Guinness European Equity Income Fund

Investment Commentary – December 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 has been classed as 6 because its volatility has been measured as above average to high. Historic data may not be a reliable indicator for the future. The value of an investment and the income from it can fall as well as rise as a result of market and currency movement; you may not get back the amount originally invested.

PERFORMANCE

Past performance does not predict future returns

30/11/2022	1 year	3 years	5 years	Launch*
Fund (%)	-0.1	15.3	27.7	86.0
Index (%)	-3.2	18.1	26.8	85.5
Sector (%)	-6.0	17.9	23.2	85.8

Full discrete 12m performance is shown at the end of this commentary. Source: FE fundinfo, 0.89% OCF, bid to bid, total return. *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.

NOVEMBER IN REVIEW

In November the Fund returned 9.4% in GBP, outperforming the MSCI Europe ex UK Index return of 7.8% by 1.6%. Over 2022 to 30th November, the Fund's return is -3.9%, putting it 2.9% ahead of the Index return of -6.8%.

The largest positive contributors to performance over the month of November (in EUR) were **Kering** +22.4%, **Melexis** +18.6%, **Epiroc** +16.6%, **Fresenius SE** +14.3% and **Universal Music Group** +13.3%.

The biggest detractors from performance were **Roche** -6.7%, **Salmar** -1.8%, **Danone** -0.5%, **Capgemini** +2.9% and **Nestlé** +3.9%.

European equity markets continued to rebound strongly in November, rising 11.5% in USD terms and taking performance over Q4 so far to +19.9%. The rise brought year-to-date performance much closer in line with the MSCI USA Index -14.8% vs MSCI Europe ex UK Index -18.1% (USD). Strength came from a perception that interest rate expectations have now peaked (German 10Y -21bps to 1.83% in November), helped by falling commodity prices and relatively warm weather, and from commentary from the Norwegian, Swedish and Danish central banks focusing on the growing risks to the housing market from continued interest rate rises. In addition, data suggest a gradual reopening in China through H1 2023, which would be good news for Europe's export-facing economy. It is also noteworthy that industrial companies have been having far more success in reducing gas consumption without curtailing production than was feared (see IFO Institute). The backdrop is of historically low MSCI Europe ex UK valuations vs history (since the Euro crisis in 2012) and relative to MSCI US (since the financial crisis of 2008/9).

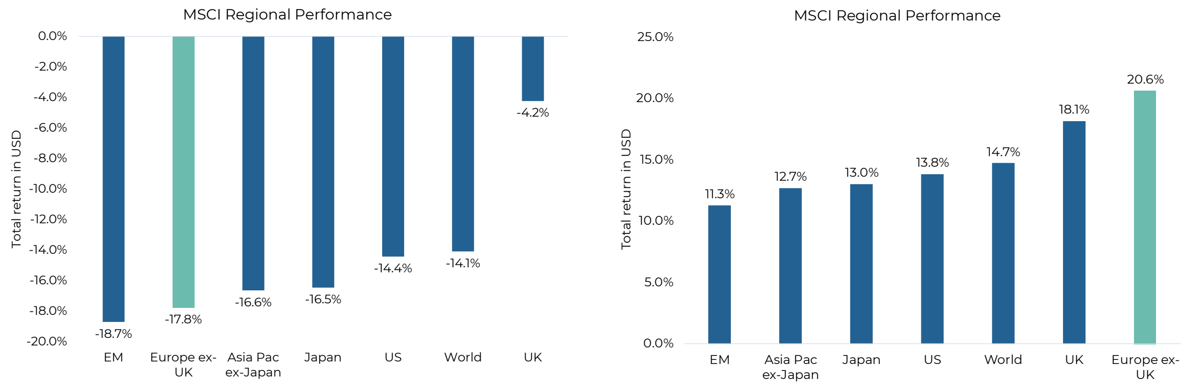


Figure 2: MSCI World Index geographic total return breakdown YTD 2022 in USD (left) and Q4 QTD (right). Europe in light green. Source: Bloomberg data

Consumer Discretionary (+15.1% in GBP) was the best-performing sector over the month of November as luxury and automotive names responded positively to signs of China reopening. Growth sectors like IT also recovered sharply on the basis of peak or declining discount rate expectations (which have a disproportionate effect on discounted cash flows far into the future).

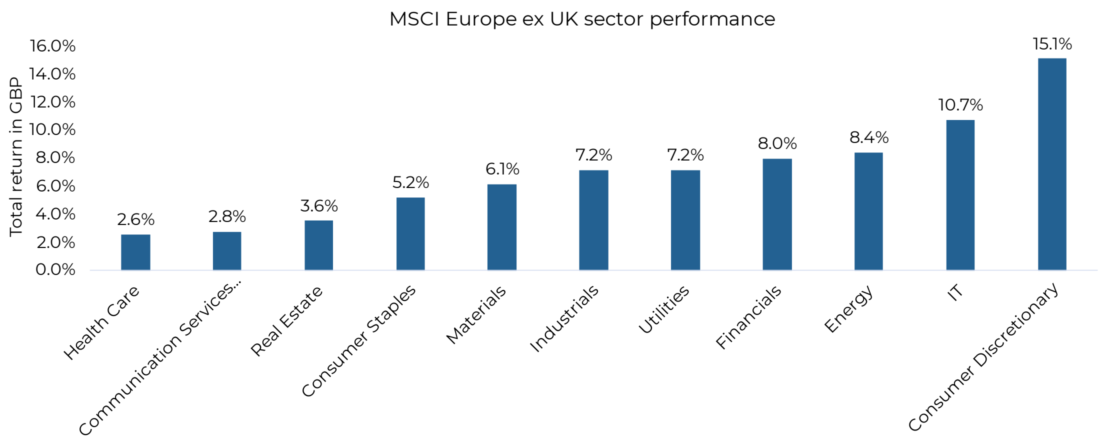


Figure 3: MSCI Europe ex UK Index sector total return breakdown for November 2022, in GBP. Source: Bloomberg

Two out of the Fund's three large overweight sector positions (Industrials, Financials and Consumer Staples) were among the mid to upper end of Index performance. The addition of Royal Unibrew (Consumer Staples) in place of Smurfit Kappa in October (and explained in our last commentary) saw exposure to defensives (Staples, Healthcare, Exchanges within Financials and Universal Music in Communications Services) rise to historic highs of approximately 43% (vs c.57% in quality cyclicals). This made outperformance vs the market over this strong quarter and month of November pleasing to see and is not something we would expect under to unwind in a down market. The change increased our overweight to Consumer Staples to +8%, now in line with our overweight to quality Industrials at +8% vs the MSCI Europe ex UK Industrials sector. It also increased fund exposure to "High-IP Europe" (see our recent paper *Europe: A Destination for Income* on our website or via Twitter @GuinnessGI) and the Scandinavia region with our allocation to Denmark rising to a +1% overweight.

Guinness European Equity Income Fund

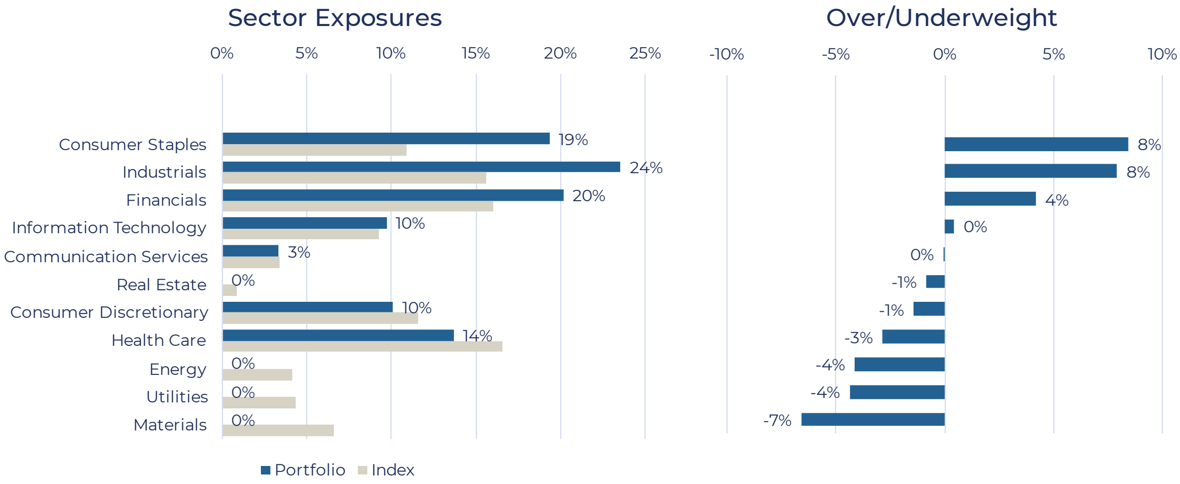


Figure 4: Sector over/underweight % breakdown of the Fund versus MSCI Europe ex UK Index. Guinness Global Investors, Bloomberg (data as at 30.11.2022).

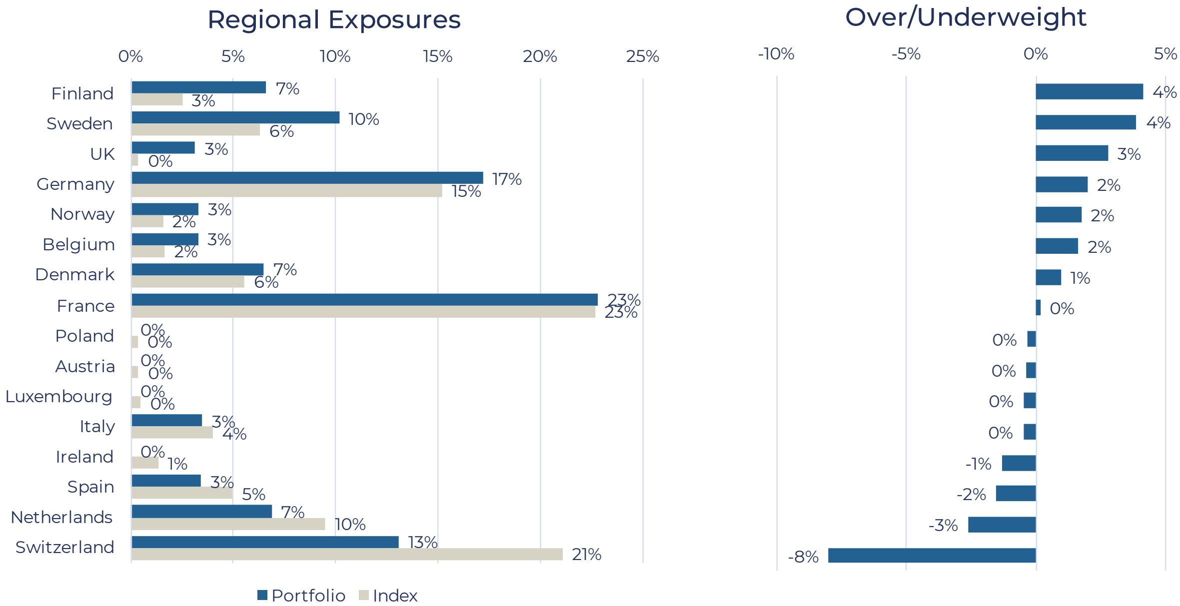


Figure 4: Regional breakdown of the fund versus MSCI Europe ex UK Index on a geographic basis. Guinness Global Investors, Bloomberg (data as at 30.11.2022).

Cumulative returns	November	Ytd	1yr	3yr	5yr
Guinness European Equity Income	**9.4%**	**-3.9%**	**-0.1%**	**15.3%**	**27.7%**
MSCI Europe Midcap Index	7.2%	-14.6%	-11.9%	9.2%	18.0%
MSCI Europe Growth Index	7.8%	-11.3%	-15.4%	14.0%	26.0%
MSCI Europe Index	7.6%	-3.4%	0.6%	17.5%	26.6%
MSCI Europe Value Index	7.5%	4.6%	9.8%	12.1%	12.5%
MSCI Europe High Dividend	7.3%	6.9%	12.3%	15.4%	29.6%
MSCI UK net total return Index	7.1%	8.7%	13.9%	15.8%	25.7%
MSCI Europe ex UK	**7.8%**	**-6.8%**	**-3.2%**	**18.1%**	**26.8%**
Out/underperformance	**1.6%**	**2.9%**	**3.1%**	**-2.8%**	**0.9%**

Figures from Bloomberg and FE fundinfo in GBP to 30.11.22

GUINNESS GLOBAL INVESTORS

COMPANY NEWS

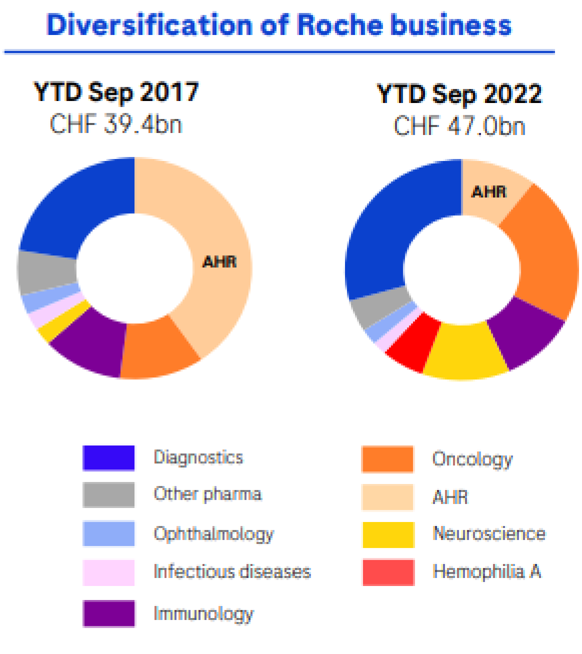
Two of the better-performing holdings over the month of November were **Kering** (+22.4% in EUR) and **Fresenius SE** (+14.3% in EUR), both of which benefited from material stock-specific news off very low valuations versus history.

Kering benefited from signs of improving activity in China and eventual reopening from strict Covid lockdowns. In addition, news towards the end of the month that long-standing Gucci lead creative director Alessandro Michele looks set to leave the company opens the way for much-needed brand rejuvenation after an accomplished seven-year term. Gucci represents some 60% of Kering's sales and nearly 70% of operating profit and has been the main driver of softening growth rates and, in turn, below-average sector valuation multiples despite very favourable developments at other brands including Saint Laurent and Bottega Veneta. So brand reinvigoration at Gucci, with its scale and marketing reach, holds significant potential, especially when other comparable soft luxury brands with arguably inferior reach to Gucci trade on sharply higher earnings multiples ranging vs Kering with its clean balance sheet on 16x 2023e PE, compared to Burberry on 18x, Hermes 45x, Prada 25x and LVMH on 22x.

We bought **Fresenius SE** just before the pandemic took hold in early 2020 and continue to think that its core businesses (ex. listed Medical Care) are attractive: notably Helios, Europe's leading operator of private hospitals (at a time when state budgets are under pressure), and Kabi, a globally leading infusion therapy and nutrition business with a developing biosimilar franchise showing good potential, including from the upcoming launch of biosimilar Actemra in 2023 and the recent acquisition of mAbxience which has given the division critical scale and in-house manufacturing capacity. The ensuing two-and-a-half years have not been kind to the shares, with a large hit to inpatient and elective surgery numbers, followed this year by higher interest costs against leverage which was at the upper end of our limits at purchase. Michael Sen, who undertook Siemens' turnaround, became CEO in October and was promptly complemented by the arrival of activist investor Elliot on Fresenius SE's shareholder register. A review is underway, and already it is clear that better practice is coming, with ROIC set to be included in board compensation. It also seems likely that we will soon have more exposure to the core parts of the business with good growth and higher multiple potential that we like, while challenged areas, including listed subsidiary Fresenius Medical Care (FMC) could go.

At the other end of the spectrum **Roche** (-6.7%) and **Capgemini** (+2.9%) both underperformed the market.

For **Roche**, weakness was driven by the failure of gantenerumab in phase three trials for Alzheimer's. This was clearly disappointing and driving c.5% earnings downgrades, but still leaves Roche with the strongest pipeline in years at 53 new molecular entities in PIII & registration versus a 5Y average of around 40. There has also been a significant downward shift in the risk profile of Roche's drug portfolio over the last five years, amid 20% portfolio growth despite the decline of Avastin, Herceptin and Rituxan (AHR) as those drugs went off patent. Roche now has a stronger and more diverse portfolio with Nuroscience and Hemophilia emerging as new areas of competence to complement Oncology (see chart below). Innovation is firmly in Roche's DNA, with the company spending c.21% of sales on R&D, amongst the highest of the pharma majors. Meanwhile, Roche's global leadership position in diagnostics where it holds c.20% market share along with its focus on biotech, genomics and big data makes the company well placed for a future that looks increasingly personalised and digital. The track record of persistent high cash returns speaks for itself; and with the company trading on an earnings multiple that is in line with its historic average of 15x vs RoE of c.40% accompanied by a strong balance sheet, we continue to think the shares can continue to drive both dividend and capital growth for the long term.



Source: Roche

Capgemini underperformed in November as very high pandemic-era growth rates for enablers of digital resilience continued to normalise. Fundamentally, however, we continue to like what we see, with an improving revenue mix characterised by a rising proportion of value-added strategic project work (around 50% sales) which is not linked to GDP growth now matching CIO-driven cost centre-orientated projects, which used to account for some 95% of revenue. This is driven by continued growth in demand for digital platforms enabling clients to structurally change the way they operate and increase agility and resilience. Capgemini is arguably the best-placed IT services company in Europe, being globally facing and positioned at the top end of the value chain with a broad offering from mobile, cloud and digital to industrial R&D and efficiency; in turn enabling a high level of cross-selling within its own customer base, resulting in persistent market share gains. Also, and perhaps counterintuitively, the backdrop of rising inflation rates and the pandemic-driven shift to online and remote is benefiting Capgemini itself on the cost side, with the company developing an internal system called Anyone Anywhere increasing cost flexibility and internal utilisation rates. All of this can be seen in the track record for persistent high cash returns and the gradual increase in gross and operating margins stretching back over the last ten years. Although the dividend yield at just under 2% is among the lowest in the Fund, the 5Y and 10Y dividend growth CAGR of 25% and 17% respectively is amongst the highest. The valuation continues to look favourable trading at a small discount to 10Y history on 15x earnings, and a very large discount to its closest and US peer Accenture, trading on around 25x earnings.

We continue to think a balanced portfolio of high-quality globally leading European companies with strong balance sheets and structural growth opportunities represents an attractive all-weather proposition, particularly given low valuations vs history and the US and a dividend yield approximately double the US, without giving up on quality.

Thank you for your continued support.

Portfolio Manager

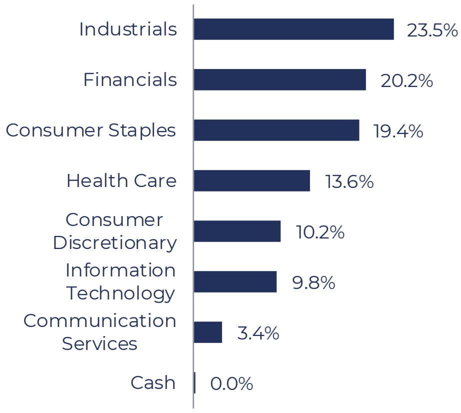
Nick Edwards

PORTFOLIO

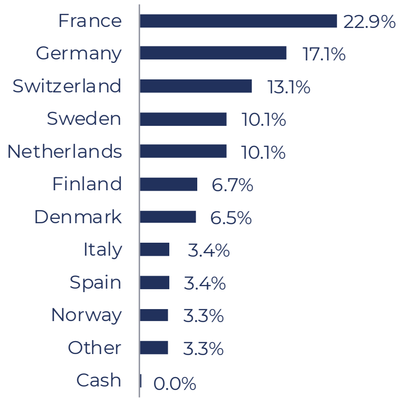
Fund top 10 holdings

Fresenius SE & Co KGaA	3.7%
Euronext	3.5%
Epiroc AB	3.5%
Recordati SpA	3.4%
Schneider Electric	3.4%
Mapfre	3.4%
Mercedes-Benz Group AG	3.4%
Assa Abloy AB	3.4%
Tieto	3.4%
Kering SA	3.4%
% of Fund in top 10	34.7%
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	30/11/2022
Fund (Y Class, 0.89% OCF)	7.2%
MSCI Europe ex UK Index	7.1%
IA Europe ex UK sector average	7.2%

Discrete 12m % total return (GBP)	Nov '22	Nov '21	Nov '20	Nov '19	Nov '18	Nov '17	Nov '16	Nov '15
Fund (Y Class, 0.89% OCF)	-0.1	15.5	-0.1	14.2	-3.0	17.4	21.1	-0.3
MSCI Europe ex UK Index	-3.2	14.6	6.4	13.1	-5.1	23.5	11.1	0.1
IA Europe ex UK sector average	-6.0	14.9	9.1	12.1	-6.8	23.7	11.2	4.9
Fund vs sector	5.9	0.6	-9.2	2.0	3.8	-6.3	9.9	-5.2

Cumulative % total return (GBP)	1 month	YTD	1 year	3 years	5 years	Launch*
Fund (Y Class, 0.89% OCF)	9.4	-3.9	-0.1	15.3	27.7	86.0
MSCI Europe ex UK Index	7.8	-6.8	-3.2	18.1	26.8	85.5
IA Europe ex UK sector average	7.3	-9.1	-6.0	17.9	23.2	85.8

RISK ANALYSIS 30/11/2022

Annualised, weekly, from launch on 19/12/2013 in GBP	Index	Sector	Fund
Alpha	0.00	0.89	0.54
Beta	1.00	0.88	0.95
Information ratio	0.00	0.02	0.02
Maximum drawdown	-25.02	-24.43	-30.36
R squared	1.00	0.89	0.90
Sharpe ratio	0.22	0.24	0.23
Tracking error	0.00	5.32	4.99
Volatility	16.08	14.97	16.00

*Fund launch date: 19.12.13.

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.

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.