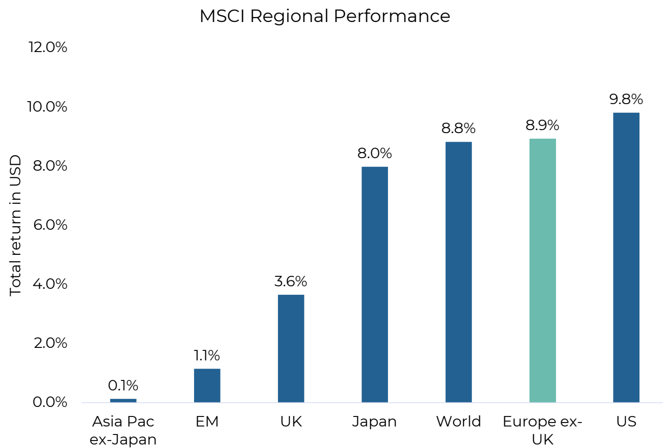
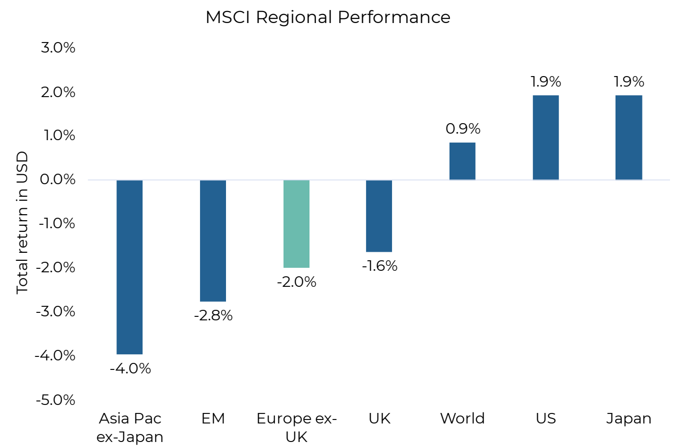
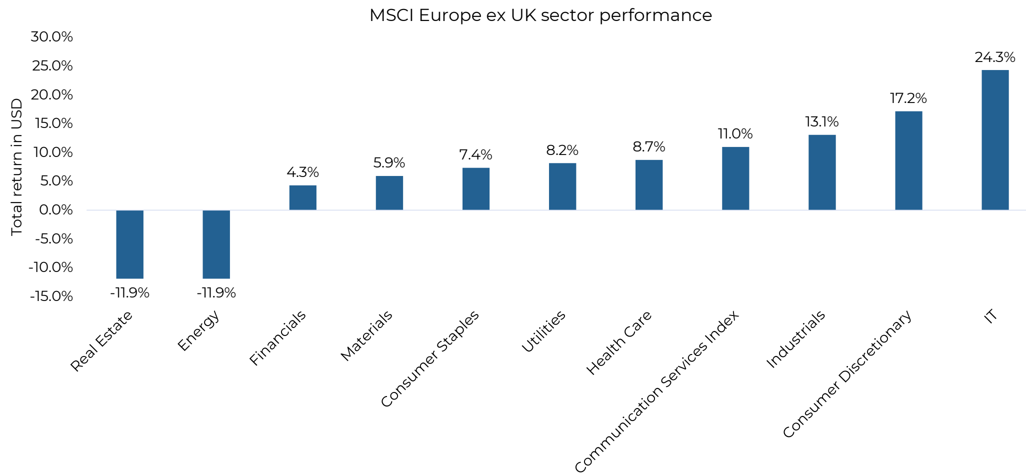
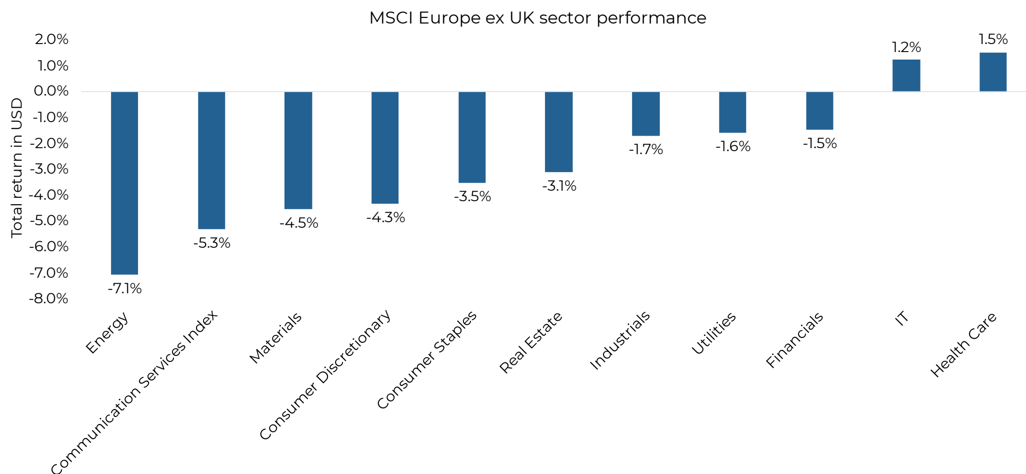




MSCI World Index geographic total return breakdown in USD. Data as of 31st May 2023. Source: Bloomberg





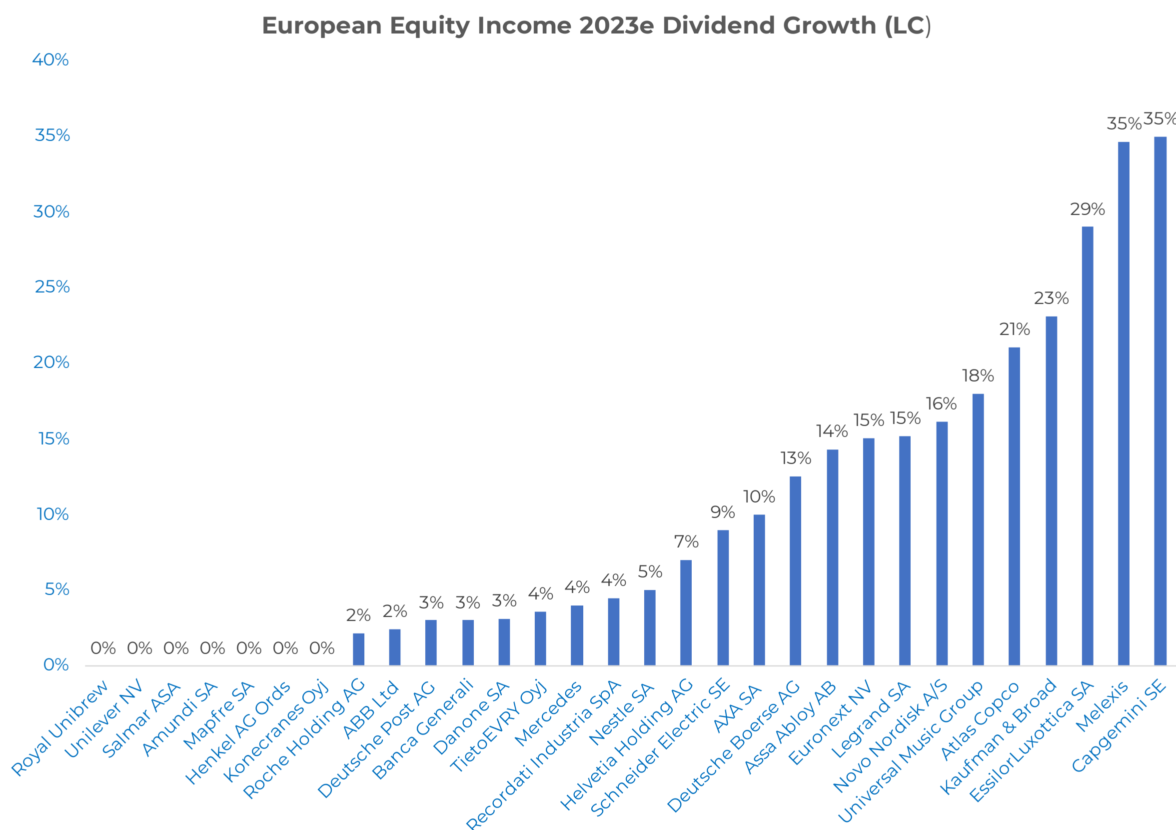
MSCI Europe ex UK sector performance in USD. Data as of 31st May 2023. Source: Bloomberg

THE DIVIDEND

The Dublin-domiciled Guinness European Equity Income Fund's H1 2023 dividend will be declared and go ex 1st July with a month-end pay date. It accounts for nearly 88% of the total FY 2023e dividend and leaves just 12% vs 16% last year for the second FY dividend which goes ex at the beginning of January 2024 for payment at month end. The slightly lower proportion in the H2 dividend is the result of portfolio changes. Visibility on the H1 dividend is good with all H1 dividends declared and paid. The recently launched UK-domiciled TB Guinness European Equity Income Fund will go ex its second of four quarterly dividends on 3rd July with a pay date of 31st August.

As at end May 2023 we see:

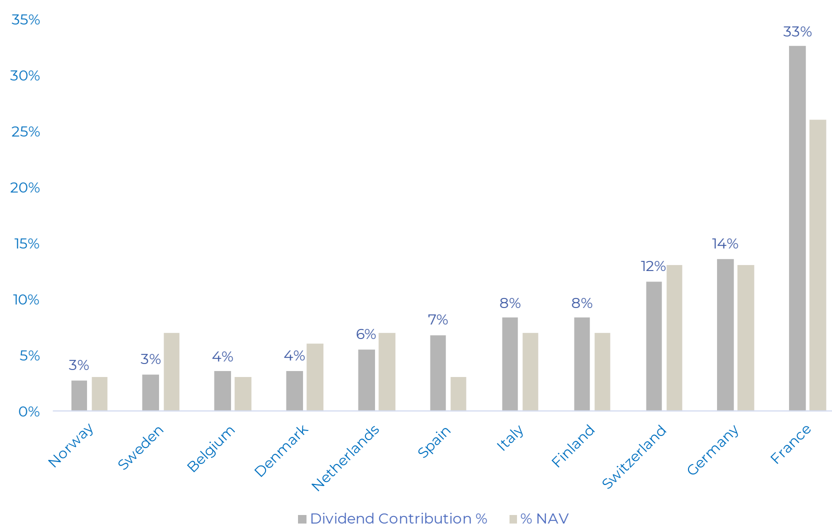
- At least high single-digit FY 2023 dividend growth in local currency.
- 23 companies have proposed to grow their dividend year-on-year.
- 7 companies plan to hold their dividend flat.
- No company expects to cut its dividend.
- Three company dividends remain below 2019 levels.
- A dividend yield of 3% based on July 2022 and January 2023 dividend payments by the Guinness European Equity Income Fund. (Historic yield reflects the distributions declared over the past 12 months expressed as a percentage of the mid-market price, as of 31st May. It does not include any preliminary charges. Investors may be subject to tax on the distribution.)

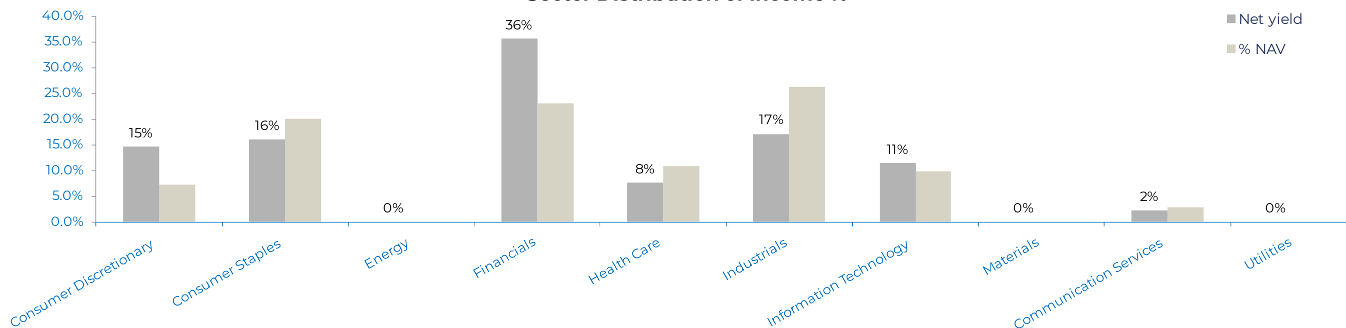


Fund dividend growth by company in local currency. Data as of May 2023. Source: Bloomberg.

By country and sector, sources of dividend income are well spread, with a higher share of income vs NAV coming from France (33%) and Financials (36%) followed by Spain (7%) and Consumer Discretionary (15%), as shown below. By contrast,

notably lower shares of income vs NAV are derived from high-quality and defensive areas of the market including Sweden, Denmark, Netherlands, Switzerland and Staples, Healthcare and Industrials. Income from quality growth and defensives (Staples, Healthcare, exchanges within Financials and Universal Music within Communication Services) totals approximately 33% vs 45% of NAV. The anomaly here is that we categorise Industrials as quality cyclicals but they contribute less income than their proportion of NAV. This brings us back to the point that high-quality Industrials with high and growing levels of service revenue can be far less cyclical and higher-quality than is commonly perceived.





Data as of June 2023. Source: Bloomberg.

PORTFOLIO HOLDINGS

The best performing position in the portfolio in May was **Mercedes-Benz**, up +6.8% in EUR, significantly outperforming the MSCI Europe ex UK Consumer Discretionary sector return of -3.3%. The company's Q1 results highlighted its strong pricing power and raised the outlook for car and van margin guidance to the upper end of the 12-14% range for the former and to 11%- 13% vs 9%-11% for the latter. This is driven by improvements in the price mix more than outweighing cost headwinds (which are now also falling at least for materials rather than labour). Mercedes is structurally well positioned thanks to its approximate 10% global and 25% European market share in luxury and electric vehicles, and the potential to keep shifting mix away from its lower end to its highly profitable premium offerings including through continued new product launches. It also of course benefits from a customer base that is relatively less sensitive to downturns. Its net cash position of over €30bn gives it good financial flexibility, and its strong mobility / service offering means it is well placed to increase recurring revenues as EV-related revenue streams such as ride hailing, sharing and charging grow over time. The company also remains part of the way through a c.15% reduction in fixed costs, which should continue to support margins and returns. For all of that and in spite of a high (but falling) fixed cost base and significant capital invested in China, we pay just a 5.7x PE multiple for a 7.1% dividend yield and a global top 10 brand with returns to equity of around 15%.

The second-best performing position in May was **Mapfre**, up +5.8% in EUR, materially outperforming the Financials sector return of -2.7%. Despite significant headwinds over last few years including ultra-low interest rates and Covid-19, Mapfre finally has some wind in its sails. Rapidly rising interest rates globally have boosted net interest income and the election of Lula de Silva to President in Brazil represents a positive for risk premiums in the LATAM region that represents nearly 40% of group earnings. Meanwhile, US operations (c.10% group premiums, negative earnings) are showing signs of recovery, and management is focused on turning around Auto (20% sales). The valuation is close to all-time lows on 6.5x PE / 0.7x P/bk (offering an 8% dividend yield) representing a c.25%/30% discount to long-run averages and c.40% to global peers, leaving meaningful room for continued mean reversion in the share price. At a broader level, the company's dominant position as the biggest insurer in Spain and in Latin America by market share leaves it well placed to capitalise on recovery in those markets. A strong balance sheet, including a solvency ratio of 201% and forecast 2023-24 premium growth of 5-6% and returns to equity of 9%-10% vs 8.2% at the end of 2022, along with a current dividend pay-out ratio of c.50%, opens the possibility of a return to dividend growth in the medium term.

The worst performing position in the portfolio in May was **Tietoevry**, down -11.3%, significantly underperforming the IT sector return of +8.5% in EUR. Weakness was driven primarily by two factors. The SVB banking crisis and knock-on effects on European banks including the forced takeover of Credit Suisse by UBS resulted in weak sentiment towards bank service providers amid expectations for reduced bank lending and lower investment. With Financial Services representing some 15% of Tietoevry sales, any long-term impact should be relatively benign. Secondly, Q1 results highlighted both a slight moderation in growth and ongoing costs associated with strategic reorganisation of traditional infrastructure services (Transform & Connect) into one Tech Services division, along with the ongoing review of banking services operations. The potential spin-out of traditional Tech Services makes sense given the broad acceleration in cloud and would result in a more focused, higher-return portfolio focused on the areas of software engineering, industry and healthcare. The shares on 11x/10x 2023/4 earnings and a 5.7% dividend yield (+4% year-on-year) remain cheap vs peers and history and completely at odds with medium-term company targets for a group 8%-10% revenue CAGR at 15%-16% EBITA margin vs. 12.3% at Q1 2023. The one-off costs will pass, and we await the potential spin-out of the more capital-intensive Tech Services and Banking operations with interest.

The second-worst performing position in the portfolio in May was **Euronext**, down -10.9%, in EUR, underperforming the Financials sector return of -2.7%. Q1 results highlighted softer trading volumes (-14.5% year-on-year to €129m, Euronext's largest source of income by division) as equity markets continued to recover. Nevertheless, the company continues to move in the right direction, including migrating Borsa Italiana to its Optiq trading platform and expanding Euronext clearing. The company's bond and funds listing franchises are globally leading, and the proportion of recurring or data-led activities is growing. Meanwhile the market continues to attribute a significantly lower multiple to Euronext (11x 2024e EPS, -30% vs 10Y average) than to Deutsche Boerse (17x) and LSE (23x), primarily due to its higher exposure to exchange-related activities (Trading / Listing 35%/15% sales) and lower share of recurring non-volume-related activities vs close peers. If past form is any guide, the gap should continue to close, supported by the company's excellent track record for value-accretive bolt-on acquisitions and the fact that the company is already host to approximately €7trn of market capitalisation, approximately 3x and 2x Deutsche Boerse and LSE respectively. In the meantime, we continue to look forward to a 4.1% 2024e dividend yield (at a 50% pay-out ratio) following dividend growth of 15% in 2023.

We thank you for your continued support.

Portfolio Manager
Nick Edwards