Guinness European Equity Income Fund

INVESTMENT COMMENTARY – December 2019

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

Aim

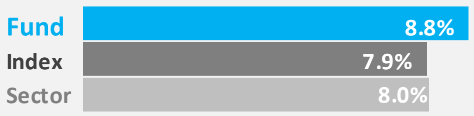
The Guinness European Equity Income Fund is designed to provide investors with exposure to high quality dividend-paying companies in the Europe ex UK region. The Fund aims to provide long-term capital appreciation and a source of income that has the potential to grow over time.

Performance 30.11.2019

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

	1 year	3 years	From launch
Fund	14.5	31.5	65.5
Index	13.1	32.5	57.0
Sector	12.1	29.3	57.7

Annualised % total return from launch (GBP)



Risk analysis (annualised, weekly, from launch)

	Index	Sector	Fund
Alpha	0.0	1.0	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	13.3	12.7	12.7
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 November, the Guinness European Equity Income Fund produced a total return of +1.72% (in GBP) versus the Index return of 1.46% (in GBP). The fund therefore outperformed the index by +0.26% 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.

The largest positive contributors to performance over the month of November (in EUR) in were **Siemens AG** +13%, **Smurfit Kappa** +8%, **Amundi** +7%, **Kering** +7% and **Aalberts Industries** +7%.

At the other end of the spectrum the biggest detractors from performance were **Andritz** -12%, **Euronext** -5%, **Helvetia Holding** -2%, **Nestle** -1% and **Continental** -1%.

	1 month	YTD	1 Yr	3 Yr	5 Yr	Since Launch
Fund	1.7%	21.6%	14.5%	31.5%	60.3%	65.5%
Index	1.5%	18.8%	13.1%	32.5%	47.4%	57.0%
Sector	2.3%	18.5%	12.1%	29.3%	50.8%	57.7%
Fund performance vs Sector	-0.6%	3.1%	2.4%	2.2%	9.6%	7.9%

Figure 1 source: Financial Express 0.35% OCF. Cumulative Total Return in GBP as of 30.11.2019

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.

November was a positive month for European markets and the fund, driven by a softening of concerns around global trade and Brexit feeding through into improved sentiment towards more economically sensitive parts of the market. We were pleased to see our new fund holdings Smurfit Kappa and Aalberts Industries get off to a good start, albeit in a marathon and not a sprint. The European consolidation theme remained alive and well with the Swiss exchange SIX bidding for the Spanish Exchange BME, which led to some short-term concerns over **Euronext** being drawn into a bidding war. Whatever the outcome, we think Euronext remains well placed given its leading market positions accompanied by favourable regulatory tailwinds pushing business on exchange and pulling debt issuance away from banks.

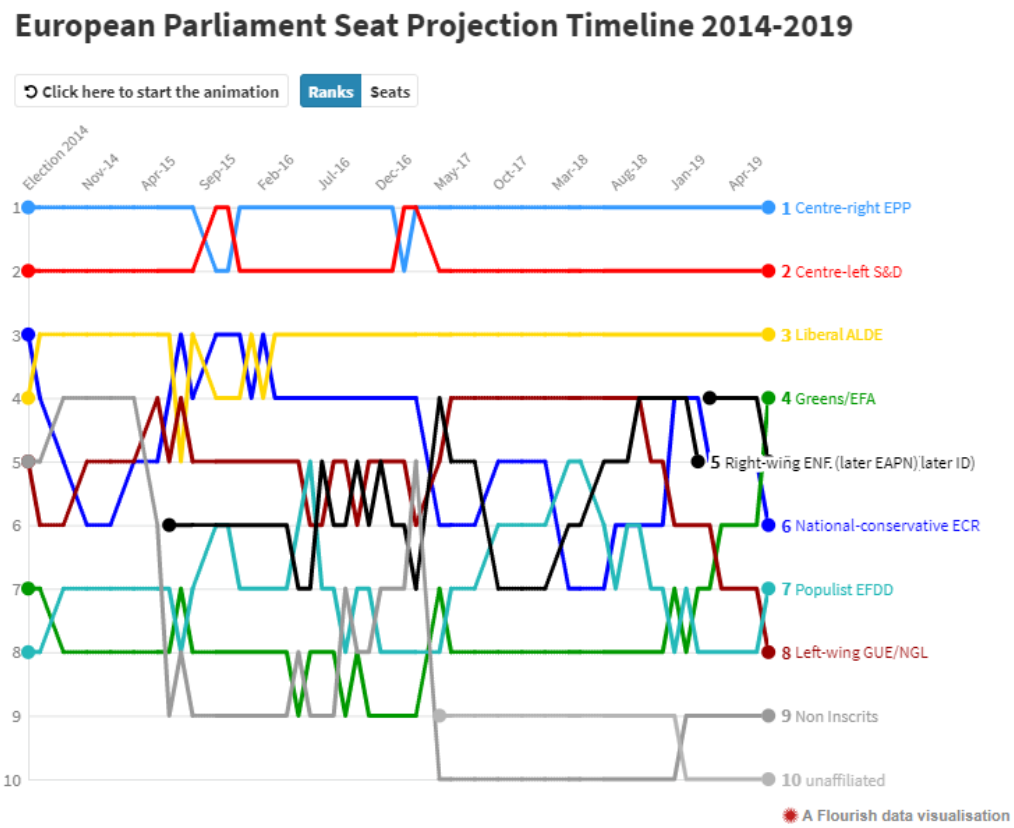
As we draw towards the close of the year, we believe the Guinness European Equity Income Fund is well positioned in terms of the quality of its holdings, valuation upside and the positive long-term structural tailwinds to which they are exposed.

Outlook 2020 and Beyond

The Guinness European Equity Income Fund invests bottom-up in dividend-paying companies with track records of persistent high cash returns and strong balance sheets. That our companies have sustained strong returns over long time frames speaks to identifiable barriers to entry and leading market positions. Whether the macroeconomic tide is coming in or going out should be of limited consequence to continued high returns over the longer term. In the short term, however, periods of economic weakness can represent good capital allocation opportunities for strong companies, albeit to differing degrees. If the ultimate driver of persistent high returns is a network effect, resulting in a 'winner takes all' outcome, then the point in the cycle probably isn't very important vis-à-vis investment. If, on the other hand, the company in question is Atlas Copco, the dominant supplier of air compression solutions to global industrial customers, where barriers to entry encompass switching costs and local economies of scale, the cycle may be of greater consequence.

With some 30% of the Guinness European Equity Income Fund invested in high-quality European industrials like Atlas Copco, the fund does have some sensitivity to overall levels of industrial activity. However, the ultimate drivers of long-term activity appear somewhat less cyclical and rather more structural in nature than is perhaps perceived by the market. Valuations of many high-quality European industrials (characterised by large installed bases and attractive higher-margin service revenue) remain low within the context of the European market, having been weighed down by negative sentiment associated with weak German manufacturing data and the US-China trade war and Brexit. Looking ahead to 2020 and beyond, we can't say for certain how these political and cyclical factors will develop. What we can say is that there are several long-term structural drivers which should benefit our high-quality industrial holdings into the longer term, no matter what happens to shorter-term macroeconomic data.

- **The rise of the greens looks set to continue.** Pro-European green parties took 10% of the vote in the May European elections. In Germany they came second with 20% of the vote and subsequent polls have put them ahead of Merkel's CDU party with some 27% of the vote, leaving the Greens in the position of political kingmaker in both the European parliament (after the two biggest parties lost their majority) and in Germany. At the end of 2018, Europe accounted for approximately half of £30.7 trillion of global sustainable investment assets according to the Sustainable Investment Alliance. Meanwhile, a new generation of politicians that have recently made their way to the top of the EU appear fully on board. The new president of the European Council Charles Michel (former prime minister of Belgium) has already called for the EU to use agreements with other countries to promote priorities such as climate change, while the new president of the ECB Christine Lagarde has suggested shifting the composition of the ECB's balance sheet towards low-carbon assets. In the meantime, global emissions and related environmental concern continue to rise. The great majority of industrial companies held in the Guinness European Equity Income Fund make or supply clean technologies and services that address the twin issues of resource efficiency and climate change, leaving them well placed to benefit from this long-term green structural tailwind.

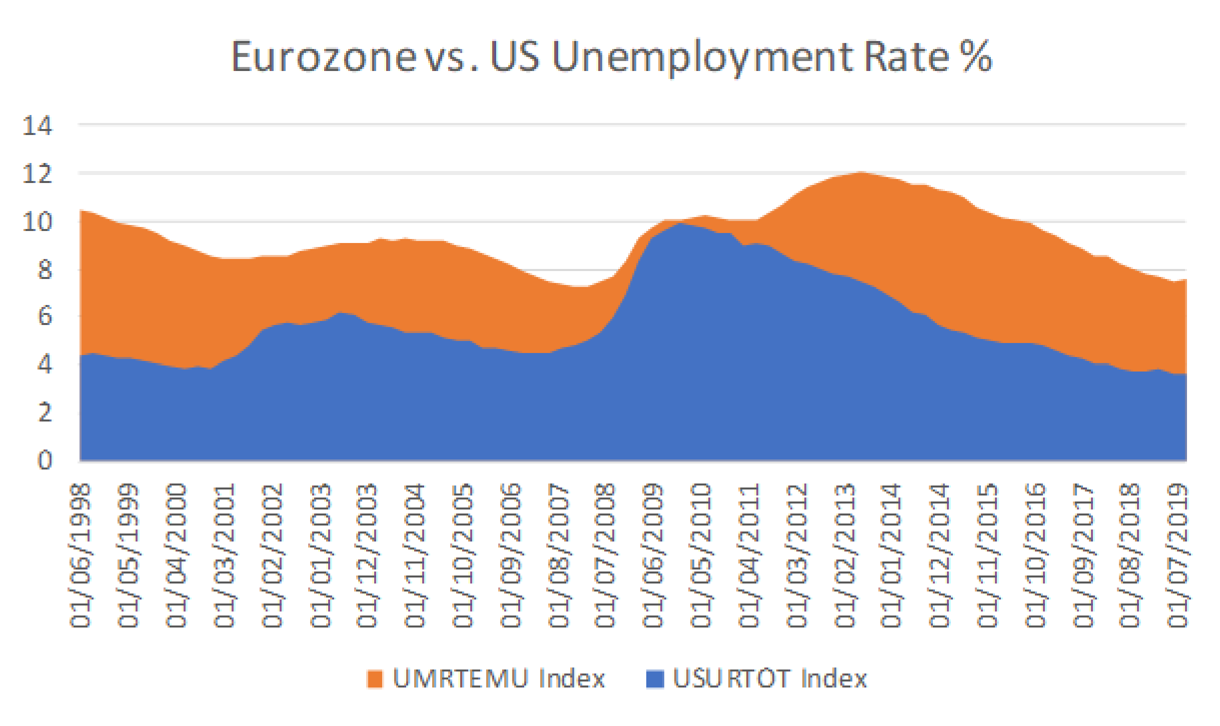


Source: https://europeelects.eu/ep2024/

- **Fiscal stimulus looks set to pick up** as QE has run its course and the side effects of negative rates, from unaffordable housing to reduced pension pay-outs and poorly capitalised banks, become increasingly apparent. Progress on this topic will develop slowly (due to the German debt break and inherent conservatism of Northern European countries) but is somewhat reflexive in nature – likely to accelerate if the economy deteriorates further and to engender a herd mentality whereby if one country taps debt markets others may follow quickly for fear of missing out on the lowest financing rates. In fact, two packages have already been announced: in Germany, a four-year €54bn climate package funded via a carbon price and higher taxes on more polluting transport and buildings; and in the Netherlands the government is due to update on the specifics of a €40bn infrastructure package to lock in low rates early in 2020. That the target of such expenditure looks likely to be sustainable in nature seems entirely logical, being both popular with domestic electorates keen to see spending on domestic assets and a real source of European technological competitive advantage and exports. Within Europe the runway for suppliers of related technology and services is significant, with (for example) 97% of European building stock in need of refurbishment to meet new higher energy efficiency standards (following the Paris Agreement). Amongst our European industrial holdings Aalberts Industries and Schneider Electric look particularly well placed in this respect.

- **European consolidation is likely to gather pace** at both the political level and at the company level. Brexit represents at once a risk for the EU and a real stimulus to work in a more unified manner and put in place the necessary measures to be in control of its destiny. The first weeks of November have been characterised by multiple proposals from EU leaders for banking union, capital markets union and a more 'muscular' and 'coordinated' approach to defence. Talk of the need for European global champions in the face of rising US and Chinese competition has also made a comeback with French Prime Minister Edouard Philippe reiterating his call to EU commissioner and antitrust chief Margrethe Vestager to evolve her 'static' position around competition towards a more 'dynamic' one that would take into account global competition. Europe is a far more fragmented market than the US, characterised by lower returns, largely due to historic high levels of national protectionism. This is something that France's new EU commissioner and industrial chief Thierry Breton (ex Atos and Orange) understands only too well and is keen to address. Nearly all companies held in the Guinness European Equity Income Fund are incumbents or market leaders that dominate a niche. Such companies stand to benefit from sector consolidation, which results in higher market shares and returns.

- **Inflation should remain low by historic standards** even if growth does become less scarce and government bond yields revert higher as stimulus feeds into the economy and trade worries abate. In Europe there is more labour slack than in the US (7.6% vs. 3.6% unemployment) which means the linkage between wage growth and inflation looks set to remain weak. Inflation expectations are very low (as judged by 10Y government bond yields and breakeven rates) which suggests that companies in general will only expect negligible price hikes from competitors. Further, overall corporate profit margins are close to historic highs which means that companies have plenty of room to absorb price rises before risking market share losses by raising prices. Added to which competition is fierce in Europe, notably across the manufacturing sector, which is exposed to global competition through Europe's large export markets. This means that price rises for all but companies with the widest moats (like many of the persistent high return profiles in our universe) are liable to result in market share losses. Overall this represents a broadly benign outlook for European equity valuations.



Source: World Bank data

In short, we find plenty of long-term currents under the surface which run counter to common perceptions of Europe as a low-growth and politically immature region. Companies with high barriers to entry, leading market positions and strong balance sheets, like those in the Guinness European Equity Income Fund, look well placed to benefit from this backdrop. We look forward to 2020 and beyond, irrespective of what the economic tide washes up.

We thank you for your continued support.

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.

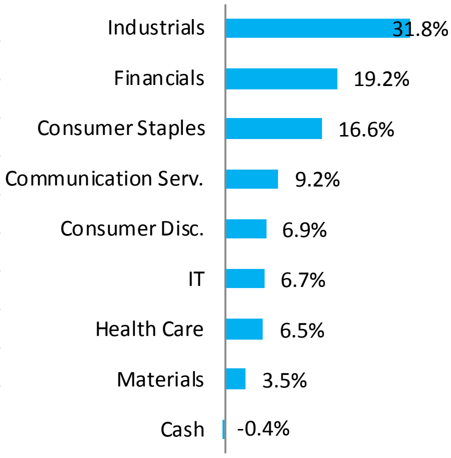
PORTFOLIO

30/11/2019

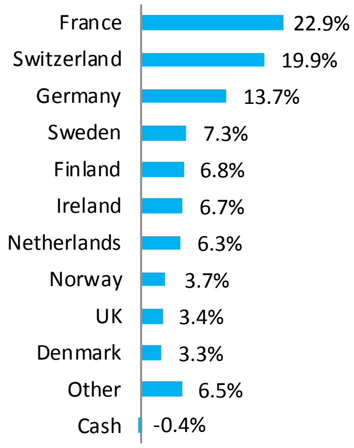
Fund top 10 holdings

Siemens	3.8%
Atlas Copco	3.8%
Kering SA	3.8%
Salmar	3.7%
ABB	3.6%
Deutsche Post	3.5%
Smurfit Kappa Group	3.4%
Millicom International Ce	3.4%
Aalberts	3.4%
Schneider Electric	3.4%
% of Fund in top 10	35.9%
Total number of stocks	30

Sector analysis



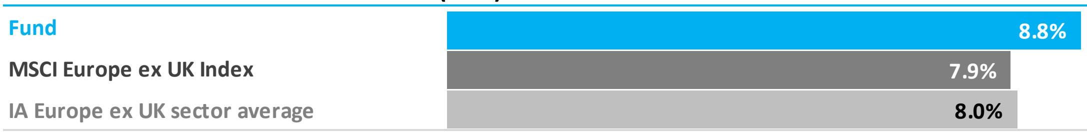
Geographic allocation



PERFORMANCE

30/11/2019

Annualised % total return from launch (GBP)



Discrete years % total return (GBP)	Nov '15	Nov '16	Nov '17	Nov '18	Nov '19
Fund	0.2	21.6	18.0	-2.6	14.5
MSCI Europe ex UK Index	0.1	11.1	23.5	-5.1	13.1
IA Europe ex UK sector average	4.9	11.1	23.7	-6.8	12.1

Cumulative % total return (GBP)	1 month	Year-to-date	1 year	3 years	5 years	From launch
Fund	1.7	21.6	14.5	31.5	60.3	65.5
MSCI Europe ex UK Index	1.5	18.8	13.1	32.5	47.4	57.0
IA Europe ex UK sector average	2.3	18.5	12.1	29.3	50.8	57.7

RISK ANALYSIS

30/11/2019

Annualised, weekly, from launch on 19.12.13, in GBP	Index	Sector	Fund
Alpha	0.00	0.99	1.86
Beta	1.00	0.88	0.90
Information ratio	0.00	0.02	0.23
Maximum drawdown	-17.99	-14.98	-16.49
R squared	1.00	0.86	0.88
Sharpe ratio	0.32	0.34	0.42
Tracking error	0.00	5.03	4.69
Volatility	13.29	12.69	12.73

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, bid to bid, total return (0.35% 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, 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'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.