Guinness European Equity Income Fund

Investment Commentary – May 2022

This is a marketing communication. Please refer to the prospectus and KIID for the Fund before making any final investment decisions. Past performance does not predict future returns.

ABOUT THE FUND

Launch date	19.12.2013
Index	MSCI Europe ex UK
Sector	IA Europe excluding UK
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. The Fund is actively managed and uses the MSCI Europe Ex UK Index as a comparator benchmark only.

RISK

◀ Lower risk			Risk & reward			Higher risk ▶
1	2	3	4	5	**6**	7

Typically lower rewards — Typically higher rewards

The risk and reward indicator shows where the fund ranks in terms of its potential risk and return. The fund is ranked as higher risk as its price has shown high fluctuations historically. Historic data may not be a reliable indicator for the future.

PERFORMANCE

Past performance does not predict future returns

30/04/2022	1 year	3 years	Launch*
Fund	1.4	20.8	83.9
Index	-0.7	21.9	80.9
Sector	-2.6	22.4	83.5

Annualised % total return from launch* (GBP)

Fund	7.6%
Index	7.3%
Sector	7.5%

Full discrete 12m performance is shown at the end of this commentary. Source: FE fundinfo, 0.89% OCF, bid to bid, total return to 31.03.2022. *Launch date 19.12.13. Investors should note that fees and expenses are charged to the capital of the Fund. This reduces the return on your investment by an amount equivalent to the Ongoing Charges Figure (OCF). The performance shown has been reduced by the current OCF of 0.89% per annum. Returns for share classes with different OCFs will vary accordingly. The performance returns do not reflect any initial charge; any such charge will also reduce the return.

SUMMARY

In April the Guinness European Equity Income Fund produced a total return of -0.83% (in GBP) while the MSCI Europe ex UK Index was down -1.83%. The Fund therefore outperformed the index by 1.00%. Over the year to date, the Fund has produced a total return of -4.99%, while the Index is down -9.09%. The Fund has therefore outperformed the Index by 4.10%.

APRIL IN REVIEW

The largest positive contributors to performance over the month of April (in EUR) were **Danone** +15.2%, **Salmar** +9.0%, **Novo Nordisk** +8.5%, **Unilever** +8.1% and **Thales** 7.1%

At the other end of the spectrum the biggest detractors from performance were **Kering** -10.9%, **Schneider Electric** -9.5%, **Mapfre** -8.2%, **Universal Music Group** -7.9% and **Siemens** -7.4%.

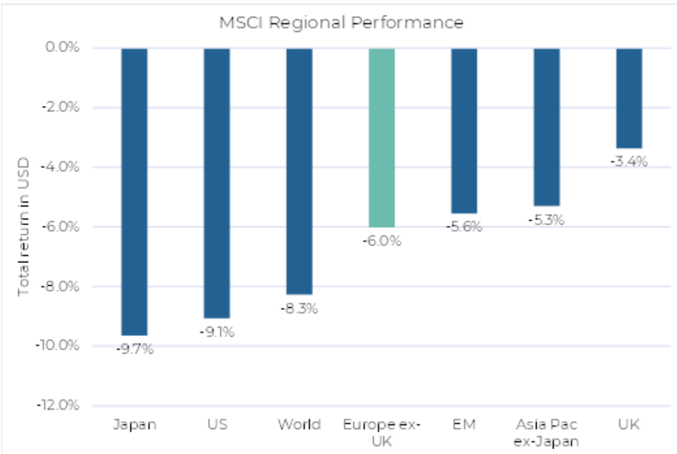


Figure 1: MSCI regional total returns breakdown for April 2022, in USD. Europe ex UK in light green. Source: Bloomberg

Europe vs US exposure

Europe ex UK regional performance improved in April vs other main regions after Q1 weakness. The two charts below cut to the core of why income investors should look at Europe now.

APRIL IN REVIEW - CONTINUED

Simply put, despite far higher energy input costs vs the US, Europe's labour market slack and overall structure mean that core inflation (CPI ex food and energy) remains far lower and closer to 2% target than in the US. At the same time, the composition of MSCI Europe ex UK vs. MSCI US is arguably far better suited to the rising-rate and inflationary environment we now find ourselves in, with significantly higher exposure to Consumer Staples (12% vs 7% in the US) with their strong track record for passing on inflation, Financials (15% vs 11%) which benefit from higher interest rates, and Industrial technology (15% vs 8%) which looks incredibly well positioned for a decade of capex driven by the energy transition and the need for greater self-sufficiency. By contrast, the MSCI US Index weighting to Technology is 28% vs 9% in Europe leaves US investors far more exposed to highly rated and often unprofitable growth stocks, many of which are reliant on equity incentives to attract talent and ratings likely to suffer from higher discount (interest) rates.

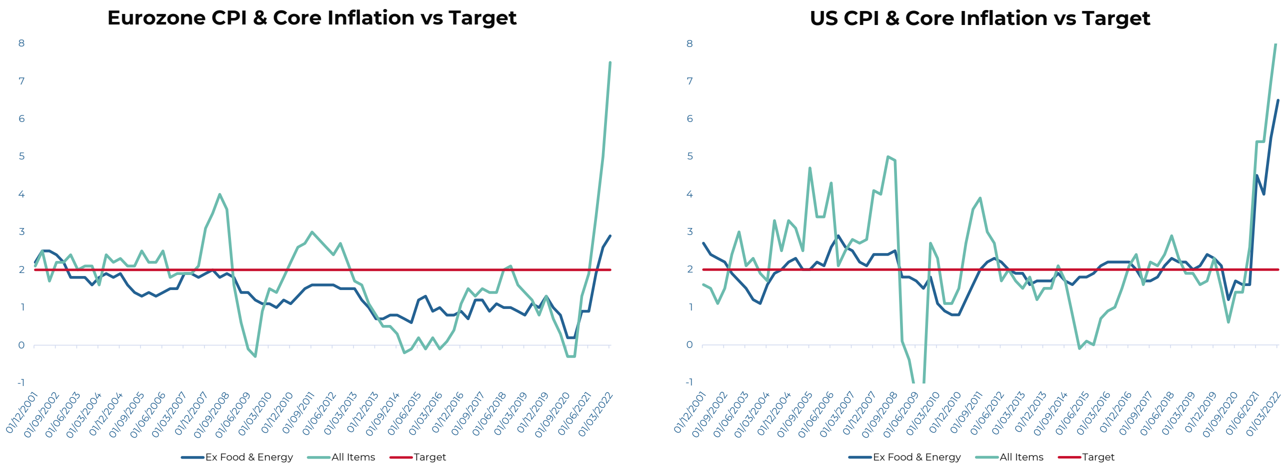


Figure 2: Eurozone (lhs) vs US (rhs) CPI All Items and Core Inflation (ex food & energy in dark blue) vs Target (in red) 2001 to March 2022. Source: Bloomberg.

The Guinness European Equity Income Fund holds significant overweight positions across Industrials, Staples and Financials, along with good portfolio balance between high quality cyclicals (c.60%) and defensives (c.40% Staples, Healthcare and exchanges). It holds no highly cyclical commodity or regulated businesses likely to suffer higher input costs, price caps or windfall taxes (such as we are seeing applied to windfall Energy and Utility profits in certain European countries). The chart below shows Fund exposure by sector alongside MSCI Europe ex UK (middle) and MSCI US (left) Index exposures.

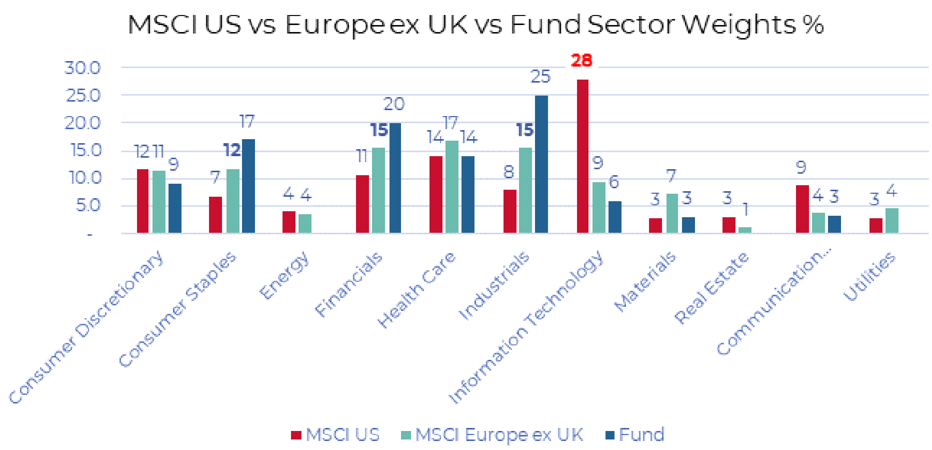


Figure 3: MSCI US (red), MSCI Europe ex UK (green) and Fund (blue) sector weights. Source: Bloomberg

Passing on costs

The most notable portfolio development during the month of April was the strong ability to pass on costs displayed by most of our portfolio companies reporting Q1 earnings, notably across Fund overweight sectors of Consumer Staples and Industrials. This is something that the market continues to question, giving little credit for robust earnings and strong structural growth potential, in the face of multiple near-term headwinds. **Danone** (+15.2%) was the strongest performer, reporting 7.1% top-line growth of which +4.9% was driven by price. The market has welcomed the new CEO, Antoine De Saint-Affrique, from Barry Callebaut AG, with a wealth of requisite experience both of brand power and positioning and of managing often volatile input costs. At the moment, the market is only worried about the latter, but performance of the Waters division, with sales +16%, underscored forgotten and pent-up demand from Covid lockdowns, and Danone's Specialist Nutrition business recorded 9.5% top-line growth, a nod to the quality of the franchise and the still unfolding fast-forward for health and nutrition arising from the pandemic. There were also unconfirmed reports of interest in Danone's Dairy business (which makes Actimel and Activia) by Lactalis. **Nestlé** reported similarly strong numbers, with sales +7.6% of which 5.2% was from price, driven by healthy and premium categories, with Waters sales +21.3% as out-of-home categories recovered and Pet Food +13.6% and Coffee +7.3% continued recent form with brand strength driving further market share gains. At **Unilever**, with its high c.60% exposure to emerging markets, top-line growth was entirely driven by price +8.3% vs underlying sales growth of +7.3%, with similarly high-IP and healthy segments, Prestige Beauty and Functional Nutrition (vitamins) the main drivers of strength. The company has been at pains to point out for some time its strong track record for passing on input cost pressures, (notably post the Financial Crisis). The market is also arguably ignoring the potential for the shift in domicile to the UK and the move to five decentralised incentivised divisions to speed value creation.

The Consumer Staples sector has been treading water for some time now, but loyalty towards small unit sized and priced vital brands, which can make customers look and feel good, tends to remain firm in all weather. This translates into repeat purchases and in turn strong cash flow and pricing power characteristics for the firm. Related arguments apply to our new portfolio holding **Universal Music Group**, with consumers demonstrating exceptional loyalty to a form of entertainment that represents real value on a per hour basis versus competing (stay at home) forms of media (such as film) and with a far greater runway for growth, with just c.7% of global music streaming smartphone penetration. All of this translates into high levels of recurring revenues and margin growth potential for Universal with its huge, fixed-cost back catalogue representing some 32% of global recoded music rights.

Accelerating revenue growth potential

It may feel like everything is slowing down against the backdrop of events unfolding on Europe's doorstep, sharp rate rises in the US and renewed lockdowns in China. However, commentary across our Industrials holdings at Q1 highlighted the pace at which the longer-term opportunity is expanding. **Konecranes**, the global leader in industrial automation and crane service, and which has derated to 8x earnings (being listed in Finland and after its merger with Cargotec fell through) reported Q1 order growth of 35%, and looks likely to see a mid to high single-digit sales CAGR going forwards against negligible sales growth over the last five years. Recent events work to accelerate the climate transition and create new use cases for industrial automation and lifting technology: a boom in offshore wind implies increased harbour crane demand, with similar results likely to be seen across a range of sectors including mining and nuclear. **Schneider Electric** reported 10% organic top-line growth, alongside strong pricing power, with management citing an "acceleration of electrification, energy efficiency, electricity 4.0 and industry 4.0" alongside the need for "industrial sovereignty". If there is one global company that customers can rely on to partner with and enable the transition to a clean, self-sufficient, electric future, it is Schneider. Similar things can be said of **ABB** with its electrical focus and strong outlooks for its rail and robotics businesses in a world focused on cleaner transport and beset by rising wage inflation; but recent events are also driving a strong recovery across its process automation division, as the need for significant reinvestment in efficient oil & gas and metals production capacity comes to the fore. The latter is a tailwind for our holding in **Epiroc**, the global market leader in clean and efficient hard rock drilling equipment, with recurring aftermarket and consumables sales representing some 70% of sales. **Assa Abloy**, the global no.1 in electromechanical locking systems, passed on costs and reported 14% organic sales growth as the hospitality industry returned to service, more than double the pace of its closest US competitor Allegion, which reported 6% top-line growth. Assa occupies an enviable position with recurring aftermarket sales also approaching 70% of total, and the current backdrop only likely to accelerate trends towards (efficient) buildings renovation and digital.

Meanwhile the market seems to have forgotten that **Siemens**, on just 12.8x earnings, is, post spin-outs, largely an industrial software and automation company, with a large installed base and globally dominant positions in low-code and electronic design automation software relating to industry 4.0 (currently moving to a SAS model). Here too the order backlog grew to historic highs with Q1 orders +36% ahead of organic revenue growth of 9%. **Thales,** the European and global leader in defence communications and security, cited visibility on a 15Y upcycle in defence spending, alongside the likelihood of higher capital returns in the near term from the recent €1.6bn sale of its non-core Transport division. Finally, the market in a recession panic has repriced **Deutsche Post** to suggest that the pandemic shift towards online delivery was entirely cyclical rather than secular, completely at odds with ongoing data.

China lockdowns, component shortages and supply chain bottlenecks will improve over time, and high energy prices will ultimately drive increased supply. Meanwhile valuations of quality European equities look attractive and in certain areas of the market the medium-term outlook and opportunity in the areas above is growing.

European Political backdrop

At the political level, current events are working to expedite the hitherto glacial pace of progress towards greater integration within the European Union. In April we saw two notable developments. After an already remarkably swift response to Russia's invasion of Ukraine, Italian prime minister Mario Draghi followed recent Dutch calls to replace the EU's unanimity principle on foreign policy with a qualified majority. He called Russia's attack on Ukraine a "direct attack on the EU's greatest achievement: ensuring peace on the continent" and for a "pragmatic federalism" and deeper defence integration and coordination. Majority voting would significantly reduce the power of individual countries to hold up effective and agile decision making. Simultaneously, we are seeing renewed impetus towards banking and capital markets union, with Ireland's finance minister Paschal Donohoe working with Eurozone finance ministers to set about completing banking union. This would entail establishing a common safety net for depositors, promoting diversification of bank sovereign exposures, improving the management of failed banks and creating the conditions for a true single market for banking services.

In short, recent events, namely Russia's invasion of Ukraine and China's renewed Covid-19 lockdowns following on from the Trump presidency and Brexit, are working to drive **greater European self-sufficiency and agility**. These have positive long-term investment implications for the region and its global influence.

DIVIDENDS

The Fund dividend looks in good shape, with the recent Konecranes declaration potentially nudging the FY dividend above 2019 levels (exchange rates permitting) to suggest high teens growth and a post withholding tax yield of around 3% (in line with the Index) across the upcoming July 2022 and January 2023 payments at current fund prices.

European income looks attractive, offering a significant yield premium over most other regions. Meanwhile the Fund's focus on high-quality companies, with identifiable barriers to entry, market leadership positions, widening moats, aligned interests and long runways for growth, means that investors can buy into a concentrated and broadly equally weighted portfolio of companies that more than match up to their nearest US or global competitors without giving up on quality or total return – and achieving a significant yield premium.

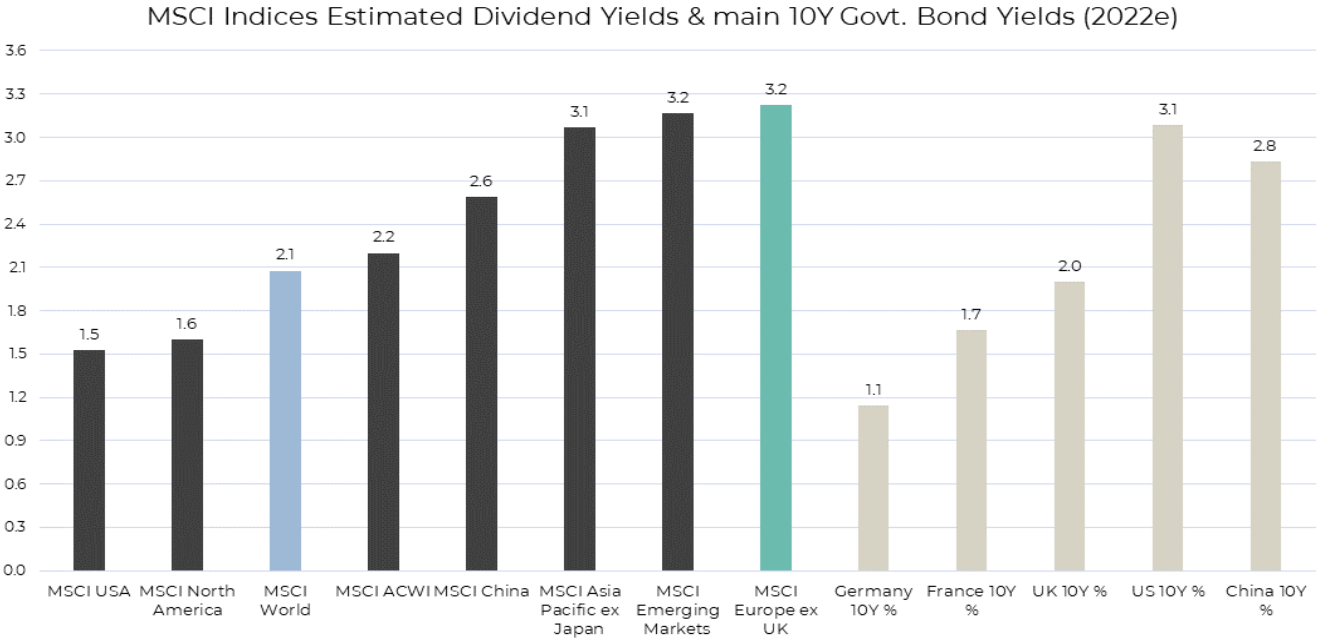


Figure 4: MSCI Indices estimated dividend yields and main 10Y government bond yields. MSCI World (light blue), MSCI Europe ex UK (green), bonds (grey). Source: Bloomberg data.

KEY PORTFOLIO METRICS

		Guinness European Income Fund	MSCI Europe ex UK Index	Guinness Delta vs. MSCI Europe
Quality	Debt / equity %	76.0	201.4	-125.4
	Net debt / Equity %	38.0	47.4	-9.4
	ROE %	23.0	11.1	11.9
Value	PE (2023e)	13.1	13.2	-0.1
	FCF Yield %	6.9	6.3	0.6
Dividend	Dividend Yield (Best) % gross	3.7	3.2	0.5
	Weighted average payout ratio %	44.4	71.9	-27.5
Conviction	Number of stocks	30	344	-314.0
	Active share	82	NA	

Portfolio metrics versus index at 30.04.2022. Source: Guinness Global Investors, Credit Suisse HOLT, Bloomberg. 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.

Thank you for your continued support.

Portfolio Manager

Nick Edwards

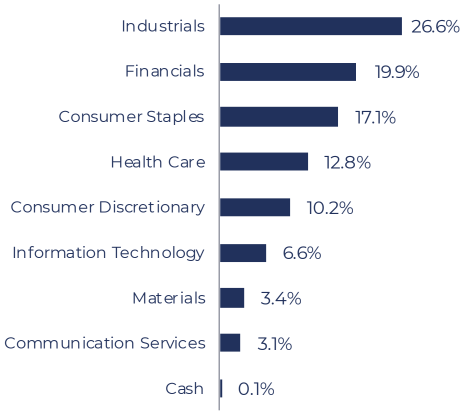
Guinness European Equity Income Fund

PORTFOLIO

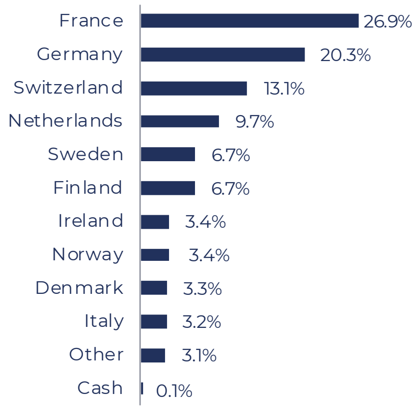
Fund top 10 holdings

Danone	3.6%
Helvetia Holding	3.6%
Daimler AG	3.6%
Smurfit Kappa Group	3.4%
Salmar	3.4%
UNILEVER NV	3.4%
AXA	3.4%
Epiroc AB	3.4%
Kering SA	3.4%
Konecranes	3.4%
% of Fund in top 10	34.6%
Total number of stocks	30

Sector analysis



Geographic allocation



PERFORMANCE

Past performance does not predict future returns.

Annualised % total return from launch on 19/12/2013 in GBP	30/04/2022
Fund (Y Class, 0.89% OCF)	7.6%
MSCI Europe ex UK Index	7.3%
IA Europe ex UK sector average	7.5%

Discrete years % total return (GBP)	Apr '22	Apr '21	Apr '20	Apr '19	Apr '18
Fund (Y Class, 0.89% OCF)	1.4	38.8	-14.0	5.6	1.7
MSCI Europe ex UK Index	-0.7	33.3	-7.9	2.3	6.3
IA Europe ex UK sector average	-2.6	35.5	-7.2	-0.3	7.5
Fund vs sector	4.0	3.2	-6.8	5.9	-5.9

Cumulative % total return (GBP)	YTD	1 year	3 years	5 years	Launch*
Fund (Y Class, 0.89% OCF)	-5.0	1.4	20.8	29.7	83.9
MSCI Europe ex UK Index	-9.1	-0.7	21.9	32.6	80.9
IA Europe ex UK sector average	-10.2	-2.6	22.4	31.2	83.5

RISK ANALYSIS — 30/04/2022

Annualised, weekly, from launch on 19/12/2013 in GBP	Index	Sector	Fund
Alpha	0.00	1.04	0.73
Beta	1.00	0.88	0.95
Information ratio	0.00	0.04	0.06
Maximum drawdown	-25.02	-24.43	-30.36
R squared	1.00	0.89	0.91
Sharpe ratio	0.23	0.26	0.25
Tracking error	0.00	5.28	4.98
Volatility	16.06	14.88	16.01

Fund returns are for share classes with a current Ongoing Charges Figure (OCF) of 0.89%; returns for share classes with a different OCF will vary accordingly. Source: FE fundinfo bid to bid, total return.

*Fund launch date: 19.12.13. Discrete 12m performance is shown below.

DISCRETE 12m PERFORMANCE

Past performance does not predict future returns.

Discrete years % total return (GBP)	Apr '22	Apr '21	Apr '20	Apr '19	Apr '18	Apr '17	Apr '16	Apr '15	Apr '14
Fund (Y Class, 0.89% OCF)	1.36	38.75	-14.08	5.6	1.65	33.94	-1.47	3.43	-
MSCI Europe ex UK Index	-0.68	33.31	-7.96	2.32	6.30	27.89	-4.89	6.38	14.55
IA Europe ex UK sector average	-2.62	35.51	-7.23	-0.34	7.54	26.06	-0.72	6.61	14.99

Source FE fundinfo. Bid to bid, total return.

IMPORTANT INFORMATION

Issued by Guinness Global investors, a trading name of Guinness Asset Management Limited, which is authorised and regulated by the Financial Conduct Authority.

This report is primarily designed to inform you about 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. 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.guinnessgi.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.