Guinness European Equity Income Fund

INVESTMENT COMMENTARY – June 2021

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

Aim

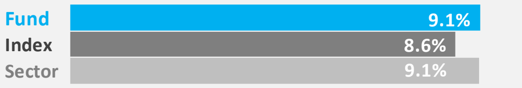
The Guinness European Equity Income Fund is designed to provide investors with exposure to high quality dividend-paying companies in the Europe ex UK region. The Fund aims to provide long-term capital appreciation and a source of income that has the potential to grow over time.

Performance 31.05.21

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	32.5	32.3	91.9
Index	25.5	28.6	84.9
Sector	27.5	27.0	91.5

Annualised % total return from launch (GBP)



Risk analysis (annualised, weekly, from launch)

	Index	Sector	Fund
Alpha	0.0	1.5	1.1
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	16.0	14.9	16.0
Sharpe ratio	0.3	0.4	0.4

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 May, the Guinness European Equity Income Fund produced a total return of 2.19% (in GBP) versus the Index return of 1.51% (in GBP). The Fund therefore outperformed its benchmark by 0.69%.

The largest positive contributors to performance over the month of May (in EUR) were **Deutsche Post** +17%, **Kering** +13%, **Fresenius** +10%, **Bakkafrost** +9% and **Mapfre** +8%.

At the other end of the spectrum, the biggest detractors from performance were **Tieto** -8%, **Helvetia** -4%, **Deutsche Boerse** -4%, **Siemens** -4% and **Konecranes** -3%.

	1 month	YTD	1 Yr	3 Yr	5 Yr	Since Launch
Fund	2.2%	12.8%	32.5%	32.3%	72.4%	91.9%
Index	1.5%	8.5%	25.5%	28.6%	73.2%	84.9%
Sector	1.6%	8.5%	27.5%	27.0%	72.5%	91.5%

Figure 1: Performance data.
Source: Financial Express 0.35% OCF. Cumulative Total Return in GBP as of 31.05.2021

Month in review

May was a favourable month for the fund, with our quality value focus driving continued outperformance vs. benchmark and both Europe Value and Growth indices, while Europe itself continued its recent run of outperformance vs. other regions. The backdrop for European quality income remains favourable with the increased focus on sustainability globally working to the advantage of European leaders across Industrials, Consumer Staples and Discretionary (notably Luxury) and Healthcare. The two key pieces of portfolio news over the month were confirmation that **Fresenius SE** is exploring a breakup of the group to focus on core competence in the Kabi division, and the announcement that Antoine de Saint-Affrique, CEO of Barry Callebaut, has been appointed to lead **Danone**. Both of these developments should ultimately prove positive for returns and valuations down the line, given favourable respective capital allocation track records. In terms of Politics, we were pleased to see constructive dialogue from Armin Laschet (the lead candidate for German Chancellor), calling for a "great free trade zone" between Europe and the US.

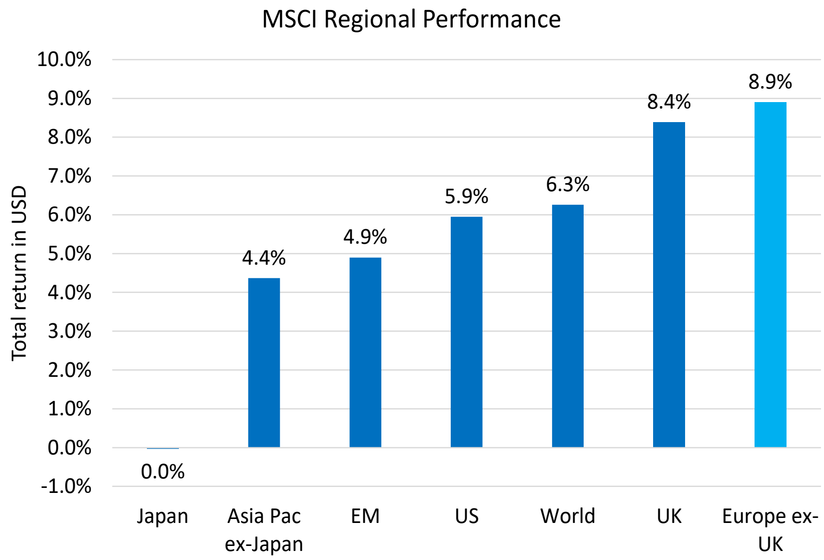


Figure 2: MSCI Regional Performance data 31st March - 31st May 2021 in USD. Source: Bloomberg.

Portfolio review

At the portfolio level the main development was that the Guinness European Equity Income Fund recorded its first bout of activity for nearly a year, making **two portfolio changes.**

The fund sold **ASML** and **Sika AG** which had both done about three years work in one as the market warmed to high-quality enablers of resilience and job creation; but valuations had become stretched on approximately 40x earnings and yield contribution to the portfolio insufficient at or under 1%.

The Buys **Daimler AG** and **Kaufman & Broad SA** are both high-quality businesses offering exceptional value on ~7x and 12x earnings respectively, much higher levels of dividend income of around 5%, and accompanied by clear catalysts and long runways for sustainable value creation.

- **Daimler AG** (DAI GR, €85bn) joins the portfolio ahead of the spin-out of **Daimler Trucks** (~6% operating margin), leaving high-quality **Mercedes-Benz** (14% operating margin) as a stand-alone company, with good potential for rerating against a track record for generating persistent high cash returns. The spin-out will see EV-focused Mercedes-Benz keep the software assets, and Mobility services shared between the two separate companies. This is a business that ticks a lot of boxes in terms of our focus on market leaders that we trust with widening moats. Mercedes will have a strong balance sheet, with the ~20% net cash position set to be shared across the two businesses. It is also a global top 10 brand, with Mercedes-Benz no.8 in 2020 according to Best Global Brands, and the split may also unlock potential for other portfolio brands. Crucially for the future the company occupies a leadership position in electric vehicles, with approximately 10% global and 25% European EV market share. By 2030 some 50% of fleet is expected to be all electric.

In our view the moat is stable and widening with both persistent high R&D/sales of over 6% and premium brand resilience in downturns set to endure. While incumbent and premium combinations look best placed in terms of both the capex needs of the shift to EV and the longer-term potential to grow the TAM (Total Addressable Market) via mobility services including ride hailing, car sharing and charging. The recent analyst spin-out call highlighted the potential for recurring revenues to rise towards ~50% of sales from the current ~30% as the business becomes more circular, which, along with brand quality, strongly argues for a higher valuation vs. the current pre spin ~7x earnings and ~5% dividend yield (at 40% payout ratio). We also think that there is strong potential in spite of high transition costs for the margin to at minimum endure, given the potential for some 15% fixed cost savings from automation over-time.

We feel this is a company and management team which we can trust. Despite minor involvement in the German emissions scandal, Daimler leads peers on governance, and management's long-term incentives are well aligned with shareholders with a significant portion based on returns (vs peers). Large shareholdings by the Chairman of Geely (9.7%) and BAIC Motor (5%) speak to high brand perception in China and access in the largest auto market in the world. In a world increasingly focused on the sustainable and circular along with premium quality it is hard to see why Mercedes-Benz standalone shouldn't be treated more like other high-quality European green industrials characterised by large installed bases and high levels of recurring revenue. In the meantime we can look forward to a rare good 5% dividend yield.

- **Kaufman & Broad SA** (KOF FP, €811m) based in Neuilly-sur-Seine, Paris, is one of France's largest housebuilders, and has a strong track record for generating persistent high cash returns averaging ~20% per annum for the last eight years. Cash conversion is excellent, supported by the sale-before completion model, and the balance sheet is robust characterised by negative net debt to equity of -15% at year-end 2020. We think the company is in a good place vis-à-vis the pandemic response to build back more sustainably and create jobs; and K&B's focus on residential and commercial to residential rebuild along with its strong sustainability profile (MSCI A ESG rating) puts it in pole position for the job. Supply and demand dynamics are attractive in our view, with a scarcity of supply due to limited permits likely to improve through 2022/23 as the reality of the necessity of new housing eclipses pre-election hesitancy harking back to the last elections where many REM candidates won on pledges not to build. In the meantime K&B will remain busy and pricing positive with a Q1 2021 backlog which rose +5% to €3.6bn against a backdrop of positive pricing with 97% of units located in high-demand low-supply category areas.

  We think this is a management team that you can trust and is well aligned with shareholders. Management and employee share ownership is high at some 10.7% of shares outstanding, while the Rolloy family own approximately 13.6% of stock ensuring a long-term focus. The CEO Nordine Hachemi is ex Bougues Construction, La Saur and Sechilienne-Sidec (Albioma); and sustainable know-how is evident in the Paris Austerlitz train station redevelopment being 30% less dense than the Paris average, solar accounting for 50% of building energy requirements and a biodiversity label with over 20k sq.m of planted areas and a commitment to reuse building materials.

  Whilst there is some debate over what or if a portion of the €1bn Austerlitz project may be recognised in 2021 accounts, this business represents good value on just ~11x 2022e earnings relative to sustainable cash flow returns of over 20%. Against peers multiples also look favourable, and lower-than-average margins indicate a business that is not "over earning" and looks after its stakeholders. We are naturally cautious when it comes to the construction industry, but we think this smaller addition to the portfolio should pay dividends. Indeed, with a dividend yield of over 5% one is paid to wait, and the 10% share buyback underway adds to confidence.

On the topic of **sustainable income** we updated on recent work breaking down the carbon intensity of the portfolio to include the contribution of Daimler and Kaufman & Broad. This highlights overall a very resilient profile for the income portfolio vs many income funds which draw high but often unsustainable levels of dividends from carbon-intensive commodity and regulated sectors. The chart below shows the portfolio on a stock-by-stock basis, with a weighted average carbon intensity of just 35.2t CO_2/m USD vs. 139.7 for the MSCI World Index. **Daimler** records low levels of net emissions, and the two largest contributors **Smurfit Kappa** and **Kaufman & Broad** are both solutions providers offering cleaner alternatives in the otherwise carbon-intensive industries of paper and home building respectively.

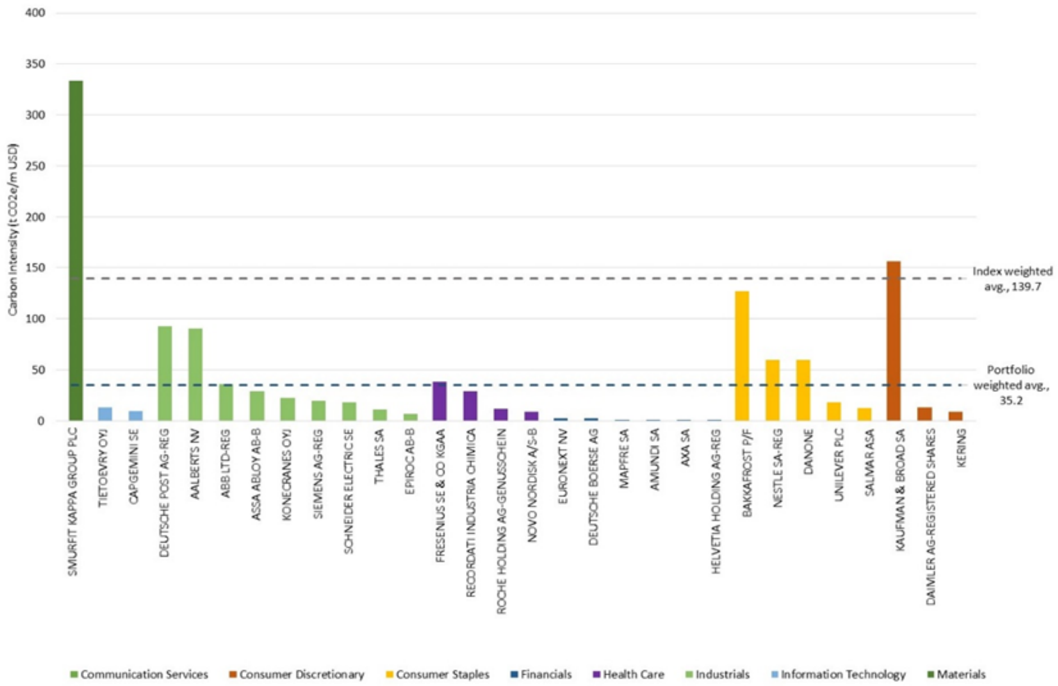


Figure 3: Guinness European Equity Income Portfolio Carbon Intensity (t CO_2/m USD). Source: MSCI, Bloomberg data.

We thank you for your continued support.

Nick Edwards (Portfolio Manager)

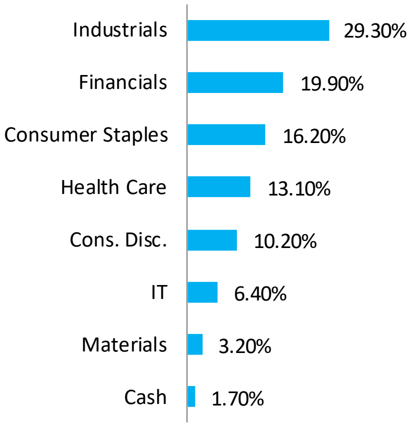
PORTFOLIO

31/05/2021

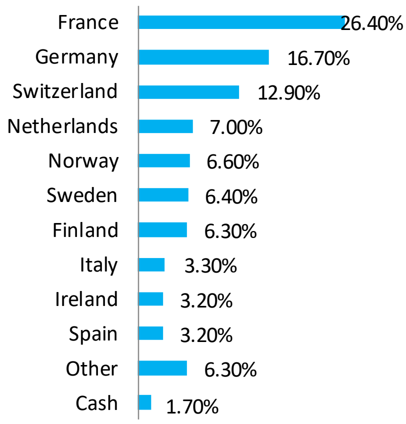
Fund top 10 holdings

Euronext	3.8%
Deutsche Post	3.6%
Kering SA	3.6%
Fresenius SE & Co KGaA	3.5%
AXA	3.3%
DAIMLER AG-REGISTERED	3.3%
ABB	3.3%
Schneider Electric	3.3%
Bakkafrost	3.3%
Recordati SpA	3.3%
% of Fund in top 10	34.4%
Total number of stocks	31

Sector analysis



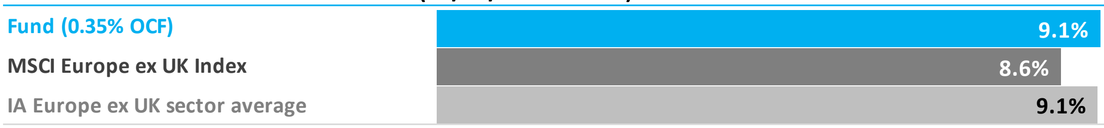
Geographic allocation



PERFORMANCE

31/05/2021

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



Discrete years % total return (GBP)	May '21	May '20	May '19	May '18	May '17
Fund (0.35% OCF)	32.5	-5.7	5.9	-5.0	37.1
MSCI Europe ex UK Index	25.5	1.3	1.1	0.2	34.5
IA Europe ex UK sector average	27.5	2.9	-3.3	2.4	32.7
Fund vs sector	5.0	-8.6	9.2	-7.3	4.4

Cumulative % total return (GBP)	1 month	Year-to-date	1 year	3 years	5 years	From launch
Fund (0.35% OCF)	2.2	12.8	32.5	32.3	72.4	91.9
MSCI Europe ex UK Index	1.5	8.5	25.5	28.6	73.2	84.9
IA Europe ex UK sector average	1.6	8.5	27.5	27.0	72.5	91.5

RISK ANALYSIS

31/05/2021

Annualised, weekly, from launch on 19.12.13, in GBP	Index	Sector	Fund
Alpha	0.00	1.45	1.09
Beta	1.00	0.87	0.94
Information ratio	0.00	0.08	0.11
Maximum drawdown	-25.02	-24.43	-30.29
R squared	1.00	0.89	0.90
Sharpe ratio	0.32	0.37	0.35
Tracking error	0.00	5.37	5.13
Volatility	16.04	14.87	15.97

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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

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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.

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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.

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Telephone calls will be recorded and monitored.