Guinness European Equity Income Fund

INVESTMENT COMMENTARY – March 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.

Performance 28.02.21

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	9.1	14.3	68.7
Index	13.2	15.8	67.2
Sector	17.6	16.1	73.8

Annualised % total return from launch (GBP)

Risk analysis (annualised, weekly, from launch)

	Index	Sector	Fund
Alpha	0.0	1.4	0.7
Beta	1.0	0.9	0.9
Info ratio	0.0	0.1	0.1
Max drwdn	-25.0	-24.4	-30.3
Tracking err	0	5	5
Volatility	16.2	15.0	16.1
Sharpe ratio	0.2	0.3	0.3

Past performance should not be taken as an indicator of future performance. 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 February, the Guinness European Equity Income Fund outperformed the MSCI Europe ex UK Index by 0.31%, producing a total return of +0.60% (in GBP) versus the MSCI Europe ex UK Index return of +0.29% (in GBP). Your fund remains first quartile vs. European income peers over three years, five years and since inception.

	1 month	YTD	1 Yr	3 Yr	5 Yr	Since Launch
Fund	**0.6%**	**-0.9%**	**9.1%**	**14.3%**	**65.9%**	**68.7%**
Index	0.3%	-2.0%	13.2%	15.8%	62.5%	67.2%
Sector	0.4%	-1.5%	17.6%	16.1%	62.3%	73.8%
Fund vs Sector	0.2%	0.6%	-8.6%	-1.8%	3.6%	-5.1%

Figure 1: Performance data.
Source: Financial Express 0.35% OCF. Cumulative Total Return in GBP as of 28.02.2021

The largest positive contributors to performance over the month of February (with their total returns in EUR) were **Konecranes Oyj** (+22.4%), **Epiroc AB** (+15.1%), **Axa SA** (+13.7%), **Capgemini SE** (+11.4%) and **Helvetia Holding AG** (+9.7%).

The biggest detractors from performance were **Unilever Plc** (-9.2%), **Nestle SA** (-6.7%), **TietoEVRY Oyj** (-5.5%), **Roche Holding AG** (-4.7%) and **Fresenius SE** (-4.5%).

Europe looking good as a destination for sustainable income

Scepticism towards Europe remains high, with the Eurozone ranking joint-bottom alongside Japan on fund manager positioning relative to 10-year history – putting it behind emerging markets, the US and the UK, according to the February BofA Global Fund Manager Survey. A separate recent poll by J.P.Morgan found that only 3% of 700 respondents thought that Continental Europe would be the topperforming regional market in 2021. We think there is a pretty good chance that Europe surprises to the upside given the way events are unfolding both politically and economically. The sources of pessimism are well known: a fragmented region with its own currency but without a full federal toolkit, suffering growing pains, and finding it difficult to make decisions due to being too fair and the high number of actors.

Change is coming. At the political level we are seeing the early stages of the formation of a **safe asset** for the Eurozone enabled via (previously taboo) borrowing at the EC level to fund the €750bn Recovery Fund. This will both increase confidence in the Eurozone and create the conditions for increased long-term investment through the creation of a **pan-European yield curve**, unlocking significant investment from actors with very long time horizons, such as the pensions industry. Amid persistent disappointment in the ability of policy makers to drive inflation towards the 2% target, alongside the need to rebuild sustainably from the Coronavirus pandemic, the licence and the means are now there for governments to adopt **more optimal fiscally-focused policy mixes** funded by generationally-low interest rates. The chart below highlights the related recent upward shift in German interest rate expectations, anticipating higher levels of investment and global trade.

The recent accession of Mario Draghi to Italian prime minister and signs that Michel Barnier is considering running for president in the French 2022 elections are both supportive of this direction of travel, and, crucially, suggest that funds may be well spent. In Germany the 2021 election looks likely to result in a CDU/CSU coalition with the Green Party, whose conditionality centres around increased green investment and a shift away from the fiscally restrictive *schwarze null*; mirroring the situation in the European Parliament where no two parties now command a majority without the Greens.

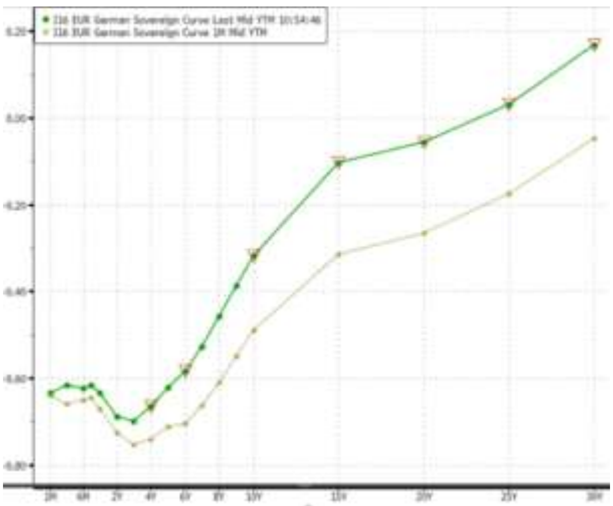


Figure 1: German Sovereign Yield Curve: 2nd March 2021 (green) vs. 1 month ago (yellow).

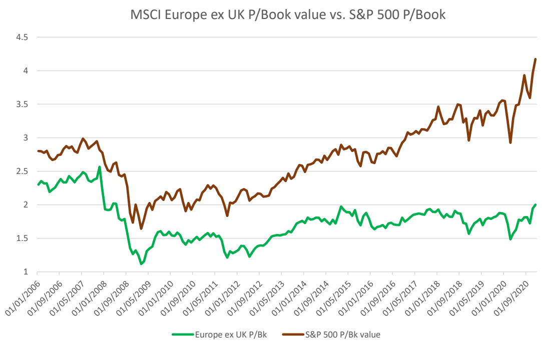
So why might European equities outperform?

European core competence looks well placed to supply what the world increasingly wants.
Downtrodden financials and peripherals may rebound in a cyclical fashion driven by improved confidence, and Europe’s export-facing industrial leaders will benefit from an improving outlook for trade post pandemic helped by a more outward-looking administration in the US. But from a structural point of view the potential firmly points back to core competence and what Europe is really good at. Europe doesn’t have a big consumer-facing tech sector but it does have a lot of companies that use technology well and that lead in the supply of sustainable goods and services. These can be found notably among smart green

Materials and Industrials, characterised by large installed bases and high recurring revenues, but also in the consumer-facing luxury goods and Staples sectors, both of which punch well above their weight in a global context when it comes to satisfying increasingly sustainably-minded global consumers, policy makers and in turn asset managers. In short, many of Europe's better export facing companies and markets look well placed to supply what the world increasingly wants, at a time when both internal and external demand is on the rise (underpinned by the very green and digitally-focused €750bn Recovery Fund alongside the Europe-China CAI trade deal and the US $1.9trn climate-focused infrastructure packages).

Valuations and dividend yields look attractive on a relative basis.

Meanwhile in both the US and Europe regulation looks set to continue to tighten around US big tech, and the partial reversal of Trump-era tax cuts look assured. Yet the US trades at a historic premium on 4x Price to Book value vs Europe's 2x. Europe also offers premium levels of dividend income 3% (France **CAC Index** YE 2020) vs. the US 1% (**S&P 500** YE 2020) after subtracting respective 10Y government bond yields, or **2.8% vs. 1.5%** 2021e dividend yields respectively in absolute terms.



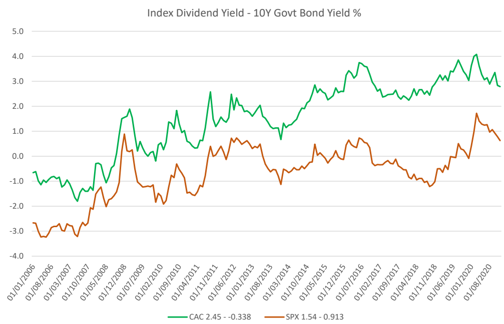


Figure 2: MSCI Europe ex UK P/Book value vs S&P500 P/Book (LHS), CAC 40 dividend Yield – French 10Y govt bond yield vs. S&P 500 dividend yield – US 10Y govt bond yield (RHS). Bloomberg data 31/12/2020

A good portion of Europe's higher dividend yield does come from downtrodden financials where the opportunity (if there is one) may be more cyclical than secular. However, there are clear attractions across areas in which Europe excels and where the Guinness European Equity Income Fund is invested. These include Industrials (dividend yield 2.3% for Europe vs. 1.6% US), Healthcare (2.5% vs. 1.6%), Materials, principally of the smart and green variety (2.7% vs. 2.0%), and Consumer Discretionary, which includes Luxury (1.8% vs. 0.7%). MSCI Europe ex UK Consumer Staples offers a slightly lower yield than its US counterpart (2.5% vs. 2.9%) but core components such as portfolio holdings Nestlé, Unilever and Danone offer higher levels of income than key US comparatos. In short, Europe looks like an attractive destination for income seekers looking for structural income growth opportunities.

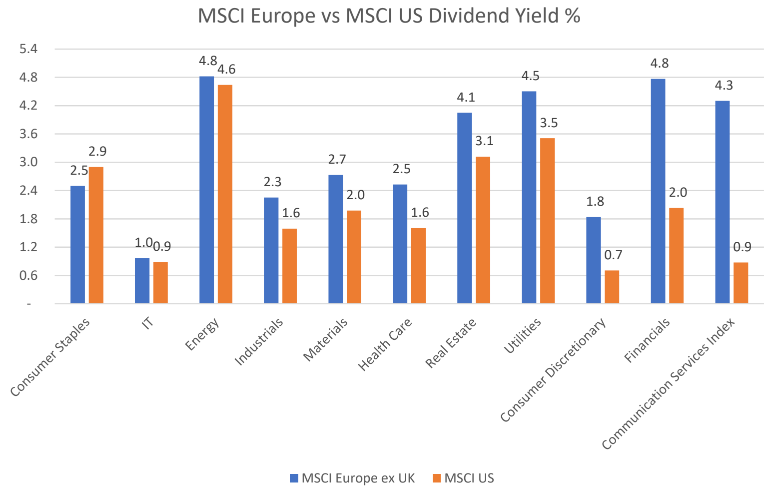


Figure 3: MSCI Europe vs. MSCI US sector dividend yields %, from left to right in order of least to greatest yield premium vs. US. Bloomberg data 28/02/2021.

Stock examples

An example is portfolio holding **Aalberts Industries** (€4.3bn mkt cap, listed on Euronext Amsterdam), which is seeing rising orders for its efficient digital piping systems portfolio, amid high potential for buildings refurbishment work – just c.3% of European building stock meets current energy efficiency standards. Demand is likely to be compounded as fiscal policy starts to feed in. The company's shares trade at a discount to the market on just 15x next year's expected earnings and look well placed to deliver high single-digit to low double-digit dividend growth.

Another is **Assa Abloy** (SEK244bn, €24bn mkt cap), the global market leader in digital locking systems, is some three times the size of its nearest competitor and well placed to benefit from a surge in buildings refurbishment and fiscally-linked infrastructure spend. Alongside there is potential for ongoing market share gains driven by mechanical peers becoming increasingly unable to keep up with the pace of digital change. In a post-Covid era, the demand for automatic 'hands-free' doors should prove strong along with remote access and identity controls. This is a company where higher-margin recurring revenue from aftermarket and service represent 70% of sales, making it both highly cash generative and scalable, attributes which look set to continue to translate into attractive and sustainable income growth.

Roche (CHF260bn), meanwhile, is the global market leader in diagnostics systems, which account for just 2% of clinical spending but are responsible for 60% of decision making. The pandemic highlighted UK underinvestment in high throughput testing systems infrastructure; something which looks set to be high up on many national shopping lists after the pandemic. Roche is uniquely positioned at the intersection of diagnostics, genetics and big data, leaving it well placed for an era of personalised medicine, and suggesting continued attractive dividend growth far into the future. All this comes at a discount to market multiple, valued at just 14.6x next years' earnings and a 2021 dividend yield of 3.2%.

Whatever the economic weather in 2021, we believe our focus on quality companies that generate persistent high cash returns supported by strong balance sheets will serve investors well for the long term. Guinness European Equity Income Fund holdings are characterised by high levels of self-determination: namely, identifiable barriers to entry, leading market positions, widening moats, aligned interests and long runways for growth. On a related note, downturns often confer significant market share gains on market leaders and innovative companies with strong balance sheets like those held in the fund.

As ever, we are pleased to report on our key metrics for quality, value, dividends and conviction. The fund continues to offer higher yield and higher quality than its benchmark, in a high-conviction portolio which trades at a discount to the market average.

		Guinness European Income Fund	MSCI Europe ex UK Index
Quality	Average 8 year CFROI %	13.2	8.4
	Debt / equity %	77.6	229.0
	Net debt / Equity %	50.1	60.8
	ROE %	20.3	7.9
Value	PE (2021e)	16.4	18.3
	FCF Yield % 12m trailing	5.4	3.3
Dividend	Dividend Yield (2021e) % gross	3.2	2.8
	Weighted average payout ratio %	46.0	63.0
Conviction	Number of stocks	30	344
	Active share	85	NA

Source: Bloomberg, Guinness data

Figure 4: Guinness European Equity Income Fund portfolio statistics vs. MSCI Europe ex UK Index (data as at 28/02/2021)

Nick Edwards (Portfolio Manager)

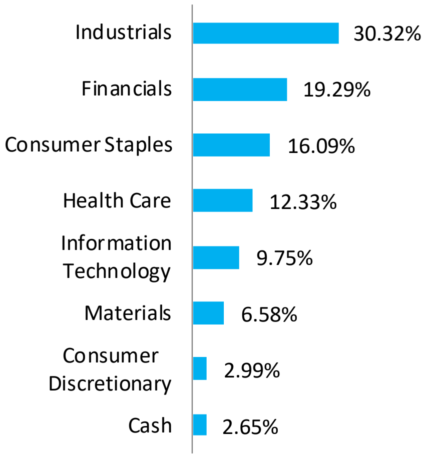
PORTFOLIO

28/02/2021

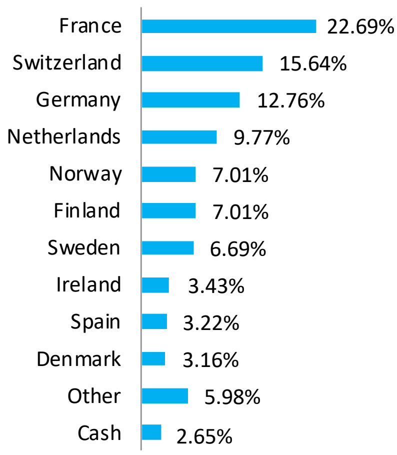
Fund top 10 holdings

Konecranes	4.0%
Salmar	3.5%
Epiroc AB	3.5%
AXA	3.5%
Siemens	3.4%
ASML Holding	3.4%
Smurfit Kappa Group	3.4%
Danone	3.4%
ABB	3.4%
Thales SA	3.3%
% of Fund in top 10	34.8%
Total number of stocks	30

Sector analysis



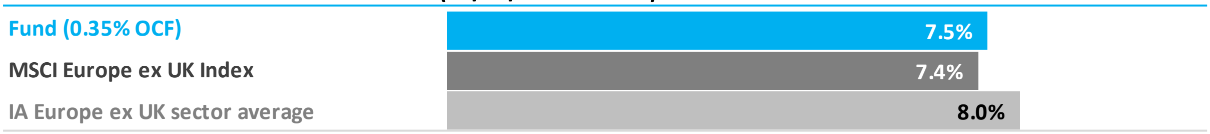
Geographic allocation



PERFORMANCE

28/02/2021

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



Discrete years % total return (GBP)	Feb '21	Feb '20	Feb '19	Feb '18	Feb '17
Fund (0.35% OCF)	9.1	9.1	-4.0	5.9	37.1
MSCI Europe ex UK Index	13.2	6.1	-3.6	11.2	26.2
IA Europe ex UK sector average	17.6	5.1	-6.1	13.7	23.0

Cumulative % total return (GBP)	1 month	Year-to-date	1 year	3 years	5 years	From launch
Fund (0.35% OCF)	0.6	-0.9	9.1	14.3	65.9	68.7
MSCI Europe ex UK Index	0.3	-2.0	13.2	15.8	62.5	67.2
IA Europe ex UK sector average	0.4	-1.5	17.6	16.1	62.3	73.8

RISK ANALYSIS

28/02/2021

Annualised, weekly, from launch on 19.12.13, in GBP	Index	Sector	Fund
Alpha	0.00	1.44	0.72
Beta	1.00	0.87	0.94
Information ratio	0.00	0.11	0.05
Maximum drawdown	-25.02	-24.43	-30.29
R squared	1.00	0.89	0.90
Sharpe ratio	0.23	0.29	0.25
Tracking error	0.00	5.44	5.18
Volatility	16.19	15.02	16.11

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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 from the website www.guinnessfunds.com, or free of charge from:-

- the Manager: Link Fund Manager Solutions (Ireland) Ltd, 2 Grand Canal Square, Grand Canal Harbour, Dublin 2, Ireland; or,
- the Promoter and Investment Manager: Guinness Asset Management Ltd, 18 Smith Square, London SW1P 3HZ.

Residency
In countries where the Fund is not registered for sale or in any other circumstances where its distribution is not authorised or is unlawful, the Fund should not be distributed to resident Retail Clients. **NOTE: THIS INVESTMENT IS NOT FOR SALE TO U.S. PERSONS.**

Structure & regulation
The Fund is a sub-fund of Guinness Asset Management Funds PLC (the "Company"), an open-ended umbrella-type investment company, incorporated in Ireland and authorised and supervised by the Central Bank of Ireland, which operates under EU legislation. If you are in any doubt about the suitability of investing in this Fund, please consult your investment or other professional adviser.

Switzerland
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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.