

# Guinness European Equity Income Fund

INVESTMENT COMMENTARY – September 2019

<b>Launch date</b>	19.12.2013		
<b>Team</b>	Ian Mortimer Matthew Page Nick Edwards		
<b>Aim</b>	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.		
<b>Performance</b>	31.08.2019		
<b>Fund</b>	European Equity Income		
<b>Index</b>	MSCI Europe ex UK		
<b>Sector</b>	IA Europe ex UK		
	<b>1 year</b>	<b>3 years</b>	<b>From launch</b>
<b>Fund</b>	6.2	29.4	61.4
<b>Index</b>	4.3	31.1	55.6
<b>Sector</b>	0.3	27.0	55.4
<b>Annualised % total return from launch (GBP)</b>			
<b>Fund</b>	8.8%		
<b>Index</b>	8.1%		
<b>Sector</b>	8.0%		
<b>Risk analysis (annualised, weekly, from launch)</b>			
	<b>Index</b>	<b>Sector</b>	<b>Fund</b>
<b>Alpha</b>	0.0	0.9	1.7
<b>Beta</b>	1.0	0.9	0.9
<b>Info ratio</b>	0.0	0.0	0.2
<b>Max drwn</b>	-18.0	-15.0	-16.5
<b>Tracking err</b>	0	5	5
<b>Volatility</b>	13.5	12.9	12.8
<b>Sharpe ratio</b>	0.3	0.3	0.4
<b>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.</b>			
Source: Financial Express, Z class 0.74%, bid to bid, total return.			

## Summary performance

In August, the Guinness European Equity Income Fund produced a total return of -1.27% (in GBP) versus the Index return of -1.20%. The fund therefore underperformed the index by -0.07% over the month. It is pleasing to see that both the short and long-term performance of the fund's strategy remains ahead versus IA Europe ex UK peers.

	1 month	YTD	1 Yr	3 Yr	5 Yr	Since Launch
<b>Fund</b>	-1.3%	18.6%	6.2%	29.4%	59.4%	61.4%
<b>Index</b>	-1.2%	17.7%	4.3%	31.1%	51.3%	55.6%
<b>Sector</b>	-2.0%	16.8%	0.3%	27.0%	52.7%	55.4%
<b>Fund performance vs Sector</b>						
	0.8%	1.8%	6.0%	2.4%	6.7%	6.0%

Figure 1 source: Financial Express 0.74% OCF. Cumulative Total Return in GBP as of 31.08.2019

The largest positive contributors to performance over the month of July in GBP were **Novo Nordisk** +10%, **Unilever** +9%, **Nestle** +6%, **Deutsche Boerse** +6% and **Danone** +4%.

At the other end of the spectrum the biggest detractors from performance were **Continental** -12%, **Axa** -9%, **Siemens** -8%, **Amundi** -7% and **Kering** -6%.

August saw the end of Q2 reporting and was a quiet month in terms of stock-specific news. **Deutsche Post** was a highlight for us, reporting strong quarterly numbers against an uncertain backdrop. Structural growth led by e-commerce drove parcel volume 6.6% higher year-on-year in its leading Time Definite International (TDI) segment, accompanied by improved express pricing and good cost control amid material and labour cost pressures. Deutsche Post has a strong cost advantage over smaller players whose business models tend to necessitate higher

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 as a result of market and currency fluctuations.

proportions of subcontractor use, where inflationary pressures are higher. We see potential for continued tailwinds at Deutsche Post amid on-going efficiency improvements, including the introduction of a new IT system due 2020/21, price rises, and continued supply-side consolidation. The recent acquisition of Panalpina by DSV is a case in point and should make itself felt in the freight forwarding sub-sector. With Deutsche Post trading on 12.4x FY2 with 19% ROE and offering a 4.3% dividend yield we expect this name to be a cornerstone of the Guinness European Equity Income strategy for a long time to come.

The political backdrop in Europe remained lively. In Germany news that Alternative für Deutschland (the AfD) had failed to gain control of Saxony and Brandenburg was greeted with some relief, although the absolute share of vote won was sobering at 28% and 24% respectively. We can honestly put forward a lot of positive points in support of Europe (German €1trn skin in the game, zero populist parties calling to leave the Euro, growing support for the Euro, good consolidation opportunities and overall a good balance sheet), but it is certainly true that in the longer term the German population requires some hand holding when it comes to the thorny issues of immigration and federalisation (namely sharing German workers' hard-won Euros and the benefits of a weak Euro southwards).

On the other hand, our feeling that concerns surrounding Italian politics and high associated risk premiums were somewhat overdone was vindicated to a degree as League leader Matteo Salvini called time on the coalition, leading to a new techno-populist Democratic Party (DP) and Five Star coalition. While still characterised by anti-politics, the new coalition is markedly more EC-friendly than the old, with the appointment of DP's Roberto Gualtieri as economy minister sending out a positive message to markets ahead of Italy's autumn budget due to his status as chair of the European Parliament committee on economic and monetary affairs. Peak to trough, Italian 10Y government bond yields have fallen from 3.8% to 0.8% over one year. Some of the move lower in Italian 10Y yields is of course due to expectations of further ECB monetary stimulus and could shift back higher if that stimulus is adequate (which is quite possible given the ECB's renewed focus on banks and the broken transmission mechanism). Nevertheless, we would expect overall spreads relative to bunds to remain at the lower end of ranges for now.

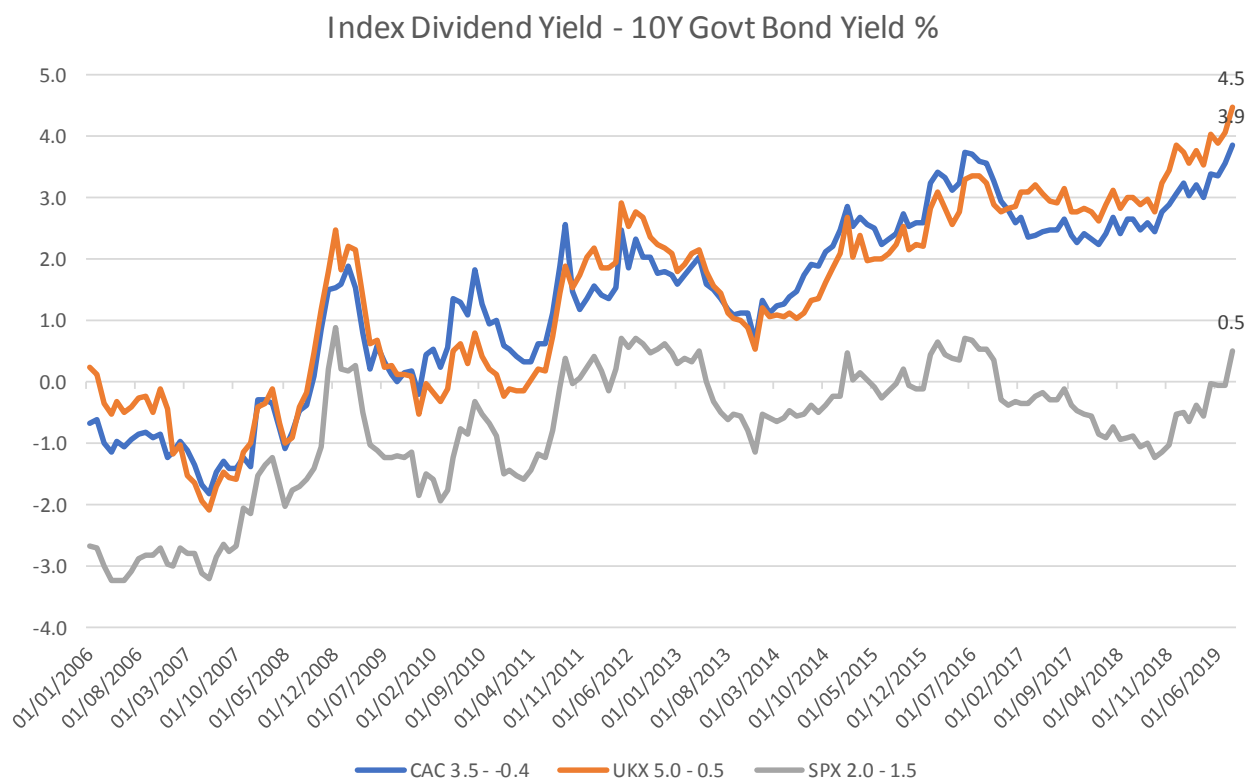
The discourse around fiscal policy continued to develop in August with German Finance Minister Olaf Scholz's revelation of €50bn potential stimulus (which looks likely to be dressed up as a green new deal). Back in 2009 the cash for clunkers scheme was exceptionally effective at getting auto sector demand moving. This time, whilst almost certain to include the auto sector, fiscal stimulus looks likely to take a more broad-ranging form, with suggestions ranging from climate-related measures including energy efficiency in homes to promotion of short-term hiring and boosting income through social welfare.

Assuming Germany can get off the mark, fiscal stimulus will require funding. There seems to be a good chance that the recent collapse in government bond yields may partially reverse over time once related issuance picks up, particularly if it were accompanied by more give on trade into the US 2020 election or some resolution regarding Brexit. Either way, equity income continues to look increasingly attractive in Europe and the UK. The chart below showing French (CAC), UK (UKX) and US (SPX) equity index dividend yields minus respective country 10Y government bond yields highlights quite how wide European and UK spreads have become relative to low bond yields, relative to US dividend yields and to Europe and UK yield history. Assuming bond yields remain at relatively low levels vs. history, there is good scope for equity income to outperform.

---

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 as a result of market and currency fluctuations.

## Guinness European Equity Income Fund



The Guinness European Equity Income Fund aims to avoid the common risks of income investing by focusing primarily on cash flow and the persistence of high returns alongside balance sheet strength over and above absolute levels of yield, but nevertheless offers a 3.4% dividend yield. This approach means the fund is well placed to capture the upside above and deliver capital and income growth into the longer-term, whilst avoiding the regulatory and cyclical setbacks so often associated with income funds.

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

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 as a result of market and currency fluctuations.

## Guinness European Equity Income Fund

### PORTFOLIO

31/08/2019

#### Fund top 10 holdings

Nestle	3.7%
Atlas Copco	3.5%
UNILEVER NV	3.5%
Helvetia Holding	3.5%
Novo Nordisk	3.5%
Euronext	3.4%
Deutsche Boerse	3.4%
Deutsche Post	3.4%
Schneider Electric	3.4%
Novartis	3.4%
% of Fund in top 10	34.6%
Total number of stocks	30

#### Sector analysis

Industrials	26.7%
Financials	22.8%
Consumer Staples	16.9%
Health Care	10.1%
Communication Serv.	9.6%
Consumer Disc.	6.4%
IT	6.4%
Cash	1.1%

#### Geographic allocation

Switzerland	23.5%
France	22.4%
Germany	13.5%
Sweden	6.6%
Finland	6.3%
UK	3.5%
Denmark	3.5%
Netherlands	3.4%
Norway	3.3%
Austria	3.3%
Other	9.5%
Cash	1.1%

### PERFORMANCE

31/08/2019

#### Annualised % total return from launch (GBP)

<b>Fund</b>	<b>8.8%</b>
MSCI Europe ex UK Index	8.1%
IA Europe ex UK sector average	8.0%

#### Discrete years % total return (GBP)

	Aug '15	Aug '16	Aug '17	Aug '18	Aug '19
<b>Fund</b>	2.4	20.3	23.0	-1.0	6.2
MSCI Europe ex UK Index	1.1	14.1	24.4	1.0	4.3
IA Europe ex UK sector average	4.6	15.0	23.5	2.5	0.3

#### Cumulative % total return (GBP)

	1 month	Year-to-date	1 year	3 years	5 years	From launch
<b>Fund</b>	-1.2	18.6	6.2	29.4	59.4	61.4
MSCI Europe ex UK Index	-1.2	17.7	4.3	31.1	51.3	55.6
IA Europe ex UK sector average	-2.0	16.8	0.3	27.0	52.7	55.4

### RISK ANALYSIS

31/08/2019

Annualised, weekly, from launch on 19.12.13, in GBP	Index	Sector	Fund
Alpha	0.00	0.93	1.67
Beta	1.00	0.88	0.89
Information ratio	0.00	0.00	0.18
Maximum drawdown	-17.99	-14.98	-16.49
R squared	1.00	0.86	0.88
Sharpe ratio	0.33	0.34	0.41
Tracking error	0.00	5.09	4.63
Volatility	13.50	12.85	12.80

**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 as a result of market and currency fluctuations.

## 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](http://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](http://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](mailto:info@guinnessfunds.com)

Web: [guinnessfunds.com](http://guinnessfunds.com)