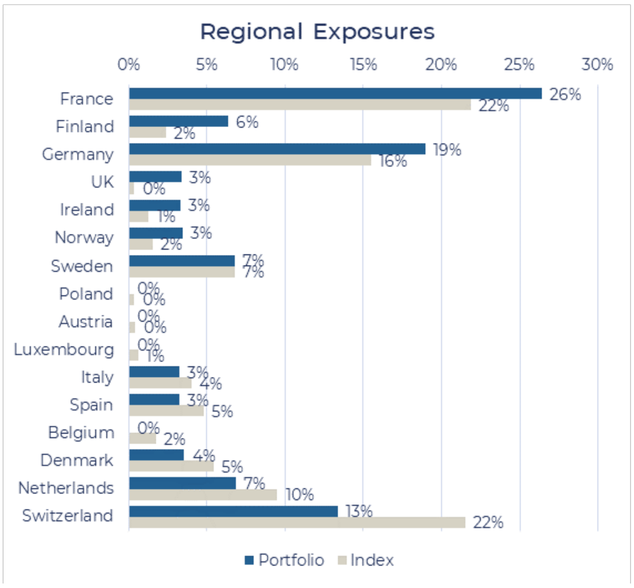
Your fund holds no exposure to highly cyclical areas such as Mining, Oils and Banks or regulated ones including Utilities and Telecoms. Few companies from these sectors make it into our universe given our focus on quality and persistent high cash returns. Your fund also has limited exposure to the high street with an underweight in **Consumer Discretionary** and our three holdings Mercedes-Benz, Kering and Kaufman & Broad well diversified and largely focused on the premium end of their respective markets. **Industrials, Consumer Staples, and Financials** (exchanges and insurers) remain our sector overweight holdings, as shown in the tables below. The fund is underweight the IT sector but nearly all companies held in the fund are notable for their best-in-class use of technology, and our overweight Industrials sector is focused almost entirely on globally leading **industrial**

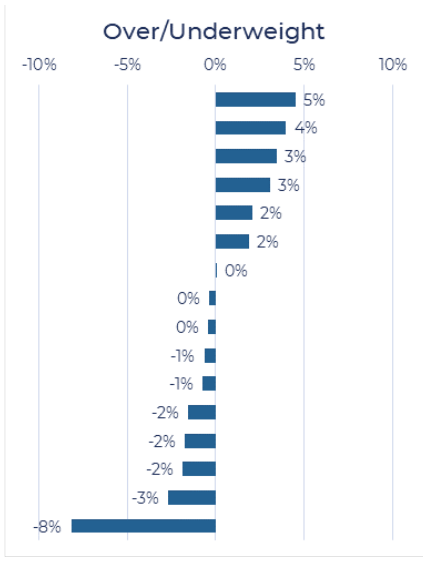
**technology and automation** which looks exceptionally well placed for the decade ahead. For a sector breakdown of the fund since launch please see our year end 2021 review.



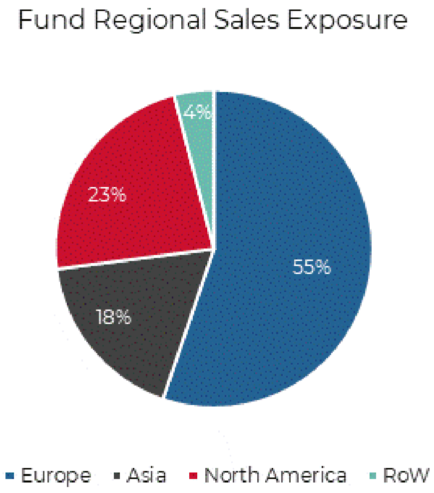

*Left: Sector weightings, Right: Sector weightings vs. MSCI Europe ex UK. Source: Guinness Global Investors*



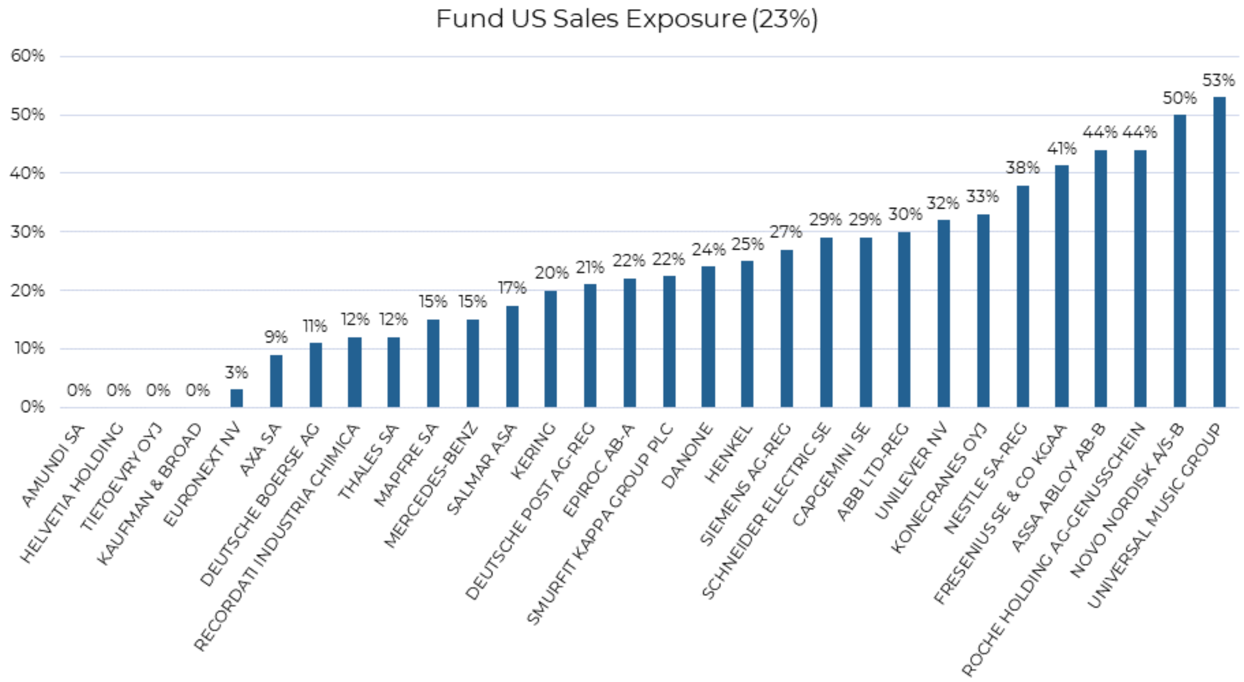




*Left: Country weightings, Right: Country weightings vs. MSCI Europe ex UK. Source: Guinness Global Investors*

By country we remain **overweight the northern European countries including Scandinavia**, Ireland, France and Germany. This results from two factors. First, we find more high-quality companies in Scandinavia and Northern Europe, and secondly, some of these countries represent quite low weights in the MSCI Europe ex UK Index. Perhaps more importantly in the current context, the fund is **well diversified across the best of Europe being focused on companies predominantly with a global opportunity set,** which can be seen in the near **45% of fund sales from outside of Europe** (in the chart below). Exposure to North American sales is high at 23% of fund underlying sales.




*Fund underlying sales exposure by main region. Source: Bloomberg*



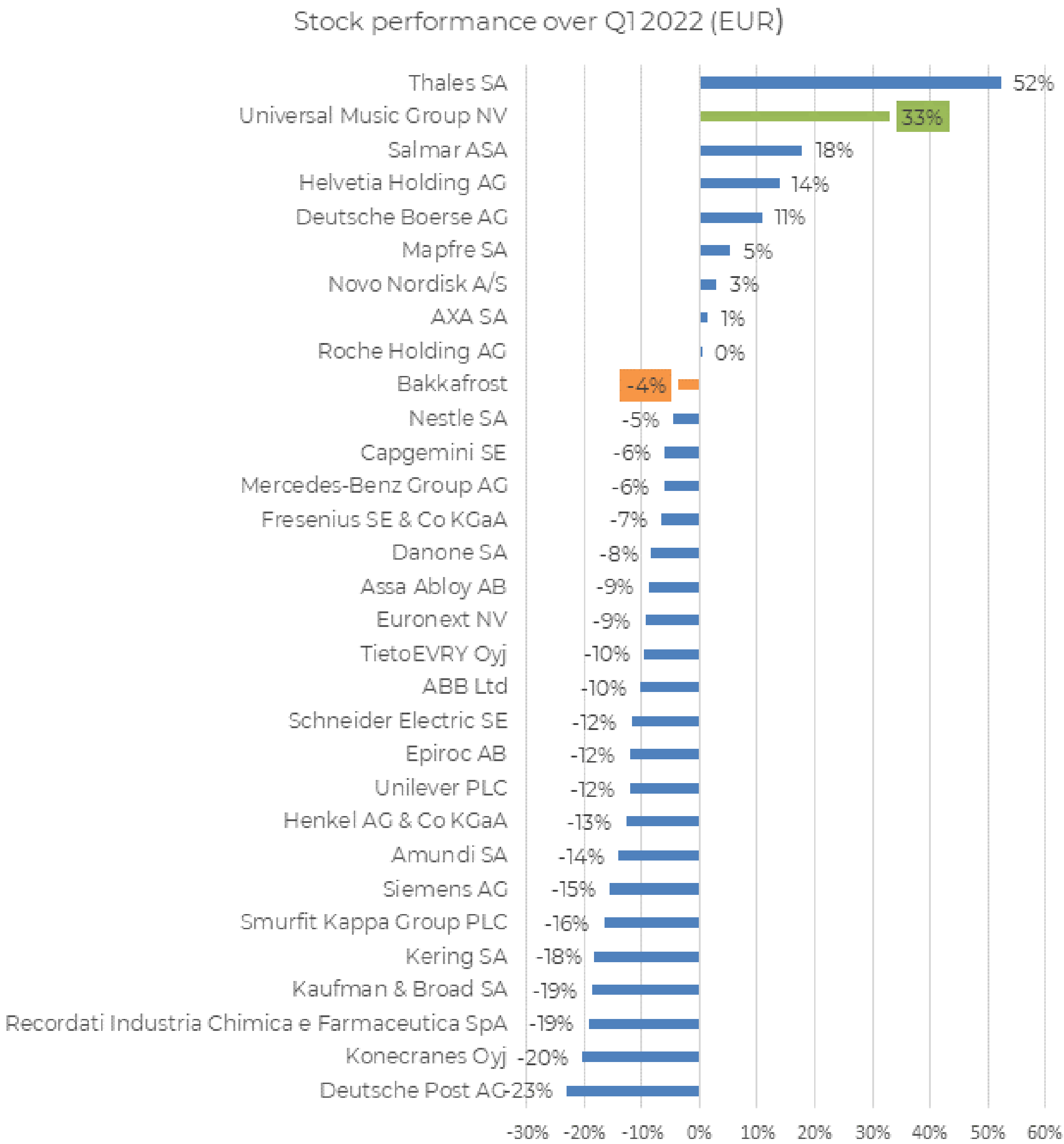

*Fund underlying sales exposure to North America by holding. Source: Bloomberg*

## HOLDINGS PERFORMANCE ANALYSIS

**'Il faut cultiver notre jardin'** said Voltaire's Candide in 1759, as he reminded readers to live simply and keep their distance from politics. We had to do a little weeding in Q1, making one portfolio change in response to the sharply altered backdrop as Russia invaded Ukraine on the 23rd February. This involved swapping out **Bakkafrost,** the Faroe-based salmon farmer which had outperformed YTD (at sale on 4th March 2022) but had 20% sales exposure to Russia, for **Universal Music Group** which is far removed from the risks of this sad conflict, and arguably supplies some of what everyone needs.

The switch saw our exposure to **Consumer Staples** fall by approximately 3.3% and **Communications Services** rise by around 3.3%.

Individual companies that performed well in Q1 included **Thales, Universal Music Group** and **Salmar.** At the other end of the scale **Deutsche Post** and **Konecranes** were the largest underperformers and represent interesting opportunities at these depressed levels.




*Individual stock performance over the quarter, in EUR. New position Universal Music performance from purchase on 4th March and Bakkafrost YTD of sale 4th March. Source: Bloomberg*

**Thales** (+52% in EUR) was the star performer over Q1 2022, finally shifting to a multiple that reflects the return potential of this high-tech company and strongly justifying its position in the portfolio, albeit of course in response to the very sad events unfolding in Ukraine. The thesis remains largely the same as in our January commentary, although the multiple is now of course higher on 15x 2023x vs. 11x back in January. Still, this is a company with the ability to generate returns on capital of around 20%, more than justifying the higher multiple without a seismic change in backdrop. The change, however, is seismic, with Germany becoming the largest defence spender in Europe and all European countries looking to match NATO targets and spend at least 2% of GDP on defence. The ongoing shift at the company to focus on core higher-return areas of Defence (48% sales), Aerospace (25%) and Digital Identity & Security (18%) will continue to work in investors' favour. So too will strong and identifiable barriers to entry and global market leadership positions. **Defence and Security** claims a global number one position in air C4ISR systems (Command, Control, Communications, Computers, Intelligence, Surveillance and Reconnaissance), air defence, data protection and airport security. The **Aerospace** division is the global number one provider of air traffic management systems, with nearly 40% of global aerospace managed by Thales air traffic control centres; along with top three global positions in avionics and in-flight connectivity. A complex bidding process, the mission critical nature of the product along with the high level of certification required all work to make Thales a difficult company to compete against. The customer base is exceptionally stable due to the high cost of switching contractors during a programme cycle. This all results in rather high, stable and predictable streams of cash flow as 3 – 5 year production contracts are complemented by aftermarket service contracts lasting for 10 – 15 years. Whilst the core product focus is on defence and security, Thales has an MSCI ESG AA rating, highlighting the 94% non-lethal nature of the product set, which is largely focused on communications and radar. This is a key positive in our view, meaning Thales is positioned in line with long-term trends towards higher levels of digital content and connectivity which should secure it market-leading revenue growth for many years to come.

**Universal Music Group** (+33%) became a new fund holding on 4th March. The company has been recently spun out of Vivendi where it was the jewel in the crown. Universal Music Group (UMG) has strong identifiable barriers to entry in the form of owned music intellectual property rights and scale, dominating the recorded music market with 31% global market share across over 200 country markets. The strength of its catalogue is second to none, along with its relationships with the main music distribution platforms and artists. UMG had record deals with 8 of the top 10 global artists in 2021, including 4 of the top five on **Spotify** and 8 of the top 10 on **YouTube**, suggesting that the company will maintain its position at the top of the music rights oligopoly (with **Sony** and **Warner Music Group** at 21% and 18% global share respectively), signing new artists and growing its back catalogue for a long time to come. Indeed, persistent market share gains vs peers in both recorded music and music streaming for the last four years highlight that this is a company that is getting stronger vs. its peer group. Meanwhile the whole sector stands at a turning point in terms of revenue growth and pricing power as the headwind from legacy revenue streams becomes negligible and it shifts towards scalable and value-added services such as streaming, fitness, social media and the metaverse, including virtual live music on platforms such as **Spotify**, **Tencent Music, Peloton, Instagram** and **Roblox**.

What is exciting to us as investors is the operating leverage provided by the back catalogue of nearly 2x sales growth of nearly 10% per annum stretching out to 2030 as incremental revenue tends to drop straight to the bottom line; suggesting significant margin expansion alongside potential to double the top line. Along with quite how under penetrated and young most of UMG's end markets are today. While streaming represents nearly 50% of annual global recorded music revenue today, the potential is huge; with paid subscribers penetrating only approximately 10% of global smart phones in 2020 (>20% in developed markets and <5% in emerging markets). Through its partnership and cross holdings with **Tencent Music** UMG appears to be in a particularly strong position in fast growing emerging markets, including China and India where penetration was reported to be approximately 6% and 2% in 2020 according to IFPI Global Music Report 2021 and Goldman Sachs. UMG is a high-margin, wide-moat company characterised by high levels of recurring revenue (~66% across subscription-based streaming, licencing and publishing) that looks set to feed into superior dividend growth (50% stated payout ratio) along with strong potential for special dividends. It is also a company where we have a high level of trust in management, with an excellent track record of capital allocation. **Bollore** (18% and 10% via **Vivendi**) and **Tencent** (20%) own 48% of shares outstanding between them. UMG is a company that we expect to hold while it delivers rising cash returns for a long time to come. If as Voltaire's Candide said, "life is a shipwreck", then UMG is certainly a company that helps its customers and shareholders to "sing in the lifeboats".

**Salmar** (+18%) had a strong quarter along with other 'real assets' against an inflationary backdrop, while also benefiting from its decision to stop sales to Russia back in 2014 compared to Bakkafrost (sold 4th March 2022) which still recorded 20% sales to Russia in its last annual report. In spite of salmon's superior feed-to-protein economics over other sources of protein (such as beef, lamb and pork), questions over the sector's sustainability vis-à-vis wild salmon in near-shore locations have been a regular source of conversation. Salmar is best placed in this respect given its scale as the second largest operator after **MOWI** and its innovative focus on biologics and deepwater offshore locations, notably Arnarlax in Iceland and its new offshore-focused 66%-owned JV Salmar Aker Ocean. If there is disruption to come, Salmar will be leading it. With that in mind, the basic rationale for investment hasn't changed. This is a niche market characterised by an attractive supply and demand profile. Simply, per capita consumption in Europe is approximately 2x North America, which is in turn more than double China. As the world develops and eats more (sustainable) protein there is scope for upward pressure on demand and pricing. At the same time it is not easy to add capacity, with only a very few locations offering the right conditions for salmon farming (in terms of both currents and temperatures). Salmar has the scale and the expertise to continue to win and take market share, in our view. Cash returns on capital invested have averaged over 15% per annum for the last eight years, no mean feat for a moderately capital-intensive industry. The presence of CEO **Gustav Witzoe** through his vehicle **Kverva Industrier AS** is a major long-term support and indication of continued astute capital allocation going forwards. Right now, the PE multiple is at the upper end of the historic range and the dividend remains below recent highs amid a period of heavy investment, but the business model and favourable long-term outlook are fully intact. Salmar remains a core part of the portfolio in our view, being a world-class European company, dominating a unique niche with the innovation capacity to stay ahead of peers to the benefit of shareholders and customers alike.

**Konecranes** (-20%) underperformed over the quarter and was to us the biggest disappointment as the long-standing merger with Cargotec, announced in October 2020, was jointly cancelled after the UK CMA blocked the deal, leaving us as shareholders missing out on a deal that would have seen the combined group benefit from over $100m of joint synergies and a globally dominant position in harbour cranes. However, the asset and long-term prospects remain good in our view, and after a 30% derating YTD (not helped by Finland's proximity to Russia) the shares trade on just 8x earnings against ~15% ROE and offering a 5.5% dividend yield. Given the attractive and growing level of recurring service revenue offered by the business (~50% Group Ebita) and as the only global ports and industrial crane automation company with a global service capacity, the current discount looks overextended, with some 50% upside back to a fair multiple. Beyond that, the market appears to be failing to appreciate the step change in prospects for accelerating global industrial and ports capex driven in part by recent supply chain bottlenecks but also the climate transition. Where Port Solutions and Industrial Equipment barely grew over the last five years, growth rates look likely to be in excess of 5% per annum, with strong growth likely in the Ports segment (helped by a revival in offshore wind capex). Those growth rates may prove to be conservative, as areas of expertise which have been in the doldrums for much of the last decade, such as mining cranes and nuclear lifting equipment, look likely to make a strong comeback given the difficult backdrop in commodity and power markets. Meanwhile, the service segment should continue to grow around 4% per annum. With higher levels of utilisation and an eye to efficiency should come higher operating margins (towards 12% vs 8% pre-2020) driving accelerating earnings growth. Contrary to what the market multiple is saying, we think that Konecranes is a company that is becoming increasingly relevant, with its focus on industrial efficiency automation technology and service positioning it as an enabler of efficiency gains and increased circularity throughout the value chain. While we await the arrival of the new CEO and capital markets day in the Autumn, we have taken advantage of the discounted price and 5.5% dividend yield by reweighting the position back to equal weight. This remains a company whose best days lie firmly ahead of it, in our view.

**Deutsche Post** (-23%) proposed an increase in its 2021 dividend of 33% to €1.8/share and saw its shares derate sharply to 9.9x 2023e earnings and a 4.8% dividend yield, all while forward earnings estimates have remained firm. This is another high-quality asset, characterised by global market leadership across DHL Express, logistics and forwarding. All main pure play comparables including UPS and DSV trade off significantly higher multiples of 14x and 20x respectively. Historically, Deutsche Post (DP) traded on just over 13x earnings, but if anything the pandemic has made a strong case for a more substantial rerating over and above historic 10Y average multiples. It has secured

DP's position as the world's dominant e-commerce logistics company through its DHL Express, forwarding and Logistics divisions and reducing the lower-quality German Post division earnings to under 20% of group vs nearly 40% historically. Cash conversion has also increased to around 100% vs. ~70% historically. High YoY comps may obscure the progress in the short-term but look set to give way to renewed mid to high single-digit top line growth; this is a quality asset that is well positioned to keep generating improved returns on capital (>20%) that look increasingly out of kilter with the multiple. The market seems to be suggesting that the shift to online and related uplift in e-commerce related parcel delivery is only temporary or that the tragic events in Ukraine may have a serious long-term impact on DP's global operations, both positions we would counter. A share buyback programme seems likely particularly in light of the strong balance sheet. As for Konecranes, we have taken advantage of the low price and high dividend yield to bring the position back in line with the rest of the portfolio. This too is a company where we would argue the best is yet to come.

## KEY FUND METRICS TODAY

The four key tenets to our approach are: quality, value, dividend, and conviction. At the quarter end, we are pleased to report that the portfolio continues to deliver on all four of these measures relative to the benchmark MSCI Europe ex UK Index.

| | | Guinness European Income Fund | MSCI Europe ex UK Index | Guinness Delta vs. MSCI Europe |
|---|---|---|---|---|
| **Quality** | Debt / equity % | 63.9 | 193.0 | -129.1 |
| | ROE % | 23.0 | 11.1 | 11.9 |
| **Value** | PE (2023e) | 13.1 | 13.6 | -0.5 |
| | FCF Yield % | 6.4 | 5.5 | 0.9 |
| **Dividend** | Dividend Yield (Best) % gross | 3.7 | 3.2 | 0.5 |
| | Weighted average payout ratio % | 44.4 | 73.1 | -28.7 |
| **Conviction** | Number of stocks | 30 | 344 | -314.0 |
| | Active share | 82 | NA | |

Source: Bloomberg, Guinness data

*Portfolio metrics versus index at 31.03.2022. Source: Guinness Global Investors, Credit Suisse HOLT, Bloomberg. Historic yield reflects the distributions declared over the past 12 months expressed as a percentage of the mid-market price, as at the date shown. It does not include any preliminary charges. Investors may be subject to tax on the distribution.*

## OUTLOOK

While uncertainty is high at this juncture, the crisis looks likely to prove a positive long-term driver of greater European political cohesion and more agile decision making. Fund exposure to the crisis is low, and many of Europe's higher-quality globally leading companies like those held in the Fund look attractive in terms of valuations and dividend yields relative to other regions and asset classes. We believe the earnings risk to such globally orientated companies, from natural gas rationing, for example, even if listed in countries like Germany, is manageable. As such we have reweighted the underperformers from the quarter at what we consider very attractive valuations and yields.

## Guinness European Equity Income Fund

An equal weighted conviction portfolio of high-quality companies trading at reasonable valuations paying moderate to high and growing dividends is an attractive profile in a low growth volatile environment. Your fund offers significantly higher return characteristics and balance sheet metrics compared to the wider index, whilst trading at a small discount. In general, our portfolio companies exhibit strong levels of self-determination, characterised by market leadership positions, widening moats, aligned interests and long runways for growth. We believe that whatever the weather this represents a good place to be.

Thank you for your continued support.

**Portfolio Manager**

Nick Edwards

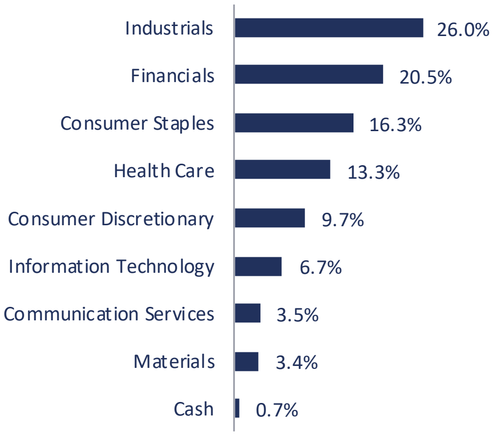
## PORTFOLIO

**PORTFOLIO** **31/03/2022**

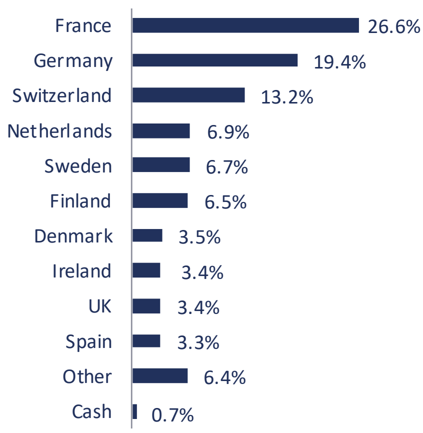
### Fund top 10 holdings

| | |
|---|---|
| AXA | 3.5% |
| UNIVERSAL MUSIC GROUP | 3.5% |
| Novo Nordisk | 3.5% |
| Deutsche Boerse | 3.5% |
| Amundi | 3.4% |
| Epiroc AB | 3.4% |
| Fresenius SE & Co KGaA | 3.4% |
| Capgemini SE | 3.4% |
| Schneider Electric | 3.4% |
| Smurfit Kappa Group | 3.4% |
| % of Fund in top 10 | 34.3% |
| Total number of stocks | 30 |

### Sector analysis



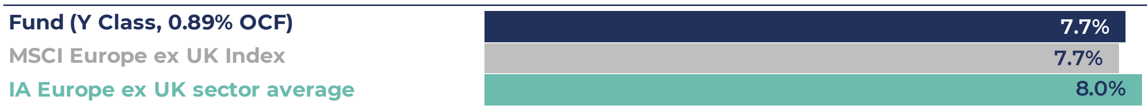

### Geographic allocation




## PERFORMANCE

Past performance does not predict future returns. We are now following new requirements from the European Securities and Markets Authority (ESMA) which came into force on 2nd February 2022 relating to information on past performance. These mean that we can only illustrate fund performance information with 12-month minimum periods, with the exception of year-to-date performance, which can be shown to quarter-end.

**Annualised % total return from launch on 19/12/2013 in GBP** **31/03/2022**




| Discrete years % total return (GBP) | Mar '22 | Mar '21 | Mar '20 | Mar '19 | Mar '18 |
|---|---|---|---|---|---|
| Fund (Y Class, 0.89% OCF) | 7.1 | 38.6 | -13.3 | 3.9 | -0.6 |
| MSCI Europe ex UK Index | 5.5 | 33.5 | -8.3 | 2.2 | 3.0 |
| IA Europe ex UK sector average | 4.2 | 39.6 | -9.4 | -1.2 | 5.6 |
| Fund vs sector | 3.0 | -1.0 | -4.0 | 5.1 | -6.2 |

| Cumulative % total return (GBP) | YTD | 1 year | 3 years | 5 years | Launch |
|---|---|---|---|---|---|
| **Fund (Y Class, 0.89% OCF)** | -4.2 | 7.1 | 28.7 | 32.9 | 85.4 |
| MSCI Europe ex UK Index | -7.4 | 5.5 | 29.1 | 35.9 | 84.3 |
| IA Europe ex UK sector average | -7.7 | 4.2 | 31.7 | 37.5 | 88.5 |

**RISK ANALYSIS** **31/03/2022**

| Annualised, weekly, from launch on 19/12/2013 in GBP | Index | Sector | Fund |
|---|---|---|---|
| Alpha | 0.00 | 1.17 | 0.63 |
| Beta | 1.00 | 0.88 | 0.95 |
| Information ratio | 0.00 | 0.02 | 0.04 |
| Maximum drawdown | -25.02 | -24.43 | -30.36 |
| R squared | 1.00 | 0.89 | 0.91 |
| Sharpe ratio | 0.23 | 0.27 | 0.25 |
| Tracking error | 0.00 | 5.29 | 5.00 |
| Volatility | 16.12 | 14.93 | 16.06 |

Fund returns are for share classes with a current Ongoing Charges Figure (OCF) of 0.89%; returns for share classes with a different OCF will vary accordingly. Source: FE fundinfo bid to bid, total return. Fund launch date: 19.12.13

## DISCRETE 12m PERFORMANCE

Past performance does not predict future returns.

| Discrete years % total return (GBP) | Mar '22 | Mar '21 | Mar '20 | Mar '19 | Mar '18 | Mar '17 | Mar '16 | Mar '15 | Mar '14 |
|---|---|---|---|---|---|---|---|---|---|
| **Fund (Y Class, 0.89% OCF)** | 7.1 | 38.6 | -13.4 | 3.9 | -0.6 | 32.1 | -2.5 | 4.2 | - |
| **MSCI Europe ex UK Index** | 5.5 | 33.5 | -8.3 | 2.2 | 3.0 | 27.2 | -5.3 | 7.0 | 17.0 |
| **IA Europe ex UK sector average** | 4.2 | 39.6 | -9.4 | -1.2 | 5.6 | 23.7 | -1.8 | 6.9 | 17.4 |

Source FE fundinfo. Bid to bid, total return.

## IMPORTANT INFORMATION

**Issued by Guinness Global investors,** a trading name of Guinness Asset Management Limited, which is authorised and regulated by the Financial Conduct Authority.

This report is primarily designed to inform you about 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. 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.guinnessgi.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.