

Guinness European Equity Income Fund

INVESTMENT COMMENTARY – November 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	31.10.2019		
Fund	European Equity Income		
Index	MSCI Europe ex UK		
Sector	IA Europe ex UK		
	1 year	3 years	From launch
Fund	12.1	22.2	62.7
Index	10.9	23.6	54.8
Sector	8.5	19.8	54.1
Annualised % total return from launch (GBP)			
Fund	8.7%		
Index	7.7%		
Sector	7.7%		
Risk analysis (annualised, weekly, from launch)			
	Index	Sector	Fund
Alpha	0.0	0.8	1.7
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	13.4	12.8	12.8
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. Fund returns are for share classes with a current Ongoing Charges Figure (OCF) stated above; returns for share classes with a different OCF will vary accordingly			
Source: Financial Express, Z class 0.35%, bid to bid, total return.			

Summary performance

In October, the Guinness European Equity Income Fund produced a total return of -1.09% (in GBP) versus the Index return of -1.58% (in GBP). The fund therefore outperformed the index by +0.49% over the month. Over the short and long term the fund remains ahead versus IA Europe ex UK peers.

The largest positive contributors to performance over the month of October (in EUR) in were **Atlas Copco +13%, Kering +9%, Tieto +9%, Inficon Holding AG +8%** and **Andritz AG +7%**.

At the other end of the spectrum the biggest detractors from performance were **Publicis -15%, Millicom -8%, Danone -8%, Konecranes -6%** and **Nestle -4%** (in EUR).

	1 month	YTD	1 Yr	3 Yr	5 Yr	Since Launch
Fund	-1.0%	19.5%	12.1%	22.2%	65.7%	62.7%
Index	-1.6%	17.1%	10.9%	23.6%	53.7%	54.8%
Sector	-1.3%	15.8%	8.5%	19.8%	54.8%	54.1%
Fund performance vs Sector	0.3%	3.7%	3.6%	2.4%	10.9%	8.6%

Figure 1 source: Financial Express 0.35% OCF. Cumulative Total Return in GBP as of 31.10.2019

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October saw a deluge of Q3 earnings releases alongside more favourable macroeconomic signs. As far as Europe is concerned, arguably the most notable developments over the month were the backlash against the quantitative easing reinitiated by outgoing ECB president Mario Draghi and related signs that incoming head Christine Lagarde is considering the potential to refocus at least some of the ECB asset purchase programme towards fiscal policy and low-carbon assets. The Guinness European Equity Income Fund is well placed for such a shift, with some 30% of fund holdings invested in high quality European 'green' industrials. Green fiscal policy enacted by states with plenty of fiscal headroom stands a good chance of appealing to domestic electorates, in our view – particularly when the alternative, made apparent by Mario Draghi's recent actions, is more QE.

We made two changes to the Guinness European Equity Income Fund in October. We took profits on our biggest winner **Azimut** (+111% YTD in EUR), following an extended run, on the back of both the collapse in Italian sovereign spreads and the company's decision to cut performance fees while increasing recurring fees, set against mediocre fund performance. While the move is strongly beneficial to near-term earnings, we are less sure of how well it squares with longer-term potential and the ramifications of MIFID. We also waved goodbye to **Novartis** (+23% YTD), which had fallen out of our quality universe; arguably leaving some good returns on the table from the current restructuring programme, but simultaneously compelled by the opportunity set elsewhere and unnerved by the potential for significant noise relating to drug pricing ahead of the US election.

New fund holdings

Aalberts Industries is a 'magic ingredient'-type company that designs, manufactures and services critical components and technologies which are vital to the functioning of a much larger product but only represent a small fraction of its total cost. This means that the company tends to have excellent pricing power, allowing it to continue to reinvest in future growth while paying an attractive growing income stream to shareholders in the form of dividends. A good analogy for those familiar with the UK market is Halma Plc – except Aalberts currently trades on half the price/earnings multiple. Aalberts dominates niches in areas including flow control, surface technologies and advanced mechatronics, offering productivity gains in areas such as heating, air conditioning, additive manufacturing, electric vehicles, robotics and semiconductors (ASML being its largest customer in the latter segment). Whilst the multiple is depressed vs. company history, in large part due to the weak manufacturing backdrop in Europe, long-term structural drivers are more plentiful than one might imagine. By end market, buildings (HVAC) and Europe represent the largest exposures, representing over 50% of sales. With just 3% of European building stock now estimated to meet European buildings efficiency targets vs. historic levels of 10–20% and European fiscal policy increasingly pointing in a green direction, this represents an unexpectedly exciting runway for growth that should furnish Aalberts Industries and its shareholders with growing dividends for a long time to come.

Aalberts is a great fit for the fund, having many of the characteristics we look for across the Guinness quality equity income strategies. The company has a strong balance sheet (net debt to equity of 35%) and low payout ratio (c.30%), set against good cash conversion and persistent high and improving returns. Importantly, management have an excellent track record for capital allocation, and the company culture is one that feeds off shared knowledge and close customer relations. The recent 2018 five-year plan should result in lower long-term operating costs through increased investment in efficiency measures

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alongside improved agility and innovation stemming from an increasingly decentralised business model. The guiding hand of Aalberts Investments, Aalberts Beheer B.V., with ownership of 13.27% of company shares represents a strong long-term support for shareholders, offering company management increased market insight, long-term thinking and strategic support. Aalberts is an investment that shareholders can feel good about, with the potential to generate high excess long-run returns alongside a positive external impact.

Smurfit Kappa (SKG ID, €8bn) offers a significant potential improvement in portfolio return on capital employed versus Novartis, including a higher dividend yield off a lower earnings multiple set against a long and sustainable runway for growth and returns. Identifiable barriers to entry exist in both local economies of scale and Smurfit Kappa's customer-focused innovation (exemplified by the group's Better Planet Packaging initiative and the opening of 26 innovation centres across Europe and the Americas in four years). In Europe Smurfit Kappa is the market leader in sustainable (corrugated) packaging and "smart shelf" solutions and the only large-scale pan-regional player in the Americas. Fast moving consumer goods (FMCG) companies account for some 70% of sales, which means that earnings growth is well anchored, and volatility tends to be low. It also means that the moat is widening, with Smurfit in a great place to provide sustainable solutions to global FMCG companies desperate to reduce their high reliance on single-use plastic packaging. Smurfit Kappa is a historically good company characterised by persistent high cash flow returns where EVA margins and returns (19.3% 2018 ROCE vs. 15% in 2017 and 12% historically) are widening vs. history and where the market has yet to reward the structural nature of this shift. The recent Q3 trading update underscored the point, speaking to rising demand and upward pressure on pricing against a broadly weak economic backdrop in Europe. Vertical integration, from owned and sustainably managed forest assets and recycled fibres through to client-focused innovative solutions, means that Smurfit is well placed to manage its supply chain, and price rises tend to drop to the bottom line. On the other side of the input equation, the cost of debt continues to fall, with the company recently conducting one refinancing round at 1.5% vs. 4.1% prior.

Capital allocation is critical to long-run returns, and Smurfit Kappa has a good track record, with management and employee interests well aligned with those of shareholders and stakeholders. Notably, Anthony Smurfit, grandson of the founder, now CEO and with the company for over 30 years, owns €38m or 0.5% of Group equity. Management are incentivised based on return on capital employed (ROCE) and free cash flow (FCF) as well as earnings per share and total shareholder return metrics. The group's strong focus on innovation and sustainability factors as well as the employee inclusion, diversity and retention mean that shareholders of Smurfit Kappa are well placed to benefit from a business owner culture that should continue to drive superior returns for the long term.

The net result of these portfolio changes is a small drop in fund net dividend yield alongside a reduction in fund multiple and increase in free cash flow yield and earnings growth rates.

We thank you for your continued support.

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

Guinness European Equity Income Fund

PORTFOLIO

31/10/2019

Fund top 10 holdings

Andritz	3.8%
Atlas Copco	3.7%
Kering SA	3.6%
ABB	3.5%
Siemens	3.5%
Deutsche Post	3.4%
Smurfit Kappa Group	3.3%
Tieto	3.3%
Inficon Holding	3.3%
Konecranes	3.3%
% of Fund in top 10	34.8%
Total number of stocks	30

Sector analysis

Industrials	31.1%
Financials	19.3%
Consumer Staples	15.2%
Comm. Serv.	8.8%
Consumer...	6.9%
Information...	6.7%
Health Care	6.4%
Materials	3.3%
Cash	2.5%

Geographic allocation

France	21.9%
Switzerland	19.7%
Germany	13.3%
Sweden	6.8%
Finland	6.7%
Ireland	6.4%
Netherlands	6.4%
Austria	3.8%
Denmark	3.2%
Spain	3.2%
Other	6.1%
Cash	2.5%

PERFORMANCE

31/10/2019

Annualised % total return from launch (GBP)

Fund	8.7%
MSCI Europe ex UK Index	7.7%
IA Europe ex UK sector average	7.7%

Discrete years % total return (GBP)

	Oct '15	Oct '16	Oct '17	Oct '18	Oct '19
Fund	5.2	28.8	12.5	-3.1	12.1
MSCI Europe ex UK Index	5.0	18.5	18.7	-6.2	10.9
IA Europe ex UK sector average	8.5	19.0	18.7	-7.0	8.5

Cumulative % total return (GBP)

	1 month	Year-to-date	1 year	3 years	5 years	From launch
Fund	-1.0	19.5	12.1	22.2	65.7	62.7
MSCI Europe ex UK Index	-1.6	17.1	10.9	23.6	53.7	54.8
IA Europe ex UK sector average	-1.3	15.8	8.5	19.8	54.8	54.1

RISK ANALYSIS

31/10/2019

Annualised, weekly, from launch on 19.12.13, in GBP	Index	Sector	Fund
Alpha	0.00	0.82	1.72
Beta	1.00	0.88	0.89
Information ratio	0.00	-0.01	0.20
Maximum drawdown	-17.99	-14.98	-16.49
R squared	1.00	0.86	0.88
Sharpe ratio	0.31	0.32	0.40
Tracking error	0.00	5.05	4.68
Volatility	13.38	12.76	12.78

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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, 18 Smith Square, London SW1P 3HZ.

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

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