

Guinness European Equity Income Fund

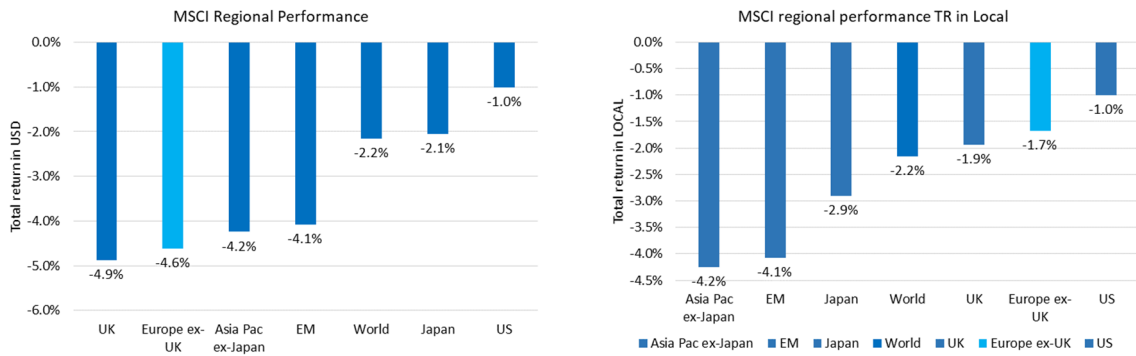


Figure 2: MSCI World Index geographic total return breakdown for November 2021, in USD (left) and Local currency (right). Europe ex UK in light blue. Source: Bloomberg data

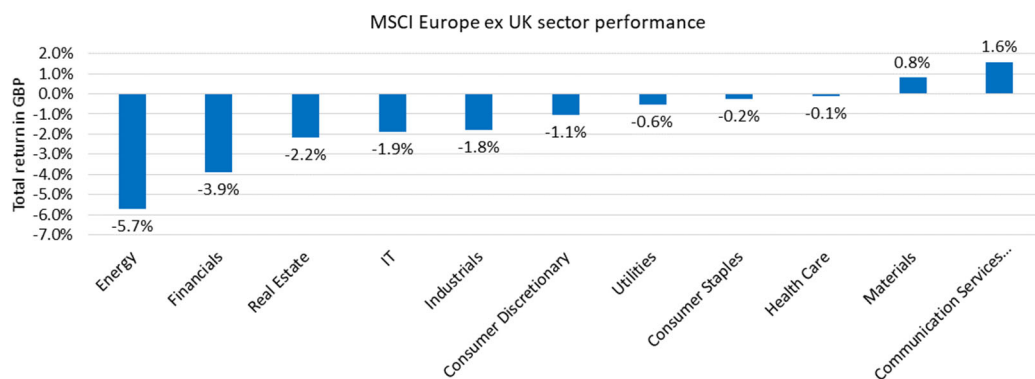


Figure 3: MSCI Europe ex UK Index sector total return breakdown for November 2021, in GBP. Source: Bloomberg

The main external factor influencing returns over the month of November was Euro weakness, which depressed index performance in dollar terms (-4.6%) but left Europe ex UK better off compared to other main regions in local currency terms (-1.7%). The currency move was driven by a growing appreciation of a softer outlook for rates in Europe than in the US and the UK. Updates from ECB members highlighted a determination to keep nominal rates low amid ongoing pandemic-induced temporary inflationary factors set against the longer-term risks of deflation still outweighing those of inflation. This should continue to prove supportive for quality equity income, with cash and bonds offering near zero alternative to a c.3% stable growing sustainable dividend yield.

At the stock level, our holding in Bakkafrost was hit by supply chain issues, primarily caused by delays to upgrades of ship biological equipment, resulting in the early harvest of some less mature salmon. On a more positive note, while our other leading salmon farmer, Salmar, was caught in Bakkafrost's wake, its results showed it was unaffected by the same issues, which themselves should prove temporary. We have duly reweighted our position in Bakkafrost back up to portfolio weight.

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.

Europe as a Destination for Income

We used the latter couple of weeks of the month to do more work on the context of Europe ex UK as a destination for income, shedding light on the often overlooked quality of the region’s dividend offering. That Europe ex UK as a region offers investors a premium level of dividend income over other main regions and asset classes such as bonds (of course) is broadly well known.

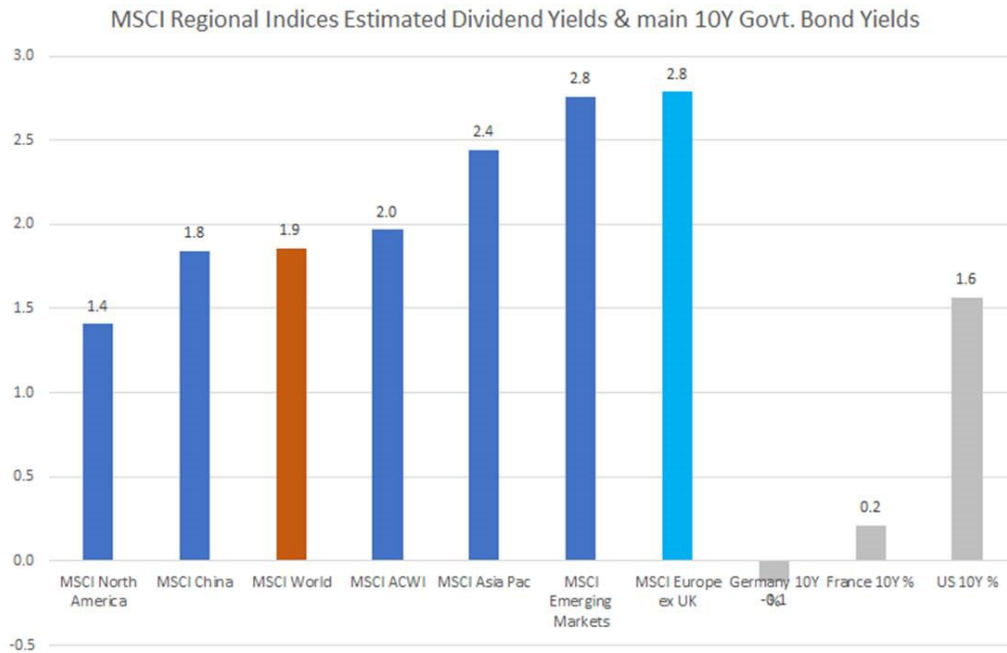


Figure 4: MSCI Regional Index and 10Y govt. bond estimated yields as at November 2021. MSCI Europe ex UK (light blue), MSCI World (orange). Source: Bloomberg

In itself this is no bad thing, but what matters in the end is business quality. The US capital return model with its greater focus on buybacks is more flexible, as proven in 2020, but nevertheless a commitment to a dividend policy represents a commitment to **disciplined capital allocation**, in that company management must decide how much capital is required by the business to operate and grow and how much may be available to regularly return to shareholders (else risk destroying returns via an under-utilised balance sheet or empire building). A fair, reliable, growing dividend supported by solid cash flow growth also offers **downside protection** in the form of a regular annual return and signals confidence that returns will continue to be paid into the future. Investors may have suffered high levels of volatility over the last couple of years, but dividends have (in spite of interruptions) continued to provide a reliable source of return. They accounted for 17% of MSCI Europe ex UK returns from end 2019 through November 2021 and 33% of total returns in 2020, compared to far more volatile earnings contributions of +41% and -230% to total return respectively.

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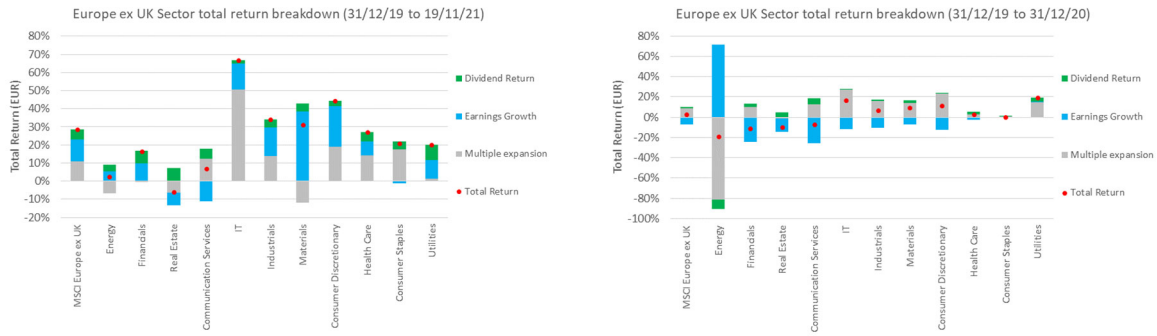


Figure 5: MSCI Europe ex UK Index components of total return to November 2021, in EUR. Source: Bloomberg data.

The high contribution of dividends to total return in Europe ex UK can be seen by separating returns over time (2004 – 2020) from different regions into returns from reinvested dividends (in orange) and from price appreciation (in blue).

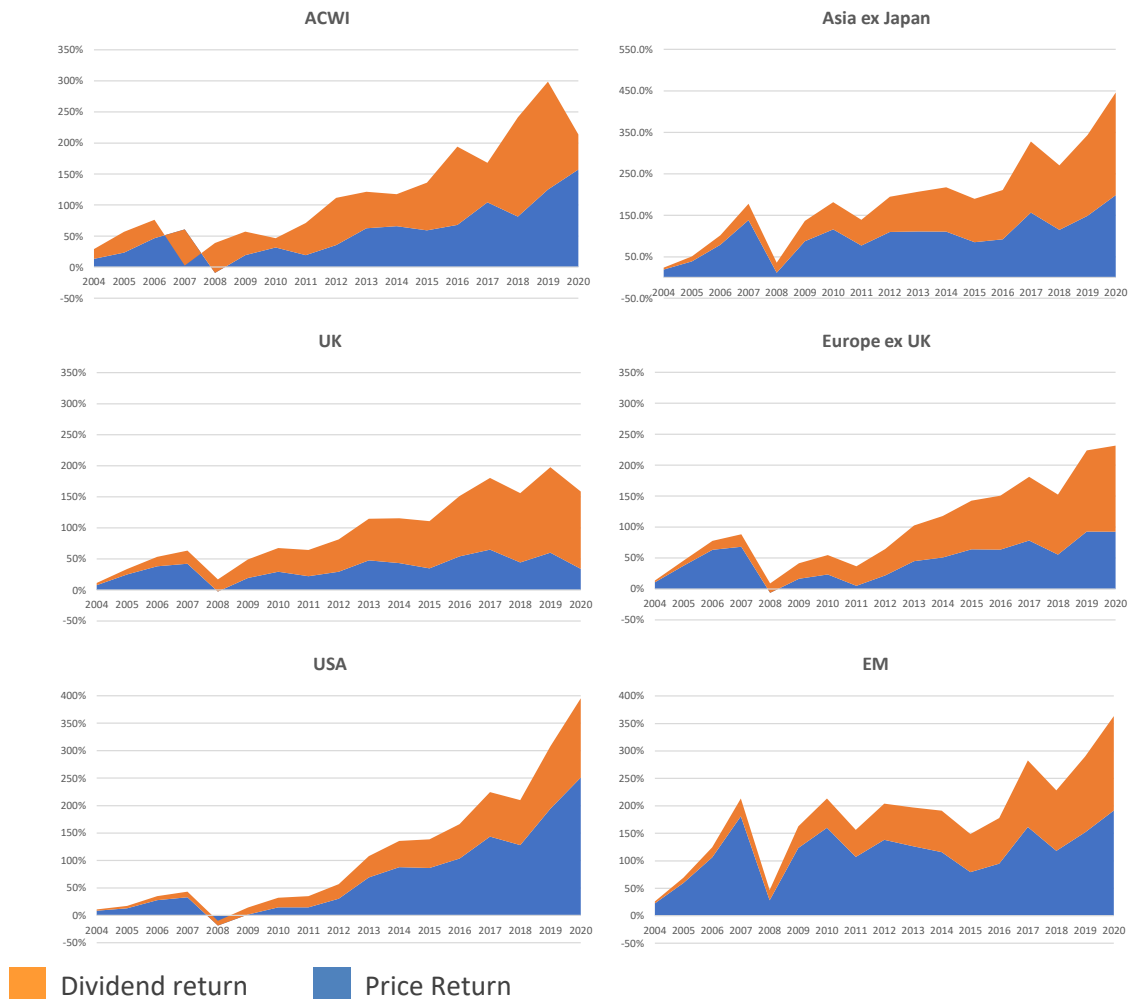


Figure 6: MSCI regional returns from dividend and price 2004 – 2020, in USD. Source: Bloomberg data. MSCI ACWI (All Countries World Index)

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Indeed MSCI Europe ex UK dividends reinvested contributed a full 60% of return over the period 2004 – 2020 vs just 37% in the US and 56% across Asia ex Japan.

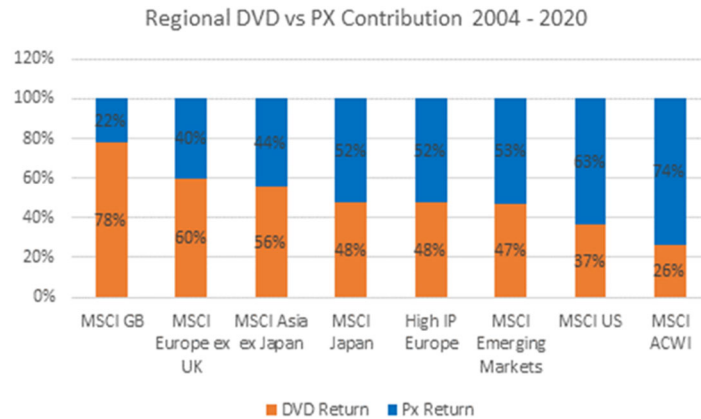


Figure 7: MSCI regional contribution to return from dividend and price 2004 – 2020.

Source: Bloomberg data.

Dividend Growth

Before the pandemic, MSCI Europe ex UK generated a respectable 7% dividend CAGR over the period 2004 – 2019, with growth falling behind MSCI World (8% CAGR) post Euro Crisis, driven by QE and the impact of bailouts on bank returns. This is well above the 4% CAGR seen in the UK, but just below the 8% dividend CAGR generated by the MSCI US and well below the 12% CAGR seen in MSCI Asia ex Japan.

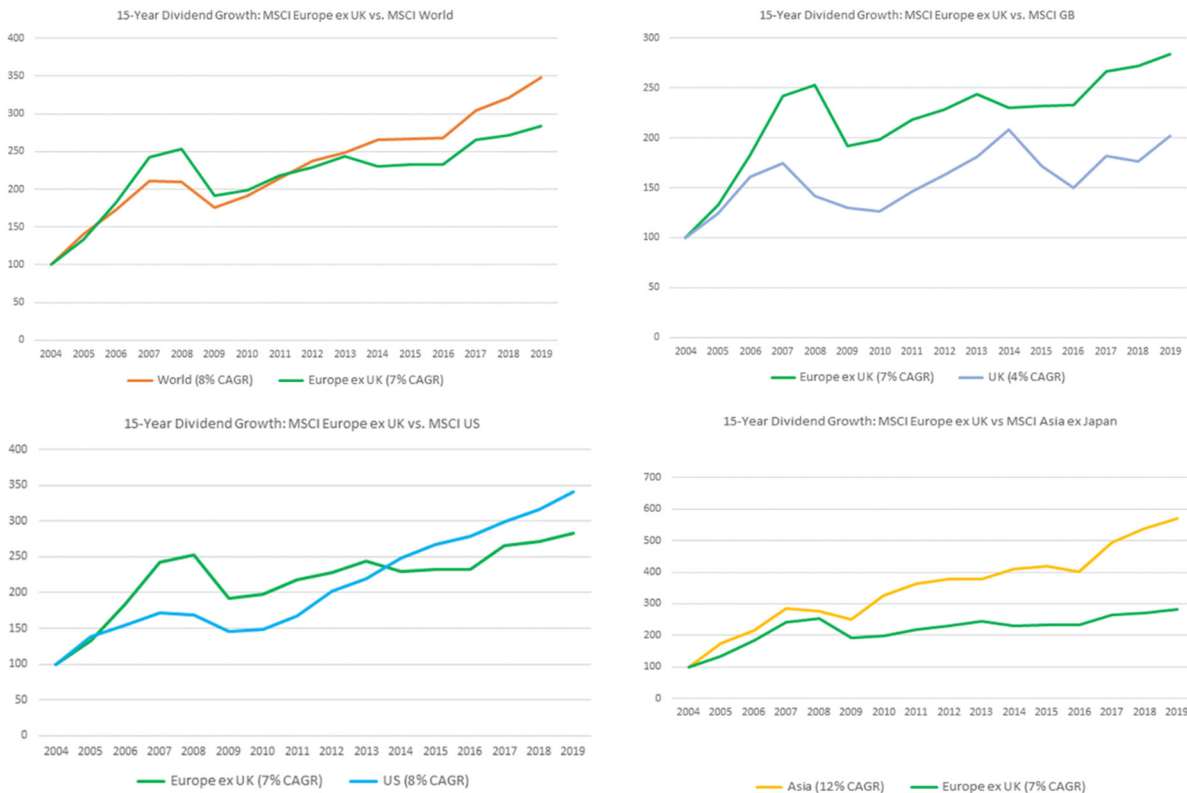


Figure 8: 15Y dividend growth MSCI Europe ex UK (green) vs. main regions 2004 – 2019, in USD.

Source: Bloomberg data.

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A breakdown of European dividend returns by sub-region, country and sector serves to better illuminate the opportunity. The results reveal stark differences between north and south and across sectors. Higher-return countries which we aggregate and label 'High Intellectual Property (IP) Europe', namely Scandinavia, the Netherlands and Switzerland, returned a 10Y dividend CAGR to 2019 of 8% vs 4% for MSCI Europe ex UK and a 2% CAGR for the rest of Europe (see single country breakdown below).

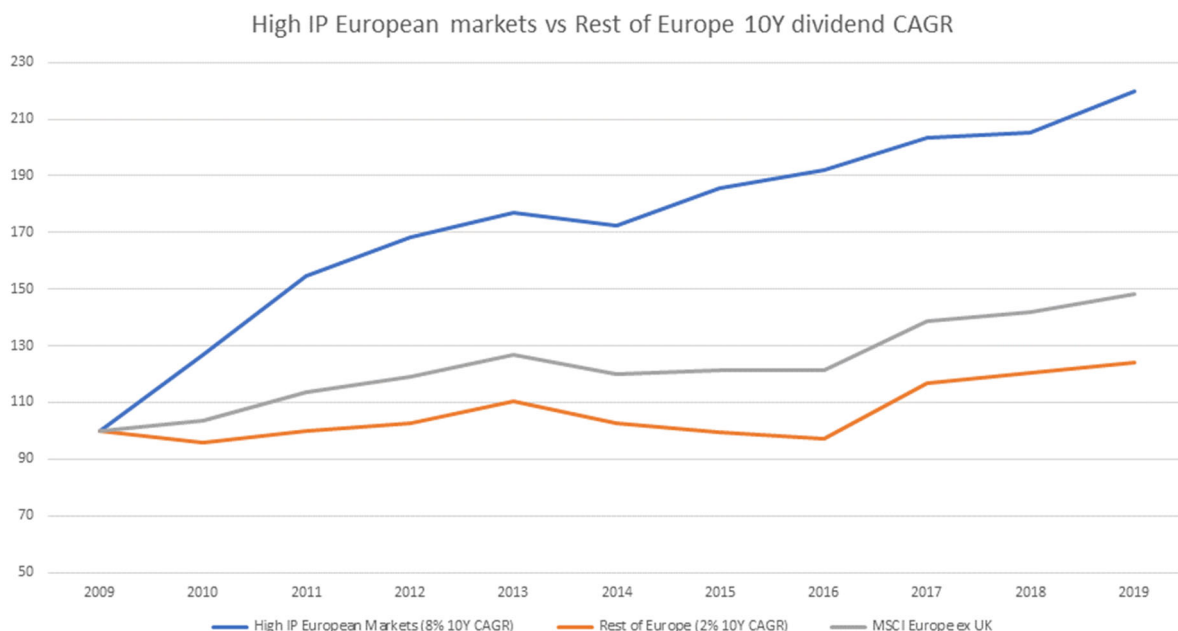


Figure 9: High IP Europe (8%) 10Y dividend CAGR vs MSCI Europe ex UK (4%) and Rest of Europe (2%). High IP Europe – Scandinavia, Netherlands & Switzerland, in USD. Bloomberg data.

High IP European markets' contribution to total dividend returns over four five-year periods (2005 – 2020) highlights the quality of the opportunity set in these markets, expressed through continuous dividend share gains vs rest of Europe, rising from 44% of total European dividends paid in 2005 to 66% in 2020.

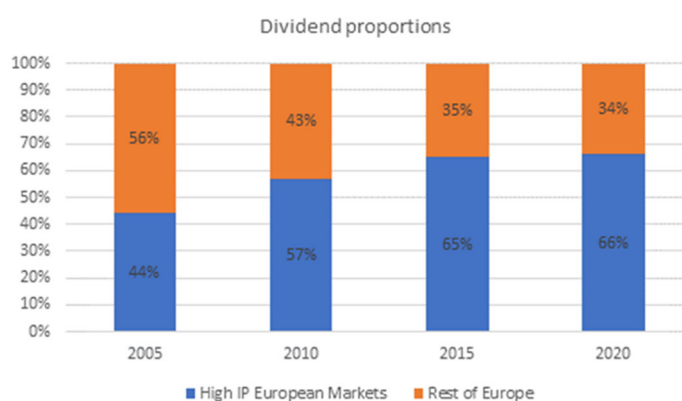


Figure 10: High IP European markets' contribution to European dividend 2005 (44%) – 2020 (66%), in USD. Source: Bloomberg data.

Arguably at the root are the twin drivers of good governance and high levels of innovation. The former is expressed in the Scandinavian region's focus on active and founder-led business models alongside strong

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protections for minorities. The latter seen in UNESCO Institute for Statistics data showing world class levels of R&D expenditure as % GDP and researchers per million inhabitants.

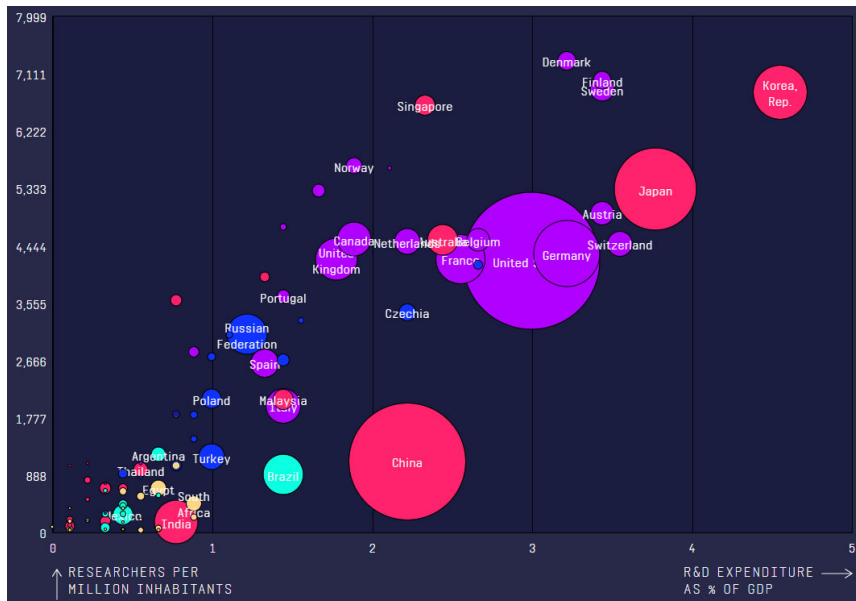


Figure 11: UNESCO Institute for Statistics global country R&D Expenditure % GDP (X axis) vs. Researchers per million inhabitants (Y axis), in USD. <http://uis.unesco.org/apps/visualisations/research-and-development-spending/>

If one looks at High IP Europe total returns in a global context 2004 – 2020, returns of 405% broadly match up to the US and Asia ex Japan, and are not far off twice MSCI Europe ex UK returns of 230% (see below). Looking at 10Y dividend CAGR (second chart below) reveals a very similar picture with High IP Europe return of 8% CAGR vs 4.5% for MSCI Europe ex UK.

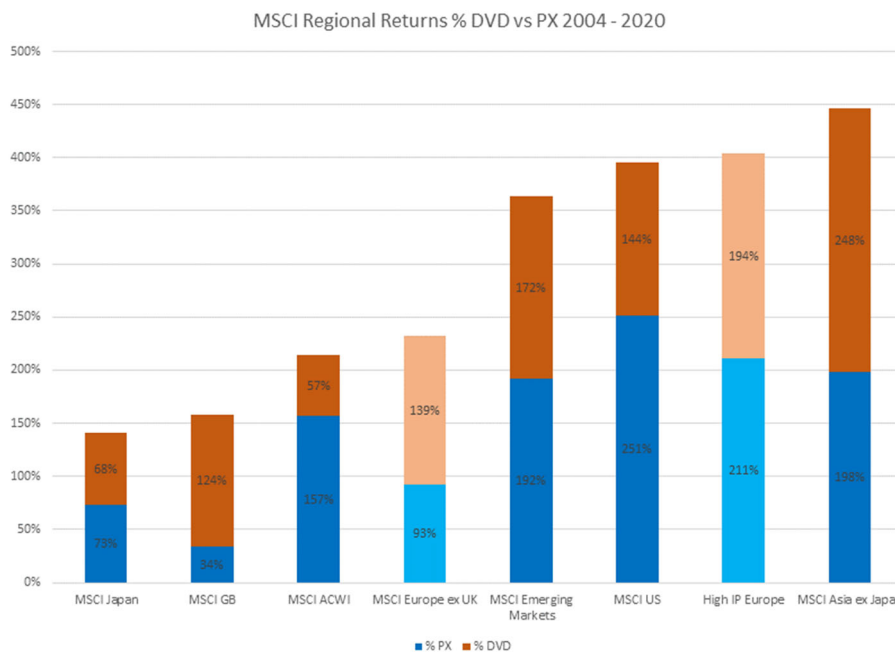


Figure 12: MSCI regional returns from Dividend and Price. High IP Europe and Europe ex UK in light blue (dividend) and orange (px), in USD. Source: Bloomberg data.

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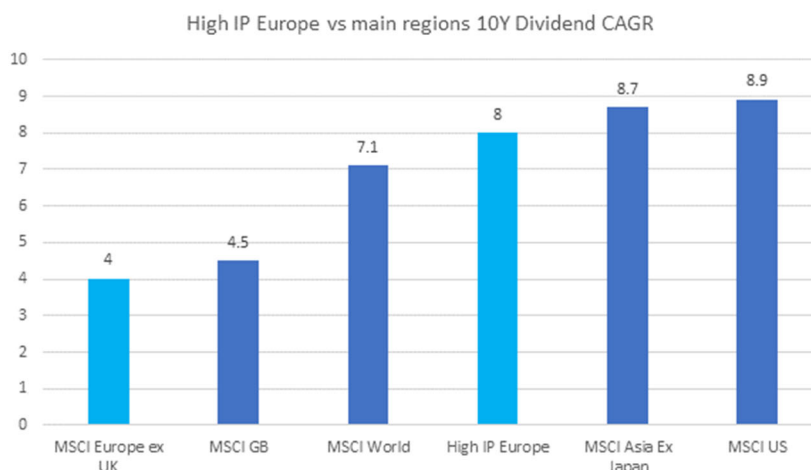


Figure 13: MSCI regional 10Y dividend CAGR. High IP Europe and Europe ex UK in light blue, in USD. Source: Bloomberg data.

Breaking down the Europe ex UK region by country (alongside yield and payout ratio) reveals very strong 10Y dividend CAGR from Denmark (19%), followed by Norway (11%), Netherlands (10%), Ireland (9%) and Switzerland, Sweden and Belgium (all 8%). Denmark is boosted by the size and success of Novo Nordisk relative to its market and Norway is helped by the cyclical effect of a weak oil price coming out of 2009. At the other end of the spectrum, French and German dividend growth is held back by their higher proportions of cyclical and regulated sectors including chemicals, autos and banks, although France and Germany are also home to many high-quality and innovative companies, including those held in the Fund. Similarly, Finnish dividend growth rates are flattened by high exposure to forestry and paper and packaging industries. At the weakest end of the spectrum, Spain and Portugal report negative 10Y dividend growth 2009 – 2019, weighed down by high exposure to banks and other highly cyclical and regulated areas of the market.

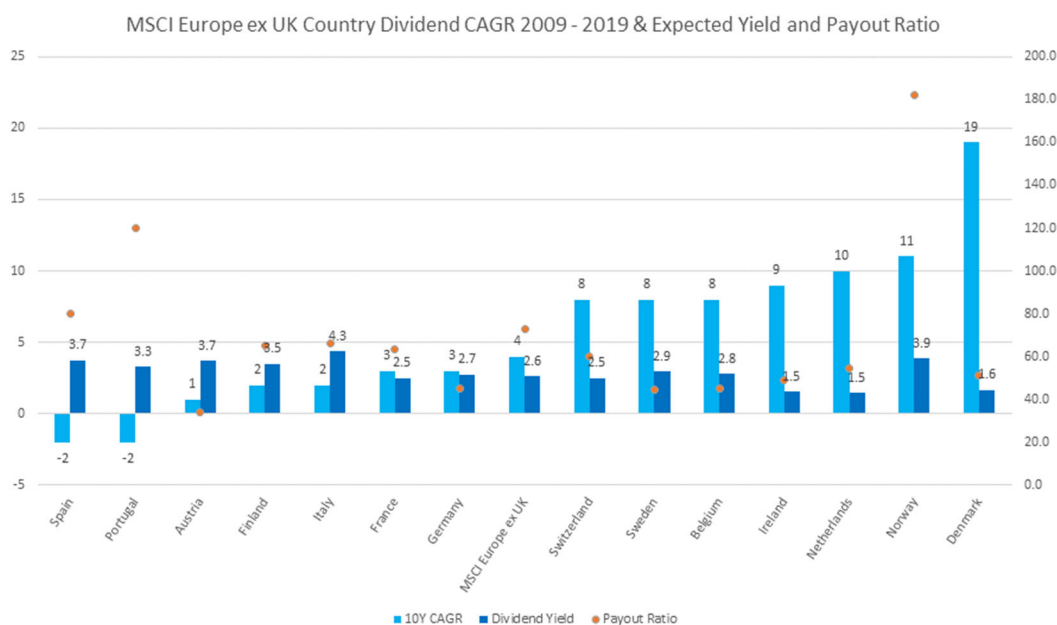


Figure 14: MSCI Europe 10Y dividend CAGR by country (light blue), dividend yield estimated (dark blue) and payout ratio (orange dot), in USD. Source: Bloomberg data.

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Naturally, payout ratios and dividend yields tend to be lower across higher-growth countries. Similarly, dividend yields are of course lower across higher-quality and higher-return sectors. The Guinness European Equity Income Fund is focused on these two complementary higher-return areas of Northern Europe and quality sectors including Industrials, Healthcare, Consumer Staples and Consumer Discretionary where we find more persistent high return on capital companies with the balance sheet strength to weather all markets and emerge from downturns stronger. Your fund is also overweight Financials, where poor bank returns obscure many otherwise high-quality businesses such as the exchanges, asset managers and insurers held within the fund. The Europe ex UK Materials sector is interesting in that it contains some high-quality sustainably focused businesses alongside the more traditional and unattractive commodity companies traditionally associated with the sector, such as mining and chemicals operations.

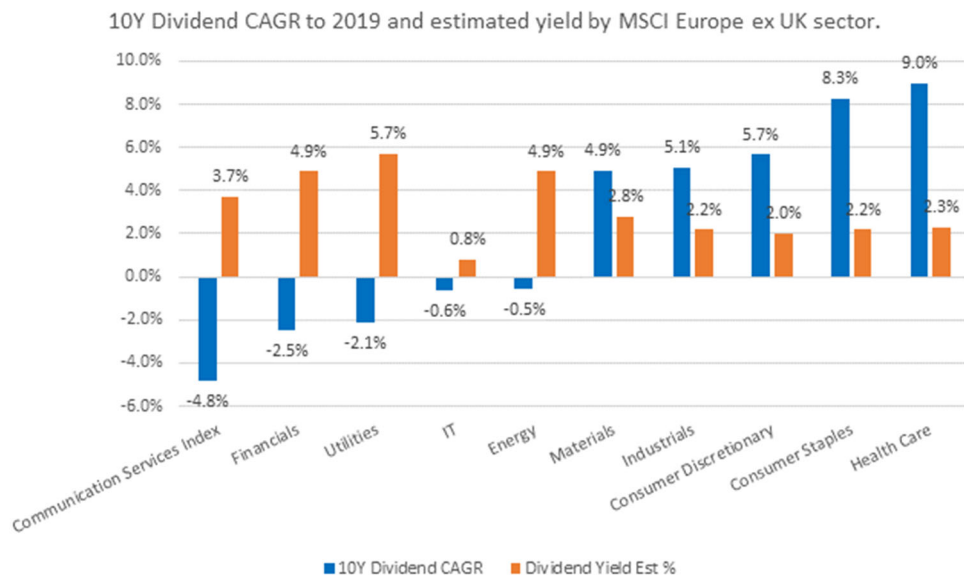


Figure 15: MSCI Europe ex UK 10Y sector dividend CAGR to 2019 (blue) and estimated dividend yield (orange), in USD. Source: Bloomberg data.

It is across these higher dividend growth sectors and countries where we find many of Europe’s unique and world class companies that more than match up to their US and global counterparts in terms of business quality and growth potential. Europe is notable for its global leadership in areas of industrial technology, luxury goods, fast-moving consumer goods (FMCGs), salmon farming, healthcare and materials science. More broadly, its leadership in sustainability is fast becoming a tailwind for sustainably-focused European leaders, which are finding themselves in a position to supply what the world increasingly wants. **For the income investor this is the sweet spot, in our view, where investors can achieve a significant yield premium over MSCI US or MSCI World without giving up on quality.** In a recent review of the Guinness European Equity Income Fund holdings vs their closest US counterparts we found investors achieved a near 70% uplift in dividend yield to around 2.9% vs. 1.7% in the US without giving up on quality.

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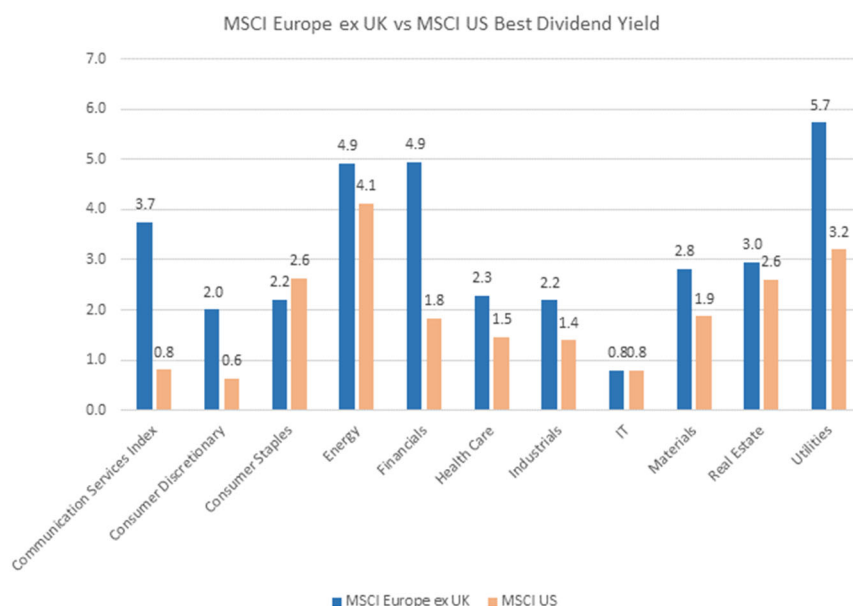


Figure 16: MSCI Europe ex UK and MSCI US estimated dividend yield by sector, in USD. Source: Bloomberg data.

A glance at MSCI Europe ex UK sector dividend contributions (shown 2004 – 2020 and % 2019 and 2020 below) highlights the importance of a balanced portfolio. In 2020 there were sharp dividend drawdowns in Financial and Consumer Discretionary sectors visible against robust contributions from Healthcare and Consumer Staples. It was here that your fund fell short in 2020, having had an underweight exposure to Healthcare and meaningful exposure to some directly consumer-facing areas of the market when Covid-19 arrived in Q1 2020. Few predicted a global pandemic but the lesson is clear, and most acutely expressed in Healthcare (and Switzerland) being the only segment of the European market to have recorded real dividend growth in USD terms in 2020.

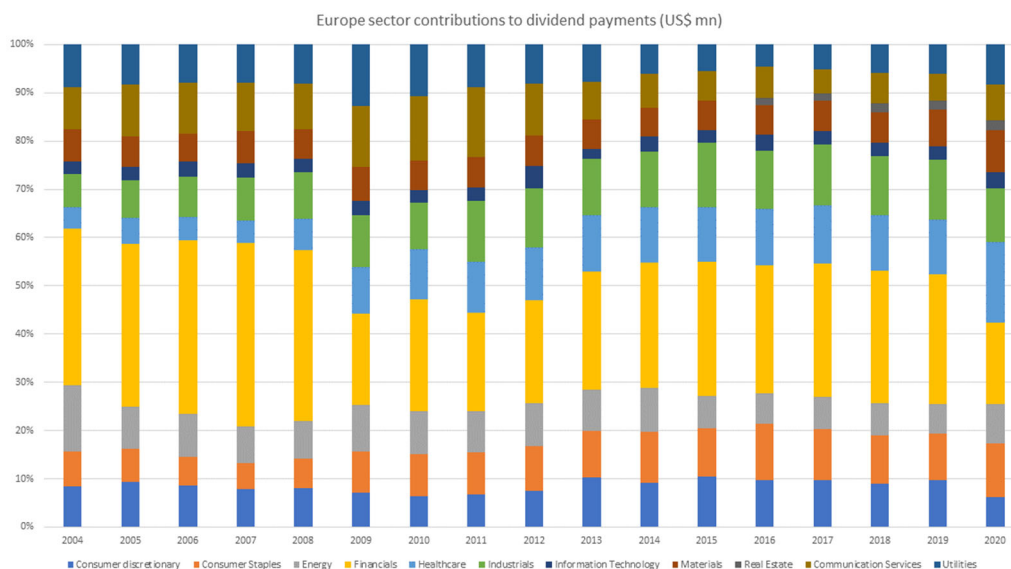


Figure 17: MSCI Europe ex UK sector dividend contribution over 2004 – 2020, Healthcare in light blue, Financials in yellow, in USD. Source: Bloomberg data.

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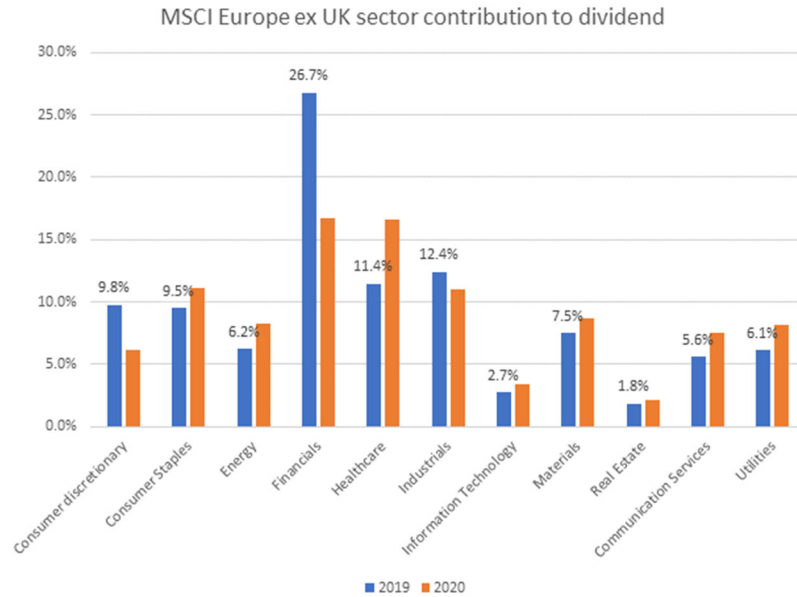


Figure 18: MSCI Europe ex UK sector dividend contributions 2019 and 2020, in USD. Source: Bloomberg data.

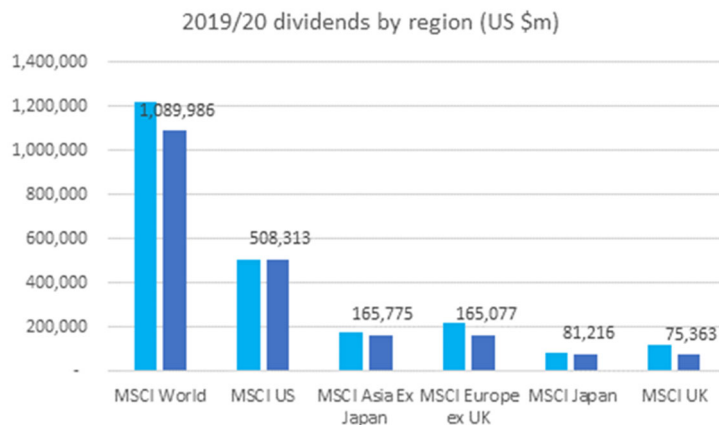


Figure 19: MSCI World and main regional dividends 2019/20, in USD. Source: Bloomberg data.

MSCI Europe ex UK contributed 15.2% of MSCI World dividends in 2019, and 22.2% together with the UK. It is a region characterised by higher levels of dividend yield, alongside high quality globally leading industries and exemplary corporate governance and capital allocation seen in the region's northern high-IP markets. It is therefore an essential component of any income investor's portfolio.

The Guinness European Equity Income Fund offers investors the best of Europe ex UK in the form of a concentrated (30-stock) equal weighted portfolio, characterised by exceptional quality with total company portfolio debt of less than half the market along side returns of more than double the market. It trades at a c.9% discount to market 2022 multiples, whilst offering a dividend yield approximately in line with the index after withholding tax.

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Guinness European Equity Income Fund

| | | Guinness European Income Fund | MSCI Europe ex UK Index |
|-------------------|---------------------------------|--|--|
| Quality | Debt / equity % | 83.3 | 235.4 |
| | Net debt / Equity % | 38.8 | 51.2 |
| | ROE % | 21.6 | 10.8 |
| Value | PE (2022e) | 14.9 | 16.3 |
| | FCF Yield % | 7.4 | 5.5 |
| Dividend | Dividend Yield (Best) % gross | 3.4 | 2.8 |
| | Weighted average payout ratio % | 43.9 | 65.3 |
| Conviction | Number of stocks | 30 | 344 |
| | Active share | 85 | NA |

Source: Bloomberg, Guinness data

Figure 20: Guinness European Equity Income portfolio statistics vs iShares MSCI Europe ex UK ETF at end November 2021. Source: Bloomberg data. Historic yield reflects the distributions declared over the past 12 months expressed as a percentage of the mid-market price, as at the date shown. It does not include any preliminary charges. Investors may be subject to tax on the distribution

We thank you for your continued support.

Nick Edwards (Portfolio Manager)

Guinness European Equity Income Fund

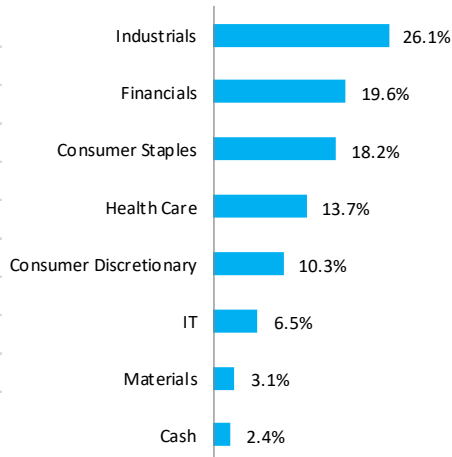
PORTFOLIO

30/11/2021

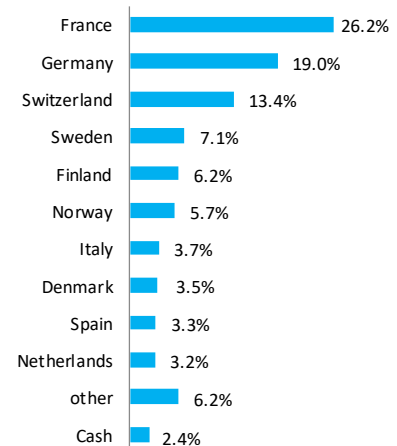
Fund top 10 holdings

| | |
|------------------------|-------|
| Daimler AG | 3.9% |
| Epiroc AB | 3.9% |
| Recordati SpA | 3.8% |
| Capgemini SE | 3.6% |
| Schneider Electric | 3.6% |
| Roche Holding | 3.6% |
| AXA | 3.6% |
| Novo Nordisk | 3.6% |
| Kering SA | 3.5% |
| Helvetia Holding | 3.4% |
| % of Fund in top 10 | 36.5% |
| Total number of stocks | 30 |

Sector analysis



Geographic allocation



PERFORMANCE *Past performance does not predict future returns*

30/11/2021

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

| | |
|--------------------------------|------|
| Fund (Y Class, 0.89% OCF) | 8.6% |
| MSCI Europe ex UK Index | 8.5% |
| IA Europe ex UK sector average | 8.9% |

Discrete years % total return (GBP)

| | Nov '21 | Nov '20 | Nov '19 | Nov '18 | Nov '17 |
|--------------------------------|---------|---------|---------|---------|---------|
| Fund (Y Class, 0.89% OCF) | 15.5 | -0.1 | 14.2 | -3.0 | 17.4 |
| MSCI Europe ex UK Index | 14.6 | 6.4 | 13.1 | -5.1 | 23.5 |
| IA Europe ex UK sector average | 14.9 | 9.1 | 12.1 | -6.8 | 23.7 |
| Fund vs sector | 0.6 | -9.2 | 2.0 | 3.8 | -6.3 |

Cumulative % total return (GBP)

| | 1 month | Year-to-date | 1 year | 3 years | 5 years | From launch |
|--------------------------------|---------|--------------|--------|---------|---------|-------------|
| Fund (Y Class, 0.89% OCF) | -2.9 | 13.0 | 15.5 | 31.7 | 50.1 | 86.2 |
| MSCI Europe ex UK Index | -1.7 | 12.3 | 14.6 | 38.0 | 61.6 | 91.5 |
| IA Europe ex UK sector average | -1.7 | 12.0 | 14.9 | 40.6 | 62.2 | 97.7 |

RISK ANALYSIS

30/11/2021

Annualised, weekly, from launch on 19.12.13, in GBP

| | Index | Sector | Fund |
|-------------------|--------|--------|--------|
| Alpha | 0.00 | 1.46 | 0.78 |
| Beta | 1.00 | 0.88 | 0.95 |
| Information ratio | 0.00 | 0.09 | 0.06 |
| Maximum drawdown | -25.02 | -24.43 | -30.29 |
| R squared | 1.00 | 0.89 | 0.90 |
| Sharpe ratio | 0.31 | 0.37 | 0.33 |
| Tracking error | 0.00 | 5.24 | 5.00 |
| Volatility | 15.77 | 14.65 | 15.70 |

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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 (0.89% 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

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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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