

Guinness European Equity Income Fund

INVESTMENT COMMENTARY – August 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

31.07.21

Past performance does not predict future returns

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	28.7	29.8	97.4
Index	25.6	26.2	91.0
Sector	25.8	26.3	96.9

Annualised % total return from launch (GBP)

Fund	9.3%
Index	8.9%
Sector	9.3%

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	15.9	14.7	15.8
Sharpe ratio	0.3	0.4	0.4

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 July, the Guinness European Equity Income Fund produced a total return of 1.77% (in GBP) versus the Index return of 1.46% (in GBP), meaning the fund outperformed its benchmark by 0.31%.

Past performance does not predict future returns

	1 month	YTD	1 Yr	3 Yr	5 Yr	Since Launch
Fund	1.8%	16.0%	28.7%	29.8%	60.7%	97.4%
Index	1.5%	12.0%	25.6%	26.2%	63.6%	91.0%
Sector	1.6%	11.6%	25.8%	26.3%	64.4%	96.9%

Figure 1: Performance data.

Source: Financial Express 0.35% OCF. Cumulative Total Return in GBP as of 31.07.2021

The largest positive contributors to performance over the month of July (in EUR) were **Capgemini** +12.5%, **Novo Nordisk** +10.4%, **Recordati** +8.3%, **ABB** +7.7% and **Assa Abloy** +6.5%.

The biggest detractors from performance were **Kaufman & Broad** -6.7%, **Deutsche Boerse AG** -4.3%, **Mapfre** -2.6%, **Siemens** -1.9% and **Unilever** -1.6%.

We find that income investors achieve a 68% income uplift (3.2% dividend yield) by investing in our portfolio of predominantly sustainably focused global market leaders over a comparable US-focused equity income strategy, while in no way compromising on quality.

As sustainable investing gathers momentum, many of Europe's high-quality, sustainably focused export-facing companies are finding themselves in a position to supply what the world increasingly wants. At the same time, income investors can achieve a significantly higher level of dividend yield by investing in such European global market leaders, which in terms of barriers to entry, innovation and runway, match their peers in the US and elsewhere. The chart below, which we have shown several times before, highlights the yield disparity between the MSCI

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Europe ex UK and MSCI US indices by sector, including the high-quality areas of the market where your fund is overweight, namely, Industrials, Consumer Staples and Financials.

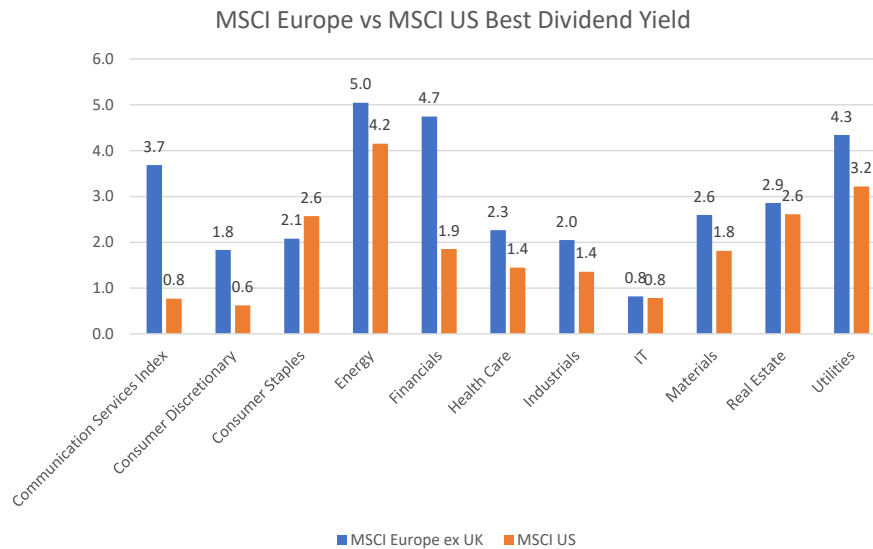


Figure 2: MSCI Europe vs MSCI US expected dividend yield by sector. Source: Bloomberg.

A sector-by-sector peer comparison between our European holdings and their US counterparts serves to add colour to the opportunity. Partly as a result of Europe’s progressive dividend culture, as opposed to the US culture of buybacks, investors in the Guinness European Equity Income Fund can look forward to a prospective headline dividend yield of 3.2% (pre withholding tax) vs. a yield of 1.9% if they were invested in the 30 closest US peers we can find. That is not to say that US companies return less to shareholders overall – they do not – but you cannot eat share buybacks, so to speak, without selling shares. The differential is apparent in the higher level of shareholder yield ex debt repayments (i.e. dividends and share buybacks divided by market cap) offered by US peers at 3.7% vs. 3.1% for our European holdings; and, importantly, in the higher levels of total debt to equity recorded by US peers. Share buybacks both suppress equity under US GAAP and are often funded out of new debt (encouraged by ultra-low interest rates). Our holdings also record a slightly higher payout ratio and lower cash dividend cover than their US counterparts; but compensated by a high-teens multiple discount, alongside lower levels of leverage than US peers.

	PE FY1	EV/EBITDA FY1	Shareholder Yield ex Debt	Gross div yield FY1 %	Payout ratio expected %	Cash dividend cover	Total debt / total equity %
Guinness European Equity Income	17.6	12.3	3.1	3.2	50.2	1.6	81.4
Closest US Comparable	20.9	15.0	3.7	1.9	37.6	3.8	157.3
Fund Discount / premium %	-16%	-18%	-16%	68%	34%	-57%	-48%

*Average data.

Figure 3: Fund average multiples vs closest US comparable average data. Source: Bloomberg.

But what really matters is the quality and longevity of the franchise itself.

While this exercise is purely illustrative, it seems fair to say fund holders are in a good place when it comes to **Daimler** and its 5.6% dividend yield. The lower-margin and more capital-intensive Trucks division is set to be spun out this year, leaving the high-margin, luxury and EV-focused Mercedes-Benz as a standalone company. This automotive market leader is a global top-ten brand and trades on c.7x earnings, supported by a near-20% net cash to equity position on the balance sheet. The even higher dividend yield of Paris-

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headquartered housebuilder Kaufman & Broad is supported by a similarly strong net cash position on the balance sheet and an excellent track record for cash conversion driven by its sale before completion model. Meanwhile, due to Europe's dominant global market position in luxury goods, Kering (which also boasts a fortress balance sheet while generating persistent high cash returns) has no very close listed US peers (following LVMH's acquisition of Tiffany). Kering is on record, however, as having looked at Ralph Lauren (which doesn't come close to Kering's core Gucci and St Laurent brands in terms of brand power, in our view), and one could argue a modicum of comparability to Estee Lauder across Gucci's beauty products range.

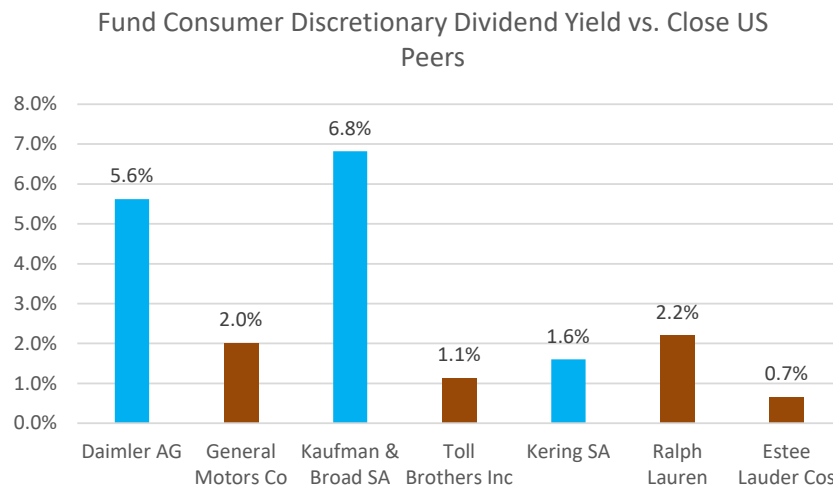


Figure 3: Fund Consumer Discretionary holdings expected dividend yields vs close US peers.

Source: Bloomberg.

Europe's dominant global position in the global salmon market means the innovation and sustainability leaders **Salmar** and **Bakkafrost** have no US close peers. For yield comparison we have included Tyson Foods, which produces and supplies dairy and bovine products, which themselves don't match the superior efficiency and sustainability profile of salmon versus other sources of protein. The Global Salmon Initiative records a salmon feed conversion ratio of 1.2 – 1.5 kg, against 2.7 – 5 kg for pork and 6 – 10 kg for cattle, and a carbon footprint for salmon of 0.6 kgCO₂eq for a typical 40g serving versus 1.3 for pork and 5.9 for beef.

Among our four large-cap Consumer Staples holdings, both **Unilever** and **Danone** currently offer meaningful yield premiums to US peers P&G and Colgate, alongside portfolio optimisation opportunities and attractive sector valuations. Their significant pre-existing investment tied up in sustainably focused product portfolios should prove an advantage as consumer preferences outside Europe catch up.

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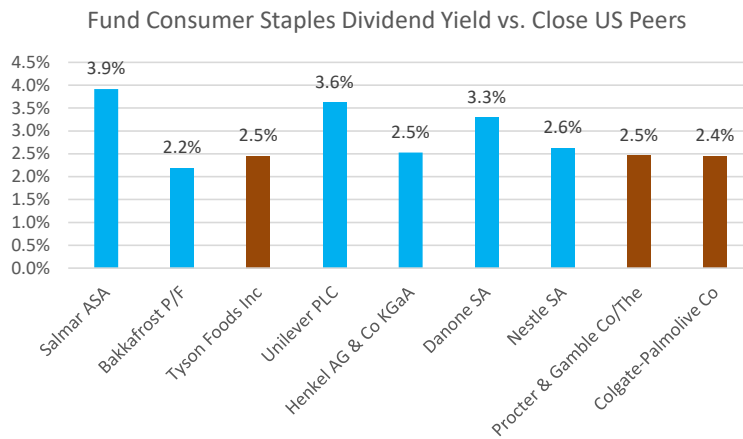


Figure 4: Fund Consumer Staples holdings expected dividend yields vs close US peers.

Source: Bloomberg.

We wouldn't suggest any inherent sustainable or other advantage in our European Financials holdings over their closest US peers. We would say that the outlook for further European political and capital markets integration appears constructive, and that they all dominate specific asset management, exchange and insurance niches which should ensure persistent high cash returns for a long time to come.

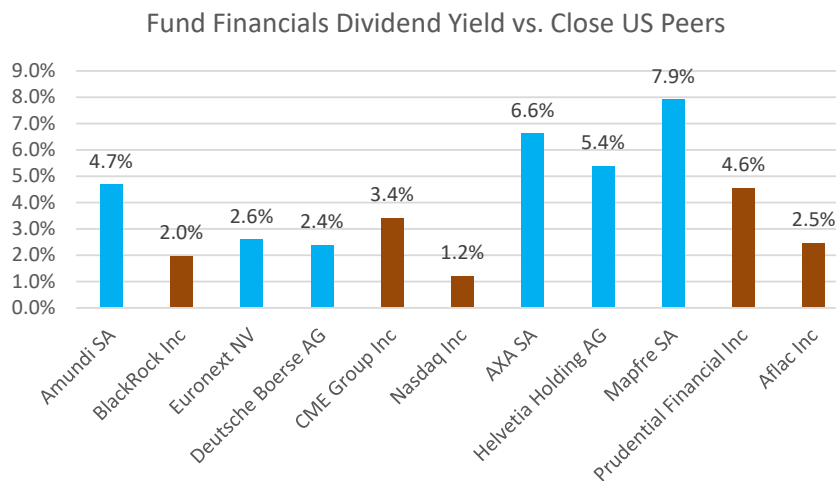


Figure 5: Fund Financials holdings expected dividend yields vs close US peers. Source: Bloomberg.

Roche is the global market leader in *in vitro* diagnostics with 19% global market share of a near \$70bn market, while second-placed Abbott has 12% market share. The segment is currently benefitting from a structural fast-forward driven by the pandemic, against a backdrop of historic underinvestment in high-throughput screening across multiple countries and regions. **Fresenius's** principal US dialysis care competitor DaVita offers no dividend and is marked by significantly higher levels of balance sheet leverage. **Novo Nordisk** dominates the leading edge of diabetes care with its highly innovative portfolio of GLP-1 and oral drugs which look transferable across other large opportunities including obesity, yet still offers premium levels of dividend income over US peer Eli Lilly.

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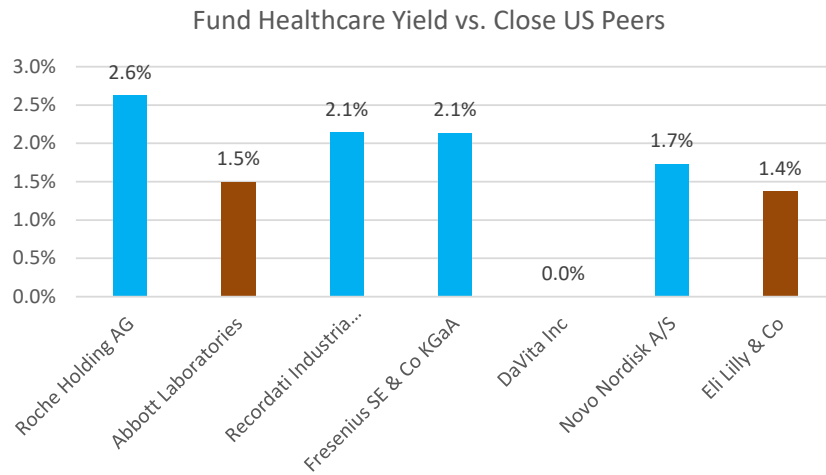


Figure 6: Fund Healthcare holdings expected dividend yields vs close US peers. Source: Bloomberg.

Nearly all our smart green industrials offer premium levels of dividend income while at minimum comparing favourably vs direct US peers. **Konecranes** was the global market leader in industrial lifting automation and crane servicing even before its ongoing merger with Cargotech. Only **Epiroc** offers a lower yield (vs Caterpillar) but is unique and set apart by over 60% global market share in the specific niche of hard rock drilling within the wider field of mining equipment, which results in a very high near 70% of recurring revenues from aftermarket (consumables and service). Epiroc also dominates in the provision of clean electric equipment and remote operating systems. **Deutsche Post** leads the global time definite express oligopoly against peers Fedex and UPS, with 38% global market share. **Assa Abloy** is the global market leader in access solutions (entrance systems, virtual keycards and facial recognition), and is some three times the size of its nearest competitor Allegion. **Thales** is the European market leader in defence sensors and mission systems (radar, sonar and optronics) and occupies a global top-three position in avionics alongside Honeywell. **ABB** and **Siemens** are on a journey to improved value creation via deconsolidation in order to refocus on their core higher-return divisions, which include robotics and automation at the former and electronic design automation software at the latter.

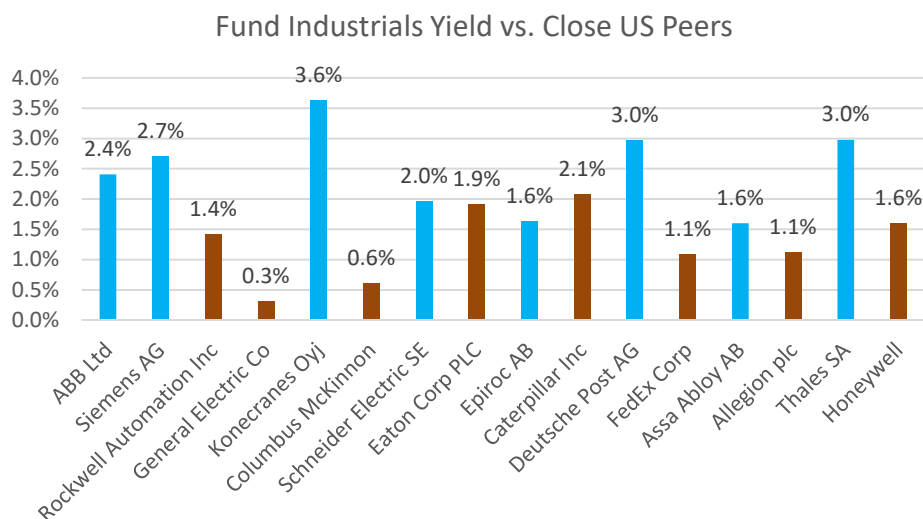


Figure 7: Fund Industrials holdings expected dividend yields vs close US peers. Source: Bloomberg.

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In the IT sector **Capgemini** is the European IT services market leader with the leading position in industrial automation and Internet of Things platforms. **TietoEvy**, on the other hand, is the Nordic IT services market leader with 11% Nordics market share, and more than twice the size of its nearest competitor.

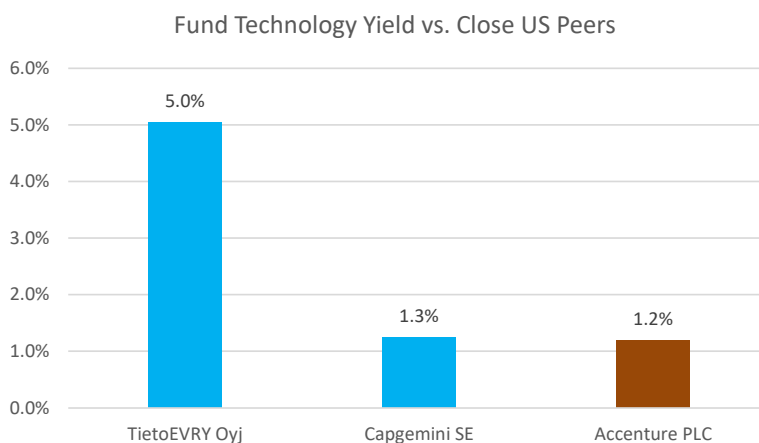


Figure 8: Fund IT sector holdings expected dividend yields vs close US peers. Source: Bloomberg.

In the Materials sector, **Smurfit Kappa** is the European market leader by volume in corrugated paper packaging with 17.5% share, the only large-scale pan-regional player in the Americas, and increasingly vital to the sustainability of FMCGs and e-commerce (as the market shifts away from plastic) through its Shelfmart and Supplsmart solutions.

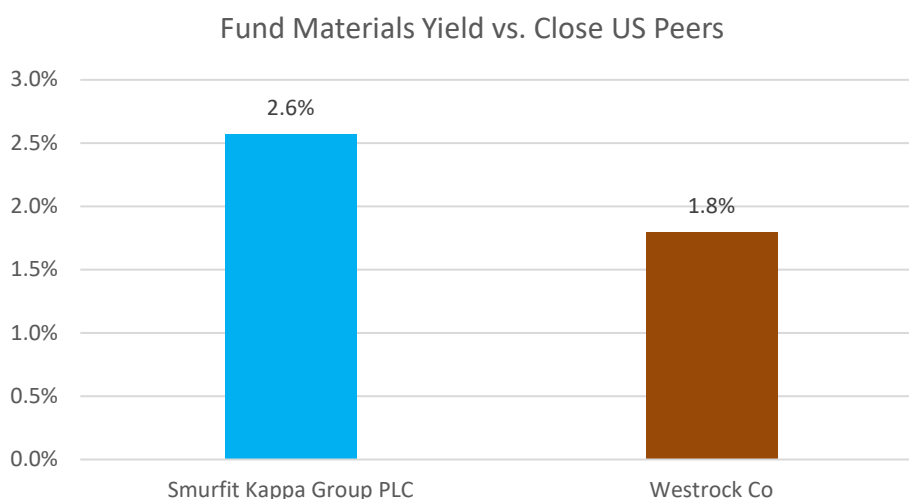


Figure 9: Fund Materials holdings expected dividend yields vs close US peers. Source: Bloomberg.

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Fund Company Dividend Yield vs. Closest US Comparable by Sector

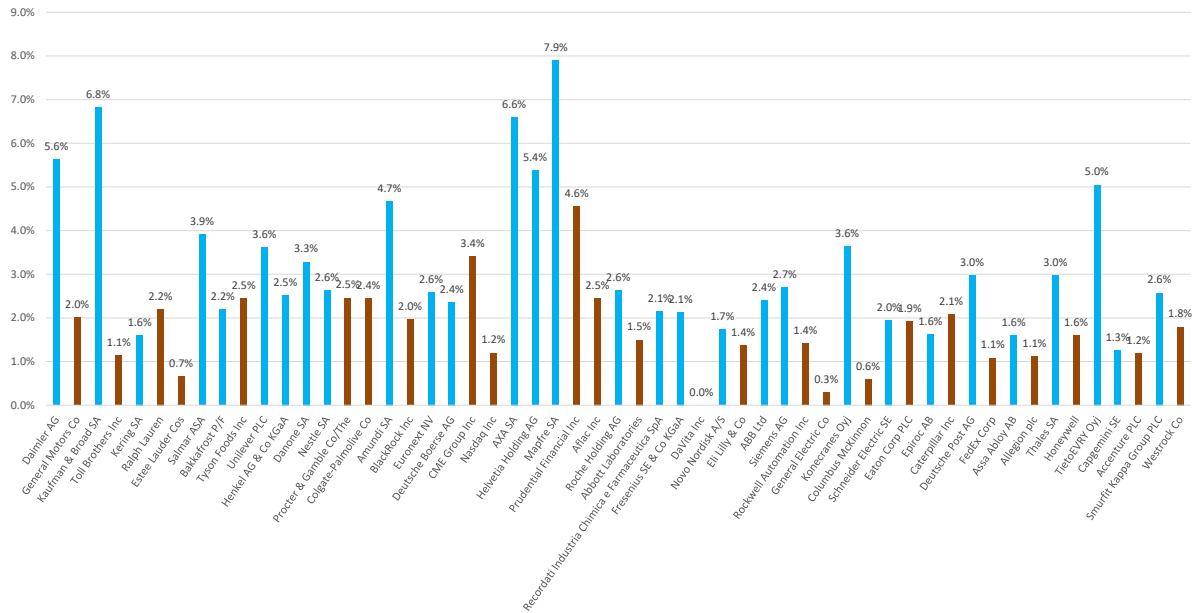


Figure 10: Fund holdings dividend yields vs close US peers (left to right by sector). Source: Bloomberg.

We thank you for your continued support.

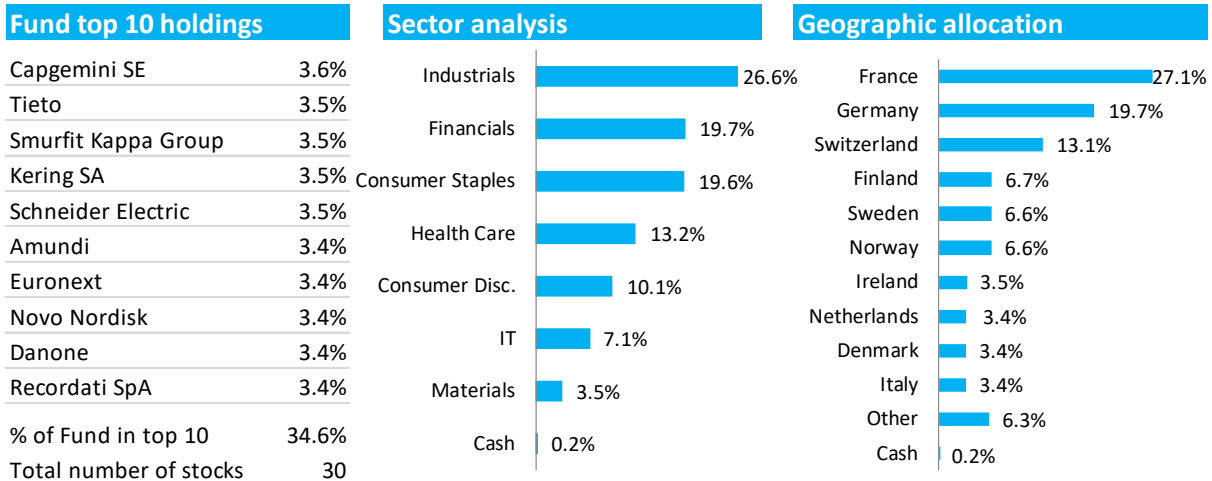
Nick Edwards (Portfolio Manager)

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Guinness European Equity Income Fund

PORTFOLIO

31/07/2021



PERFORMANCE *Past performance does not predict future returns*

31/07/2021

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

Fund (0.35% OCF)	9.3%
MSCI Europe ex UK Index	8.9%
IA Europe ex UK sector average	9.3%

Discrete years % total return (GBP)

	Jul '21	Jul '20	Jul '19	Jul '18	Jul '17
Fund (0.35% OCF)	28.7	-6.1	7.4	1.5	22.0
MSCI Europe ex UK Index	25.6	-3.4	4.1	5.2	23.3
IA Europe ex UK sector average	25.8	-1.3	1.7	5.1	23.8
Fund vs sector	2.9	-4.8	5.7	-3.6	-1.8

Cumulative % total return (GBP)

	1 month	Year-to-date	1 year	3 years	5 years	From launch
Fund (0.35% OCF)	1.8	16.0	28.7	29.8	60.7	97.4
MSCI Europe ex UK Index	1.5	12.0	25.6	26.2	63.6	91.0
IA Europe ex UK sector average	1.6	11.6	25.8	26.3	64.4	96.9

RISK ANALYSIS

31/07/2021

Annualised, weekly, from launch on 19.12.13, in GBP	Index	Sector	Fund
Alpha	0.00	1.46	1.10
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	0.33	0.39	0.37
Tracking error	0.00	5.32	5.08
Volatility	15.88	14.72	15.80

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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.

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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 in English from www.guinnessfunds.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'Île, 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.

GUINNESS

ASSET MANAGEMENT

Guinness Asset Management Ltd is authorised and regulated by the Financial Conduct Authority

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