Guinness European Equity Income Fund

INVESTMENT COMMENTARY – May 2019

Launch date	**19.12.2013**
Team	**Ian Mortimer** **Matthew Page** **Nick Edwards**

Aim

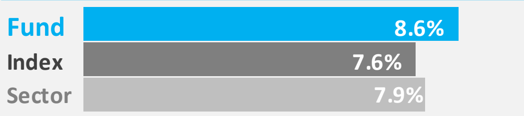
The Guinness European Equity Income Fund is designed to provide investors with exposure to high quality dividend-paying companies in the Europe ex UK region. The Fund aims to provide long-term capital appreciation and a source of income that has the potential to grow over time.

Performance 30.04.2019

Fund	European Equity Income
Index	MSCI Europe ex UK
Sector	IA Europe ex UK

	1 year	3 years	From launch
Fund	5.9	45.6	55.8
Index	2.3	39.1	48.5
Sector	-0.3	35.2	50.0

Annualised % total return from launch (GBP)



Risk analysis (annualised, weekly, from launch)

	Index	Sector	Fund
Alpha	0.0	1.1	1.9
Beta	1.0	0.9	0.9
Info ratio	0.0	0.0	0.2
Max drwdn	-18.0	-15.0	-16.5
Tracking err	0	5	5
Volatility	13.6	13.0	13.0
Sharpe ratio	0.3	0.3	0.4

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.

Summary performance

In April, the Guinness European Equity Income Fund produced a total return of 5.6% (in GBP) versus the MSCI Europe ex UK net TR Index rise of 4.0%. The fund therefore outperformed the index by 1.6% in the month. It is pleasing to see that both the short and long-term performance of the strategy remain ahead versus IA Europe ex UK peers.

	1 Yr	3 Yr	5 Yr	Since Launch
Fund	5.9%	45.6%	49.8%	55.8%
Index	2.3%	39.1%	40.7%	48.5%
Sector	-0.3%	35.2%	43.1%	50.0%
Out/Underperformance vs Sector	6.2%	10.3%	6.6%	5.8%

Source: Financial Express 0.74% OCF. Cumulative Total Return in GBP as of 30.04.2019

The largest positive contributors to performance over the month were **Azimut** +18.8%, **Konecranes** +17.1%, **Atlas Copco** +17.0%, **Amundi** +14.2% and **Continental** +13.3%.

The biggest detractors from performance were **Tieto Oyj** -6.9%, **Novo Nordisk** -6.6%, **Salmar** -5.4%, **Roche** -4.3% and **Novartis** -3.9%.

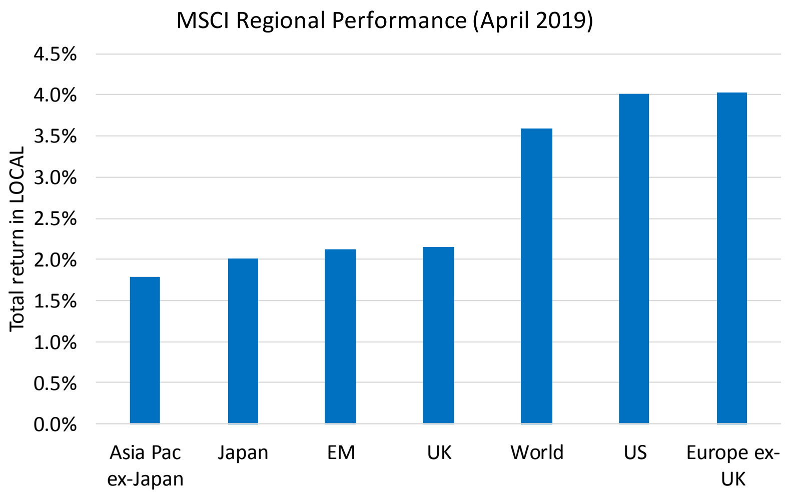
Portfolio performance over the month of April was driven primarily by Q1 earnings updates, which were favourable for the fund.

Strong stock-specific results from **Sanofi** and **Novartis** helped to offset weakness from the wider Healthcare sector on fears that sector pricing will be a key topic ahead of the November 2020 US election. Sanofi has been doing a good job of refocusing its portfolio on areas of core competence alongside a cost rationalisation plan. Vaccine sales rose 20.1%, while Dupixent, its new eczema product, continued to make a strong debut. Novartis continues to refocus on core competence in medicines and data while spinning off non-core operations like Alcon, which started trading as a separate company this quarter. Selling down Sandoz US oral solids and the dermatology portfolio remain to come, as do further cost savings. Novartis' core operating income rose 18%, driven by higher innovative medicines sales, and the company nudged operating income guidance higher to 'high single digit from 'mid-single digit' growth. Our exposure to Healthcare is similar to the benchmark weight and we continue to like our invested franchises, while remaining mindful of the possibility that market fears around pricing could rise.

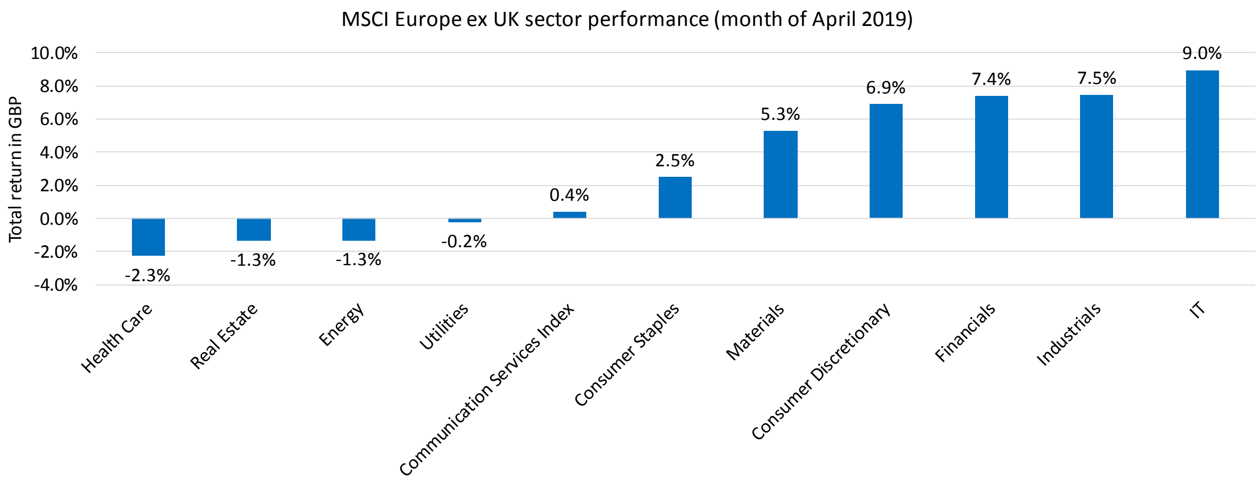
In Consumer Staples, an area where there has been much investor debate about changing market dynamics and new online brand competition, all three of our FMCG holdings, **Danone, Unilever** and **Nestle,** continued to display good organic growth and pricing power. These European names have all done well relative to global peers, staying ahead of a changing consumer by innovating and refocusing brand portfolios increasingly towards local, healthy and premium products. Danone's numbers were held back by difficult YoY comparison base, but that will drop out over Q2 and Q3.

Another name in a sector that has attracted much critical attention (as US internet giants disrupt older media) is **Metropole Television**. We have spent some time considering the likely impacts of these disruptive forces on the French domestic TV market. Once again, Q1 results, which showed positive sales growth in TV and radio, suggested that consumers at least in France are more wedded to their core domestic television channels, whether viewed on TV or mobile device, than Anglo Saxon analysts might infer from their own native market experience. While not having generated significant capital growth for the fund, Metropole is a consistent high contributor to the dividend. Perhaps with the help of a little supply side consolidation there is a good chance that Metropole can continue to provide a steadily growing income stream into the fund, something that market pricing had arguably been contending over the last quarters.

Among the stronger sectors over the month, we were pleased with the contribution to performance generated by our key overweight holdings in Financials and Industrials, especially since we have no exposure to banks (which outperformed Financials) and were underweight IT, which outperformed Industrials and Financials, as Elliott took a stake in SAP. **Konecranes** reported a 19% rise in order book and a 7% increase in higher-margin service order intake. **Atlas Copco** showed its colours, reporting better-than-expected high-end semiconductor-related orders in the areas of EUV, 5nm and 7nm. Meanwhile, **Amundi** reported 22.4% sequential net income growth, and **Schneider Electric** also reported very strong numbers, with organic sales growth of 5.9% more than double consensus, driven by strong Systems and Services & Software sales, up 10% and 12% respectively. While these companies may not be able to keep up such numbers on a consistent basis, we do believe that the results owe a lot to enduring strong fundamentals that look set to drive further outperformance, namely strong market leadership positions, high levels of innovation and good company cultures.

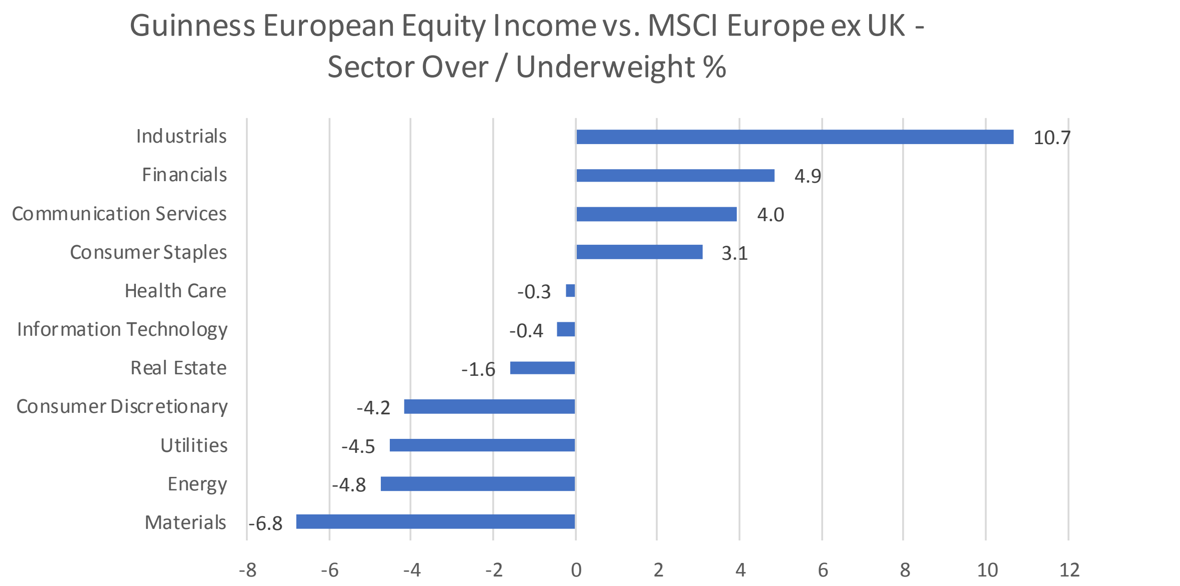


Source: Bloomberg. 30th April 2019



Source: Bloomberg. 30th April 2019

Your fund continues to hold no exposure to Materials, Energy, Utilities or Real Estate; many of which do not make it into our universe due to our focus on quality and returns. Industrials, Financials, Consumer Staples and Communication Services remain our significant sector overweight holdings.



Source: Bloomberg, Guinness Asset Management.

We made one portfolio addition in April driven by the split of portfolio holding Modern Times Group into Nordic Entertainment (TV) and Modern Times Group (gaming). The split left us unable to hold shares in either company as MTG will no longer pay a dividend and Nordic Entertainment was left with a debt to equity ratio well above our conservative threshold. As such they were sold and we bought a new position for the fund, **AXA Group SA**, the French insurance company. As well as being a promising addition to the portfolio the purchase of Axa increases the aggregate portfolio dividend yield and importantly the portfolio's upside exposure to interest rates at a time when market expectations for inflation and rates in Europe are deeply pessimistic. This is an exposure we are happy to increase at this time, with populist pressure increasingly pushing incumbent governments towards the spending button. A dynamic we will be watching with interest following the European elections later in May.

AXA is a lowly-rated insurance company that is nearing the completion of a transformation from predominantly Life & Savings product provider to an insurer around 80% focused on technical risk, represented by Property & Casualty and Health and Protection. This is a good transition which should with time warrant a higher multiple (as there is limited differentiation in Life), moving the company away from financial risk to technical risk and from 'payer to partner'. Technical risk is characterised by high frequency customer contacts, quality service and superior technical expertise – in short, giving AXA greater opportunity to build stronger customer relationships, trust and demonstrate best-in-class knowledge and advice. Following on from the sale of AXA Life Europe and purchase of XL Group in the US and the remaining 50% of AXA Tianping (making AXA the biggest foreign P&C insurer in China, a market it sees a growing 8% p.a. through 2025), this transition will be completed by the ongoing sell-down of AXA Equitable Holdings in the US, leaving AXA as the global number one and leader in P&C Commercial lines insurance and reinsurance. The acquisition of XL Group will give AXA the chance to lead in growth areas related to the challenges of globalisation such as cyber insurance and climate change. These moves should translate into a stronger and more differentiated business, and higher returns to shareholders. Importantly, there are also ample signs of a widening moat suggested by high levels of innovation and new technical product offerings.

Like all our portfolio companies, AXA is well capitalised with a Solvency II ratio of 190%, leaving it in a good position to weather storms and take market share. Employees own 5.34% of group equity and the remuneration of members of the management committee and the CEO are well aligned with shareholders' best interests, being based on group metrics that include return on equity as well as individual performance. The company's focus on health and climate insurance chimes with its emphasis on the wellbeing of its stakeholders as well as shareholders and the importance of good environmental and social governance. In short, this is a company that shareholders can feel good about owning. The stock trades on a 2019 earnings multiple of just 8.7x, a P/B ratio of 0.9x and at the current price offers a dividend yield of 6.4% in 2019 rising to near 7% in 2020, based on a 50-60% pay-out ratio as long as the Solvency II ratio (currently 190%) remains between 170% and 220%. In addition to the current backdrop of low interest rate expectations, the purchase could also prove to be well timed after 2018 returns were depressed by high catastrophe claims which are now resulting in an improved outlook for premiums.

We thank you for your continued support.

Dr Ian Mortimer, CFA, Matthew Page, CFA and **Nick Edwards**

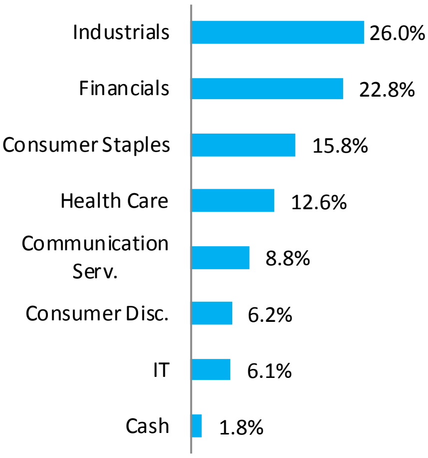
PORTFOLIO

30/04/2019

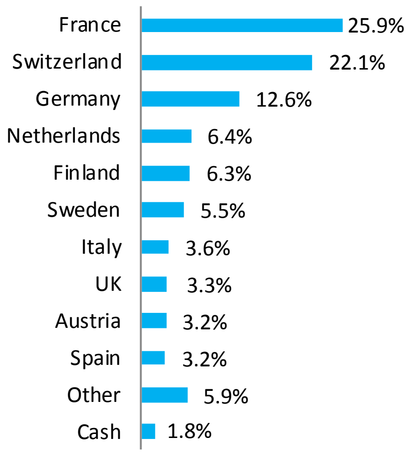
Fund top 10 holdings

Azimut Holding	3.6%
Publicis Groupe	3.5%
Atlas Copco	3.5%
Unilever	3.3%
Konecranes	3.3%
ABB	3.3%
M6-Metropole Television	3.2%
AXA SA	3.2%
Amundi	3.2%
Deutsche Boerse	3.2%
% of Fund in top 10	33.3%
Total number of stocks	31

Sector analysis



Geographic allocation



PERFORMANCE

30/04/2019

Annualised % total return from launch (GBP)

Discrete years % total return (GBP)	Apr '15	Apr '16	Apr '17	Apr '18	Apr '19
Fund	3.9	-1.0	34.6	2.1	5.9
MSCI Europe ex UK Index	6.4	-4.9	27.9	6.3	2.3
IA Europe ex UK sector average	6.6	-0.7	26.1	7.5	-0.3

Cumulative % total return (GBP)	1 month	Year-to-date	1 year	3 years	5 years	From launch
Fund	5.6	14.4	5.9	45.6	49.8	55.8
MSCI Europe ex UK Index	4.0	12.3	2.3	39.1	40.7	48.5
IA Europe ex UK sector average	4.9	12.8	-0.3	35.2	43.1	50.0

RISK ANALYSIS

30/04/2019

Annualised, weekly, from launch on 19.12.13, in GBP	Index	Sector	Fund
Alpha	0.00	1.05	1.85
Beta	1.00	0.88	0.89
Information ratio	0.00	0.04	0.23
Maximum drawdown	-17.99	-14.98	-16.49
R squared	1.00	0.86	0.88
Sharpe ratio	0.30	0.33	0.40
Tracking error	0.00	5.10	4.66
Volatility	13.60	12.96	12.96

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.

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'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.