Guinness European Equity Income Fund

INVESTMENT COMMENTARY – July 2021

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

Aim

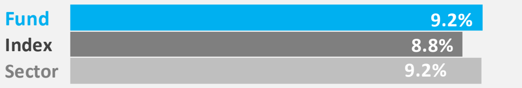
The Guinness European Equity Income Fund is designed to provide investors with exposure to high quality dividend-paying companies in the Europe ex UK region. The Fund aims to provide long-term capital appreciation and a source of income that has the potential to grow over time.

Performance 30.06.21

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	24.9	33.2	94.0
Index	21.8	30.6	88.3
Sector	23.7	28.9	93.8

Annualised % total return from launch (GBP)



Risk analysis (annualised, weekly, from launch)

	Index	Sector	Fund
Alpha	0.0	1.4	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	14.8	15.9
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

At the end of June 2021, The Guinness European Equity Income Fund produced a total return of 8.3% (in GBP) over the second quarter, versus the Index return of 7.7% (in GBP). The Fund therefore outperformed its benchmark by 0.57%. Having produced a total return of 13.9% over the year to date, the fund remains well ahead of the Index, which is up 10.4%, and the MSCI Europe Value and Growth Indices, up 10.3% and 11.6% respectively.

European equities, still a significant underweight in most global portfolios, continued to perform well in Q2 against a backdrop of reopening and improving global activity supported by the shift to a more open trade policy towards Europe from the Biden administration. From a longer-term perspective the increasing emphasis on ESG represents a long-term tailwind for many of Europe's (and the Fund's) sustainably-focused market leaders.

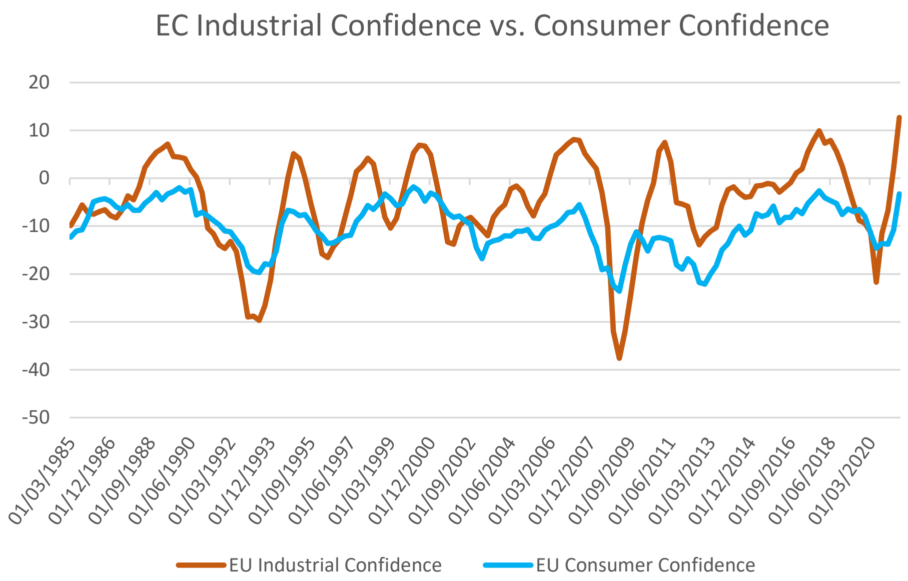
	1 month	YTD	1 Yr	3 Yr	5 Yr	Since Launch
Fund	1.1%	13.9%	24.9%	33.2%	68.5%	94.0%
Index	1.8%	10.4%	21.8%	30.6%	70.2%	88.3%
Sector	1.2%	9.8%	23.7%	28.9%	71.7%	93.8%

Figure 1: Performance data.
Source: Financial Express 0.35% OCF. Cumulative Total Return in GBP as of 30.06.2021

Quarter in review

Q2 2021 was characterised by continued recovery in European economic indicators. Industrial confidence and consumer confidence both moved higher and the former reaching new highs since our dataset began in 1985, supported by the prospect of five or more years of fiscal policy. German IFO Expectations and the Belgium survey of Industrialists Confidence both also reached post-financial crisis new all-time highs. Meanwhile, manufacturing PMIs appeared to top out at 65, with services still rising but not far behind at 58.

This is arguably good news for quality income investors given the track record of dividend aristocrats' outperformance post PMI peaks (see Dividend section).



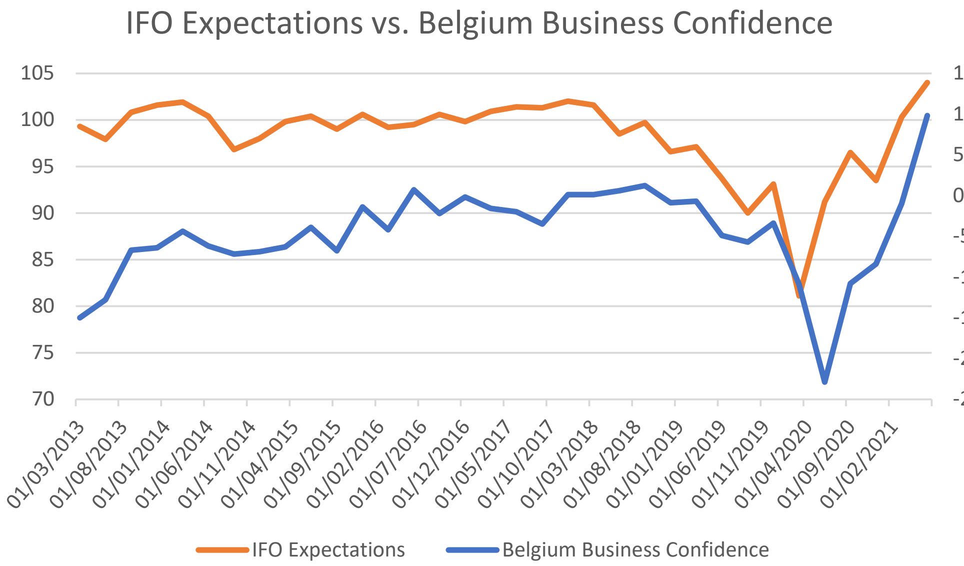
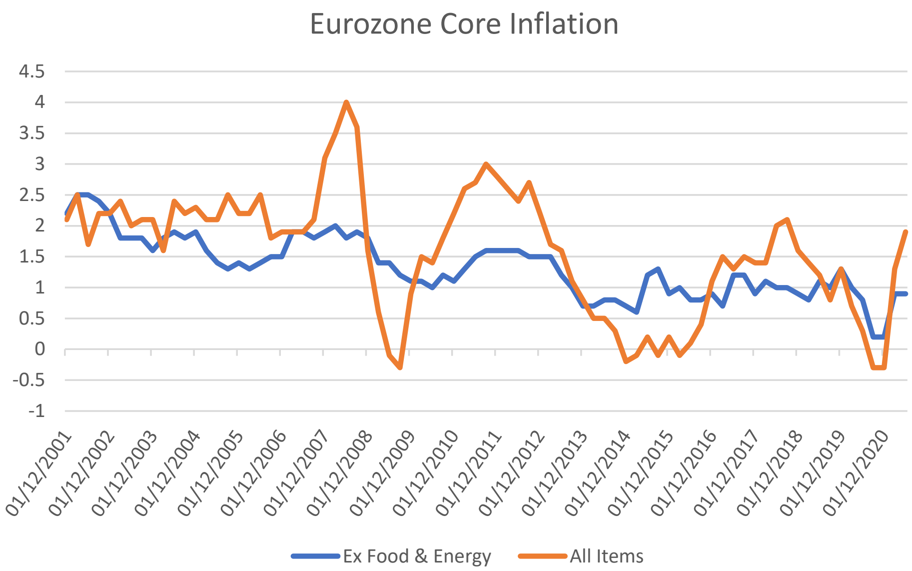


Figure 2: EC Industrial Confidence vs Consumer Confidence (LHS), IFO Expectations vs Belgium Business Confidence (RHS). Data as of 30th June 2021. Source: Bloomberg.

Policy makers are now only too aware of the pitfalls of removing stimulus too quickly and look set to maintain the pace of asset purchases for now, and the EU wide fiscal rules vacation has been extended until 2023. With ECB president Christine Lagarde at the most recent ECB meeting citing "still significant slack… any tightening premature" while upgrading Euro area 2021 expected growth to +4.6% vs. 4% previously and 2022 expectations to +4.7% vs. 4.1%. The traditionally hawkish head of the Bundesbank, Jens Weidemann, also commented that "stubbornly excessive inflation would require, among other things, excessive wage agreements". So far, we have no evidence of this. Core inflation remains modest at 0.9% and CPI all items +1.9% (which includes food and energy). While Eurozone labour cost growth remained moderate, rising +2.2% in April, and the Eurozone unemployment rate continues to trend gradually lower at 8% with plenty of slack vs. 8.7% post pandemic peak and 7.1% pre-pandemic.

Meanwhile the savings rate remains high at 20% which suggests an ongoing improvement in consumer and services activity remains ahead.



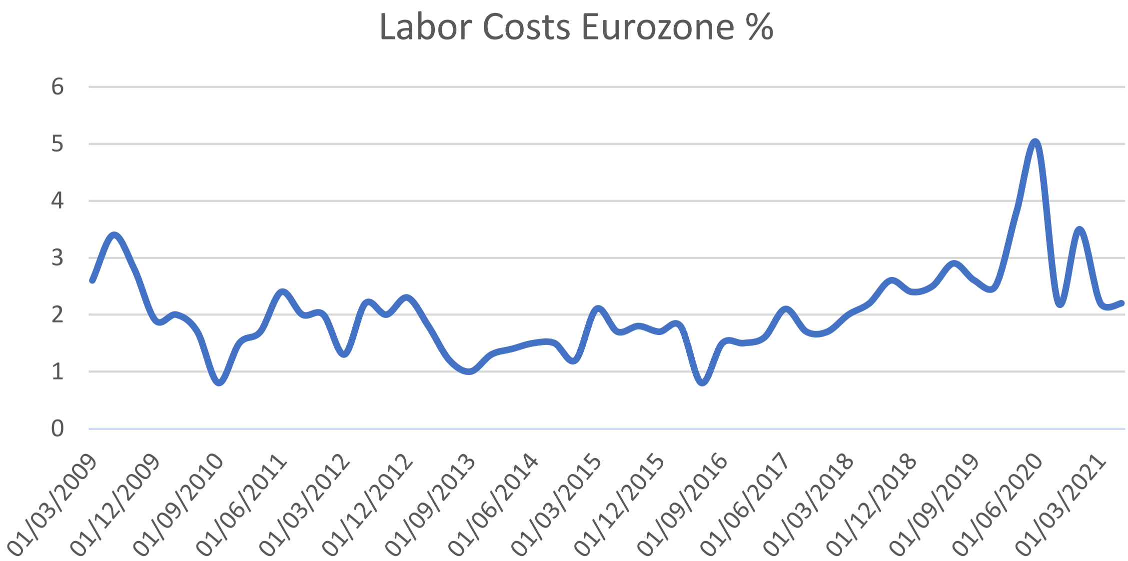
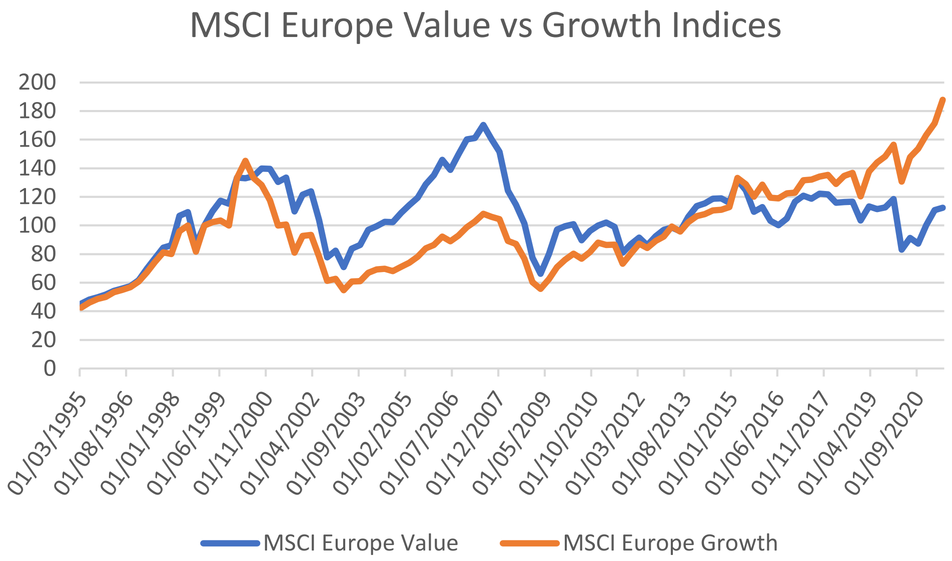


Figure 3: Eurozone Core Inflation (LHS), Eurozone Labor Costs (RHS). Data as of 30th June 2021. Source: Bloomberg.

Against that backdrop and dovish central bank commentary, 10Y government bond yields remained depressed vs. history (which proved a tailwind for the growth style, overtaking value over the year to date). This leaves European equity income remaining attractive relative to both 10Y government rates and the US, with France's CAC 40 Index yielding 2.5% over French 10Y government bonds vs. the US S&P500 negative at -0.1% vs. 10Y treasuries (see chart overleaf). We also note that equity bond correlation has turned positive, suggesting traditional 60:40 portfolios may increase allocations to equities, thereby further increasing demand for long-duration/bond-like equities. The upward shift in correlations is arguably being driven by the reduced attractions of ultra-low bond yields, but also risk aversion towards higher levels of government debt. This in turn looks likely to result in governments keeping nominal rates low while they try to maintain higher levels of inflation to erode the debt – an environment to which quality income should be well suited. In Italy the yield spread vs. German 10Y fell to new post-financial crisis lows supported by much-improved relations with the ECB after Mario Draghi's appointment to Prime Minister. Fundamentally, the arrival of Mario Draghi is good news for confidence in Europe, as it suggests that recovery funds will be well spent and, crucially, that structural reforms will be enacted.



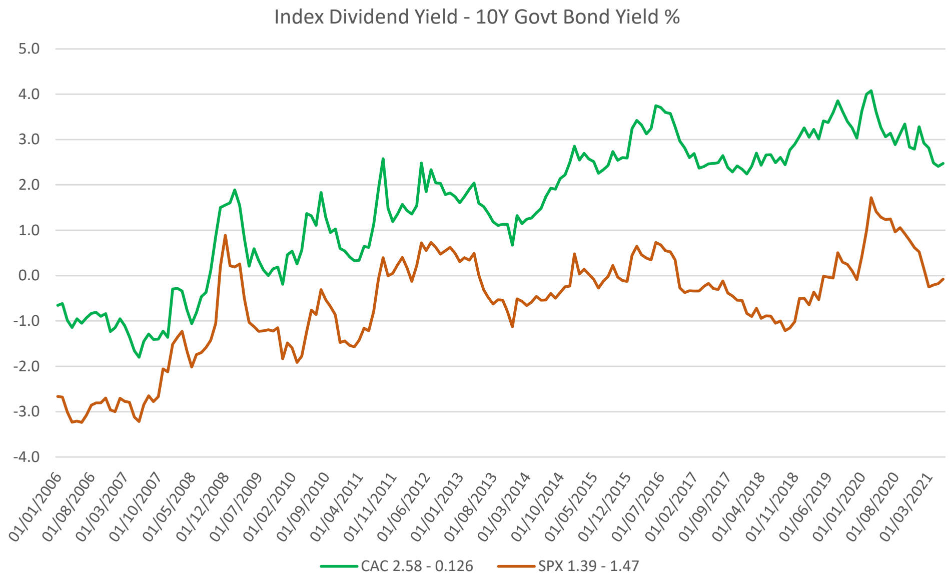


Figure 4: MSCI Europe Value vs Growth Indices (LHS), CAC40 & S&P500 Index Dividend Yields minus respective 10Y government bond yields (RHS). Data as of 30th June 2021. Source: Bloomberg.

Whatever happens to US rates will of course echo in Europe, and the dialogue around tapering does look set to pick up later in the year. The September 11th German elections could also act to either increase volatility or keep the market anchored until an outcome is known. Both outcomes may point towards more defensive sector rotation ahead, which should work to the benefit of quality income. Right now in Germany, the CDU/CSU coalition has regained its lead with 29% in the polls vs. the Greens on 19%. This is a market-friendly outcome in our view if CDU prevails with Armin Laschet as Chancellor with the Greens in a minority government. The Green party is more partial towards higher spending but also more state control and taxation, while Laschet has been quick to highlight cost-sensitive climate planning, and is pushing for more EU integration and has called for a "great EU US free trade zone". Whatever the outcome the Fund should prove well placed, being populated with high quality companies with strong balance sheets, including plenty of smart green industrials and materials and a number of companies across exchanges and insurers that would respond well to increased volatility or interest rate expectations.

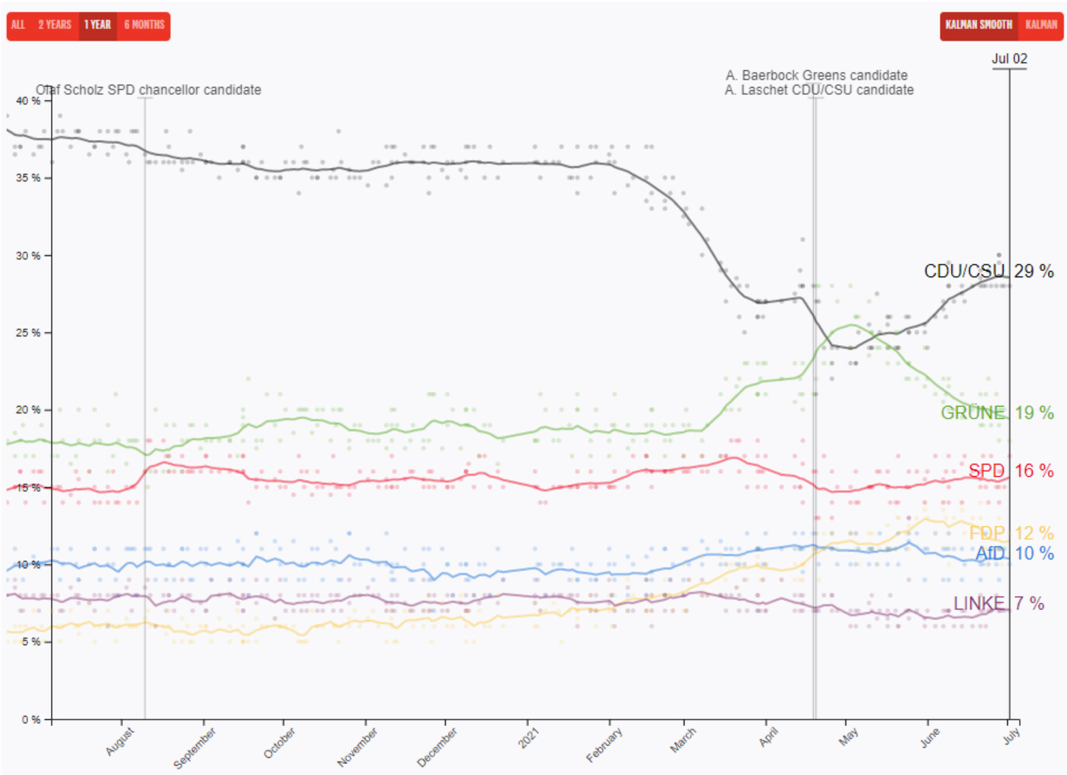
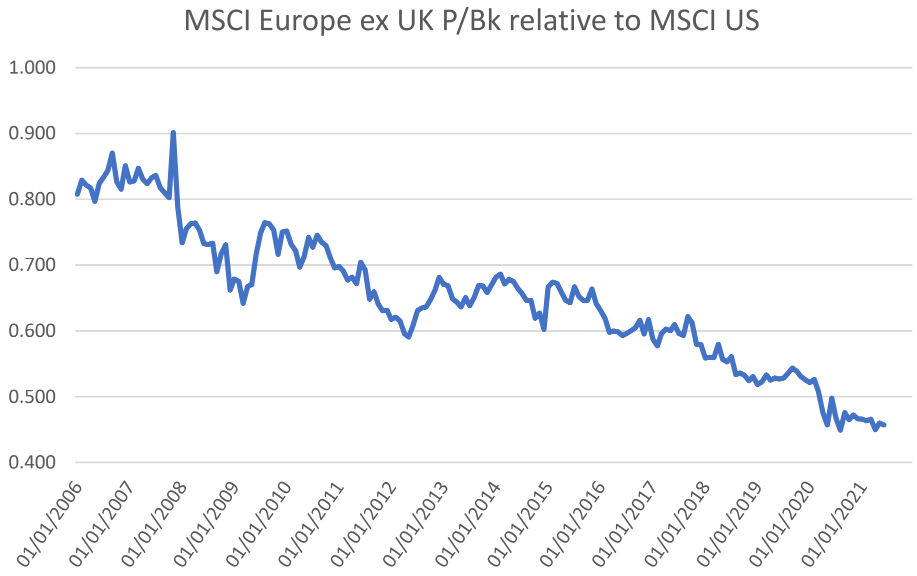


Figure 5: Politico aggregate German election polls. Data as of 30th June 2021. Source: Politico.

As far as fiscal policy goes, the first tranche of Eur800bn NextGen EU funding was priced in June, and a total of €80bn is expected to be raised in 2021. Borrowing is seen averaging at €150bn per annum, with 30% earmarked for green and digital transformation. Eagle-eyed observers will have noted the uptick in issuance and turnover in EU paper. This is not trivial in our view but represents the beginning of a pan-European yield curve which will enable large actors with deep pockets and long timeframes – predominantly from the pensions industry – to enter the market and increase allocations towards infrastructure. Again, in this respect, we believe the fund is well positioned.

European equities continue to trade at attractive multiples vs. their US counterparts, and many of the high-quality sustainably focused market leaders, like those held in the fund, are increasingly finding themselves in a position to supply what the world wants.



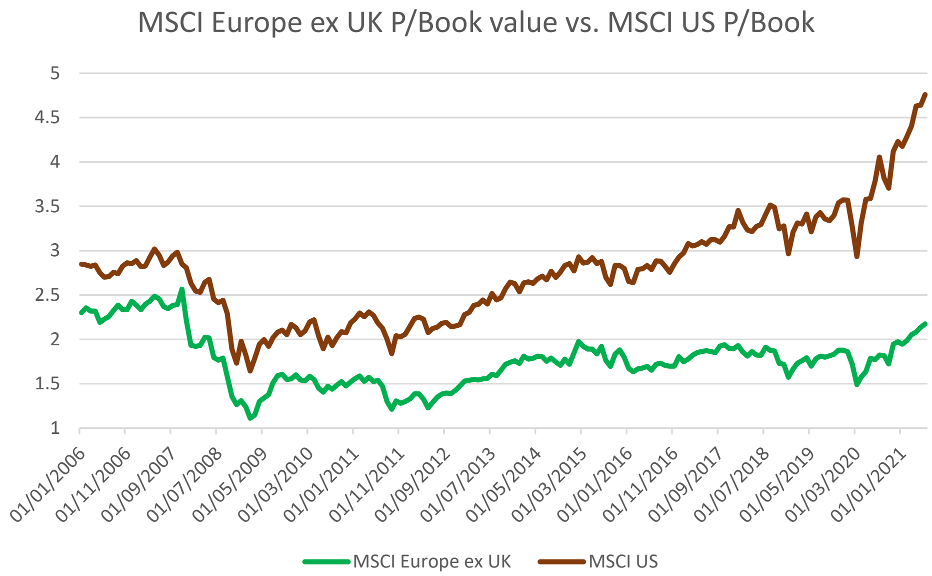


Figure 6: MSCI Europe ex UK Price/Book value relative (top) and absolute (bottom) vs. MSCI US Index. Source: Bloomberg data

Performance Drivers

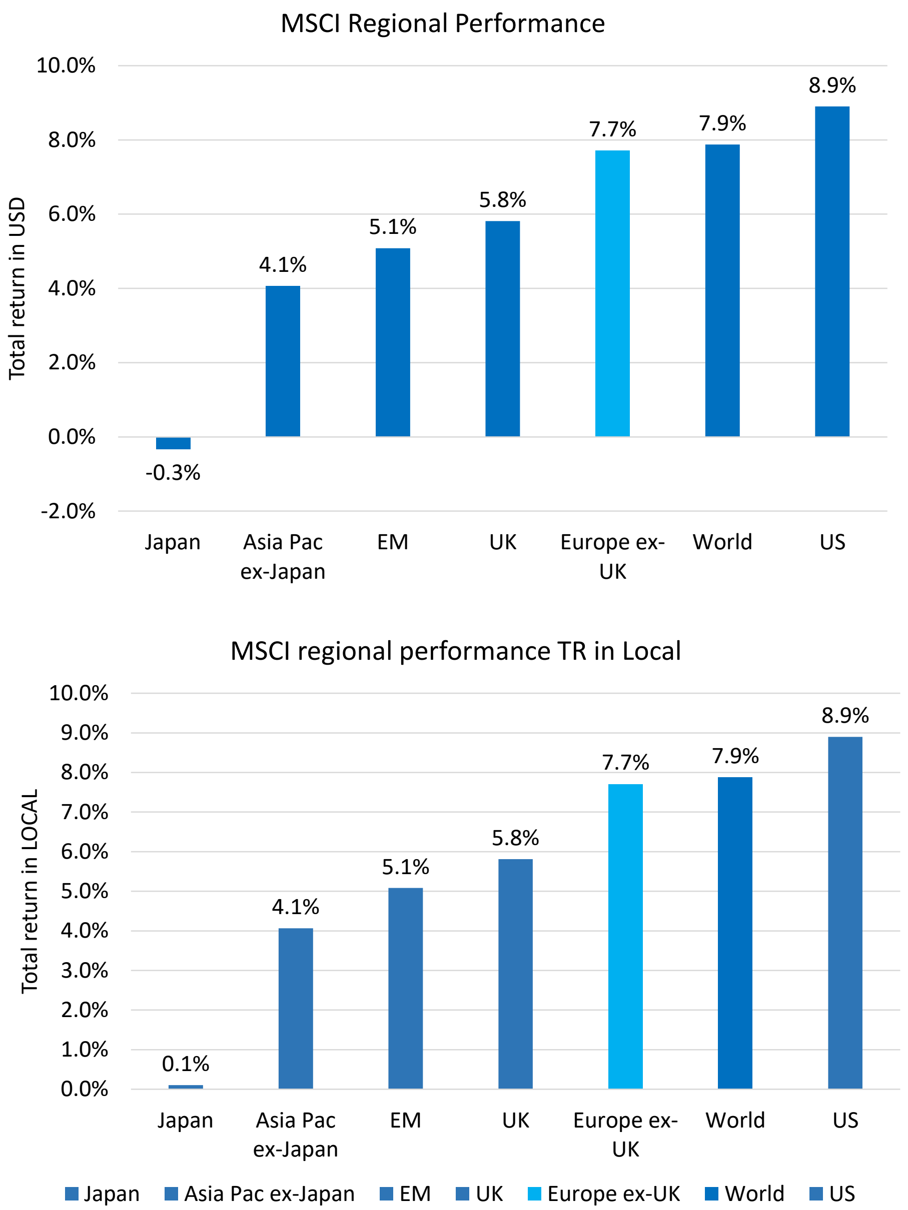


Figure 7: MSCI World Index geographic total return breakdown for Q2 2021, in USD (top) and Local currency (bottom). Europe in light blue. Source: Bloomberg data

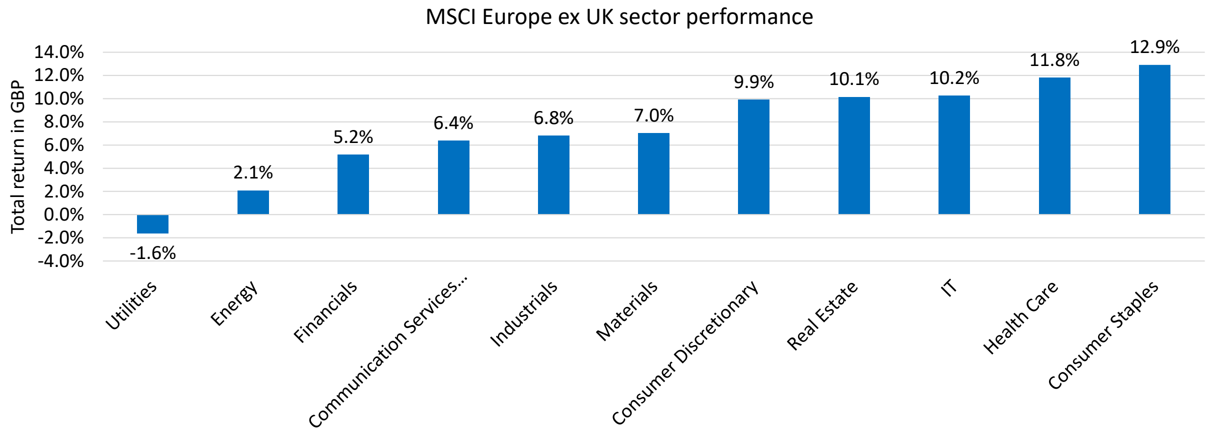


Figure 8: MSCI Europe ex UK Index sector total return breakdown for Q2 2021, in GBP. Source: Bloomberg

As well as more defensive sector rotation, Q2 2021 saw investors increase weightings in more consumer-orientated holdings as lockdown easing stuttered under the Delta variant.

Across **Financials** our exchanges holdings **Euronext** (+19% in EUR) and **Deutsche Boerse** (+6.3%) collectively outperformed after a long-time out of the limelight. This came as investors started to anticipate potential for increased levels of volatility in H2, as central banks start tapering and uncertainty remains over the degree to which inflation will make itself felt. Euronext did notably well after having closed its acquisition of Borsa Italiana from LSE, giving it critical mass across regional equity, fixed income and settlement.

Our **Healthcare** holdings performed particularly well, with **Novo Nordisk** (+22.3%) driven by the prospect of a return of new patient starts post pandemic, along with a continuation of the share buyback and positive news around the pipeline. **Fresenius** (+17.2%) picked up sharply after management put a February 2022 deadline on its review of group structure, which looks likely to result in a break-up to focus on the core Kabi infusion therapy business. **Roche** (+15.2%) also returned to form after a subdued period for the share price, helped by the restart of elective surgeries and an accelerated approval timeline for its Alzheimer’s drug gantenerumab.

Our **Consumer Staples** underperformed the sector over the quarter. **Nestle** (+13.3%) performed well, helped by confirmation of the sale of its US Waters business. **Danone** (+4.9%) trod water, but returned to form in the last week of the quarter and post quarter end as investors started to reassess the strong capital allocation credentials of the new CEO and Chairman, ex-Barry Callebaut and Legrand respectively. Our holdings in the two salmon farmers **Salmar** (-1.3%) and **Bakkafrost** (+3.8%), sector leaders in innovation and sustainability, struggled as lockdowns and a return to eating out were delayed. Salmar was also affected the by Norwegian regulator’s removal of some permits due to biological issues, which whilst negative in the short-term, also highlights how supply-constrained the sector is. Set against the potential for continued demand growth – with US consumption some half of Europe per capita and China half that of the US – we continue to see a favourable outlook for price and sector leaders positioned to innovate in a sustainable fashion. **Henkel** joined the portfolio close to the end of the month of June, and therefore made only a minimal contribution to performance.

Our **Industrials** continued to perform well vs. the sector, **Deutsche Post AG** (+26.3%) notably so as investors started to really take on board the structural nature of the shift towards e-commerce delivery at its DHL division. One could say the same for **Smurfit Kappa** (+16.4%, Materials), where the imperative behind sustainable and circular packaging is only becoming more pronounced. **ABB** (+10.9%) also did well as it emerged that management is considering the spin-out of process automation (which is largely focused on commodity industries) as well as the sale/spin-out of the high multiple EV charging sub-division. **Konecranes** (-6.5%) was a laggard after a very strong Q1 and ahead of the merger with Cargotech which the EC will take time to assess. Likewise, **Epiroc** (-4.5%) and **Siemens** (-4.1%) were lacklustre after a very strong Q1 period, and payment of a special dividend from the former.

Among our other two divisions with meaningful near sector index weightings, **IT** and **Consumer Discretionary**, **Kering** +26.2% performed well as it increased its buyback price level to €1000 and investors reassessed the strength of its brands and online strategy success in Asia. Our other two Consumer Discretionary holdings, Daimler and Kaufman & Broad were only added towards the end of the quarter, and are written up below. **Capgemini** (+13.2%, IT) did well, helped by strong data from US peer Accenture which highlighted increased cost flexibility as well as customer demand for technology/resilience solutions post pandemic.

Positioning

The fund is characterised by a high 85% active share against the Europe Ex-UK benchmark. Our focus on companies with good track records that are in charge of their own destiny and have the potential to deliver high and rising returns for a long-time to come means the fund has no exposure to commodity and regulated sectors like Utilities, Real Estate, Energy and Banks. Meanwhile, sectors like Industrials, Consumer Staples and Financials, in which the fund is overweight, hold many high quality and scalable companies.

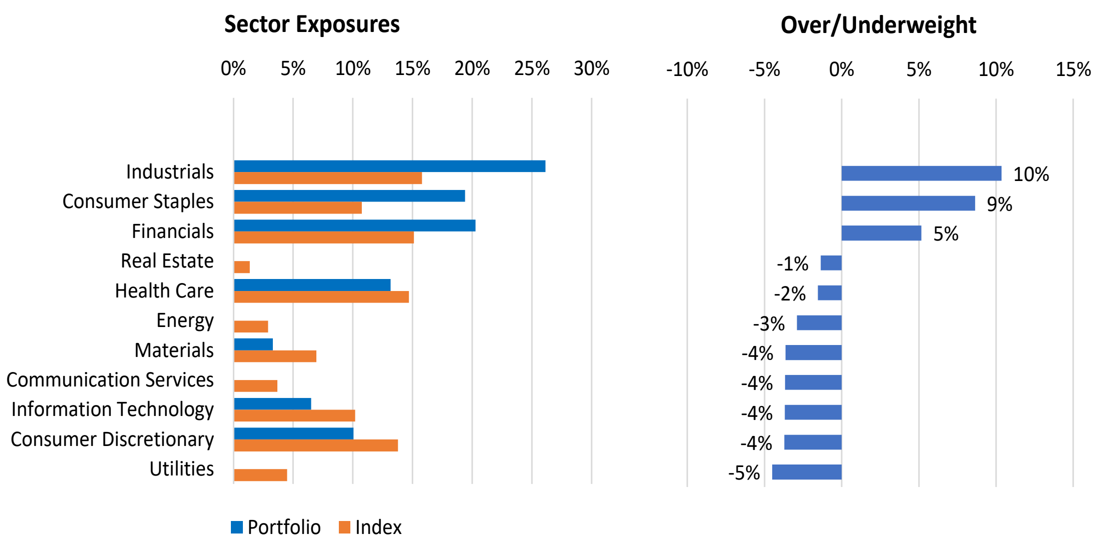


Figure 9: Sector over/underweight % breakdown of the fund versus MSCI Europe ex UK Index. Guinness Asset Management, Bloomberg (data as at 30.06.2021).

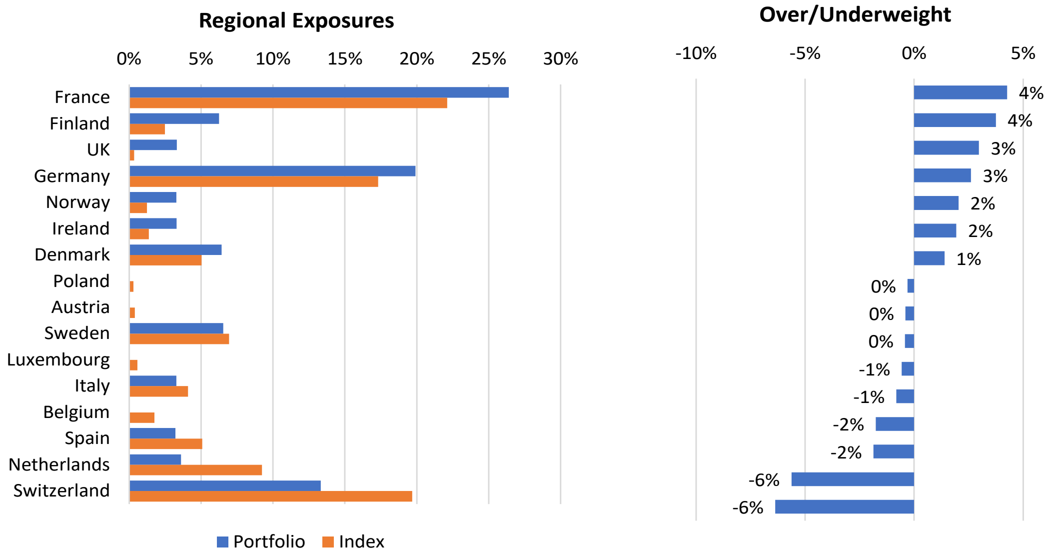


Figure 10: Regional breakdown of the fund versus MSCI Europe ex UK Index on a geographic basis. Guinness Asset Management, Bloomberg (data as at 30.06.2021).

The fund's country over and underweight positions result from a pull between two factors. Naturally France and Germany represent high absolute weights in the index at 22% and 17% respectively; but it is also the case that we simply find a greater number of high-quality companies with strong prospects in "high IP" markets with good corporate governance like Scandinavia.

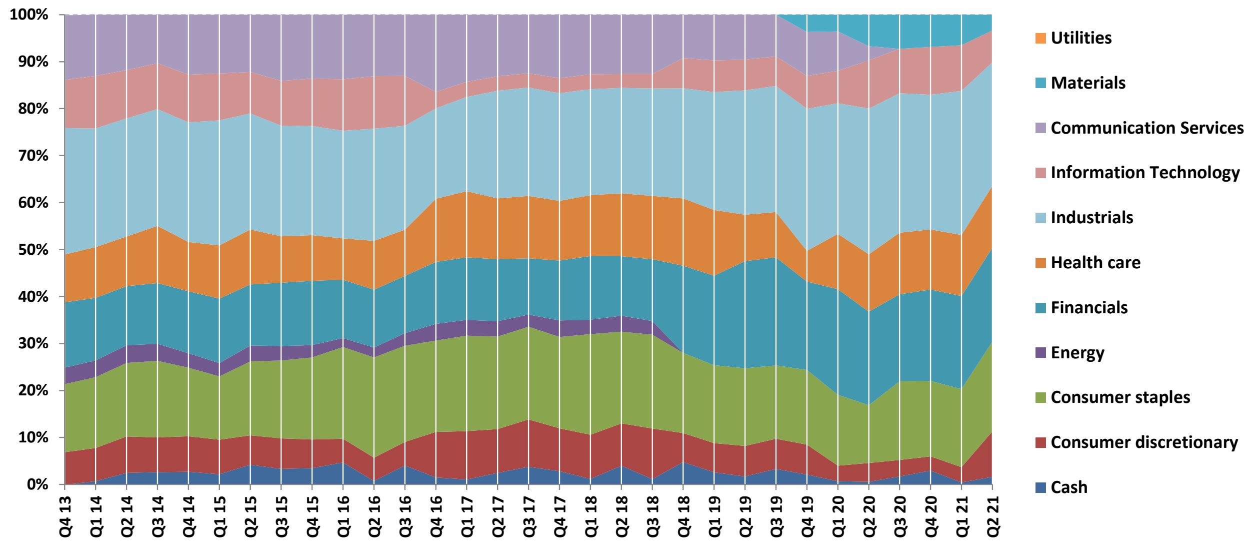


Figure 11: Portfolio sector breakdown at end Q2 2021, Guinness Asset Management

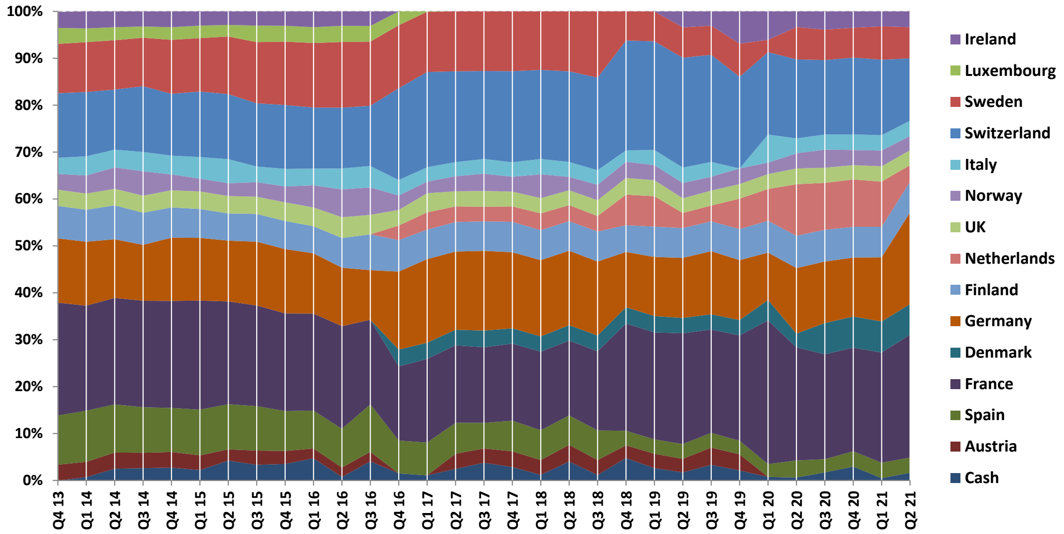


Figure 12: Portfolio geographic breakdown at end Q2 2021, Guinness Asset Management

The Dividend

The fund declared a class Z GBP distribution of 0.3077 per share. With some 24% of this year's pot remaining outstanding for collection, there is a good chance that 2022 will see the Fund payout per share rise above 2019 levels. With the majority of 2021 dividends now past, two companies look set to have reduced payouts in 2021, while five have held their dividend flat and twenty three have grown their dividend versus 2020. The trailing yield is distorted by the forced nature of dividend cuts and delays seen in 2020, along with the higher-than-usual proportion of income paid out in January 2021; however, on a forward basis the fund yields 3.24% pre withholding tax, or approximately 2.7% post withholding tax, inline with the MSCI Europe ex UK headline yield.

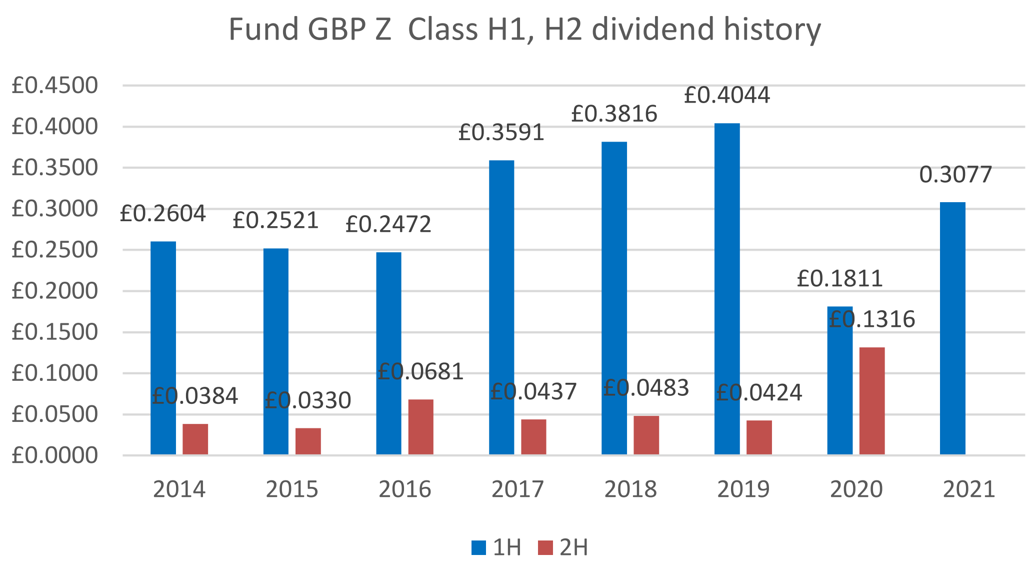


Figure 13: Fund GBP Z Class dividend history. Guinness Asset Management, Bloomberg (data as at 30.06.2021).

The fund offers an attractive combination of sustainable dividend yield and growth, supported by the Fund's focus on market leaders with identifiable barriers to entry, widening moats, aligned interests and long runways for growth. Many of our companies are global market leaders in their fields whilst simultaneously offering significantly higher levels of dividend yield than US peers. This can be seen in the chart below which shows MSCI Europe ex UK sector dividend yields vs. MSCI US. Amongst the quality sectors only Staples offers a lower level of income vs. its US sector counterpart, but here too our fund holdings Nestle, Danone, Unilever and Henkel offer meaningfully higher dividend yields than US competitors P&G and Colgate.

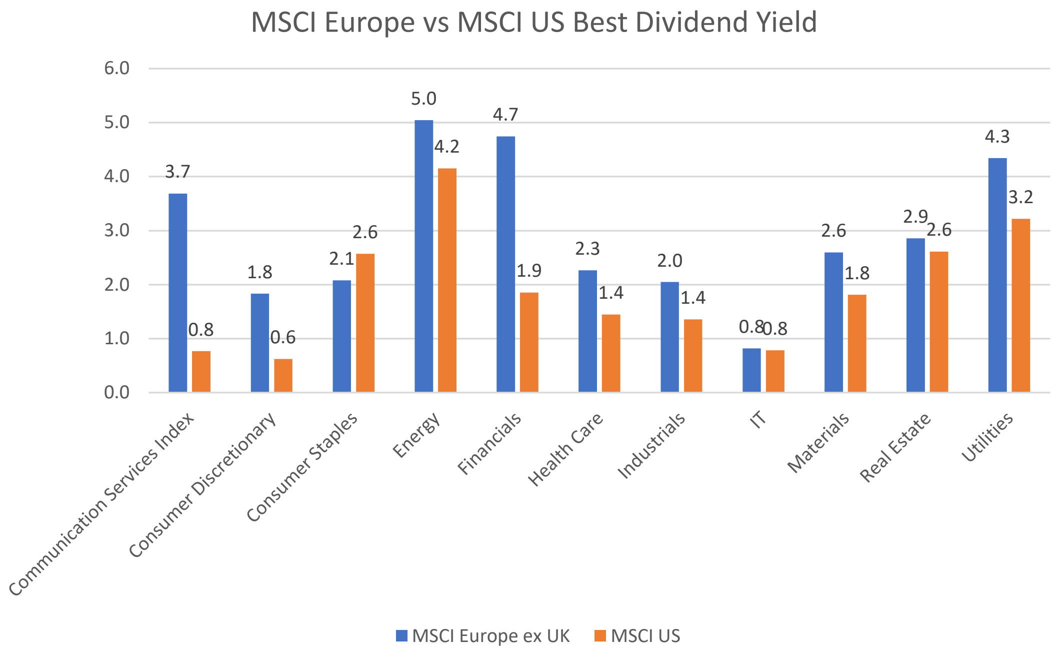


Figure 14: MSCI Europe vs MSCI US expected dividend yield. Source: Bloomberg (data as at 30.06.2021).

The same is true at the Index level with France's CAC40 Index minus the French 10Y government bond yield offering a 2.5% dividend yield vs. the S&P500 minus the US 10Y at -0.1%. In short, investors can come to Europe and invest in sustainably focused global market leaders and enjoy a premium level of income that has the potential to grow for the long-term. Against this backdrop of income scarcity European quality income and the fund appear well placed.

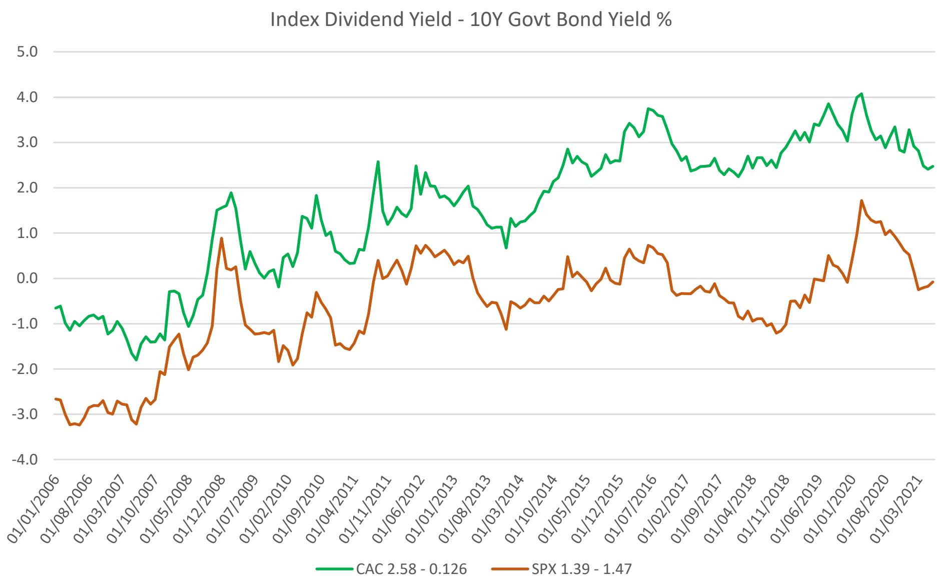


Figure 15: France CAC40 and S&P500 dividend yields minus respective 10Y government bond yields. Source: Bloomberg (data as at 30.06.2021).

Companies

Over the course of H1 2021 we made three changes to the portfolio, taking profits on ASML, Sika and Aalberts against the purchase of **Henkel, Daimler** and **Kaufman & Broad.**

Henkel occupies global market leading positions (1-3) across its three divisions: Adhesive Technologies (45% sales), Laundry & Home Care (35%) and Beauty Care (19%). Key brands include Loctite, Pritt and Ceresit in Adhesive Technologies; Persil, Purex and Sun in Laundry & Home Care; and Schwarzkopf, Dial and Syoss in Beauty Care. Adhesives Technologies looks well placed for a fiscally led pick-up in activity across its industrial and construction facing sub-segments which include Packaging & Consumer Goods, Automotive & Metals, Electronics & Industrials, and General Industry (craftsmen, construction and professional). While Laundry & Home Care and Beauty Care both hold strong durable brands but also scope for meaningful portfolio optimisation amounting to approximately 20% of division sales or ~10% of group revenues. On 10.8x EV/EBITDA the shares are valued on a ~20% discount to peer group multiples, while margins and cash flow returns are also both depressed vs. history. We see potential for group margins to level up vs. peers, rising to mid-teens after a period of higher digitally focused capex and as underperforming areas are addressed. New management across both Laundry and Beauty look well placed to make the right decisions, following the appointment of Alan Wolpert (ex-Colgate) to head Laundry North America in October 2020, and Wolfgang Koenig (ex-Kellogg NA, Colgate and Beiersdorf) to Beauty in April 2021. That they also know each other and are well acquainted with the NA market, which has been the prime source of product specific underperformance, should prove a plus.

Another opportunity for Henkel against recent softer trading is its conservative balance sheet, with net debt/equity of just 5% vs. many close peers at over 100% ND/E. We detect a shift in mentality from management and an acceptance that the perhaps overly conservative culture, historically driven by high family influence (61.54% Ords/voting ownership), may have contributed to recent market share losses, and needs to be addressed; scale matters, particularly when your largest competitors are P&G, L'Oreal, Unilever and Sika. Suggesting accretive bolt-ons alongside a portfolio reshuffle and a reduced cost of capital are likely outcomes. Henkel's track record of persistent high cash returns in the order of 15%-20% and peer-leading spend on R&D both underscore that this is a company that understands where it is going and what needs to be done. Recent product announcements also suggest the company is on the right track, characterised by circular product launches and bio-based adhesives. Barriers to entry in Adhesives are also perhaps higher than the market gives credit for (vs. Sika's 40x PE valuation), owing to the multi-year customised nature of partnerships. In short, Henkel is a company that shareholders can feel good about owning, with a strong track record, and potential for both a meaningful uplift in valuation as well as earnings, along with a 2.5% dividend with potential for solid long-term growth.

Daimler AG (DAI GR, €85bn) joins the portfolio ahead of the spin-out of **Daimler Trucks** (~6% op. margin), leaving high-quality **Mercedes-Benz** (14% op. margin) as a stand-alone company, with good potential for re-rating 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 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 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. The scarcity of supply due to limited permits is 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). Sustainable know-how is evident in the Paris Austerlitz train station redevelopment being 30% less dense than the Paris average; solar accounts 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 are in place.

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 looking 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.

The strongest performer over the quarter was **Deutsche Post AG** +26.3% in EUR, while the weakest performer was another industrial **Konecranes** -6.5%.

Deutsche Post AG (+26.3%, DP) remains well placed in our view even after the recent strong performance. The pandemic represents a structural fast forward for leading express shipping and contract logistics players, driven by the shift to online and e-commerce. In short, consumers have discovered previously unimagined levels of convenience and safety; and statistics out of countries where lockdowns have by and large ended highlight that those trends are not going away. Deutsche Post's Express division is the global market leader in time definite international (TDI) delivery with 38% global market share vs. Fedex's 29% and UPS's 22%. Deutsche Post is also the global no.1 in Freight Forwarding and Supply Chain (contract logistics). Freight Forwarding growth and returns may revert towards the mean as global consumer air travel returns to the norm, but Freight Forwarding only represents 11% of DP operating profits vs. Express at 50%. DP has a superior track record for persistent high cash returns within its TDI oligopoly with UPS and Fedex, while it continues to trade at a discount to those peers on 7.7x 2022e EV/EBITDA vs UPS and Fedex on 14x and 8x respectively. Multiples also look very reasonable vs. returns to equity nearly double FY1 earnings. DP looks even more attractive versus the leading Freight Forwarders DSV and Kuehne+Nagel which both trade on over 30x earnings, at a time when those earnings look far more likely to be revised lower while Express earnings are reassessed higher in light of the structural shift in consumer behaviour.

Konecranes (-6.5%) Q2 performance was not really a surprise after it topped league tables in Q1 2021, up 35.1% in EUR, as the Biden administration shifted gears out of reverse on global trade. However, concern that the EC would launch an in-depth investigation into the proposed merger with Cargotec weighed on the share price over Q2 and was confirmed on 2nd July. Many in-depth competition reviews conclude (after 90 days) without remedy, so there is not real reason for concern in our view. Even if moderate measures were taken, the combined group's market clout will be second to none, as Konecranes already boasts global market leadership across multiple lifting product categories including deck machinery and industrial cranes, and in higher margin industrial crane servicing and maintenance. The merger also looks likely to shore up Konecranes position in container port equipment towards the number one market position. Whatever happens, barriers to entry will remain high driven by switching costs off the large installed base of equipment. Increasing technology demands for remote monitoring and predictive maintenance along with an increasingly globalised client base also mean that scale operators have a growing advantage over smaller operators and are likely to continue to take market share. Valuations on low teens multiples of earnings vs. high teens returns to equity continue to look attractive, and a far cry from the near 30x multiples that long-time parent Kone elevators, with not dissimilar economics characterised by a large installed base and high recurring revenues, trades off. We continue to believe that whatever happens Konecranes Cargotec will emerge an even higher-quality business with meaningful long-term upside and an improved opportunity set as a result of the merger. A reset of management incentives resulting from the combination can also often prove to be strong driver of returns. This is a company that shareholders can feel good about owning as it enables customers to reduce their environmental footprint and shift to a low carbon future through an increasingly efficient and now electric product offering, against a backdrop of some 30% of global CO_2 emissions being linked to material flows.

Key Fund Metrics Today

The four key tenets to our approach are: quality, value, dividend, and conviction. We follow these metrics at the portfolio level to make sure we are providing what we say we will. 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	Average 8 year CFROI %	13.1	8.4	4.7
	Debt / equity %	87.0	224.0	-137.0
	Net debt / Equity %	41.6	50.9	-9.3
	ROE %	18.0	9.5	8.5
Value	PE (2021e)	16.1	18.4	-2.3
	FCF Yield %	9.3	6.0	3.3
Dividend	Dividend Yield (2021e) % gross	3.2	2.7	0.5
	Weighted average payout ratio %	48.0	98.0	-50.0
Conviction	Number of stocks	30	344	-314.0
	Active share	85	NA	

Source: Bloomberg, Guinness data

Figure 16: Portfolio metrics versus index. Guinness Asset Management, Credit Suisse HOLT, Bloomberg (data as at 30.06.2021)

Outlook

European quality income looks increasingly well placed against a backdrop of income scarcity. Europe's historic focus on sustainability and prowess in smart green industrial innovation mean that many European global market leaders are increasingly finding themselves in a position to supply what the world wants as the climate transition gathers pace. Meanwhile valuations as well as dividend yields remain attractive vs. many US and global counterparts. This is occurring against a backdrop of improving geo-politics and progress at the political level towards greater cooperation and integration, not least the creation of a pan-European yield curve enabling far higher levels of long-term investment. We also continue to see strong prospects for consolidation and optimisation across Europe’s historically fragmented markets.

Whatever the weather the fund is well balanced across companies characterised by persistent high cash returns and strong balance sheets, alongside high levels of self-determination, identifiable barriers to entry, strong market positions, widening moats, aligned interests and long runways for growth. Based on the table on the previous page, holistically, the high-conviction fund has companies which are better quality at better value verses the index.

We thank you for your continued support.

Nick Edwards (Portfolio Manager)

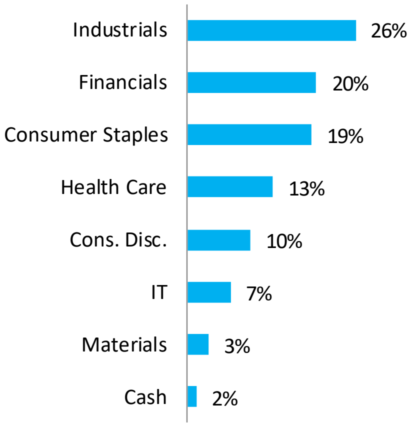
PORTFOLIO

30/06/2021

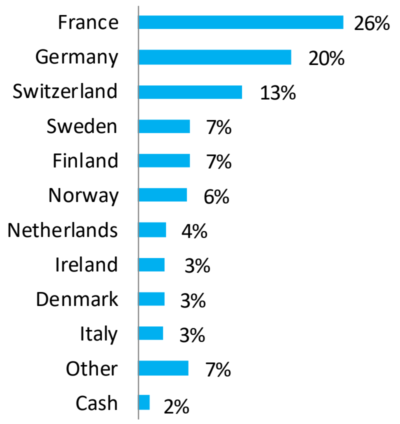
Fund top 10 holdings

Deutsche Boerse	3.6%
Euronext	3.5%
Capgemini SE	3.5%
Epiroc AB	3.5%
KAUFMAN & BROAD SA	3.4%
Roche Holding	3.4%
ABB	3.4%
Smurfit Kappa Group	3.4%
Novo Nordisk	3.3%
Tieto	3.3%
% of Fund in top 10	34.3%
Total number of stocks	30

Sector analysis



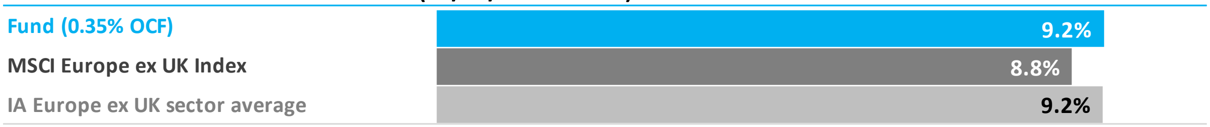
Geographic allocation



PERFORMANCE

30/06/2021

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



Discrete years % total return (GBP)	Jun '21	Jun '20	Jun '19	Jun '18	Jun '17
Fund (0.35% OCF)	24.9	-4.9	12.2	-2.6	29.8
MSCI Europe ex UK Index	21.8	-0.0	7.3	1.8	28.0
IA Europe ex UK sector average	23.7	0.9	3.3	3.1	29.2
Fund vs sector	1.2	-5.8	8.9	-5.7	0.7

Cumulative % total return (GBP)	1 month	Year-to-date	1 year	3 years	5 years	From launch
Fund (0.35% OCF)	1.1	13.9	24.9	33.2	68.5	94.0
MSCI Europe ex UK Index	1.8	10.4	21.8	30.6	70.2	88.3
IA Europe ex UK sector average	1.2	9.8	23.7	28.9	71.7	93.8

RISK ANALYSIS

30/06/2021

Annualised, weekly, from launch on 19.12.13, in GBP	Index	Sector	Fund
Alpha	0.00	1.44	1.05
Beta	1.00	0.87	0.94
Information ratio	0.00	0.07	0.10
Maximum drawdown	-25.02	-24.43	-30.29
R squared	1.00	0.89	0.90
Sharpe ratio	0.33	0.39	0.37
Tracking error	0.00	5.35	5.11
Volatility	15.97	14.80	15.89

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. 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
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.