Guinness European Equity Income Fund

INVESTMENT COMMENTARY – September 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.

This is a marketing communication. Please refer to the prospectus and KIID for the Fund before making any final investment decisions.

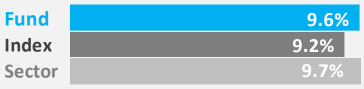
Performance 31.08.21

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	33.7	103.2
Index	26.2	31.5	96.2
Sector	27.1	31.5	103.9

Annualised % total return from launch (GBP)



Risk analysis (annualised, weekly, from launch)

	Index	Sector	Fund
Alpha	0.0	1.5	1.2
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	15.8	14.7	15.8
Sharpe ratio	0.4	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 August, the Guinness European Equity Income Fund produced a total return of 2.94% (in GBP) versus the Index return of 2.74% (in GBP), meaning the fund outperformed its benchmark by 0.2%.

Past performance does not predict future returns	1 month	YTD	1 Yr	3 Yr	5 Yr	Since Launch
Fund	2.9%	19.4%	28.7%	33.7%	62.9%	103.2%
Index	2.7%	15.1%	26.2%	31.5%	65.3%	96.2%
Sector	3.5%	15.5%	27.1%	31.5%	66.5%	103.9%

Figure 1: Performance data.
Source: Financial Express 0.35% OCF. Cumulative Total Return in GBP as of 31.08.2021

The largest positive contributors to performance over the month of August (in EUR) were **Novo Nordisk** +8.8%, **AXA** +8.7%, **Schneider Electric** +7.1%, **Recordati** +6.5% and **Siemens** +6.4%.

At the other end of the spectrum the biggest detractors from performance were **Kering** -10.9%, **Daimler** -5.2%, **Epiroc** -5.1%, **Thales** -2.9% and **Unilever** -2.1%.

Past performance should not be taken as an indicator of future performance. The value of investments and any income arising from them can fall as well as rise as a result of market and currency fluctuations.

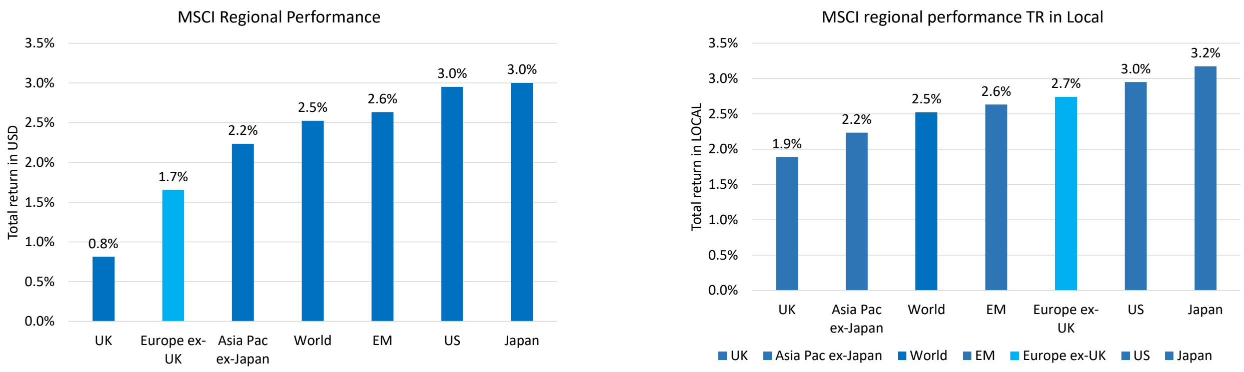


Figure 2: MSCI World Index geographic total return breakdown for August 2021, in USD (left) and Local currency (right). Europe ex UK in light blue. Source: Bloomberg data

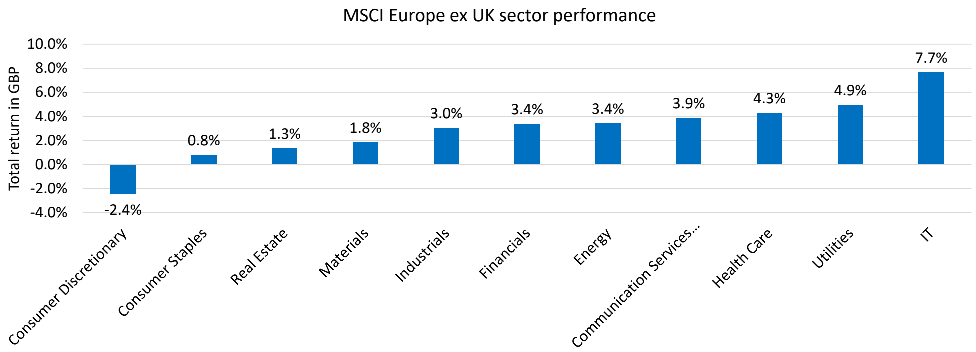


Figure 3: MSCI Europe ex UK Index sector total return breakdown for August 2021, in GBP. Source: Bloomberg

August Markets Review

The most notable feature of August from the fund's perspective was the weak performance of European luxury stocks, which impacted the **Consumer Discretionary** sector (-2.4%), including our holding in **Kering** (-10.9% in EUR). This was driven by Chinese President Xi Jinping's announcements targeting inequality. China accounts for some 1/3rd of worldwide luxury sector sales and 34% of Kering's total sales with 15% directly from mainland China. Peak to trough Kering's share price fell -18% and as I write remains -13% off its August highs. It remains to be seen what real action will be taken by the Chinese government, and we have been here before. The 2012–2016 Chinese government anti-corruption campaign which targeted high value "gifts" whilst temporarily impacting stock prices did little to alter the long-term trend towards wealth creation and desire for Western luxury goods. Kering itself is notable vs the other French luxury brands for targeting groups with the highest propensity to spend rather than the largest bank balances, which means it is relatively well placed for policy action that might translate into a flatter but wider customer base (in terms of wealth disparity). We would just caution that it took some 30 months for Consumer Discretionary sector performance to bottom out relative to the market during the last related period of state intervention.; but then again, the market learns quickly.

Consumer Staples meanwhile also underperformed in Europe as commodity and input cost headwinds continued to bite. This will continue through H1 2022 but looks likely to "wash out" thereafter and as longer-term disinflationary pandemic impacts (including the digital fast forward and higher levels of government debt) work in the opposite direction. Share prices have already in large part priced the setback with the sector trading at a ~7% premium to the market vs. its historic 10Y average premium of

~20%, and shares like Unilever (which has a high relative proportion of palm oil input costs) trading at a ~20% discount to the sector. More fundamentally the sector has an excellent track record for passing on cost inflation owning to the small sized repetitive nature of purchases and consumers' deep attachment to their favoured trusted premium brands. Further out we also see strong potential for our European sector holdings' historic focus on and accumulated investment in sustainability to work to their advantage as emerging markets demand and tastes catch up.

At the other end of the spectrum the IT sector continued its recent run of strong performance (+7.7% August), led by the semiconductor equipment companies. We have a market weighting to the sector (7%), after we recently took profits on ASML as its yield contribution fell to just 0.5%. Of our current holdings Capgemini is now our top performer YTD, and we see strong prospects and a very favourable valuation for our other IT services holding TietoEvry. That said our real exposure to technology is very high, all our fund holdings use technology well, and across our large overweight to smart green industrial technology (27% of portfolio) we think investors get excellent value for their money, with reasonable market valuations set against franchises characterised by unique market positions and technology leadership across areas including robotics, software, data centres and low voltage power, RFID and biometric scanning. Needless to say (again) given the direction that fiscal policy is taking with its focus on technology, climate and infrastructure there looks set to be a strong tailwind for a long-time to come.

Utilities also sprung back to life in August. Of all the commodity and regulated areas of the market from which many income funds tend to draw higher levels of dividend income we would concur that the sector does have a tailwind from asset growth as the energy sector transitions to clean electric power. However, it remains that case that very few names in the sector have ever generated persistent high cash returns on capital, and the opportunity remains and looks set to remain low margin (amid copious amounts of available low cost finance), capital intensive and subject to regulatory risk.

The Healthcare sector where we have a near market weighting also continued its return to form in August, driven by the return of elective surgeries. Novo Nordisk has been a notable outperformer (+50% YTD in EUR); the large TAM (total addressable market) adjacent opportunity in obesity has started to show real clinical benefit and sales traction as Novo's Wegovy GLP-1 oral matched earlier Saxenda near three year sales levels after just four weeks.

German Elections

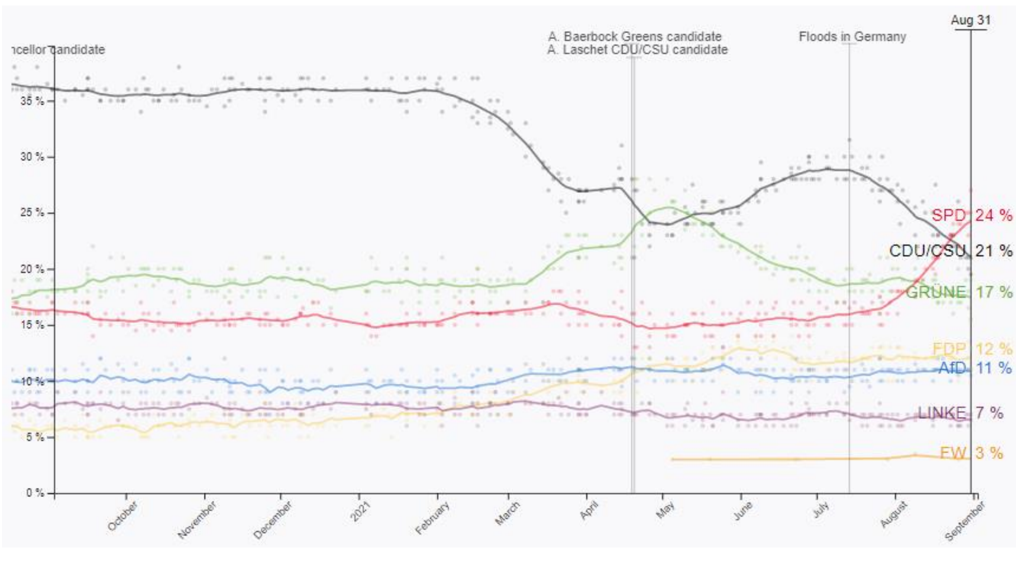


Figure 4: Aggregate of German election polls. Data as of 31st August 2021. Source: Politico.

Just a few weeks to go until the German 2021 general election on September 26th, and esteemed Angela Merkel, "Mutti" the quantum chemist, walks off the stage after twenty-one years as head of the CDU and sixteen years as Chancellor. The polls have shown a sharp shift to the moderate left in recent weeks with the Social Democrats (SPD, junior coalition partner to Merkel's CDU/CSU) taking the lead and its Olaf Scholz, the current German finance minister and Vice-Chancellor (and once labour minister under Gerhard Schroder in 2002), now favourite to become Chancellor. Meanwhile Angela Merkel's CDU/CSU party is on track for its worst election outcome since she joined the party. Armin Laschet, Merkel's continuity candidate, lost some favour around coverage of recent flooding but his nomination of Friedrich Merz – the former Blackrock manager and lawyer – as finance minister could yet see the CDU vote share recover. The Greens under Annalena Baerbock and Robert Habeck while having also lost share remain a significant force and are a near certain coalition partner whichever way the election goes.

What is remarkable though is how unchanged policy may prove to be from the Merkel era, with all main parties to a greater or lesser extent proponents of further European integration and supportive of the climate agenda albeit with variation around acceptable funding means and spending limits. The most notable difference being in the policies of the Greens and SPD towards higher levels of state climate and infrastructure spending (suggesting higher bond yields) vs the more fiscally prudent CDU, accompanied by plans for moderately higher taxation and minimum wages and less emphasis on defence.

If Germany is to break with the recent past and accept the more commanding role in Europe many including the French want it to take, the timing seems apt. Recent shifts in US foreign policy alongside the withdrawal from Afghanistan underscore the need for the EU to become capable of full autonomous military force. While Germany's bitter 20th century history contrasted with its long-dated experience at the centre of well governed diverse and politically fragmented states positions it uniquely well to lead. For anyone who hasn't read Neil MacGregor's "Germany: memories of a nation", his twenty-five minute British Museum 2014 exhibition video is a brilliant summary:

https://www.youtube.com/watch?v=9d8CjyvcREI

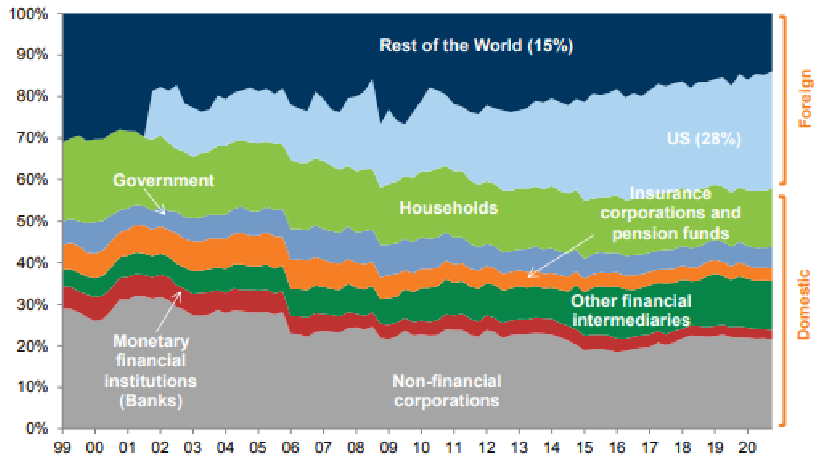
European Equity Allocations

Over the course of the quarter, we reviewed data regarding ownership of European Equities vs history and on a regional basis, the core of which seems worth sharing. Structural aspects of the investor underweight to European equities seem unlikely to change at least in the near-term but in other areas we see more potential, particularly at a time when income is so scarce and European quality income looks so attractive on a global basis (see last month's July fund review). According to data from the ECB, US Treasury and the IMF compiled by Goldman Sachs (including some excellent charts included below) European households allocate approximately just 13% of assets directly to equities vs some 25% of assets in the US (excluding pensions plans, which if included would take US allocations up to 40% but would only increase the European number by a few percentage points). In fact, US buyers are now the largest owner of Euro area equities at 28%.

The core of the problem in Europe is twofold. The regulatory environment encourages asset liability matching (against a backdrop of an ageing population) and via Solvency II attaches a very high cost of capital to equity ownership vs. bonds (pension funds and insurers now reportedly hold just <5% allocations to Euro area equities); which seems strange when equities are a long duration asset, albeit suffering higher short-term volatility. The other angle is cultural, arguably relating to the historically fragmented nature of the Euro area block contrasted to the integrated structure of the US. However, with a renewed tailwind to European equity performance and innovation along with politics, a strong likelihood that ultra-low nominal interest rates look set to endure (against a backdrop of stretched government balance sheets) and with cash levels building to new all-time highs, there is a good chance that more of the vast and accumulating levels of household and corporate cash will look to find a home in incomeproducing equity assets. Notably in stable high-quality dividend-paying companies like those held in the Guinness European Equity Income Fund (in aggregate yielding 2.7% post-withholding tax; historic yield reflects the distributions declared over the past 12 months expressed as a percentage of the mid-market price, as at 31/08/2021. It does not include any preliminary charges. Investors may be subject to tax on the distribution).

Household, insurance and pension fund ownership of Euro area equities are at 20Y lows…

Exhibit 16: Ownership of Euro area equities - the US has become the dominant investor

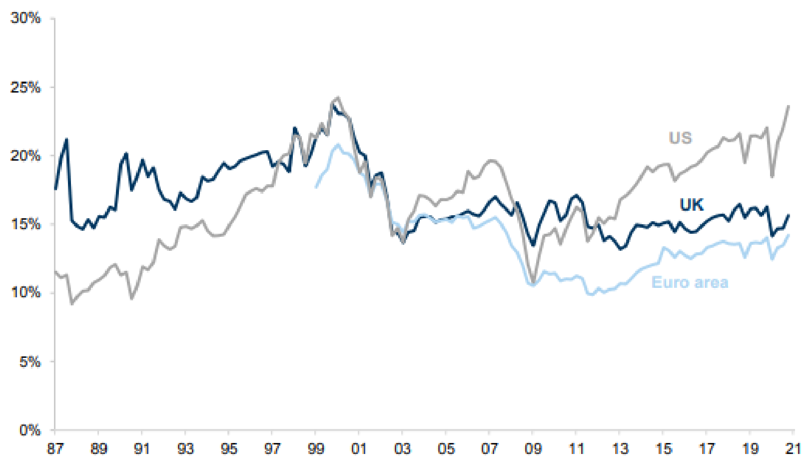


Source: ECB, US Treasury, IMF, Goldman Sachs Global Investment Research

Figure 5: Ownership of Euro area equities. Source: ECB, US Treasury, IMF, Goldman Sachs Global Investment Research.

Euro-area flows have been making a comeback…

Exhibit 23: No equity please, we are European - households in UK and Euro area have not seen a rise in equity share of assets, unlike in the US
Listed equity as a share of household assets (does not include equity held through pensions/insurance)



Source: ECB, Bank of England, Haver, Goldman Sachs Global Investment Research

Figure 6: Listed equity as a share of household assets. Source: ECB, Bank of England, Haver, Goldman Sachs Global Investment Research.

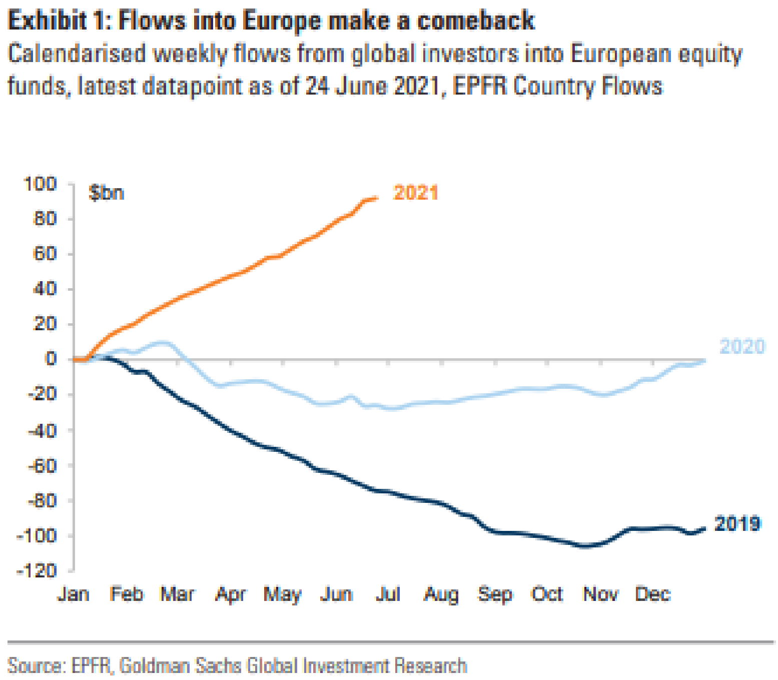


Figure 7: Calendarised weekly flows from global investors into European equity funds. Data as of 24 June 2021. Source: EPFR, Goldman Sachs Global Investment Research.

European households have more room to allocate to European equities than ever before, with some €700bn in savings and deposits vs. around €400bn pre-crisis…

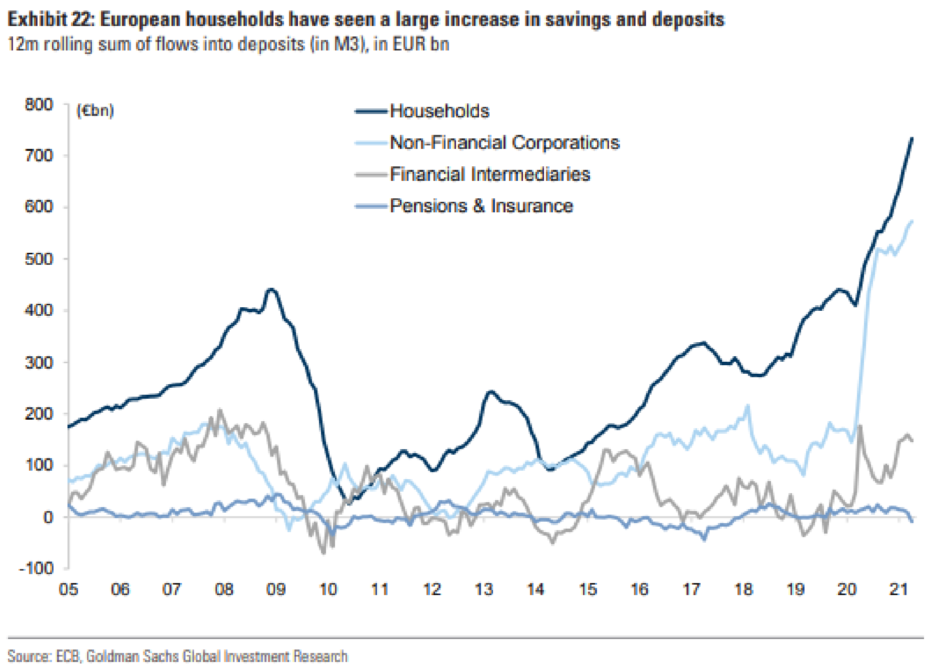
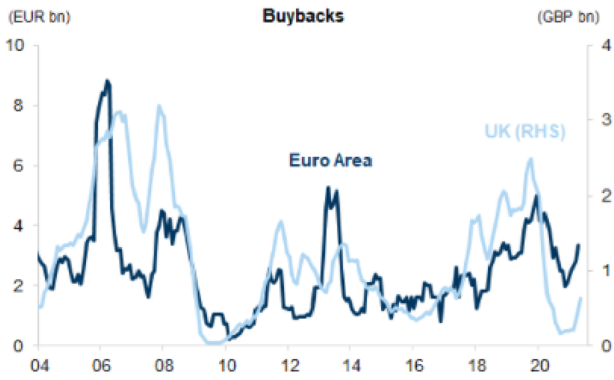


Figure 8: 12m rolling sum of flows into deposits (in M3), in EUR bn. Source: ECB, Goldman Sachs Global Investment Research.

It is a similar picture for corporates with ~12% cash balances vs. ~10% pre-crisis, suggesting that the pace of share-buybacks may increase…

Exhibit 30 : Buyback recovery has so far been muted in Europe but we expect it to grow

6-month moving average, monthly



Source: Bank of England, ECB, Goldman Sachs Global Investment Research

Exhibit 31 : Corporates have above-average cash balances

Quarterly

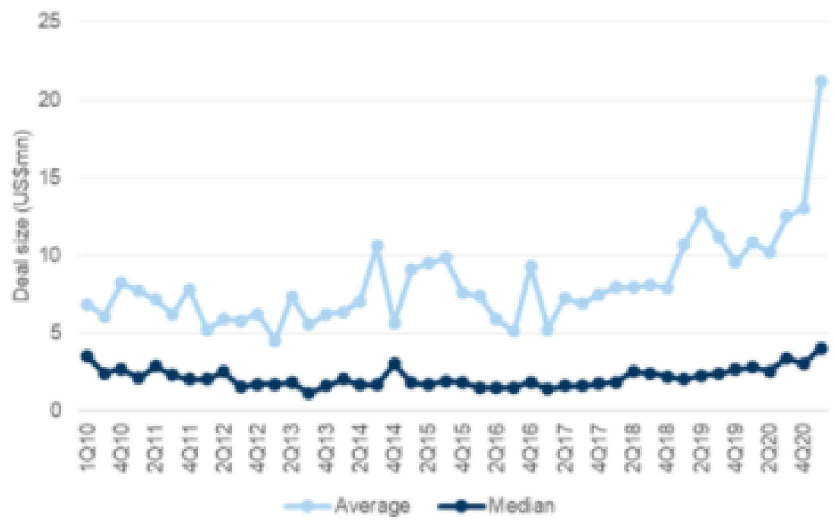
Source: ECB, Haver Analytics, Goldman Sachs Global Investment Research

Figure 8: Source: Bank of England, ECB, Haver Analytics, Goldman Sachs Global Investment Research.

…and it is good to see the pace of investment in innovation, the lifeblood of long-run equity performance, picking up in Europe…

Exhibit 5 : Average VC deal size nearly doubled yoy in 1Q21, reaching US$21mn

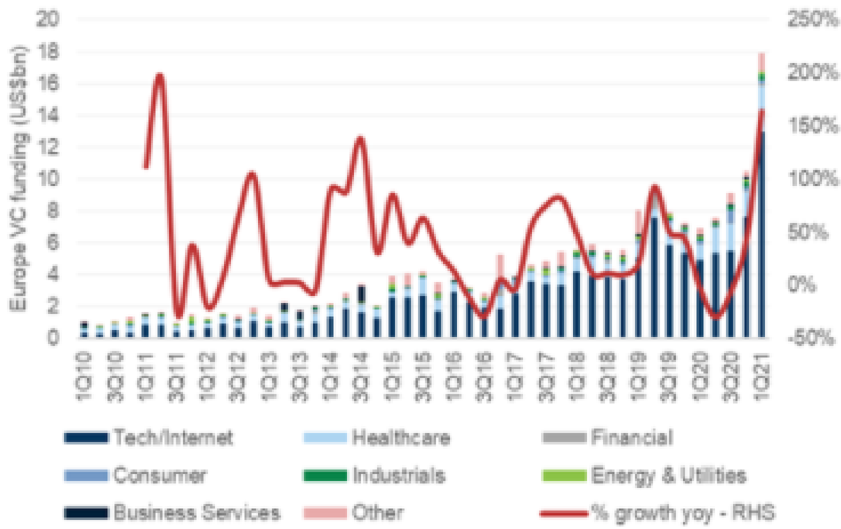
Average and median VC deal size by quarter - Europe (US$mn)



Source: CB Insights, Data compiled by Goldman Sachs Global Investment Research

Figure 9: Average and median VC deal size by quarter – Europe (US$mn). Source: CB Insights, Data compiled by Goldman Sachs Global Investment Research.

Exhibit 2 : VC funding in Europe reached a record high of US$17.9bn in 1Q21, up +159% yoy, mainly driven by the Technology & Internet sector
Europe quarterly VC funding by sector (LHS; US$bn), % growth yoy (RHS)



Source: CB Insights, Data compiled by Goldman Sachs Global Investment Research

Figure 10: Europe quarterly VC funding by sector (LHS; US$bn), % growth yoy (RHS). Source: CB Insights, Data compiled by Goldman Sachs Global Investment Research.

We thank you for your continued support.

Nick Edwards (Portfolio Manager)

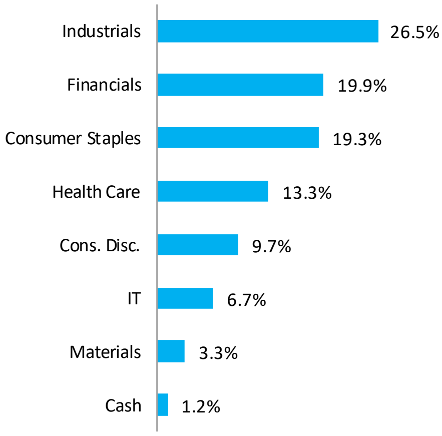
PORTFOLIO

31/08/2021

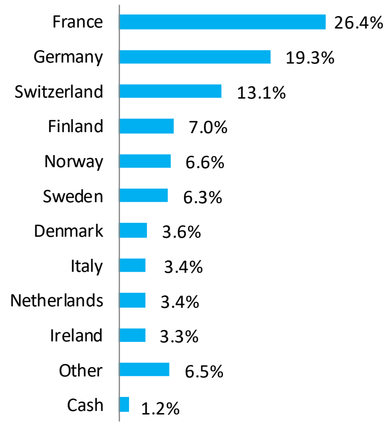
Fund top 10 holdings

Konecranes	3.6%
Novo Nordisk	3.6%
Siemens	3.5%
AXA	3.5%
Schneider Electric	3.4%
Recordati SpA	3.4%
Tieto	3.4%
Euronext	3.4%
Helvetia Holding	3.4%
Kering SA	3.4%
% of Fund in top 10	34.4%
Total number of stocks	30

Sector analysis



Geographic allocation



PERFORMANCE *Past performance does not predict future returns*

31/08/2021

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

Discrete years % total return (GBP)	Aug '21	Aug '20	Aug '19	Aug '18	Aug '17
Fund (0.35% OCF)	28.7	-2.2	6.2	-1.0	23.0
MSCI Europe ex UK Index	26.2	-0.1	4.3	1.0	24.4
IA Europe ex UK sector average	27.1	3.2	0.3	2.5	23.5
Fund vs sector	1.6	-5.4	6.0	-3.6	-0.5

Cumulative % total return (GBP)	1 month	Year-to-date	1 year	3 years	5 years	From launch
Fund (0.35% OCF)	2.9	19.4	28.7	33.7	62.9	103.2
MSCI Europe ex UK Index	2.7	15.1	26.2	31.5	65.3	96.2
IA Europe ex UK sector average	3.5	15.5	27.1	31.5	66.5	103.9

RISK ANALYSIS

31/08/2021

Annualised, weekly, from launch on 19.12.13, in GBP	Index	Sector	Fund
Alpha	0.00	1.51	1.16
Beta	1.00	0.88	0.94
Information ratio	0.00	0.08	0.12
Maximum drawdown	-25.02	-24.43	-30.29
R squared	1.00	0.89	0.90
Sharpe ratio	0.35	0.41	0.40
Tracking error	0.00	5.30	5.06
Volatility	15.82	14.67	15.75

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 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'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.