Guinness European Equity Income Fund

INVESTMENT COMMENTARY – August 2019

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

Aim

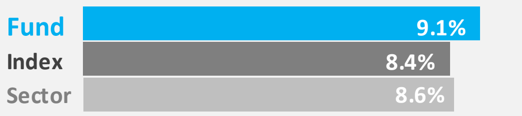
The Guinness European Equity Income Fund is designed to provide investors with exposure to high quality dividend-paying companies in the Europe ex UK region. The Fund aims to provide long-term capital appreciation and a source of income that has the potential to grow over time.

Performance 31.07.2019

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

	1 year	3 years	From launch
Fund	7.4	33.1	63.4
Index	4.1	35.0	57.5
Sector	1.7	32.4	58.6

Annualised % total return from launch (GBP)



Risk analysis (annualised, weekly, from launch)

	Index	Sector	Fund
Alpha	0.0	1.0	1.7
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	13.5	12.9	12.9
Sharpe ratio	0.4	0.4	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 July, the Guinness European Equity Income Fund produced a total return of 0.06% (in GBP) versus the Index return of 1.88% (in GBP). The fund therefore underperformed the index by -1.82% 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.

	1 month	YTD	1 Yr	3 Yr	5 Yr	Since Launch
Fund	0.1%	20.1%	7.4%	33.1%	63.2%	63.4%
Index	1.9%	19.2%	4.1%	35.0%	56.3%	57.5%
Sector	2.1%	19.2%	1.7%	32.4%	57.9%	58.6%
Fund performance vs Sector	-2.1%	0.9%	5.7%	0.7%	5.3%	4.8%

Figure 1 source: Financial Express 0.74% OCF. Cumulative Total Return in GBP as of 31.07.2019

The largest positive contributors to performance over the month of July in GBP were **Salmar ASA** +12%, **Nestle SA** +7%, **Inficon Holding AG** +7%, **Danone SA** +7% and **Euronext NV** +7%

At the other end of the spectrum the biggest detractors to performance were **Konecranes Oyj** -19%, **Tieto Oyj** -10%, **Kering SA** -8%, **Adecco Group AG** -5% and **Millicom International SA** -4%.

In July market drivers and investment commentary carried on in a similar vein to recent months. Weak external and trade related data continued alongside falling bond yields along with the entire German yield curve finally turning negative. Aside from the positive impact to equity valuations of lower rate expectations, this was to some degree offset by supportive services data and further upticks in bank lending to non-financial companies. The most recent

German services data did however come in light of expectations, increasing concern that the malaise is spreading to the domestic economy. Pierre Moscovici, the EU economy commissioner, cited weakening growth for the rest of the year in part due to H1 data being buoyed by stockpiling ahead of the original Brexit date. The EC responded by lowering its 2019 inflation forecast to 1.3% vs. 1.4% previously. While the ECB, in response to lower US rate expectations, softened forward guidance to signal rate cuts from September. The latter of course all largely stems from Trumpian trade policy which may or may not change into the US elections in 2020. Needless to say, rhetoric was ratcheted up another notch at month end with a further 10% tariff threatened on $300bn of Chinese exports to the US.

What is the point in cutting interest rates or engaging in more QE when the entire German yield curve is already negative and there is good evidence that actions to date have increased inequality and impacted bank profitability and in turn the transmission mechanism to the real economy? In Germany the very idea of using more taxpayer money to fund ECB asset purchases is creating angst. An article in Die Welt last month even referred to “expropriation of German savers”. If more QE does come it will be increasingly targeted with a tiered deposit system to limit the impact on the banking sector. Indeed, the ECB may have little further room for further bond buying full stop if claimants win the Bundesbank case that QE constitutes “monetary financing” and as such is illegal. A decision on that is due by year end.

Fiscal policy looks set to take a much more prominent role going forwards. Last month, at a summit that saw “super Mario” receive a standing ovation from European leaders, Mario Draghi told the European Union that a much more expansionary fiscal policy may be needed to overcome persistent economic weakness. A sentiment that new head of the ECB Christine Lagarde appreciates. Meanwhile over in the UK, the new Chancellor of the Exchequer, Sajid Javid, is on record as having previously advocated a £100bn infrastructure fund and £50bn for housing financed by higher borrowing. Indeed, the good menschen of Munich would be much more relaxed with increased fiscal spend going towards upgrading their own aged German infrastructure, rather than having more of their hard-earned savings funnelled down the T2 system to their southern neighbours.

An article by Mervyn King titled Europe’s Leaders Must Learn from Greek Tragedy published by Bloomberg last month spoke to this German discontent at the heart of the Eurozone saying that “further ahead, resistance in Germany to a European fiscal union will be the crucial factor in deciding the fate of the Euro.” While an article published by the IFO Institute underscored Germany’s desire to keep the UK on board in Europe in one way or another given the UK’s historical balancing effect vis a vis the more protectionist actions of France and Italy and its importance in maintaining the blocks international standing alongside powers like the China and the US (implying there may be a good opportunity in domestic UK equities right now). With Ursula von der Leyen, the German defence minister, having been voted in by a very small margin as head of the European Commission (pushed over the line by support from populist parties), Germany now has the opportunity to shape policy. Mervyn King’s article underscores that there will be plenty more uncertainly ahead in Europe, not to mention Germany’s vulnerability to external trade factors and the difficult auto transition ahead. While the IFO article and Germany’s position at the head of the table suggest that Ms Von der Leyen’s best course is to try to move the European Union in a more flexible and hence sustainable direction. That at least is in both Germanys, the UK and rightist and populist European parties’ interests.

At the portfolio level, the fund started the quarter on a slightly weaker note as a few of the names we hold that have peripheral exposure to the German auto industry marginally softened guidance. **Adecco** highlighted that the manufacturing downturn was affecting hiring levels in Germany, though it is benefitting from the good service market elsewhere. We are comfortable with Adecco's long-term outlook given its unique position as a duopoly player in the global recruitment industry. **Siemens** highlighted the extent of the manufacturing downturn as its Digital Industries division suffered a 16% order decline in Germany. Margins at Siemens should bounce back in Q4 on cost measures, and overall the shares look good value and the company continues to the make good capital allocation decisions. **Konecranes** said that it may struggle to meet its mid-term guidance (based on the Marine Handling & Port Solutions acquisition) due to headwinds in its Industrial Equipment division which has some exposure to Germany and trade. This sell off looks like a real opportunity to pick up stock of an installed base champion with a widening moat, unique in being the only global supplier of industrial and port crane servicing, on a fraction of the rating of many similar circular type business models. **Kering** also reacted poorly to results (but for different reasons) which showed slightly slower than expected sales growth at Gucci. The company is highly exposed to the Gucci brand, just as Hermes is to Hermes, but trades on well under half the earnings multiple whilst generating substantially higher returns on equity. The culture at Kering is a good one in our view (in spite of its perfume marketing strapline #Foreverguilty), that should drive high returns for a long-time to come. We expect a renewed US marketing push in H2 should result in better H2 numbers.

We can't profess to have all the answers to Europe's growing pains nor to how the global trade dispute will unfold (though there is a good chance it softens through 2020 into the US election). We can however say that while no company is an island, the Guinness European Equity Income Fund is characterised by companies that possess high degrees self-determination. Namely identifiable barriers to entry, strong market positions, widening moats, aligned interests and good runways for growth. That our holdings have also sustained persistent high cash returns over cycles and have strong balance sheets leaves them in good shape to weather storms, take market shares in downturns and to come out the other side stronger. The Guinness European Equity Income Fund continues to trade at a discount to market multiples while offering substantially higher cash and equity returns than the index, alongside lower pay-out ratios which leave our companies with more cash left over at the end of the day to reinvest in future growth. This is a quality income portfolio that should continue to stand any equity investor in good stead.

We thank you for your continued support.

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

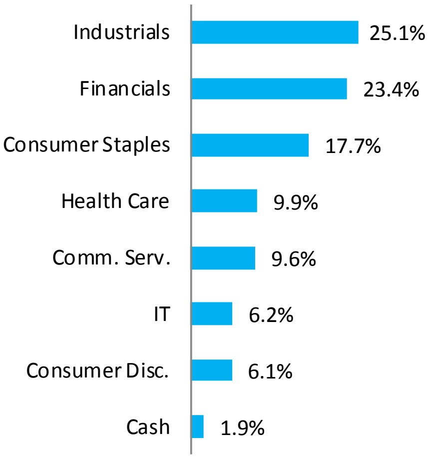
PORTFOLIO

31/07/2019

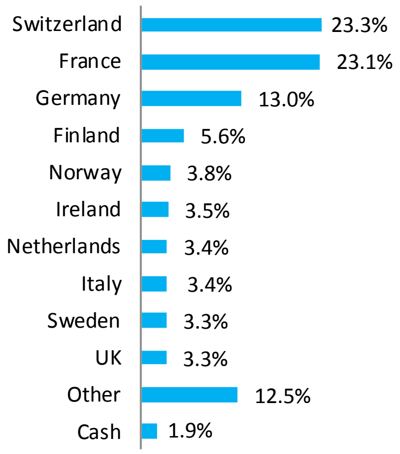
Fund top 10 holdings

Salmar	3.6%
Danone	3.5%
C&C Group PLC	3.5%
Nestle	3.5%
Amundi	3.5%
Novartis	3.4%
Deutsche Post	3.4%
Helvetia Holding	3.4%
Euronext	3.4%
Azimut Holding	3.3%
% of Fund in top 10	34.5%
Total number of stocks	30

Sector analysis



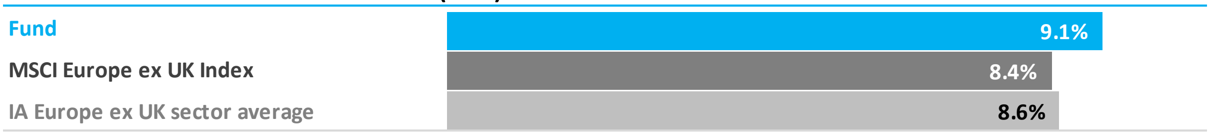
Geographic allocation



PERFORMANCE

31/07/2019

Annualised % total return from launch (GBP)



Discrete years % total return (GBP)	Jul '15	Jul '16	Jul '17	Jul '18	Jul '19
Fund	7.0	14.6	22.0	1.5	7.4
MSCI Europe ex UK Index	9.4	5.9	23.3	5.2	4.1
IA Europe ex UK sector average	10.4	8.0	23.8	5.1	1.7

Cumulative % total return (GBP)	1 month	Year-to-date	1 year	3 years	5 years	From launch
Fund	0.1	20.1	7.4	33.1	63.2	63.4
MSCI Europe ex UK Index	1.9	19.2	4.1	35.0	56.3	57.5
IA Europe ex UK sector average	2.1	19.2	1.7	32.4	57.9	58.6

RISK ANALYSIS

31/07/2019

Annualised, weekly, from launch on 19.12.13, in GBP	Index	Sector	Fund
Alpha	0.00	0.99	1.65
Beta	1.00	0.88	0.89
Information ratio	0.00	0.01	0.17
Maximum drawdown	-17.99	-14.98	-16.49
R squared	1.00	0.86	0.88
Sharpe ratio	0.35	0.38	0.44
Tracking error	0.00	5.02	4.63
Volatility	13.54	12.88	12.87

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 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. 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.