# Guinness European Equity Income Fund

## INVESTMENT COMMENTARY – October 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.*

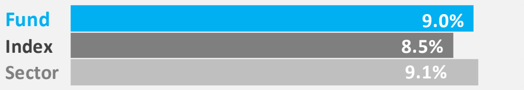
**Performance** 30.09.21

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** | 21.4 | 30.5 | 95.5 |
| **Index** | 20.9 | 27.4 | 89.2 |
| **Sector** | 22.4 | 28.9 | 96.9 |

**Annualised % total return from launch (GBP)**




**Risk analysis** (annualised, weekly, from launch)

| | Index | Sector | Fund |
|---|---|---|---|
| **Alpha** | 0.0 | 1.6 | 1.0 |
| **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 | 14.6 | 15.7 |
| **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 Q3 2021 the Guinness European Equity Income Fund produced a total return of 0.76% (in GBP) versus the IA Europe ex UK net TR Index return of 0.50% (in GBP). The fund therefore outperformed the index by 0.26% over the quarter. It is pleasing to see that both the short and long-term performance of the fund's strategy remain ahead versus IA Europe ex UK peers.

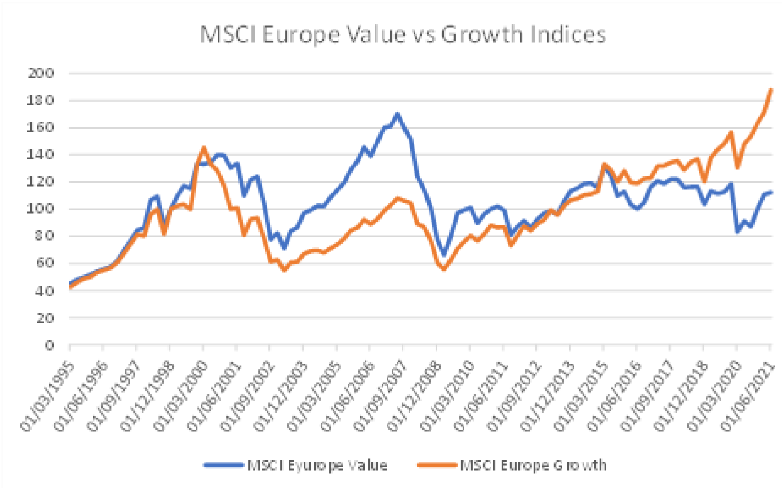
| Past performance does not predict future returns | 1 month | YTD | 1 Yr | 3 Yr | 5 Yr | Since Launch |
|---|---|---|---|---|---|---|
| **Fund** | -3.8% | 14.8% | 21.4% | 30.5% | 52.1% | 95.5% |
| **Index** | -3.6% | 11.0% | 20.9% | 27.4% | 56.8% | 89.2% |
| **Sector** | -3.4% | 11.5% | 22.4% | 28.9% | 60.1% | 96.9% |

**Figure 1: Performance data. Source: Financial Express 0.35% OCF. Cumulative Total Return in GBP as of 30.09.2021**

## Quarter in review

At the end of Q3 2021, the fund is up 14.8% YTD, 3.8% ahead of the MSCI Europe ex UK Index and ahead of both the MSCI Europe Value Index +11.1% and the MSCI Europe Growth Index +13%. Underscoring good **portfolio balance** in the fund between high quality cyclicals (~60%) including our Industrials and Financials (excluding the exchanges) and quality defensives (~40%) including our Staples, Healthcare and financial exchanges. Towards the end of the quarter, German benchmark rates shifted a touch higher again along with indicators of inflation driving renewed outperformance of the "value" stocks, notably in the last week of the quarter, where the fund outperformed by 0.5%. In short, if further tailwinds towards inflation, and higher levels of spending do come through we believe the fund is well placed. Conversely, if the longer-term deflationary forces of increased borrowing, ageing populations and the digital fast forward gain sway that would also be fine for the fund's portfolio of companies, since all of these are characterised by: **persistent high cash**

**returns and strong balance sheets along with high and identifiable barriers to entry, leading market positions, widening moats, aligned interests and long-runways for growth**.



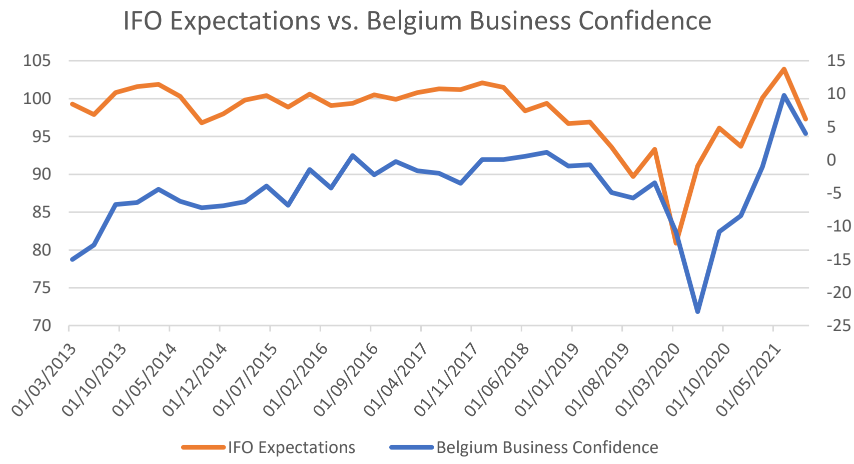




**Figure 2: Performance of MSCI Europe Value vs Growth (LHS), and IFO Expectations & Belgium Business Confidence (RHS) as at September 30th 2021, in GBP. Source: Bloomberg**

The third quarter saw leading indicators such as PMIs, IFO Expectations and Belgian Business Confidence roll over (above). This is not bad news for **quality income, which tends to perform well when investors take a rain check** and refocus on cash flows and business strength. The dividend income on offer in Europe, and the quality income available from the Guinness European Equity Income Fund in particular, remains exceptional versus fixed income alternatives and US equities (with France's CAC40 Index dividend yield minus 10Y govt bond yield near 3% vs. the S&P 500 minus US 10Y yield in negative territory). In our recent July monthly report, we undertook the exercise of comparing our European leaders dividend yields against their closest comparable US peers and concluded that ***income investors achieve a 68% income uplift (3.4% 2022e dividend yield) by investing in our portfolio of predominantly sustainably focused global market leaders over a comparable US focused equity income strategy, whilst in no way compromising on quality.*** Europe punches above its weight globally in industrial technology and consumer-facing brands, two areas we expect to do well as a "the decade of capex" unfolds (German Green Party) and Emerging Markets tastes catch up to the benefit of sustainably focused European Staples. Coincidentally, it seems worth adding that both of these sectors have a good track record of passing through inflation.

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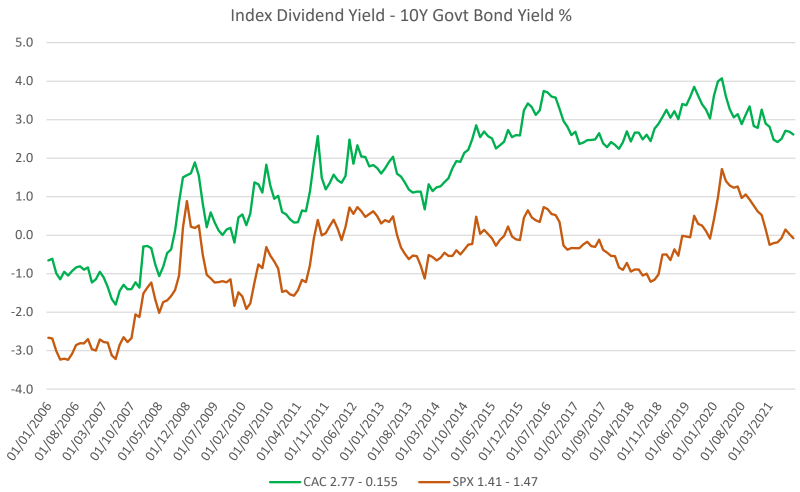


**Figure 3: France's CAC 40 dividend yield minus France 10Y government bond yield (green) vs S&P500 dividend yield minus US 10Y government bond yield (orange) as at September 30th 2021, in GBP. Source: Bloomberg**

The end quarter was capped by the results of the **German general election**, with the SPD beating the CDU/CSU by 1.6ppts with 25.7% of the vote, followed by the Greens (14.8%) and the Free Democrats (11.5%). The Chancellorship is the SPD's to lose and coalition talks look set to get underway shortly. We see enough pragmatism across the three parties to get over the line in spite of big differences. The Greens being far more similar to the SPD in outlook, aiming to pick up the pace of spending and meet Germany's climate targets. While the FDP had a bitter experience in coalition with the CDU last time round, having been booed out of parliament with no policies enacted at government level. If correct, the outlook is one characterised by higher levels of borrowing and spending at the European level (suggesting slightly higher yields) but also one checked by the FDP's liberal hands-off free market mentality. Time will tell but for now we see it as constructive **and supportive of our large overweight position in European smart green industrials**.

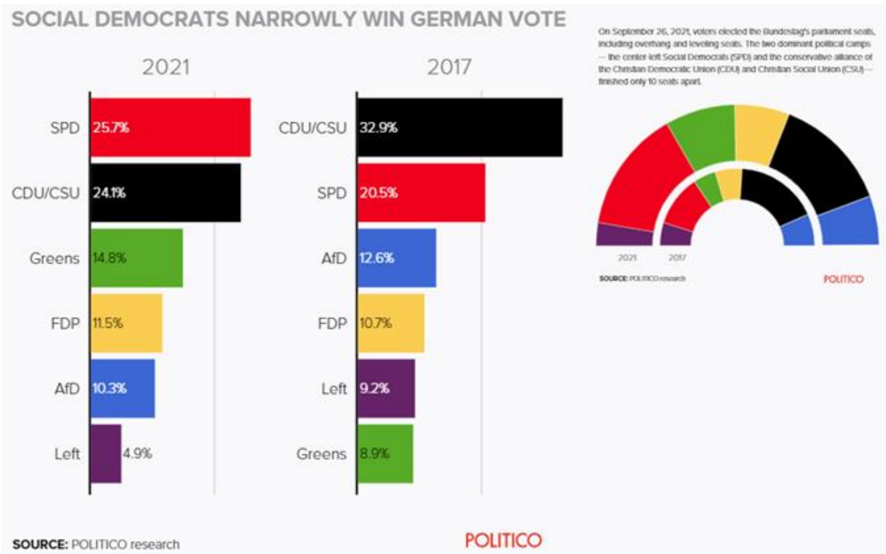


**Figure 4: German party share of elections results 2021 vs. 2017. Source: Politico.**

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Next up is the **French election** in April 2022, which looks set to be high on drama but with a low probability of upset as Marine Le Pen's National Rally has already ditched its Frexit and Eurexit policies in favour of a France First and anti-immigration stance. Her vote share is also being eroded (from 24% in August 2021 to 16% Sept end) by the rapid ascent of extreme rightwinger Eric Zemmour (13% end Sept vs 6% in August). This right-wing fracas materially increases the likelihood of real final round competition for Macron and LREM, whether that be from Xavier Bertrand or Michel Barnier. In short, we don't view the event as material for our overweight exposure to French equities (26% or 5% overweight), all bar one of which have a Global and or pan-European focus. What was material in Q3 however was news of the **AUKUS** submarine deal, for our holding in French defence company **Thales** at least. The pact nudges Europe further towards making its own plans for self-sufficiency in defence. Lowly rated Thales would be an obvious beneficiary, as Continental Europe's largest defence company and a global market leader in defence sensors and mission systems across radar, sonar and optronics along with cyber security.

As far as **valuations go the European discount to US equities remained close to 50-year lows** across multiple measures including P/Book, P/Sales, Trend PE and spot PE multiples. Trading at a ~45% discount to the US vs. a historical blended discount of ~20% (as shown below). Europe has a lot going for it right now, with a more stable internal political footing (post COVID-19) complimented by an external environment more favourable to global trade and Europe's export markets (helped by the advent of Joe Biden to the White House). An outlook where the emphasis appears to be shifting towards industrial technology and capex alongside the increased focus on sustainability globally plays to the region's strengths and should prove no bad thing for Europe's industrial and consumer facing leaders over the years ahead. Business strength, pricing power and growth (both top line and margin) will of course remain the core drivers of value creation for our holdings, but the potential for additional mean reversion remains evident.

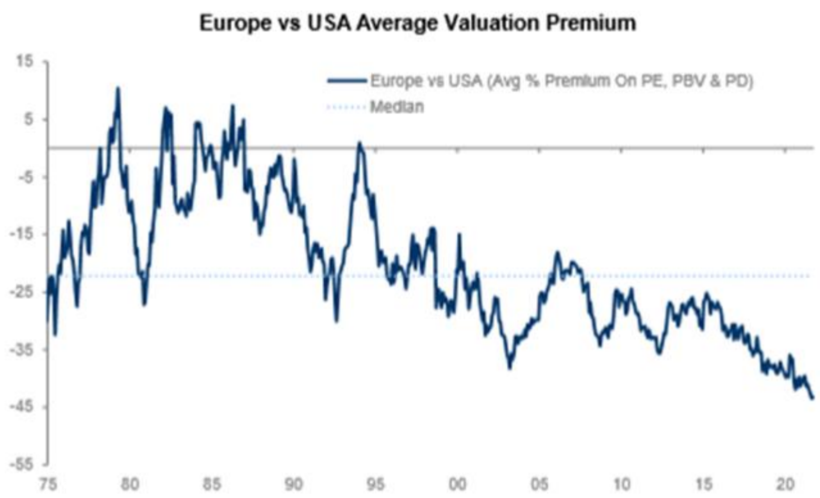
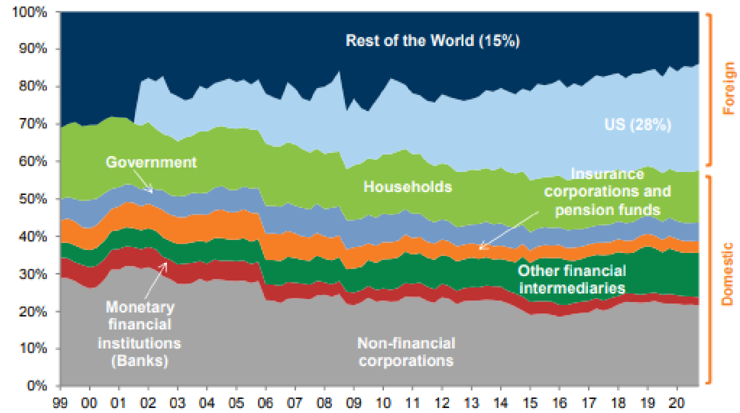



**Figure 5: Europe vs USA Average Valuation Premium % 1975 – Q3 2021 on PE, P/Bk and Price to Dividend. Source: Morgan Stanley.**

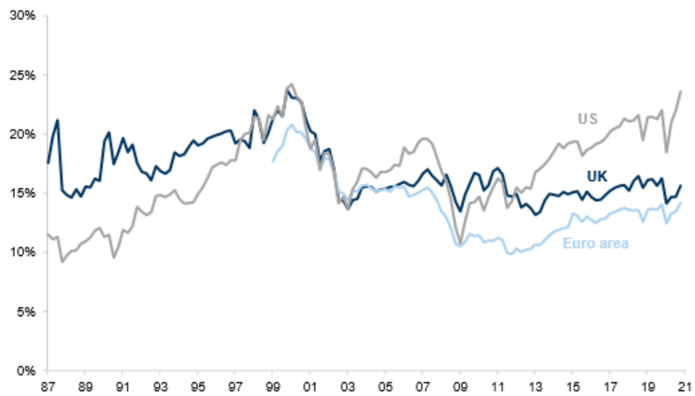
We also see **potential for the European underweight to equities to improve vs. the US** going forward, as discussed in the August Guinness European Equity Income monthly: over the course of the quarter, we reviewed data regarding ownership of European Equities vs. history and on a regional basis, the 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. According to data from the ECB, US Treasury and the IMF compiled by Goldman Sachs (including the 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 around 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%.

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




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

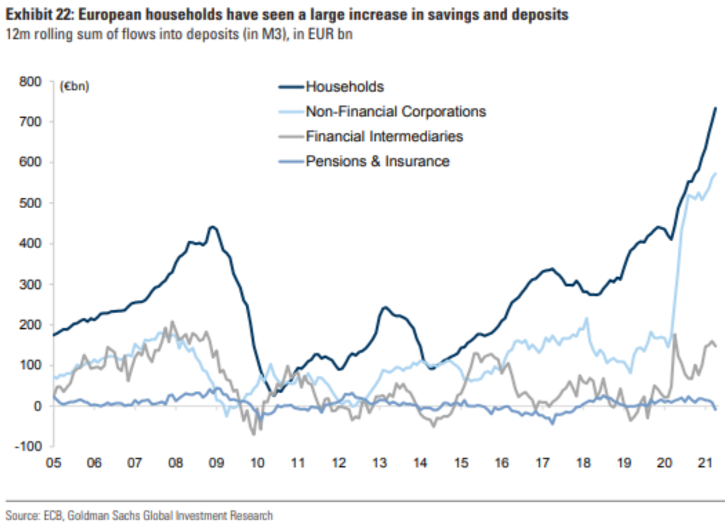
**Exhibit 23: No equity please, we are European - households in UK and Euro area have not seen a rise in equity share of assets, unlike in the US**
Listed equity as a share of household assets (does not include equity held through pensions/insurance)




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

**Figure 6: Household, insurance and pension fund ownership of Euro area equities not far off 20Y lows (LHS), and Households in Euro area equity as share of assets (RHS). Source: GS.**

The core of the problem in Europe is twofold. The regulatory environment encourages asset liability matching (against the 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). This 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, and may be addressed over time by further integration and capital market union. In the shorter-term, however, a renewed tailwind to European equity performance, innovation and political progress, along with a strong likelihood that 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 (see below) will look to find a home in income producing equity assets**. Notably, in stable high quality dividend paying companies like those held in the Guinness European Equity Income Fund.



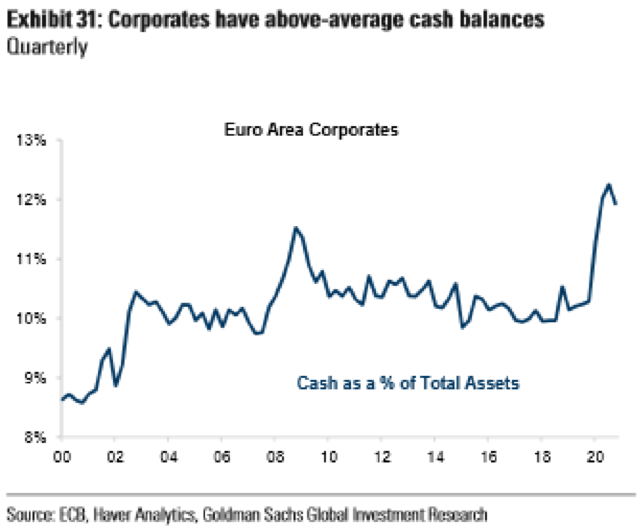




**Figure 7: European households increase in savings and deposits in EUR bn (LHS), Euro area corporates cash as % total assets (RHS). Source: GS.**

## The Dividend

With just four interim dividends remaining to be declared we have good visibility over the FY dividend now. New in the quarter was news that the Konecranes €2/shr special dividend ahead of the Cargotech merger looks set to be pushed into 2022. No matter, with that and continued rebounds in those dividends still below 2019 levels (8), alongside ongoing dividend growth from the remainder of the portfolio (23 grew their dividend YoY and 17 grew it vs 2019 levels, with 5 keeping it flat YoY) we expect a 2022 dividend at least in line with 2019 levels. The increased contribution of Daimler's dividend (soon to be Mercedes-Benz) vs. the ASML switch also remains to make itself felt. Resulting in a 2022e dividend yield of 3.4% for

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the current underlying portfolio or approximately 2.9% post withholding tax. The chart below is not the prettiest despite being more favourable than the Index, but the risks of forced dividend cuts and the pros and cons of holding consumer facing companies in certain but hopefully very rare market environments have been fully taken on board. Not to mention the impacts of switches into and out of countries with differing withholding tax rates.

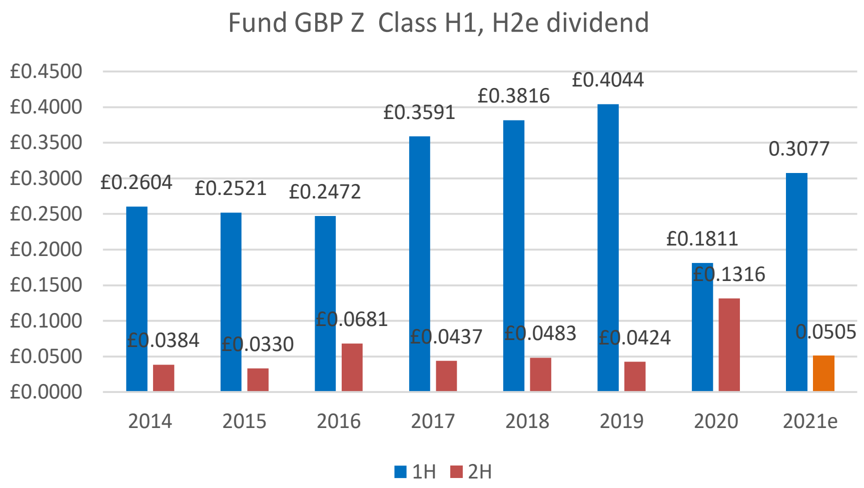


**Figure 8: Fund Z Class H1, H2 dividend history and expectation for H2 2021.**
**Source: Guinness, Bloomberg data.**

## Performance Drivers

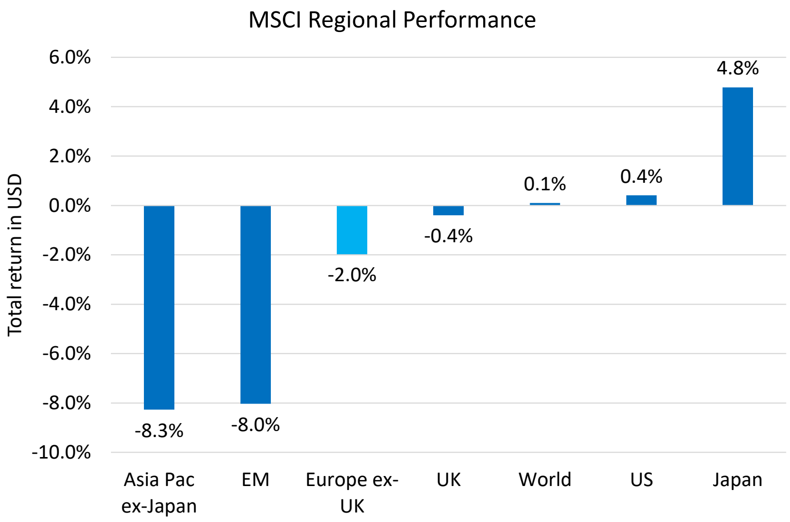


**Chart 9: MSCI World Index geographic total return breakdown for Q3 2021, in USD. Source: Bloomberg**

MSCI Europe ex UK slightly underperformed MSCI World and US in Q3 as the pace of growth slowed as the Delta variant took hold and rising materials costs started to make themselves felt. With sector performance heavily distorted by rising input and output prices respectively; Utilities were impacted by higher costs while the Energy sector rose +10.1% as the price of crude continued to rebound sharply after a period of sector underinvestment. All our three large overweight sectors (Industrials, Staples and

Financials) performed inline or slightly ahead of the Index, with Financials the best of the three supported by a slight upward shift in benchmark rates and breakevens as price inflation picked up and the outcome of the German election signalled higher levels of borrowing and spending. Country performance mirrored sector performance with Norway buoyed by the rebound in energy pricing and the Netherlands continuing to outperform supported by ongoing strength in the IT sector.

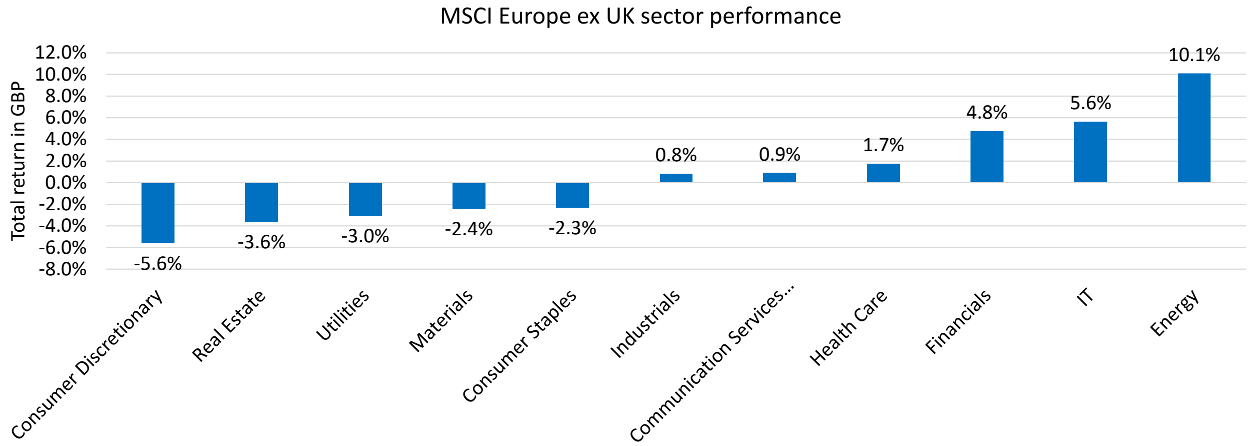


**Chart 10: MSCI Europe ex UK Index sector total return breakdown for Q3 2021, in GBP.**
**Source: Bloomberg**

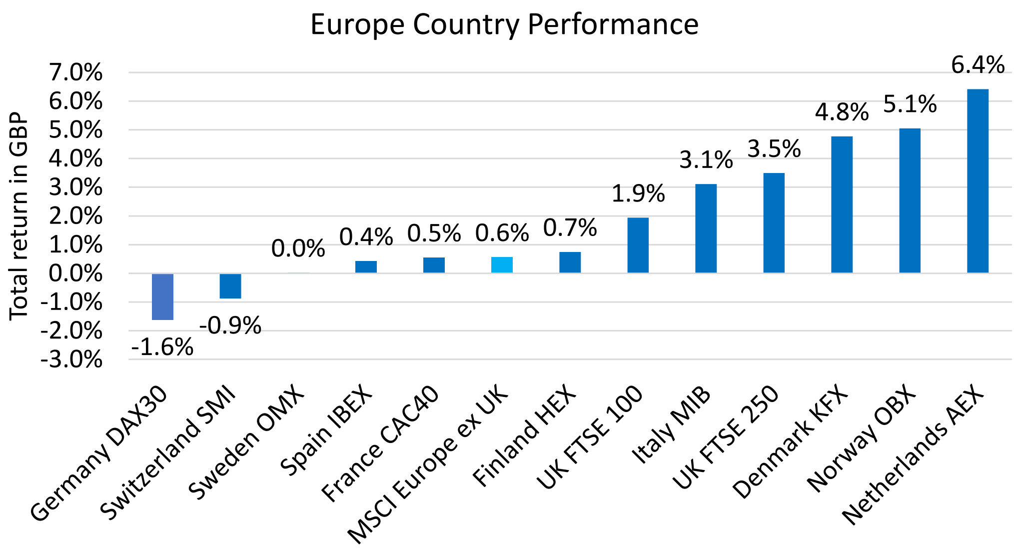


**Chart 11: MSCI Europe ex UK Index country total return breakdown for Q3 2021.**
**Source: Bloomberg**

## Positioning

Your fund holds no exposure to highly cyclical areas such as Mining, Oils and Banks or regulated ones including Utilities and Telecoms. It also has limited exposure to the high street with an underweight in

Consumer Discretionary. Few companies from these sectors make it into our universe given our focus on quality and persistent high cash returns. Industrials, Consumer Staples, and Financials (exchanges and insurers) remain our sector overweight holdings, as shown in the tables below. Our underweight to IT is nominal in our view as all companies in the portfolio use technology well including global leadership positions in industrial technology including across automation, robotics, RFID, cyber and intelligent industry.

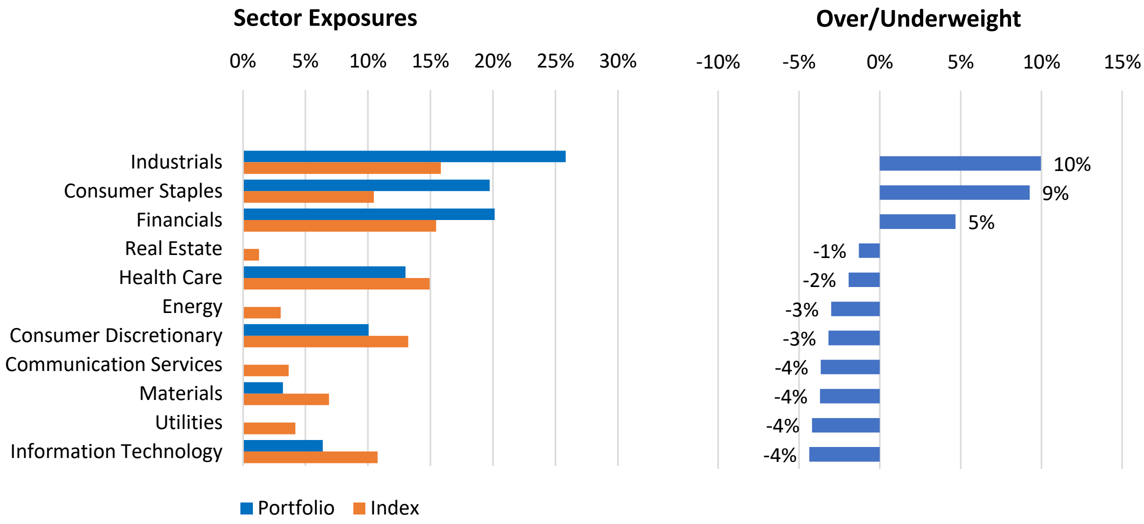


**Chart 12: Left: Sector weightings, Right: Sector overweight / underweight vs. MSCI Europe ex UK. Source: Bloomberg**

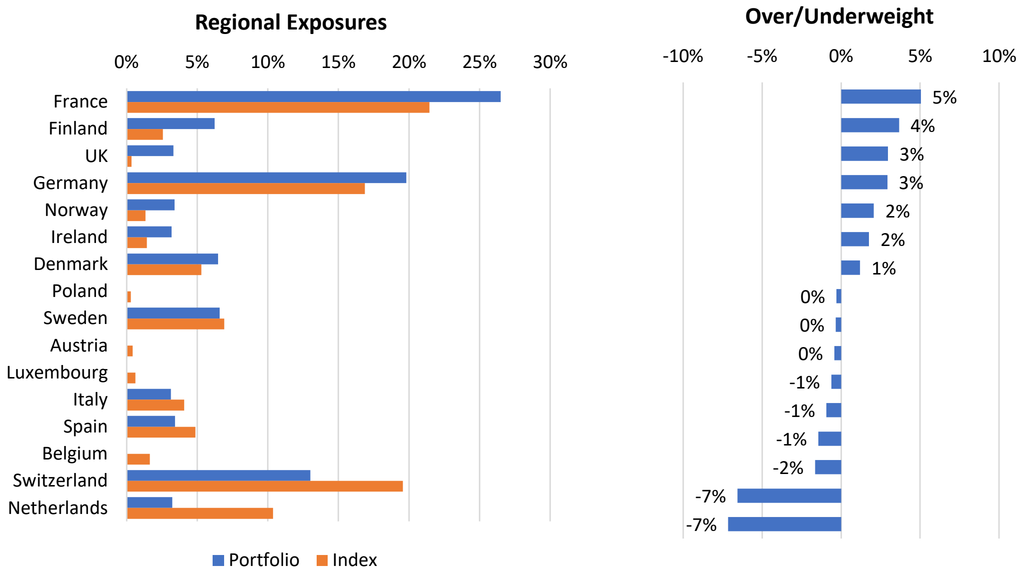


**Chart 13: Left: Country weightings, Right: Country overweight / underweight vs. MSCI Europe ex UK. Source Bloomberg**

By country we remain overweight the northern European countries including Scandinavia, France and Germany. This results from two factors. Firstly, we find more high-quality companies in Scandinanvia and Northern Europe, and secondly, Scandinavian countries tend to represent quite low weights in the MSCI Europe ex UK Index.

## Holdings Performance Analysis

**We made no portfolio changes over the course of Q3 2021.** As such sector weightings remained broadly the same as at June month end.

Individual companies that performed well in Q3 included **Novo Nordisk, Axa** and **Capgemini**. On the same basis, companies that posted weaker performance included **Kering** and **Kaufman & Broad.**

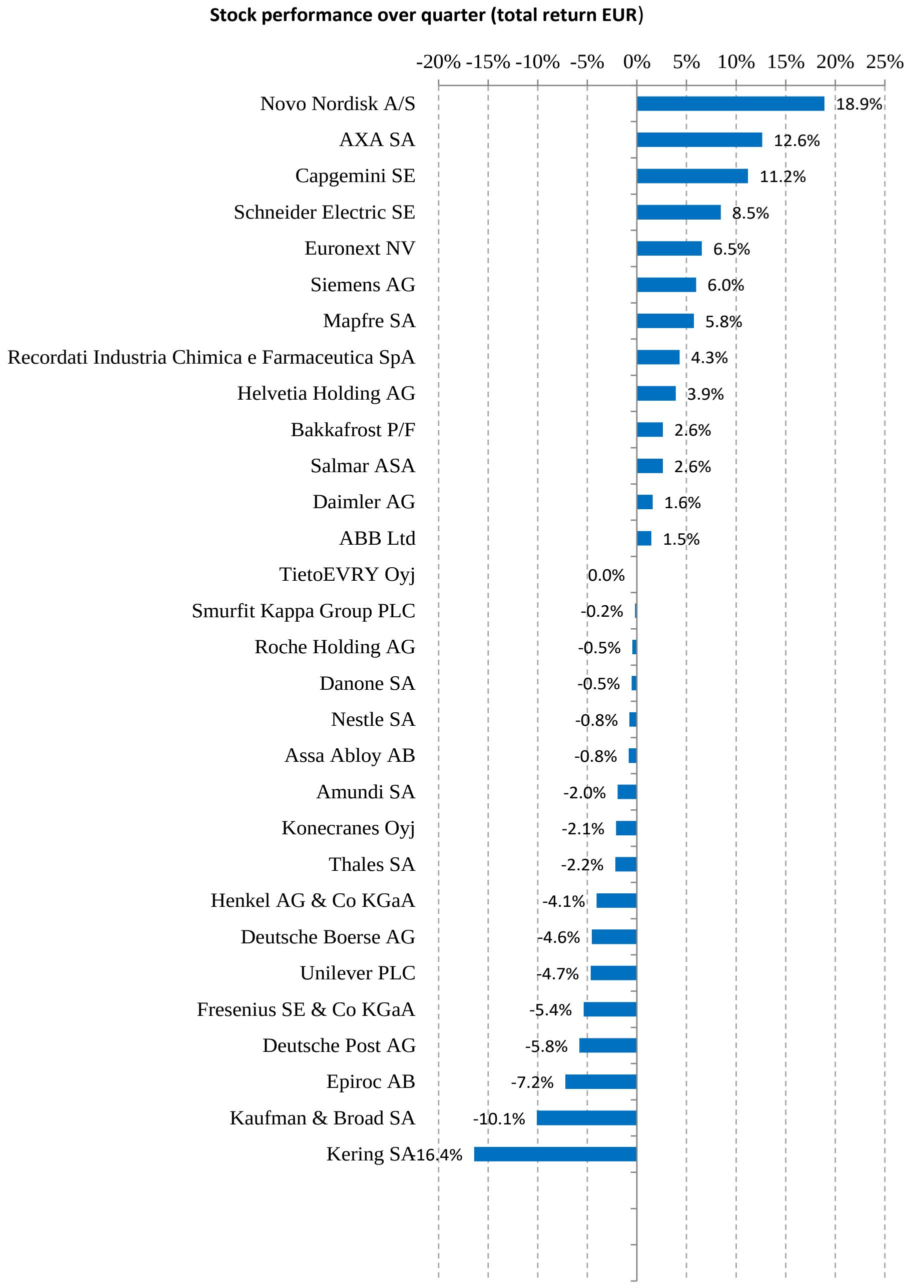


**Chart 14: Individual stock performance over the quarter, in GBP. Source: Bloomberg data**

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**Novo Nordisk** (+18.9% in EUR) is the global market leader in the diabetes treatment market with value share of some 29.6% (+0.5ppts YoY) and 50% market share of the innovative high growth GLP-1 (Glucon Like Peptide) market where success is opening large additional new opportunities including in the adjacent obesity market. This is what we really like about Novo Nordisk: its dominance of a critical niche characterised by high levels of innovation and an expanding addressable market. H1 group sales grew 13% at constant exchange rates, led by GLP-1 growth of 30%, including Novo's new oral GLP-1 Rybelsus with sales growth of +213% to DKK1.7bn. Obesity sales grew 34% to DKK3.5bn, as Novo took just a week to launch its new once weekly GLP-1 injectable Wegovy following FDA approval as an addition to diet and exercise; eclipsing earlier Saxenda's three year sales level in about four weeks. Clinical trials have shown Wegovy helped patients sustain an average 15% weight loss vs Saxenda's 5% reduction. There remains significant potential here with just 3% of the US addressable market currently receiving treatment.

As a result, Novo upgraded FY guidance to 10%-13% sales growth (at CER) vs. 6%-10% previously alongside operating profit growth of 9%-12% vs. 5%-9% previously. Novo Nordisk, supported by the Novo Foundation (76.8% votes and 28.3% of share capital) has an excellent culture focused on long-term value creation and a strong track record for capital allocation. We also note that the 2021 long-term incentive plan, which is primarily focused on economic value added (EVA) and sales growth, was redesigned to include a full 3Y performance period and subsequent 2Y holding term, rather than the prior 3Y term where targets were set annually. Altogether giving us greater confidence that Novo will at least meet its 2025 aspiration for sales growth of 12% per annum, alongside continued productivity gains and cash returns to shareholders in the form of dividend growth and share buybacks.

**AXA** (+12.6%) surprised to the upside in a quarter where outperformance was primarily dominated by the growth style. Axa's H1 results were robust with earnings growth adjusted for COVID-19 impacts of 12%, Asset Management inflows of €18bn to €760bn and a Solvency II ratio of 212% supported by lower-than-expected pandemic impacts from business interruption claims alongside strong pricing +15% across commercial lines and +10% at Axa XL reinsurance. We continue to see Axa's earnings power as underestimated by the market following the shift from a business predominantly focused on more financial risk and Life insurance to one ~80% exposed to technical risk under P&C, Health and reinsurance, where returns are driven by technical excellence and expertise along with customer knowledge, interaction and value added. This shift has given the Group significant scale making it the largest commercial insurer in Europe ahead of Allianz and Zurich. The alternatives side of the asset management division (within Life & Savings) also looks well placed going forwards, benefiting from an ongoing tailwind to infrastructure against a backdrop of very low rates and yield scarcity. While the market continues to attribute little value to the Group's strong position in China, through Axa Tianping, the no.1 foreign P&C insurer in the country.

Overall, the solid capital position and scope for reserve releases relating to lower-than-expected business interruption claims alongside an outlook for strong pricing suggest good potential for both share buybacks and for the dividend to march ahead of 2019 €1.5/shr levels in 2022. There is also good rerating potential too off a high single digit (~8x) earnings multiple. Here again we think shareholders can sleep well, being well aligned with a strong management team and employees which own some 4.3% of shares outstanding, and Axa's purposeful business model and strong stakeholder focus including its Chairmanship of the Net-zero Insurance Alliance.

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**Capgemini** (+11.2%) also outperformed off raised guidance over the quarter, with revenue growth upgraded to 12%-13% vs. 7%-9% previously at 12.5%-12.7% operating margin vs. 12.2%-12.4% previously, and FCF of €1.5bn vs. €1.3bn previously. Following this year's very strong performance (+45%) Capgemini now represents the lowest contribution to the fund dividend with a yield of just over 1%. However, looking out to 2022 and beyond the free cash flow yield remains high single digit (>7%), suggesting good potential for continued growth in capital returns alongside bolt-on M&A while net debt is paid down following the Altran acquisition.

Capgemini is Europe's leading IT and industrial engineering R&D services provider and sits at the centre of multiple nascent structural growth drivers. The company's strength in critical Applications Technology (including enterprise software, cloud, CRM, Edge and SMAC apps) and Engineering (including BPO solutions, ER&D, industrial automation and IoT platforms) places it squarely at the centre of multiple structural growth drivers. The shift to intelligent industry across semi and life sciences remains in its early stages, and more tangibly the €800bn EU recovery package focused on clean infrastructure and digital looks set to drive a real uptick in activity from 2022. The recent rise in deal sizes also points to the early stages of a multi-year IT services growth cycle, as the pandemic pushes players across the corporate spectrum, from financials to industrials, to accelerate the shift to digital. Capgemini notably benefits from being the only global scale European IT services provider putting it in poll position to take share from smaller often less sophisticated regional providers, enabling global facing European companies to work with one trusted partner to roll out sophisticated solutions across multiple geographies. With the increasing complexity and the long-term nature of projects raising barriers to entry; and the rising importance attached to data sovereignty only adding to Capgemini's attractions to European governments as well as corporates. We also see an ongoing tailwind to margin from costs as the pandemic drives both direct savings and the ability to allocate personnel and resources more flexibly across geographies.

Importantly the chances of all these positives continuing to feed back into shareholder cash returns against a backdrop of only moderate expectations looks good. Management have a strong capital allocation track record, and long-term incentives are well balanced based around revenue growth, margins and free cash flow. Meanwhile Capgemini employees are well aligned with shareholders owning some 6.4% of company shares.

**Kering** (-15.4%) fell hard in Q3 driven by Chinese President Xi Jinping's announcements targeting inequality. China accounts for some 1/3rd of worldwide luxury goods sector sales and 34% of Kering's total sales with 15% directly from mainland China. We have been here before, and it remains to be seen what real action will be taken by the Chinese government. As stated in the August market review, 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 last time for the sector relative to trough; but then again, the market learns quickly.

H1 results were impressive, with sales climbing 50% and now 8% above pre-pandemic levels aided by e-commerce which now accounts for 14% of sales vs. 6% back in H1 2019. The migration to e-commerce

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platform is now complete, and the new Gucci Aria collection looks good and the turnaround at Bottega Veneta is bearing fruit. Following the disposal of an additional 5.6% stake in Puma the balance sheet is very robust at under 5% net debt/EBITDA, suggesting good scope for a continued rebound in the dividend combined with a mix of M&A and buybacks. Management under Francois Henri Pinault have a strong track record for capital allocation, giving us confidence that return of capital will be the preferred route if accretive acquisitions aren't forthcoming. We have recently written to the remuneration committee asking for greater clarity over management incentive targets and for a split of the Chairman CEO role. That said overall we remain happy that high levels of family and management equity ownership along with a culture of creative innovation and strong focus on stakeholders (including supply chain and investment in circular business models) are well aligned with shareholder interests for the long-term.

**Kaufman & Broad** (-10.1%), a new position in the fund in 2021, took two steps back in September as discount rates moved higher. The company has seen small earnings downgrades over the last few months as the €1bn Austerliz station redevelopment remains to be approved but we are hopeful this will come through over the coming month or two. New building permits also remain in decline, for now at least, ahead of the French elections in April 2022. Thereafter a reversal looks likely as politicians move to a more commercial footing and look to get the economy moving, satisfy pent-up demand and building back better and greener post pandemic. Outside of that quarterly numbers were fair with the company reporting a 7.9% / 30.2% increase in volume / value respectively of Q3 housing orders YoY. The overall backlog remains high at €3.4bn. We were pleased to see the company sign heads of terms for a €150m senior housing owner operator project comprising of 10 residences with Serenis and managed by Cosy Diem. This is a new and complimentary departure for Kaufman & Broad characterised by potential for higher multiples and margins and steady cash flows vs. the pre-existing sale before completion model. Value will take time to out but we are paid to wait with a near 5% dividend yield alongside single digit earnings multiples, supported by a strong balance sheet and management's good track record of capital allocation and cash conversion. The share buyback programme should prove supportive on weakness, and the interests of management and family owners stand us in good stead at over 10% and 13% of shares outstanding respectively. Equally CEO Nordine Hachemi's experience across Bouygues Construction, La Saur and Albioma leaves the company well placed as the demands of increasingly stringent environmental regulations along with pressure for more sustainable housing increasingly set quality operators apart.

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## 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. Based on the measures, holistically, the high-conviction fund has companies which are on average better quality and value verses the index.

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 % | 84.0 | 208.9 | -124.9 |
| | Net debt / Equity % | 41.6 | 47.8 | -6.2 |
| | ROE % | 18.0 | 10.4 | 7.6 |
| **Value** | PE (2022e) | 14.2 | 16.1 | -1.9 |
| | FCF Yield % | 7.4 | 5.7 | 1.7 |
| **Dividend** | Dividend Yield (Best) % gross | 3.4 | 2.7 | 0.7 |
| | Weighted average payout ratio % | 45.0 | 72.5 | -27.5 |
| **Conviction** | Number of stocks | 30 | 344 | -314.0 |
| | Active share | 85 | NA | |

Source: Bloomberg, Guinness data

**Chart 15: Portfolio metrics versus index.**
**Source: Guinness Asset Management, Credit Suisse HOLT, Bloomberg (data as at 30.09.2021)**

## Outlook

An equal weighted and well-balanced conviction portfolio of high-quality companies trading at reasonable valuations paying moderate to high and growing dividends represents an attractive all-weather proposition. The fund offers significantly higher return characteristics and more favourable balance sheet metrics, whilst trading at a small discount to the wider index. In general, our portfolio companies exhibit strong levels of self-determination, characterised by market leadership positions, widening moats, aligned interests and long runways for growth. We believe that whatever the weather this represents a good place to be.

We thank you for your continued support.

**Nick Edwards** (Portfolio Manager)

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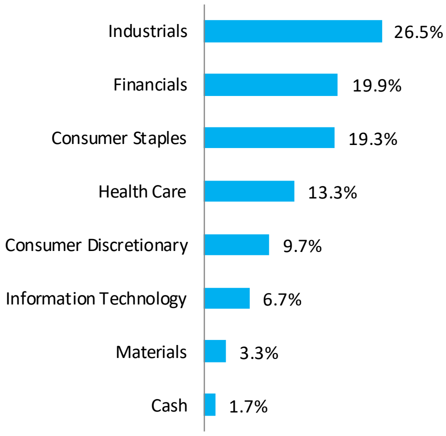
## PORTFOLIO

30/09/2021

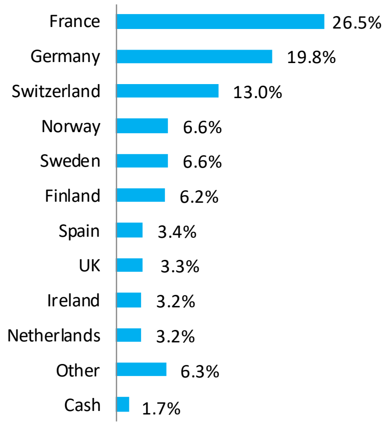
### Fund top 10 holdings

| | |
|---|---|
| Daimler AG | 3.6% |
| AXA | 3.6% |
| Thales SA | 3.4% |
| Mapfre | 3.4% |
| Epiroc AB | 3.4% |
| Henkel AG & Co KGaA | 3.4% |
| Salmar | 3.4% |
| Helvetia Holding | 3.3% |
| Schneider Electric | 3.3% |
| Roche Holding | 3.3% |
| % of Fund in top 10 | 34.2% |
| Total number of stocks | 30 |

### Sector analysis



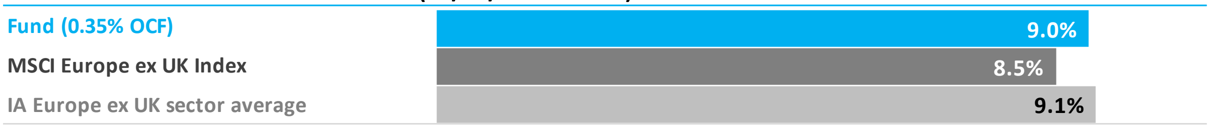

### Geographic allocation




## PERFORMANCE *Past performance does not predict future returns*

30/09/2021

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




| Discrete years % total return (GBP) | Sep '21 | Sep '20 | Sep '19 | Sep '18 | Sep '17 |
|---|---|---|---|---|---|
| Fund (0.35% OCF) | 21.4 | -2.1 | 9.8 | 0.4 | 16.1 |
| MSCI Europe ex UK Index | 20.9 | -0.5 | 5.9 | 1.4 | 21.5 |
| IA Europe ex UK sector average | 22.4 | 3.1 | 2.2 | 1.9 | 21.9 |
| Fund vs sector | -1.0 | -5.1 | 7.6 | -1.5 | -5.8 |

| Cumulative % total return (GBP) | 1 month | Year-to-date | 1 year | 3 years | 5 years | From launch |
|---|---|---|---|---|---|---|
| **Fund (0.35% OCF)** | -3.8 | 14.8 | 21.4 | 30.5 | 52.1 | 95.5 |
| MSCI Europe ex UK Index | -3.6 | 11.0 | 20.9 | 27.4 | 56.8 | 89.2 |
| IA Europe ex UK sector average | -3.4 | 11.5 | 22.4 | 28.9 | 60.1 | 96.9 |

## RISK ANALYSIS

30/09/2021

| Annualised, weekly, from launch on 19.12.13, in GBP | Index | Sector | Fund |
|---|---|---|---|
| Alpha | 0.00 | 1.58 | 1.00 |
| Beta | 1.00 | 0.87 | 0.94 |
| Information ratio | 0.00 | 0.10 | 0.09 |
| Maximum drawdown | -25.02 | -24.43 | -30.29 |
| R squared | 1.00 | 0.89 | 0.90 |
| Sharpe ratio | 0.33 | 0.40 | 0.36 |
| Tracking error | 0.00 | 5.29 | 5.04 |
| Volatility | 15.76 | 14.61 | 15.70 |

**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.