Guinness European Equity Income Fund

INVESTMENT COMMENTARY – June 2019

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

Aim

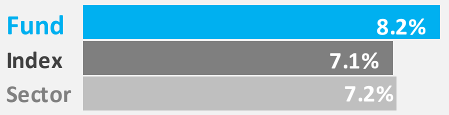
The Guinness European Equity Income Fund is designed to provide investors with exposure to high quality dividend-paying companies in the Europe ex UK region. The Fund aims to provide long-term capital appreciation and a source of income that has the potential to grow over time.

Performance 31.05.2019

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

	1 year	3 years	From launch
Fund	5.9	38.0	53.6
Index	1.1	36.3	45.4
Sector	-3.3	31.4	45.9

Annualised % total return from launch (GBP)



Risk analysis (annualised, weekly, from launch)

	Index	Sector	Fund
Alpha	0.0	0.9	1.9
Beta	1.0	0.9	0.9
Info ratio	0.0	0.0	0.3
Max drwdn	-18.0	-15.0	-16.5
Tracking err	0	5	5
Volatility	13.6	12.9	12.9
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 May, the Guinness European Equity Income Fund produced a total return of -1.40% (in GBP) versus the Index return of -2.04% (in GBP). The fund therefore outperformed the index by 0.64% over the month. It is pleasing to see that both the short and long-term performance of the fund's strategy remain ahead versus IA Europe ex UK peers.

	1M	YTD	1 Yr	3 Yr	5 Yr	Since Launch
Fund	-1.40%	12.84%	5.90%	37.95%	44.43%	53.61%
Index	-2.04%	10.01%	1.11%	36.26%	35.69%	45.44%
Sector	-2.65%	9.70%	-3.25%	31.42%	37.06%	45.94%
Out/Underperformance vs Sector	**1.25%**	**3.14%**	**9.15%**	**6.53%**	**7.37%**	**7.67%**

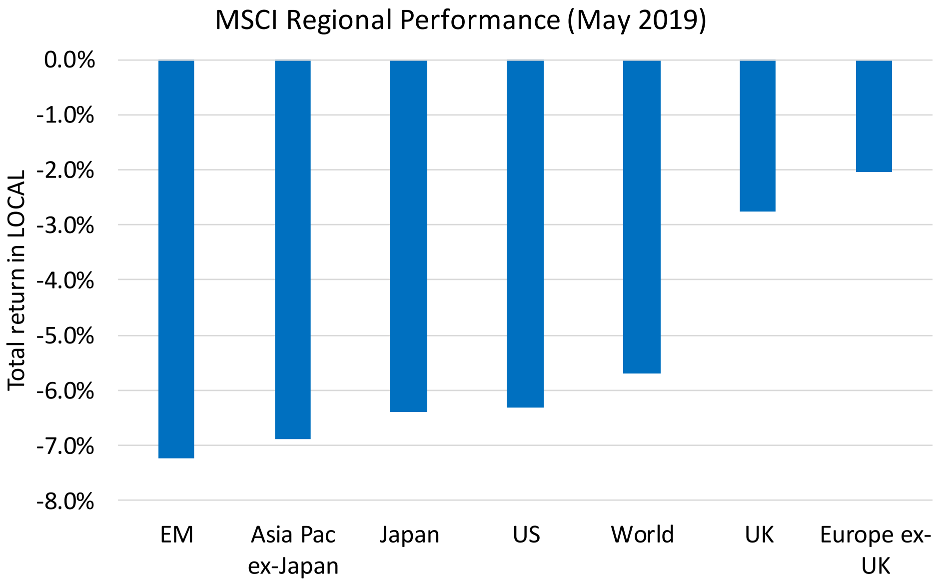
Source: Financial Express 0.74% OCF. Cumulative Total Return in GBP as of 31.05.2019

The largest positive contributors to performance over the month were **C&C Group** +11%, **Deutsche Boerse AG** +6%, **Novartis** +6%, **Euronext** +5%, **Nestle** +4%.

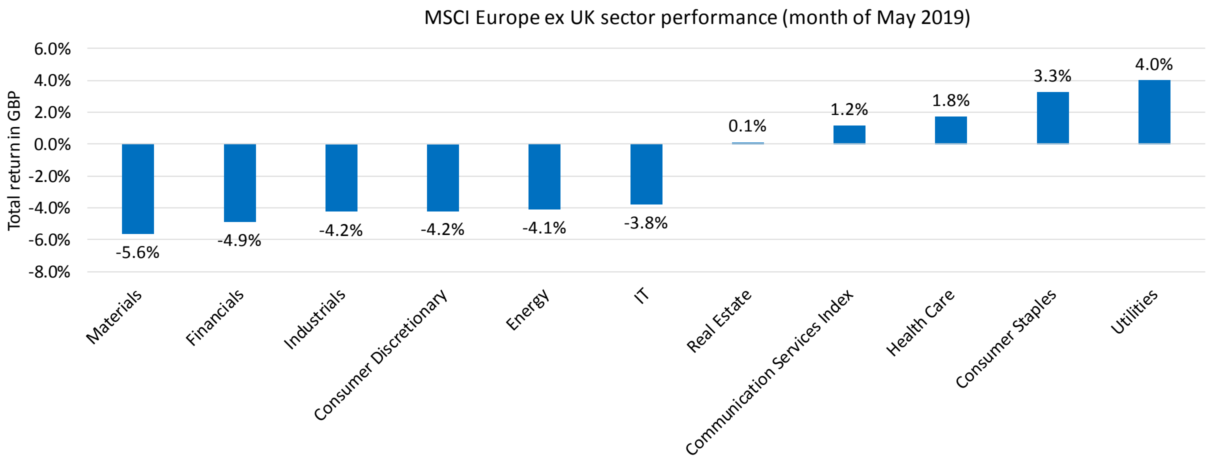
At the other end of the spectrum the biggest detractors to performance were **Andritz** -24%, **Continental** -17%, **Konecranes** -17%, **Altas Copco AB** -13% and **Deutsche Post** -11%.

Portfolio performance over the month of May was driven by strong returns across defensive segments of the portfolio including stock specific alpha from new portfolio holding **C&C Group**. At the other end of the spectrum a resurgence of concern relating to global trade drove weakness across our industrial exposures, particularly those with Auto sector exposure like **Continental** and **Andritz**, as Trump threatened Mexico with trade tariffs. Pretending to be a few sandwiches short of a picnic can occasionally be a good negotiating strategy, but whether it will have the desired effect of winning concessions from the Chinese remains to be seen. We strongly suspect that there will be better news ahead on trade as we get closer to the US election, and Trump looks towards his favourite barometer of success, the stock market, for evidence of his accomplishment. The rebound could be quite significant if Trump chooses to take his foot off the trade break, given the amount of stimulus flowing into the US market from a significant reduction in the entire term structure of US interest rates (inverted or not, and without mentioning the possibility of Fed funds rate cuts), a lower oil price and increasing infrastructure spend. In the meantime, intra sector volatility and the constant yoyoing between cyclical and defensive sectors and value and growth may continue.

If we were to do anything at this juncture, we would be inclined to continue to increase exposure to shorter duration sectors by adding to industrial cyclical and financials exposures on weakness; already our largest sector overweight positions. If Trump does manage to cajole the Fed into cutting rates, it looks like it will be a shallow down cycle, but one that significantly raises the risk of overshoot and higher inflationary pressures in 2020 and beyond. Europe, of course has less room for manoeuvre right now. However, in Germany a fiscal response looks almost guaranteed; even the historically hawkish head of the Bundesbank and ECB hopeful Jens Wiedemann has suggested a prescription of increased spending, higher interest rates and corporate tax cuts. After all what better way to address the imbalances created across Europe by Germany's large current account surplus, head off the populists, breath life back into the banks and make corporate Germany competitive again.

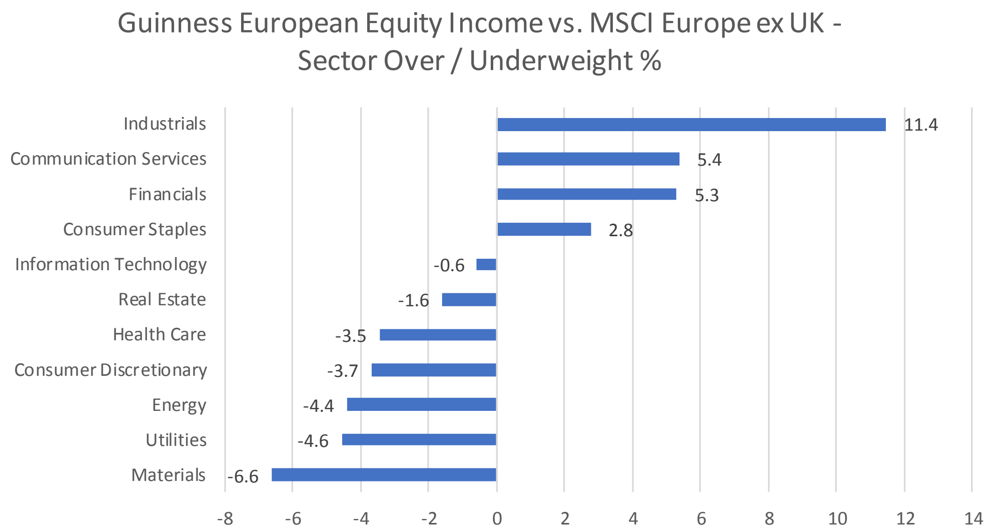


Source: Bloomberg. 31st May 2019



Source: Bloomberg. 31st May 2019

Our holdings in the exchanges **Deutsche Boerse** and **Euronext** were strong performers over the month. Deutsche Boerse's capital markets day highlighted a surfeit of common growth tailwinds despite slight eps downgrades relating to higher near-term capex. Structurally, regulation looks set to continue to benefit Eurex and EEX as trade continue to be driven on exchange and towards centralised clearing while new markets in power products are opening up. Meanwhile debt issuance looks set to continue to rise as Bank lending is crimped by tighter capital requirements, and as long as European integration continues to move forwards Deutsche Boerse's Clearstream looks very well positioned with a monopoly at the centre of the T2 system. We were also interested by the strong focus on technology, cloud-based efficiencies, and the longer-term potential for distributed ledger technology to push markets to same day settlement and open up whole new markets like property to electronic trading and settlement. The cyclical drivers of volume and volatility are currently on the backburner, but with the prospect of a fiscal response to low European interest rates and inflation, that could come to the fore. Valuation is a question mark for Deutsche Boerse being at the upper end of its historic ranges. However, assuming margins can rise towards the 50% level as the group gains further scale, that top line growth can continue a five year plus view, and that cyclical drivers will at some stage return, suggests there is still fair medium-term upside in the equity.



Source: Bloomberg data, Guinness data

In May we sold our longstanding position in **Heineken**, which had rerated up to over 20x PE and now only offered a 1.8% dividend yield and initiated a new position in **C&C Group** on 12x PE and offering a 4.6% dividend yield. Cheap stocks can turn out to be value traps and switching from a global player to a predominantly domestic, UK & Ireland focused operator, might raise some eyebrows, particularly when it comes to growth. However, in the case of C&C Group the relatively low multiple is accompanied by a widening moat. The recent acquisition of **Mathew Clark** (MC) and **Bibendum** represent a step change in earnings power for the Group. As the incumbent player in distribution in Ireland and Scotland, this is a space that C&C group understands very well; and the purchase of Mathew Clark out of receivership from Conviviality means that C&C group is now the gateway and largest final mile distributor of alcohol and other drinks to the on-trade not just in Ireland and Scotland but the whole of rest of the UK too.

With a new owner MC is finally in the right hands. The original founder management of both Mathew Clark and Bibendum see the potential and have returned to help turn the businesses around, and C&C Group now has a large new distribution channel through to some 2000 on-trade corporate customers and some 19500 outlets in the UK. The price looks favourable as C&C Group believes that after significant costs have been extracted their purchase price will fall in the area of £70m (vs. the £200m that Conviviality paid). They also see the potential to increase UK own brand sales by some three times current levels by pushing existing brands like Magners down the Mathew Clark channel. On top of which MC represents a great platform to develop and launch new own brands (like Menabrea and Heverlee, premium larger), and to work with and distribute for larger players like **ABI** in the UK. C&C Group is now effectively kingmaker, with the ability to determine success for new smaller brands trying to enter the UK on-trade; and success in on-trade also tends to lead to well received launches in the off-trade. The Bibendum acquisition is less transformational but never-the-less gives the company a stronger footing at the premium end of the market in high-end third-party wines and spirits. This in turn represents a good platform from which to sell and market C&C Group's own premium products.

One could say more about other potential positives including the enhanced ability of the Group to capture and utilise UK wide data, the move to a more decentralised model which should improve groupwide operational agility, or the acquisition of a stake in Admiral Taverns giving the group another channel down which to push own product. The market is assuming the that 21% eps growth slows to 9% in 2020 and mid-single digit growth thereafter. We think there is a very real chance this proves conservative. If correct, there is plenty of rerating potential with the shares still trading on low multiples, not to mention a healthy dividend while we wait.

We thank you for your continued support.

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

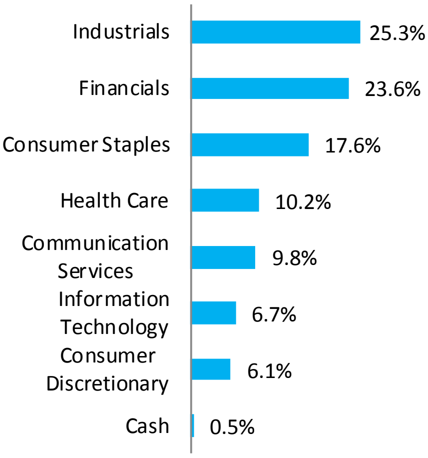
PORTFOLIO

31/05/2019

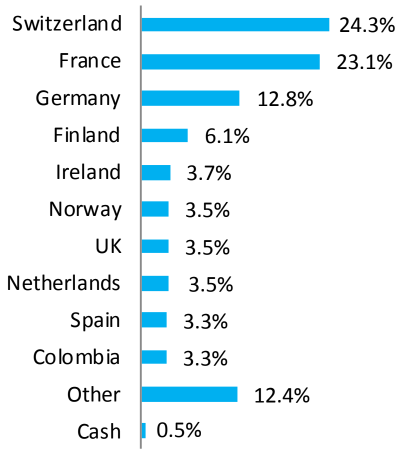
Fund top 10 holdings

C&C Group PLC	3.7%
Deutsche Boerse	3.6%
Novartis	3.6%
Inficon Holding	3.6%
Salmar	3.5%
Unilever	3.5%
Euronext	3.5%
Roche Holding	3.5%
Nestle	3.5%
HELVETIA HOLDING AG-RE(	3.4%
% of Fund in top 10	35.4%
Total number of stocks	30

Sector analysis



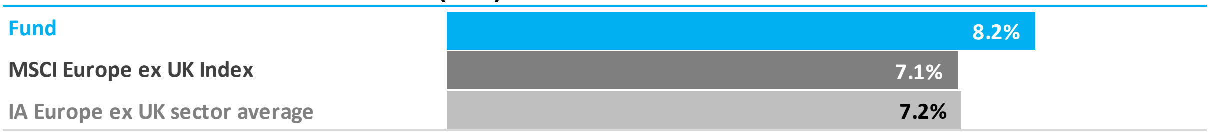
Geographic allocation



PERFORMANCE

31/05/2019

Annualised % total return from launch (GBP)



Discrete years % total return (GBP)	May '15	May '16	May '17	May '18	May '19
Fund	0.2	4.5	37.1	-5.0	5.9
MSCI Europe ex UK Index	4.3	-4.5	34.5	0.2	1.1
IA Europe ex UK sector average	7.3	-2.8	32.7	2.4	-3.3

Cumulative % total return (GBP)	1 month	Year-to-date	1 year	3 years	5 years	From launch
Fund	-1.4	12.8	5.9	38.0	44.4	53.6
MSCI Europe ex UK Index	-2.0	10.0	1.1	36.3	35.7	45.4
IA Europe ex UK sector average	-2.7	9.7	-3.3	31.4	37.1	45.9

RISK ANALYSIS

31/05/2019

Annualised, weekly, from launch on 19.12.13, in GBP	Index	Sector	Fund
Alpha	0.00	0.92	1.93
Beta	1.00	0.88	0.89
Information ratio	0.00	0.02	0.26
Maximum drawdown	-17.99	-14.98	-16.49
R squared	1.00	0.86	0.88
Sharpe ratio	0.25	0.28	0.37
Tracking error	0.00	5.08	4.64
Volatility	13.61	12.94	12.93

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.

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