

GUINNESS

European Equity Income Fund

Annual review

2018

Dr Ian Mortimer, CFA & Matthew Page, CFA
Portfolio managers

GUINNESS
ASSET MANAGEMENT

Launch date	19.12.2013		
Team	Ian Mortimer (manager) Matthew Page (manager) Nick Edwards (analyst)		
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.		
Performance	31.12.2018		
Fund	European Equity Income		
Index	MSCI Europe ex UK		
Sector	IA Europe ex UK		
	1 year	3 years	From launch
Fund	-8.5	31.5	36.1
Index	-9.9	23.9	32.2
Sector	-12.2	19.9	33.0
Annualised % total return from launch (GBP)			
Fund	6.3%		
Index	5.7%		
Sector	5.8%		
Risk analysis (annualised, weekly, from launch)			
	Index	Sector	Fund
Alpha	0.0	0.8	1.4
Beta	1.0	0.9	0.9
Info ratio	0.0	0.0	0.2
Max drwn	-18.0	-15.0	-16.5
Tracking err	0	5	5
Volatility	13.8	13.1	13.1
Sharpe ratio	0.2	0.2	0.2
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.			
Source: Financial Express, Z class 0.74%, bid to bid, total return.			

Performance

At the end of 2018, your fund was down -8.5% (in GBP) over the year, versus the MSCI Europe Ex UK Net Return Index, which was down -9.9% (in GBP). The fund therefore outperformed the index by 1.4% over the year.

On a relative basis Q4 was a good period for the fund in relative terms and it outperformed the Index's 11.0% fall by 1.8%. Fund performance benefitted from its focus on high-quality companies trading at attractive valuations.

The only European sectors in positive territory in Q4 were Telecoms and Utilities, to which the fund has no exposure due to their regulated and indebted nature. However, our holdings in Consumer Staples and Healthcare materially outperformed the market.

Your fund has outperformed its benchmark, the MSCI Europe ex UK Index, over one year, three years, five years and since inception, while delivering rising dividends to investors.

<i>Fund Z-class, TR in GBP to 31.12.18</i>	QTD	YTD	3yr	5yr	Launch
Fund	-9.10%	-8.49%	31.46%	33.39%	36.13%
MSCI Europe ex UK	-11.00%	-9.87%	23.85%	29.22%	32.20%
IA sector average	-12.92%	-12.16%	19.94%	29.83%	33.04%

Source: Financial Express. Cumulative Total Return in GBP, as of 31st December 2018

Figure 1: Fund, Index and Sector returns

Dividends

Our focus on companies that offer the potential for dividend growth rather than simply a high dividend yield means we have managed to grow the dividend distributed by the fund every year in Euro terms, with growth this year of 4.1% (Class X, in EUR). In Sterling terms, this year the fund grew the dividend by 6.7% (Class Z, in GBP), while the annualised growth rate over the last five years has been 9.5%.

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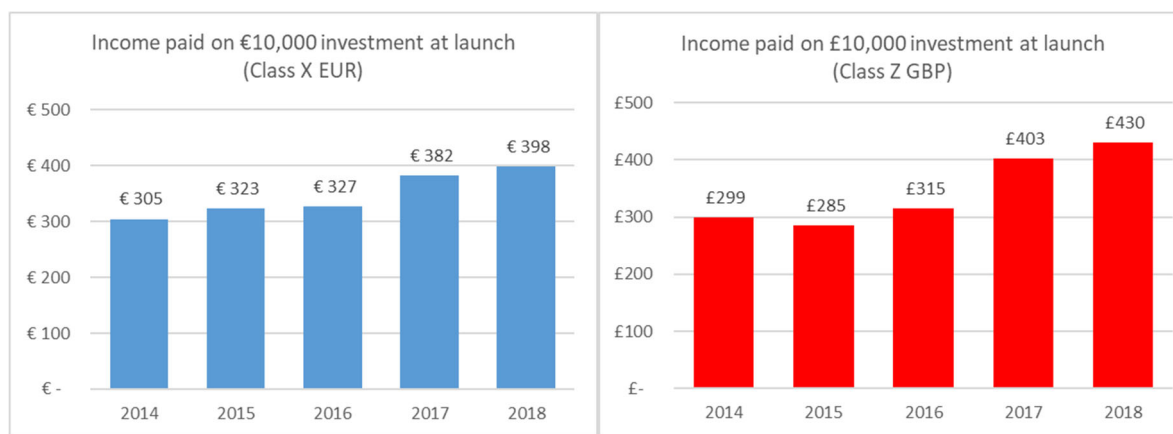


Figure 2: Dividends paid since launch (19.12.2013). Source: Guinness Asset Management

Review of 2018

2018 was a tale of two halves both globally and in Europe, with improving economic data giving way to softer leading indicators and deteriorating political discourse in H2.

European macroeconomic data softened over the course of 2018. Euro area year-on-year (YoY) GDP growth started 2018 at 2.7% and ended Q3 at 1.6% according to Eurostat, along with softening inflation expectations. The weakness can be attributed to softer manufacturing activity, as the German auto market adjusted to new environmental standards, and knock-on effects from slowing global trade exacerbated by rising trade tensions between the US and China. However, Eurozone unemployment continued to fall gradually over the course of the year from 8.6% at the end of 2017 to 7.9% at the end of November 2018, further reducing labour slack. Wage growth meanwhile accelerated from 1.6% YoY at the start of the year to 2.4% YoY at the end of September.

The trusted Belgian Business Confidence Index leading indicator, otherwise known as The Courbe, started the year in positive territory at +1.8% and closed December just in contraction territory at -0.9%. It is worth noting that equities have, in the last ten years, typically bottomed within one or two quarters of meaningful contractions in the Courbe. The fall in the IFO Expectations Index was more pronounced, falling from 102.7 at the end of 2017 to 97.3 at year end, with most of that fall occurring in Q4. The IFO is of course more tied to German industry, which as a whole is more exposed to global trade through its large automotive industry.

Other measures of economic activity support the view that the underlying economy is in reasonable shape, auto industry and global trade tensions aside. The ECB's Q3 2018 Euro area bank lending survey highlighted rising demand for loans by firms and households along with easier credit standards to enterprise. Similarly, French bank lending to non-financial corporations reported 6.1% YoY growth for November 2018, rising back to five-year highs last seen at the end of 2017 (versus 0% growth in bank lending to non-financials at year end 2013).

Shorter-term indicators of financial stress such as high yield credit spreads rose in Europe in Q4 (and notably in Italy) as the market repriced risks associated with an increased quantum of debt since 2008 as QE comes to an end, alongside increased political risk, rising trade tensions and slowing global growth. However, the absolute level of such spreads is still half Euro crisis levels and a fraction of 2008 levels. The Italian coalition budget deficit fiasco is subsiding, with Five Star (the junior coalition partner) seemingly having learned a lesson after making the country net worse off through higher borrowing costs. Meanwhile in France 'Les Gilets Jaunes' appear to be in the process of now making themselves unpopular, after scoring some points at the beginning of their series

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of protests. Brexit also has the capacity to end more positively than many fear and is priced into equity valuations.

In short there seems to be rather a lot of noise drowning out some solid underlying data. However, for long-term equity investors the recent volatility is welcome, and has allowed us to purchase some high-quality franchises at favourable prices. We cannot forecast what turn trade talks will take or if new political skirmishes will erupt, but the recent setback has left European equities looking good value and some areas of the market (including Italy, trade-sensitives and some domestic stocks) looking outright cheap. Meanwhile, the longer that the slowing in inflation expectations (as suggested by German 10Y yields and breakeven rates) goes on, the higher the chances of structural reform and fiscal stimulus become.

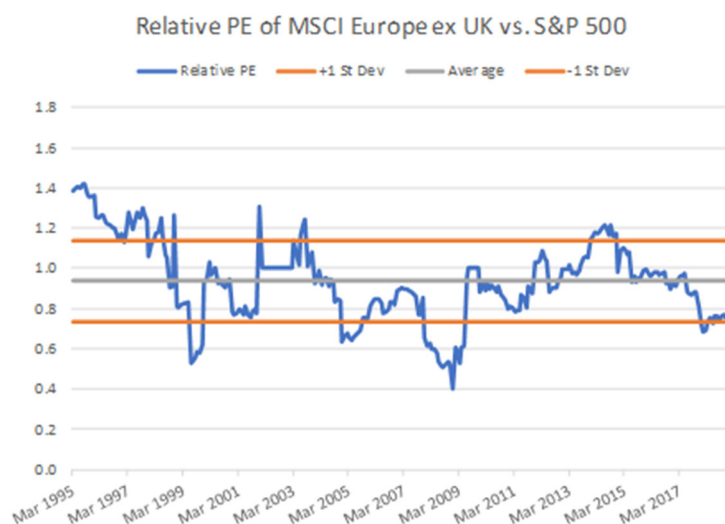


Figure 3: Relative PE of MSCI Europe ex UK vs. S&P 500. Bloomberg data.



Figure 4: Stxxp 600 PE (black line) vs. Stxxp 600 FY1 eps (green) improving. Bloomberg data.

Two important dates in the calendar for European investors in 2019 are, first, the European Parliament elections on May 23rd – May 26th. It is hard to say what impact Eurosceptic parties will have given their disparate nature. After the result of Germany's CDU elections in December when migration was the key issue for both the main

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candidates, some gain by anti-establishment parties in the European elections could result in a greater willingness (and need) to take another look at this provocative issue. Were this to happen it could suggest a Europe more resembling a free trade zone than the two-tier Europe desired by centrists. Whatever the outcome, the European Commission is fully aware that it needs to become more flexible and listen to its stakeholders.

The second important date is the end of Q3 2019, the date to which the ECB has pledged to keep current ultra-low interest rates on hold after QE officially ended in December (though unofficially QE will continue as ECB holdings mature and are reinvested). Given supportive lending volumes, ever-falling unemployment and rising wages there is a real prospect for rates to nudge higher into the end of 2019 despite current market concerns. This could be good news in our view, helping banks and savers emerge from a long cold winter. As for the currency, with the Eurozone running both a current account and trade surplus, and the US and China both afflicted by their respective borrowing and credit issues, the risk for the Euro is to the upside in our view. In fact, rate differentials already appear to be shifting in the Euro's favour as parts of the US yield curve have turned negative.

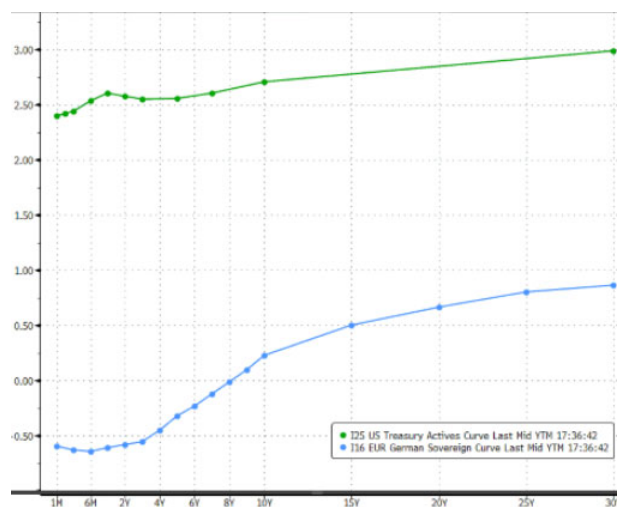


Figure 5: US yield curve (green, above) and German yield curve (blue, below), 8th January 2018. Source: Bloomberg.

A stronger Euro and weaker Dollar would not be bad news for domestic European companies which have been in the doldrums for a decade, nor for emerging market stocks which have been under heavy pressure due to Dollar strength.

Another important driver which we are likely to see more of in 2019 is consolidation. Years of national protectionism have led to a lack of supply side consolidation and regulators have often focused excessively on consumer pricing at the expense of market efficiency and investment. EU Politicians (such as Emmanuel Macron and Angela Merkel) have been vocal about the need for European companies to compete on a global stage with Chinese and US market leaders. Regulators have responded by showing signs of adopting a softer stance towards sector consolidation. Indeed, only recently (on 9th January) 19 EU governments proposed updating the EU's antitrust rules in order to better take account of international markets and competition in merger analysis. We expect this dynamic may benefit several of our large-cap holdings including Deutsche Post, Siemens and Continental AG in 2019. French telecoms, to which we currently have no exposure, could be another beneficiary.

Performance Drivers

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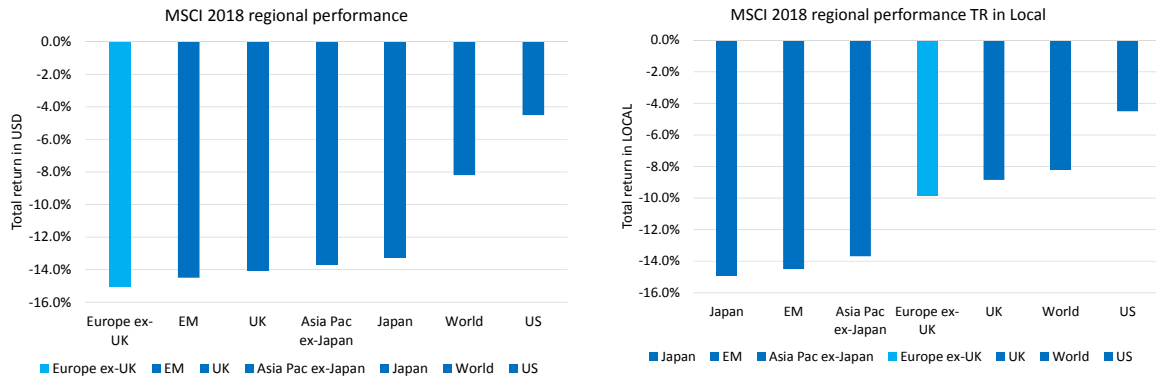


Figure 6: MSCI World Index geographic total return breakdown for 2018, in USD (left) and Local currency (right). Europe in light blue. Source: Bloomberg data

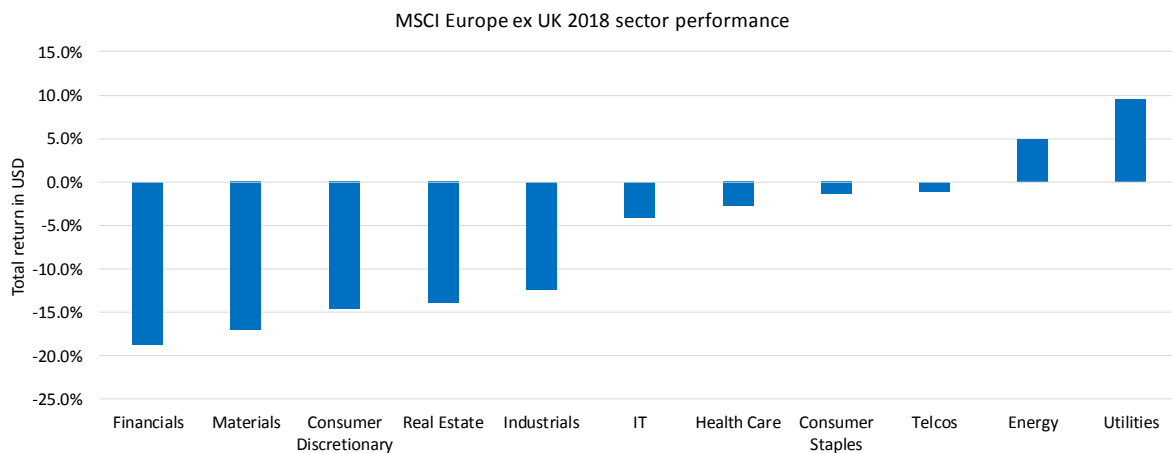


Figure 7: MSCI Europe ex UK Index sector total return breakdown for 2018, in GBP. Source: Bloomberg

The weak development of inflation expectations and interest rates in Europe led to another round of disappointment for European banks, the worst-performing sub-sector of the worst-performing sector, Financials. Materials fared similarly poorly as high ratings came under pressure and softer demand from China exerted downward pressure on commodity prices. Thankfully due to our focus on quality and returns we had no exposure to banks or Materials. Consumer Discretionary fared poorly, largely due to the internet-led disruption of traditional retail business models accompanied by declining high street footfall, all requiring increased capex to invest into online delivery – something which these companies will likely never get back at the margin.

At the other end of the spectrum, the best-performing sectors were Telecoms, Energy and Utilities. Here we also had no exposure given the low-return, regulated and indebted nature of the companies in these sectors. Utilities enjoyed some rare sunshine as the European carbon price rallied sharply, driving materially higher earnings estimates for high fixed cost clean operators. If the options market is right, with open interest suggesting a €50 carbon price, then these may continue their strong performance in 2019. In our view there does appear to be a case for exposure to certain higher-quality names in the Telecoms sector due to favourable valuations alongside an improving capital cycle argument: namely, increased sector consolidation as European governments pressure the European regulator in a bid to create global champions and compete with the US and China (as we fall further behind (Huawei) in 5G).

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Positioning

The Guinness European Equity Income Fund is characterised by a high 80% active share against the MSCI Europe ex UK benchmark. Our focus on companies with good track records that command their own destiny and have the potential to deliver high and rising returns for a long time to come means the fund has no exposure to capital-intensive sectors such as Materials, Utilities, Real Estate, Energy and Banks. On the other hand, sectors such as Consumer Staples, Communication Services and Industrials, in which the fund is overweight, hold many high-quality and scalable companies with such attractive characteristics.

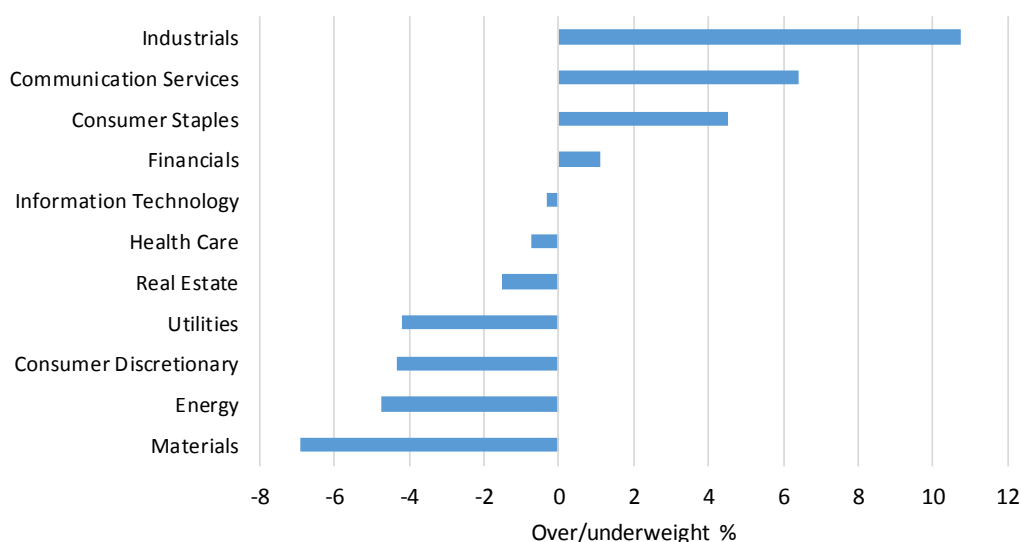


Figure 8: Sector over/underweight % breakdown of the fund versus MSCI Europe ex UK Index ETF. Guinness Asset Management, Bloomberg (data as at 31.12.2018).

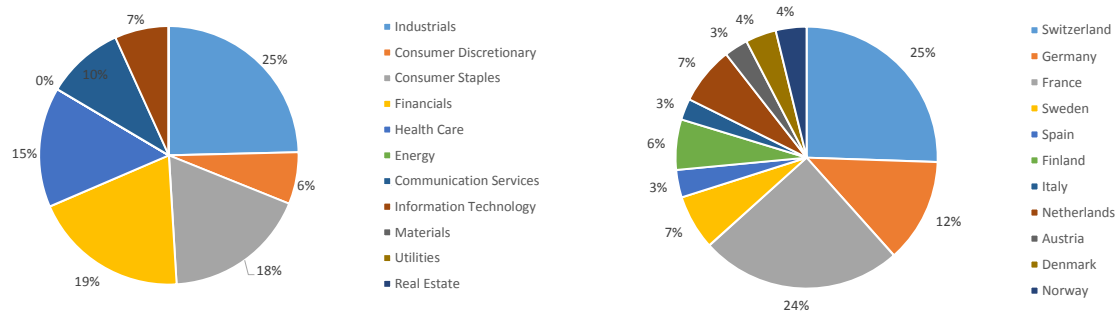


Figure 9: Sector and regional breakdown of the fund. Guinness Asset Management, Bloomberg (data as at 31.12.2018)

The Guinness European Equity Income Fund’s country overweight and underweight positions result from a pull between two factors. Naturally France and Germany represent high absolute weights in the index at 24% and 20% respectively, but it is also the case that we simply find a greater number of high-quality companies with strong prospects in ‘high-IP’ markets with good corporate governance such as Switzerland and parts of Scandinavia.

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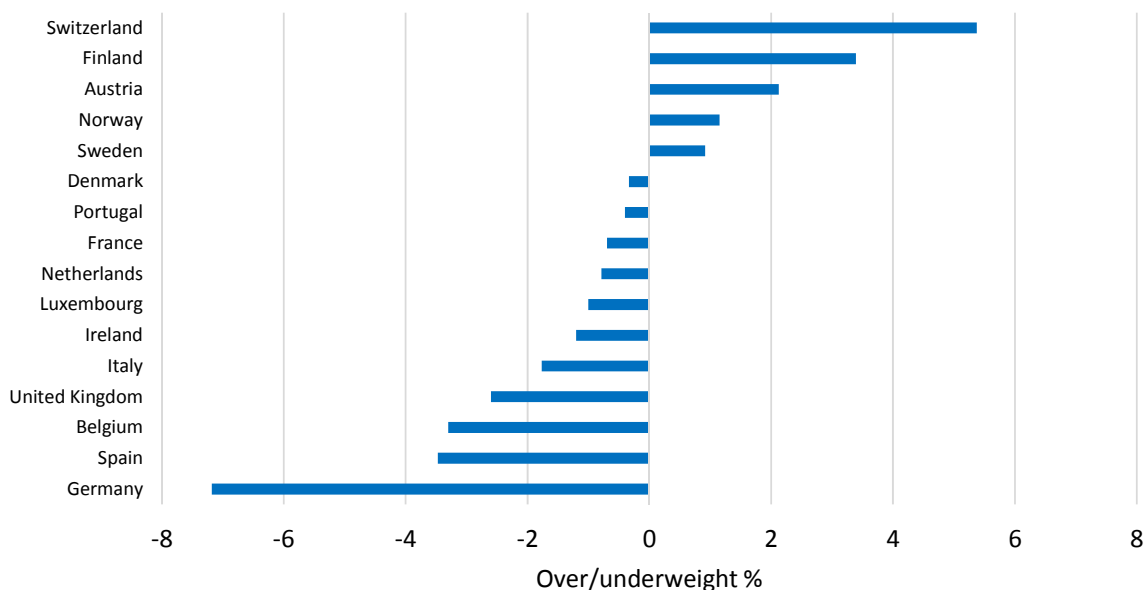


Figure 10: Regional breakdown of the fund versus MSCI Europe ex UK Index on a geographic basis. Guinness Asset Management, Bloomberg (data as at 31.12.2018)

The Guinness European Equity Income Fund’s company holdings represent a mixture of domestic and global exposures. If the Euro does strengthen against the Dollar in 2019, the fund is conservatively positioned, holding a mixture of domestic-facing and global champions, with a net 52% of total fund sales originating directly from mainland Europe.

Guinness EEI Fund - Sales by geography

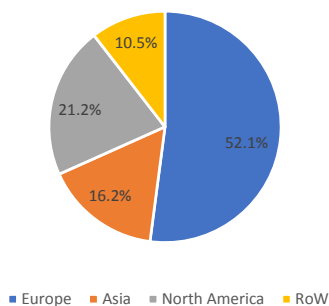


Figure 11: Sales exposure of fund holdings on a geographic basis. Guinness Asset Management, Bloomberg (data as at 31.12.2018)

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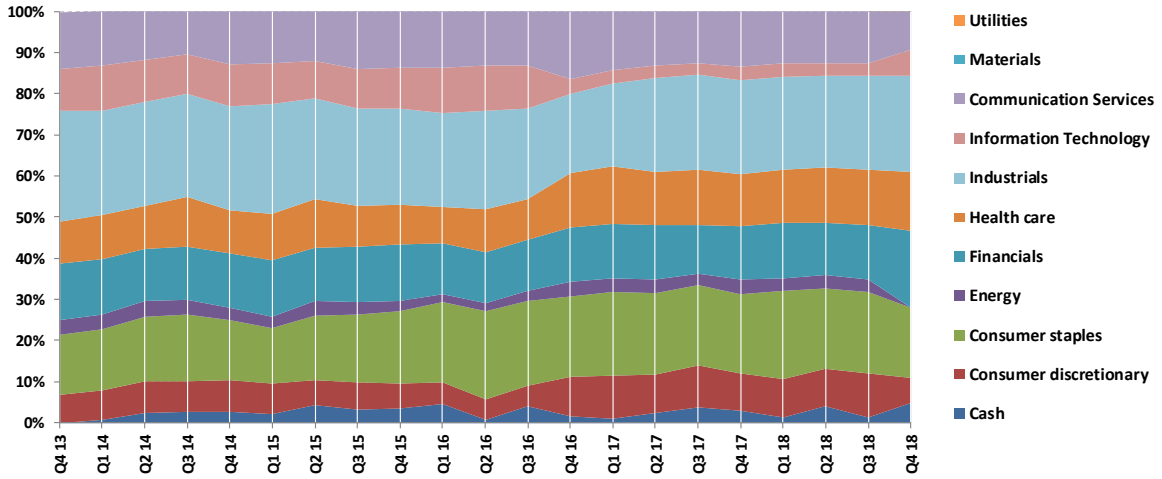


Figure 12: Portfolio sector breakdown at year end 2018

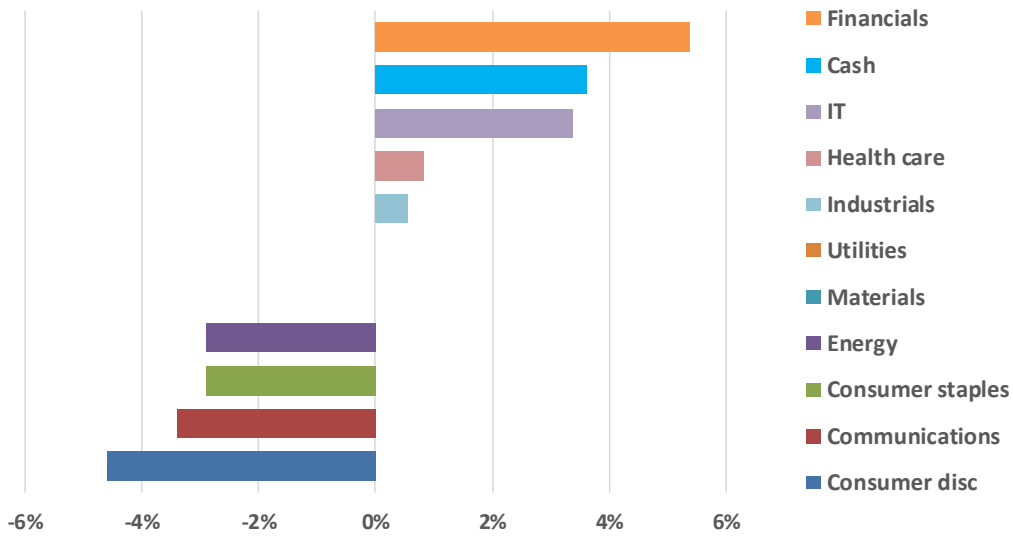


Figure 13: Year on year change in sector breakdown

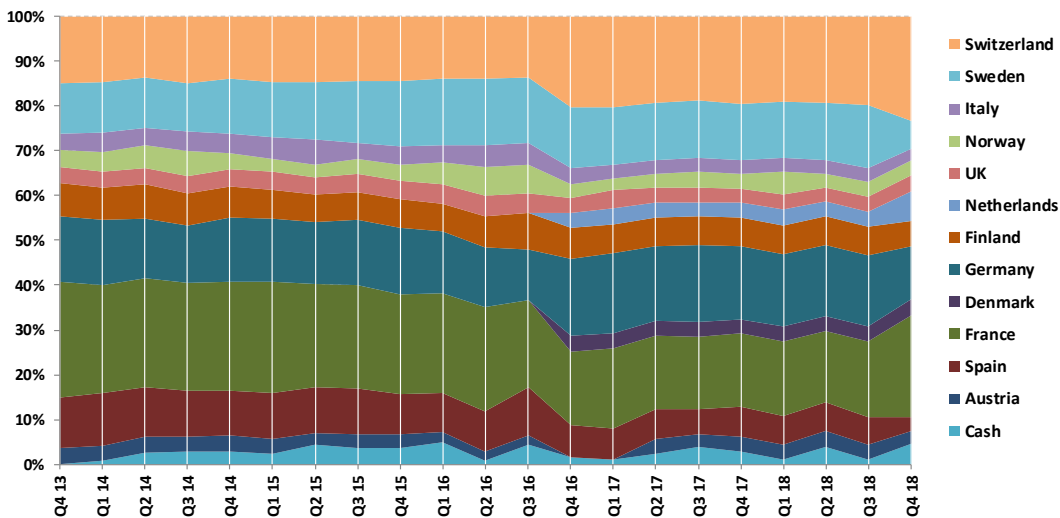


Figure 14: Portfolio geographic breakdown at year end 2018

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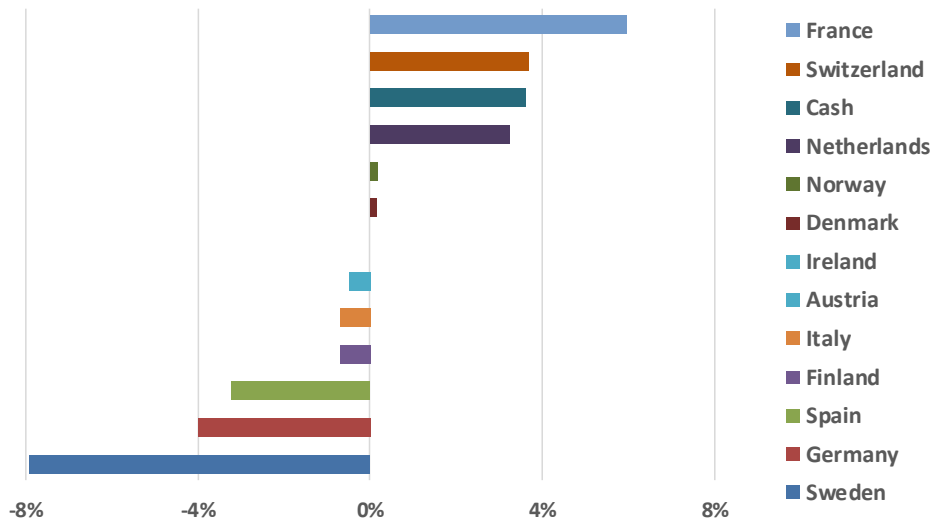


Figure 15: Year-on-year change in geographic breakdown

Individual Holdings

Individual companies that performed well against the Q4 sell-off were Roche, Novartis and Inficon. Companies that had weakest performance over Q4 were the Italian asset manager Azimut, Deutsche Post AG and Andritz AG.

Best 5 performing stocks	Total return
Roche Holding AG	4%
Novartis AG	1%
Inficon Holding AG	1%
Salmar ASA	1%
Unilever NV	1%

Worst 5 performing stocks	Total return
Azimut Holding SpA	-26%
Deutsche Post AG	-21%
ANDRITZ AG	-19%
Konecranes OYJ	-19%
Continental AG	-19%

Source: Bloomberg data

Figure 16: Best and worst performing shares in Q4 2018.

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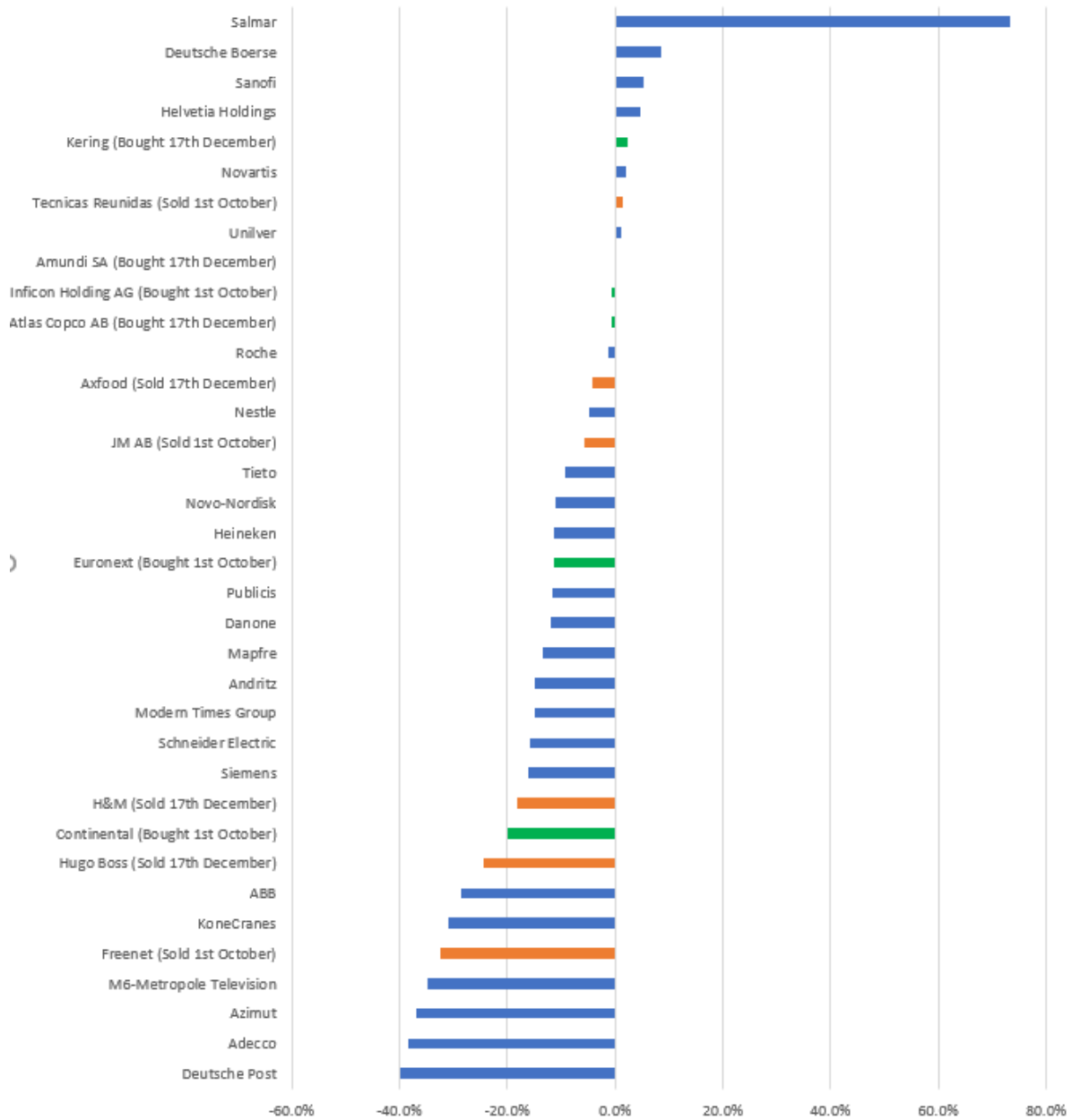


Figure 17: Individual holdings performance over 2018

Changes to the portfolio

In 2018 we sold 6 positions and bought 6 new positions, all in the fourth quarter of the year, leaving the portfolio with 30 equally weighted positions at the end of the year.

	2014	2015	2016	2017	2018
Buys	0	0	10	1	6
Sells	0	0	10	1	6
Total Holdings	30	30	30	30	30

Figure 18: Number of changes to the portfolio since inception in December 2013.

In October we bought Euronext, Inficon and Continental; and sold Tecnicas Reunidas, JM AB and Freenet.

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Tecnicas Reunidas departed from the portfolio in October. The Spanish provider of engineering, procurement and construction services, particularly to the oil and gas sector, was our sole holding in the Energy sector. A backdrop of increased market volatility has led to good competition for ideas. Meanwhile, cash returns on investment at Tecnicas Reunidas had fallen below our requirement and increasing questions around longer-term sustainability made it unclear as to whether the company would benefit from another upcycle in thermal power plant activity.

The acquisition of **Euronext** took our Financials sector exposure to a small overweight position. Euronext operates cash and derivatives exchanges in Europe, along with fund and debt listings and custody and settlement services. Euronext is a good fit for the portfolio, offering an attractive combination of capital growth and yield. The 3.7% dividend yield is accompanied by a strong balance sheet with a net cash position.



Euronext has displayed consistent high and rising margins along with eight-year cash flow returns on investment averaging around 35%. The company has a very strong position in its core European markets (Paris, Amsterdam, Brussels, Lisbon and Dublin), with c.66% market share in cash equities and number one market positions in debt and funds listings. Barriers to entry are high, stemming from both network effects and regulation; a combination which should see the moat continue to widen for years to come. A maintenance capex to sales ratio of just over 1% means that there should be ample room for the company to continue to invest for growth and consistently increase cash returns to shareholders.

The medium-term backdrop looks supportive for Euronext, with MiFID resulting in increased volume coming back onto exchanges after dark pool volumes were capped and inefficiencies around the systematic internaliser regime look set to be addressed by regulators. Meanwhile, Brexit plays to Euronext's advantage by pushing marginal business to Dublin, Paris and Amsterdam. Euronext has never bought back stock because of the reference shareholder agreement (23.86% of shares) demands for income. This agreement comes to an end in June 2019 and could result in the departure of a number of banks due to increased capital requirements. If this does come to pass it could both open up the possibility of share buybacks and the wider shareholder register to M&A. After the collapse of the LSE and Deutsche Boerse merger in 2017, consolidation could continue to be a theme for this attractive oligopoly. Bolt-on M&A will continue and there should be on-going savings and synergies from the recent Irish Stock Exchange acquisition (and Oslo exchange if it goes through). Euronext represents good value trading on a PE of 13.5x 2019e while generating a return on equity of 35%, while Deutsche Boerse trades on 18x and generates a c.20% return on equity.

The sale of **Freenet** in October reduced our Communications Services exposure while the simultaneous addition of Inficon took our Technology sector to a small overweight position. Freenet is a reseller of network operator services and own tariffs through a network of some 6000 sales outlets throughout Germany. The company had displayed falling cash returns on investment and rising debt levels. Further, there were signs that network operators have increasingly been wanting to move to a direct-to-consumer model, thereby cutting out the middle man – including Freenet.

Inficon is an excellent addition to the portfolio. The company is an enabler of productivity and efficiency gains across advanced industries ranging from



semiconductors through to air conditioning, refrigeration, life sciences and lithium ion battery manufacturing. Products include vacuum-based instrumentation for gas analysis, measurement and control, critical sensor technologies and process control software. Market-leading positions in vacuum leave Inficon well placed to continue to dominate an attractive niche, and R&D spend approximating to 8% of sales maintains its edge. The company has a history of generating consistently high cash returns on invested capital.

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It is conservatively run with around €80m of net cash on the balance sheet. Employee satisfaction is high, and crucially management think and act for the long term.

Thanks to recent concerns around trade tariffs between the US and China the market offered some attractive prices for shares of this high-quality compounder in October. On 18x earnings and generating a return on equity of some 32%, the shares look good value and offer a near 4% dividend yield on top. Modest maintenance capex requirements of 3% of sales leave plenty to fund growth and rising returns to shareholders. A structural tailwind from the continuing trends towards digitisation, increased complexity, miniaturisation, and rising demand for intelligent sensors across IoT, automation and environmental markets should continue to drive demand for Inficon's cutting-edge products for a long time to come. With new products and designs set to come through over the coming few years alongside rising technology capex, we think there should be good new news in store for shareholders. This is a business that shareholders can feel good about owning for the long term.

The sale of **JM AB** and addition of Continental AG to the portfolio saw our Consumer Discretionary exposure remain constant. JM AB is a Swedish housebuilder focusing on urban areas in Sweden, Norway and Finland. Cash returns on investment have been in decline and the possibility of interest rates increasing over the next few years is on the rise. Equally the increasing vote of the far right in Sweden (which won 17.5% of the September vote ballot) is a concern for net migration in the region.

Continental AG has a robust track record, averaging over 10% cash return on investment for the last eight years, and occupies leading market positions in all three of its business segments. In our view this is a company where management are firmly on the side of investors. A decentralised capital allocation structure means that segment managers think and act like owners, while an incentive package based on return on capital employed is well aligned with investors. Group R&D spend averages an impressive 7% of sales, keeping the company at the leading edge of innovation.



Thanks to Donald Trump and fears around trade wars with China the market has offered up some attractive prices in the shares of Continental and some other high-quality cyclicals. Indeed, at its October lows the shares were pricing negative growth in perpetuity based on an 8% discount rate. This is a timely opportunity in our view as the next couple of years may bring change at the group which should highlight the value of the sum of the parts. Continental is in the process of putting all the internal combustion engine (ICE) and hybrid-related operations into a new Powertrain division ahead of its IPO next year. The year after that, management have signalled potential to hive off Rubber (global no.4 of an oligopoly), which could very possibly merge with Michelin (global no.2), given the active direction Europe is taking to scale up to compete globally. The remaining new Automotive division will hold the attractive high-IP longer-term assets (Autonomous Driving Technologies and Vehicle Networking Technologies).

On just 9.6x earnings and generating a return on equity of approximately 20%, the shares look great value and are trading at 10Y valuation lows. The shift from conglomerate to scalable and capital-light, as Powertrain and Rubber are spun off, should be supportive for the rating, while the structural tailwind from rising tech content in autos and electrification plays to Continental's strengths.

In December we made three more portfolio switches, buying **Atlas Copco**, **Kering** and **Amundi**, while selling our retail exposures **Axfood**, **H&M** and **Hugo Boss**. With these transactions our overweight positions in Industrials and Financials increased while Consumer Discretionary moved from overweight to a 4.2% underweight position.

Both **Hennes & Mauritz** and **Hugo Boss** had displayed deterioration in cash returns on capital invested to below our 8% hurdle rate. Further, with the presence of operating leases on the balance sheet set against continued disruption of the high street, the risk of permanent impairment to capital had grown. There is a credible route to recovery for both companies and we note that the CEO of H&M had recently bought stock, while the

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alignment of interests and level of creative innovation at Hugo Boss is quite high. With **Axfood** we took the view that the high multiple (which has been justified by consistent high returns) was becoming at risk given the need to plough capex into online delivery just to keep up with the wider food retail sector.

With the weakness in markets having thrown up opportunities in companies with more scalable business models, dominant market positions and incentivised management who think for the long-term, we took the opportunity to further increase our holdings in these attractive names.

Atlas Copco is a provider of sustainability and efficiency solutions to industry. It is an installed base champion with products embedded across its customer base. Earnings volatility is low and margins are on the rise, stemming from a high and growing c.40% service share of revenue. Its four divisions, Power Technique, Industrial Technique, Vacuum Technique and Compressor Technique all hold market leadership positions.



All four offer exposure to strong long-term structural growth trends, namely digitalization and miniaturization, urbanisation and infrastructure investment, and climate change and resource efficiency. The company culture is good, fostering learning and innovation. The company is innovative and R&D spend has been consistently high. Meanwhile, excellent cash conversion alongside a low c.50% pay-out ratio means that the company is well positioned to keep investing for growth while growing the (3.5% 2019) dividend yield.

Amundi is the number one asset manager in Europe by AUM at €1.5trn. It holds market leadership positions in treasury solutions, multi-asset and passive and is strong in retail, which accounts for some 37% of assets under management. Assets are broadly spread across fixed income (45% sales), multi-asset (18%), equities



(16%), liquidity solutions (16%), and real & structures assets (5%). Unlike many asset managers, Amundi is, in our view, a beneficiary of MiFID, which plays to its scale advantages and high level of in-house expertise. Returns have been on the rise and given the quite significant network synergies on offer from the Pioneer acquisition, this should continue. Thanks to the recent Italian budget deficit fiasco (12% of AUM is run out of Italy) the market pushed Amundi's rating down to a low of 1.1x price to book value (from 1.8x) and just 10x earnings, which looks great value while cash returns on capital are rising up to 30%. For those in search of yield this looks like a big win with a 6.5% 2019 dividend yield on offer set against a low 56% payout ratio.

Kering SA is a world-class company run by the Pinault family, which owns some wonderful brands including Gucci and Saint Laurent. Kantar's 2018 brand value survey saw the Gucci brand record a 66% rise in brand value to \$22.4bn, the highest rise among luxury brands globally, and overall number six behind such



names as Netflix, Paypal and Alibaba. Kering is exceptionally well run and importantly uses technology well, with the company embracing pop culture through culturally sophisticated memes and a digital-led marketing strategy. 2018 saw group sales rise 27%, while Gucci sales rose 42% on an organic basis. Remarkably, this growth was driven by a virtually flat store base of 529 own stores versus 520 the year before. With capex representing just over 1% of sales, Kering is scalable, with incremental sales growth dropping straight to the bottom line. The recent pullback led by concerns around growth in China saw the stock price pull back some 20% from highs, leaving the company trading on 16x 2019 earnings set against return on equity of nearly 30%. Returns have risen sharply following the sale of Fnac, Puma and other non-luxury assets. In our view the market has yet to fully adjust to the underlying earnings power of this now pure-play luxury goods-focused company. The dividend yield at just 2.2% (33% payout ratio) may not be the highest, but has plenty of room to keep compounding at a low to mid-teens rate.

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Key Fund Metrics

The four key tenets to our approach are: quality, value, dividend, and conviction. At the quarter end, we are pleased to report that the portfolio continues to deliver on all four of these principles relative to the benchmark MSCI Europe ex UK Index.

		Fund	MSCI Europe ex UK Index	Delta
Quality	Average 8 year CFROI %	15.8	10.8	5.0
	Weighted average debt / equity %	33.9	65.6	-31.7
	ROE %	31.2	11.6	19.6
Value	PE (2019e)	13.1	12.6	0.5
	FCF Yield %	6.1	4.4	1.7
Dividend	Dividend Yield (LTM) %	3.4	3.6	-0.2
	Weighted average payout ratio %	0.46	0.51	-0.05
Conviction	Number of stocks	30.0	344.0	-314
	Active share	80.0	NA	NA

Figure 19: Portfolio metrics versus index. Guinness Asset Management, Credit Suisse HOLT, Bloomberg (data as at 31.12.2018)

Outlook

The increasing influence of geopolitics on market returns and volatility is allowing some of our more defensive holdings to prove their worth, while creating opportunities to buy into high-quality companies with improving prospects at attractive valuations.

On top of this, now is a good time to be invested in European equities:

- Underlying data including employment, wages and lending is quite robust, but investors are pessimistic after another setback in Italy.
- Risks to the Euro appear to the upside given Europe's strong balance sheet and improving interest rate differentials versus the US and China.
- Valuations are below their 10Y averages and at 10Y lows in some areas including Italy, trade-sensitive names and some domestic exposures.
- Supply side consolidation is leading to improving returns as governments and policy makers cut red tape in a bid to compete on a global stage.

We will continue to work hard to deliver long-term capital growth and a steady, growing income stream. Your fund offers an attractive mix of high-quality companies with a global opportunity set; and more domestically-focused companies, shielded from the risks of trade and currency wars, where returns have potential to benefit from European market consolidation.

As ever we would like to thank you for your continued support and we wish you a prosperous 2019.

Matthew Page, CFA
Dr Ian Mortimer, CFA
Portfolio managers, Guinness Global Equity Income Fund
January 2019

All Index and performance data source: Bloomberg, except Fund performance data, which is sourced from Financial Express and Guinness Asset Management.

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.

Guinness European Equity Income Fund

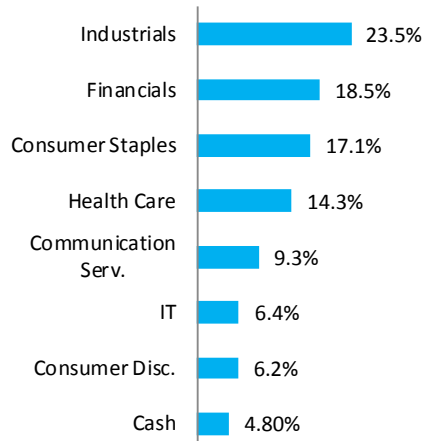
PORTFOLIO

31/12/2018

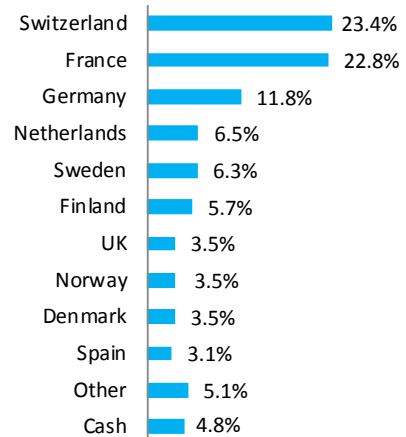
Fund top 10 holdings

Sanofi	3.7%
Roche Holding	3.6%
INFICON HOLDING AG-REC	3.6%
Novartis	3.5%
Unilever	3.5%
Salmar	3.5%
Novo Nordisk	3.4%
Publicis Groupe	3.4%
Helvetia Holding	3.4%
Nestle	3.3%
% of Fund in top 10	34.9%
Total number of stocks	30

Sector analysis



Geographic allocation



PERFORMANCE

31/12/2018

Annualised % total return from launch (GBP)

Fund	6.3%
MSCI Europe ex UK Index	5.7%
IA Europe ex UK sector average	5.8%

Discrete years % total return (GBP)

	Dec '14	Dec '15	Dec '16	Dec '17	Dec '18
Fund	-	1.3	28.9	16.1	-8.5
MSCI Europe ex UK Index	5.6	-1.6	20.0	21.5	-9.9
IA Europe ex UK sector average	4.0	3.6	18.4	21.9	-12.2

Cumulative % total return (GBP)

	1 month	Year-to-date	1 year	3 years	5 years	From launch
Fund	-5.8	-8.5	-8.5	31.5	33.4	36.1
MSCI Europe ex UK Index	-4.8	-9.9	-9.9	23.9	29.2	32.2
IA Europe ex UK sector average	-5.4	-12.2	-12.2	19.9	29.8	33.0

RISK ANALYSIS

31/12/2018

Annualised, weekly, from launch on 19.12.13, in GBP	Index	Sector	Fund
Alpha	0.00	0.81	1.39
Beta	1.00	0.89	0.89
Information ratio	0.00	0.04	0.16
Maximum drawdown	-17.99	-14.98	-16.49
R squared	1.00	0.87	0.88
Sharpe ratio	0.15	0.17	0.22
Tracking error	0.00	5.05	4.74
Volatility	13.77	13.13	13.06

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.

Source: Financial Express, bid to bid, total return (0.74% OCF). Fund launch date: 19.12.2013.

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.

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 Europe 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 from the website www.guinnessfunds.com, or free of charge from:-

- the Manager: Link Fund Manager Solutions (Ireland) Ltd, 2 Grand Canal Square, Grand Canal Harbour, Dublin 2, Ireland; or,
- the Promoter and Investment Manager: Guinness Asset Management Ltd, 14 Queen Anne's Gate, London SW1H 9AA.

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

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'Île, 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.

GUINNESS

ASSET MANAGEMENT

Guinness Asset Management Ltd is authorised and regulated by the Financial Conduct Authority

Tel: +44 (0) 20 7222 5703

Email: info@guinnessfunds.com

Web: guinnessfunds.com