Guinness European Equity Income Fund

INVESTMENT COMMENTARY – February 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.

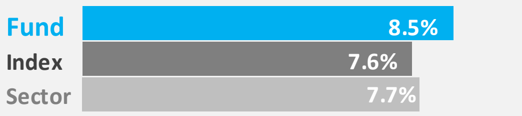
Performance

31.01.2020

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

	1 year	3 years	From launch
Fund	18.6	21.7	64.6
Index	14.6	22.6	56.1
Sector	14.0	20.1	57.4

Annualised % total return from launch (GBP)



Risk analysis (annualised, weekly, from launch)

	Index	Sector	Fund
Alpha	0.0	1.0	1.8
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 January, the Guinness European Equity Income Fund produced a total return of- 2.6%, or -1.0% versus the MSCI Europe ex UK Index return of -1.6% (in GBP). 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 January (in EUR) were **Euronext** +8%, **Novo Nordisk** +7%, **TietoEVRY** +6%, **Roche** +5% and **Deutsche Boerse** +5%.

At the other end of the spectrum the biggest detractors from performance were **C&C Group** -11%, **Continental** -11%, **Metropole Television** -10%, **Atlas Copco** -10% and **Smurfit Kappa** -9%.

	1 month	1 Yr	3 Yr	5 Yr	Since Launch
Fund	-2.6%	18.6%	21.7%	58.3%	64.6%
Index	-1.6%	14.6%	22.6%	47.4%	56.1%
Sector	-1.7%	14.0%	20.1%	48.7%	57.4%
Fund performance vs Sector	-1.0%	4.5%	1.7%	9.6%	7.2%

Figure 1 source: Financial Express 0.35% OCF. Cumulative Total Return in GBP as of 31.01.2020

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.

Backdrop

Nascent signs of recovery in European economic data following the Trump trade deal with China were put into question in January by the spread of Coronavirus from its epicentre in Wuhan, Hubei Province, China. So far, mortality rates of around 2.7% resulting from this desperately sad event bear a closer resemblance to a virulent flu than recent comparisons such as the SARS virus, which suffered mortality rates of closer to 10%. Our Asia team believes that the actual number of cases in Wuhan itself may be under-reported as local officials look to protect themselves from culpability, suggesting that overall infection rates could be higher (and mortality rates lower if correctly reported) than official numbers suggest (20,704 in mainland China at time of writing, with over half originating in Hubei province). While it is impossible to be sure we note a slight improvement in recent recovery rates, suggesting that the outbreak may have peaked. [Live data is available from John Hopkins University.]

If concern around the outbreak is indeed close to a peak, those stunted shoots of recovery should find form again. Certainly, the policy response has been swift, with Chinese central government cutting the reserve requirement ratio along with tariffs on US imports. If the virus did take hold in Europe, the scope for monetary response is of course far less, a factor that would inevitably add to existing pressure for increased fiscal measures across conservatively financed, largely northern European countries. Fund absolute exposure to travel and tourism is very low, with just Kering having some direct exposure through sales of luxury goods, some of which are through duty-free outlets impacted by restrictions on air travel (particularly in China and Asia). If it is a one-quarter event, the market should be able to look through that.

Signs of economic life in European data in January were most apparent in a notable bounce in Belgium Business Confidence and the largest increase in the German ZEW indicator for some time (a measure of analyst expectations). PMIs also ticked higher, following the pickup in M1 money supply we saw following ECB intervention last year and a reduction in US China trade tensions. As ever, politics in Europe played a role, led by Macron and Trump coming to at least temporary agreement over France's 'tech tax', affirming our view that Trump remains set to take a more market-friendly stance in the run-up to the US election. Another very notable development on the political front was the alliance formed in Austria, making it the fifth European country to include a green party in Government. Germany looks likely to be next. At the EU level, the makeup of the European Parliament leaves its 67 Green MEPs positioned as kingmakers, with Ursula von der Leyen having little by way of majority without them. The increasing propensity of Frans Timmermans (Executive Vice President and responsible for the European Green Deal) to speak up is no coincidence, and January saw him reiterate the European Comimssion's determination to protect European industry from imports from China and other Paris Agreement non-compliant countries via a carbon border adjustment. Germany made further progress with its 'green' fiscal stimulus with an announcement of €86bn of funding for new rail infrastructure via Deutsche Bahn. Meanwhile we also noted discussion around the potential for the ECB to follow the US in creating a more liquid market in longer-term debt, thereby enabling long-term refinancing at current low interest rates, with obvious positive implications for fiscal policy. The potential for all this to feed into our large holding in Industrials remains live.

Q4 Results

On the results front, Q4 earnings from our portfolio companies got off to a fair start. At **Unilever** we saw evidence that management is ready to take necessary action as it announced a strategic review of its tea business. There were also signs that an increasing focus on innovation is having a positive portfolio impact amid market share gains across dressings, US ice cream and haircare. Over at **Atlas Copco**, despite some softness in certain end markets such as auto, set against a decent rerating in the multiple since purchase, leading to a drop in the share price on results, we were pleased to see market share gains across nearly every division, driven in large part by new industry-leading energy-efficient technology such as oil-free compressors. At **Roche** the recent genetics-focused joint venture with Illumina in the area of in vitro diagnostics (in which Roche is the global market leader) supports our thesis that the company is well positioned for a world where medical data looks set to become increasingly personalised and digital. **ABB'**s restructuring continues to gather steam towards a more agile and decentralised structure akin to Atlas Copco. Meanwhile, management's confirmation that it will return to shareholders the entire €7.7bn proceeds of the Grids sale to Hitachi (c.15% of ABB's market capitalisation) was a welcome affirmation of an increased focus on capital allocation and shareholders. We await ABB's Robotics investor day on the 27th February as the next catalyst with interest. At **Novo Nordisk**, growth rates in key GLP1 franchise surprised to the upside, giving us improved confidence in the potential for ongoing top-line growth.

Siemens received a broadside from Blackrock for its role in supplying power equipment to a coal mining operation in Australia. We sense some opportunism on the part of Blackrock given Siemens' otherwise strong focus on clean energy and resource efficiency, and perhaps a little irony given Blackrock's ETF business. For our part, we see good potential for uplift in equity valuation as Power & Gas is partially spun out later this year, leaving us with increased levels of exposure to the remaining higher-return divisions Smart Infrastructure, Digital Industries and Mobility. Conglomerate simplification represents a meaningful opportunity across European industry in our view and something to which your portfolio looks set to maintain exposure to for some time to come.

At **Publicis**, our bugbear of 2019, we think that significant and sector-leading new client win rates, including leaders such as Disney, Nivea, LVMH and BT, speak to the added edge which the Epsilon acquisition has bought the group in its mission to offer personalisation at scale. The market remains to be convinced, but we stick by our holding for now despite the ongoing attrition to traditional advertising segments because of the significant upside to multiples if more evidence for the turnaround comes through. The 8.5% increase in the dividend was also welcome news, even if diluted by scrip.

We wrote about **Smurfit Kappa** in our October commentary, so we add merely that we were pleased to see ongoing evidence of increased pricing power alongside new project developments that should buoy top line growth. Another of our mid-cap holdings, **Konecranes**, reported both good levels of service margin expansion, alongside positive supply side developments as a competitor stepped away from the terminal business. Konecranes was one of the more frustrating positions of 2019, when its former parent Kone Oyj (elevators) continued to rerate to price/book multiples some 4x Konecranes for not too dissimilar economics, while our holding languished amid trade concerns. The potential for turnaround here remains strong.

We will provide some further colour on Q4/FY numbers relating to meaningful long-term drivers of our portfolio holdings in our next monthly update. In the meantime, we would highlight that in aggregate our portfolio of quality, value, dividend-paying companies continues to offer attractive returns at lower levels of risk than the index and competing products.

		Guinness European Income Fund	MSCI Europe ex UK Index
Quality	Average 8 year CFROI %	16.0	10.5
	Debt / equity %	77.0	187.0
	Net debt / Equity %	51.3	68.4
	ROE %	22.4	11.0
	R&D to Sales	3.5	0.5
Value	PE (2020e)	14.9	15.0
	FCF Yield %	6.5	5.0
Dividend	Dividend Yield (LTM) % *	3.2	3.2
	Weighted average payout ratio %	54.0	60.0
Conviction	Number of stocks	30	344
	Active share	85	NA

* GEEIF net, MSCI Europe ex UK gross

We thank you for your continued support.

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

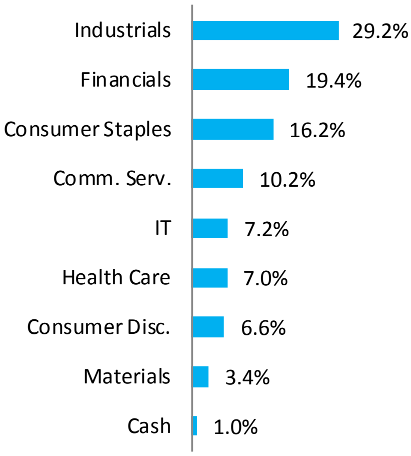
PORTFOLIO

31/01/2020

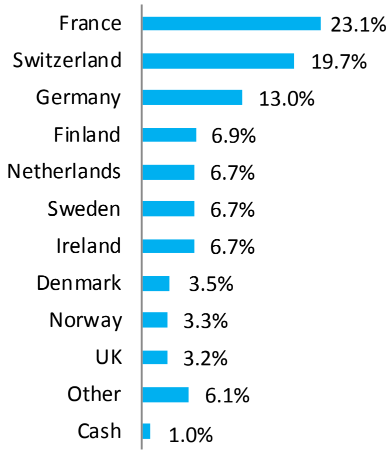
Fund top 10 holdings

Tieto	3.7%
Millicom International Ce	3.5%
Novo Nordisk	3.5%
Amundi	3.5%
Schneider Electric	3.5%
Inficon Holding	3.5%
Aalberts	3.5%
Roche Holding	3.4%
Smurfit Kappa Group	3.3%
C&C Group	3.3%
% of Fund in top 10	34.7%
Total number of stocks	30

Sector analysis



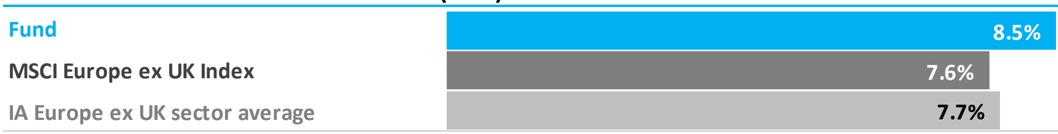
Geographic allocation



PERFORMANCE

31/01/2020

Annualised % total return from launch (GBP)



Discrete years % total return (GBP)	Jan '16	Jan '17	Jan '18	Jan '19	Jan '20
Fund	-2.0	32.6	9.8	-6.5	18.6
MSCI Europe ex UK Index	-2.5	23.2	16.5	-8.2	14.6
IA Europe ex UK sector average	0.0	23.7	17.4	-10.3	14.0

Cumulative % total return (GBP)	1 month	Year-to-date	1 year	3 years	5 years	From launch
Fund	-2.6	-2.6	18.6	21.7	58.3	64.6
MSCI Europe ex UK Index	-1.6	-1.6	14.6	22.6	47.4	56.1
IA Europe ex UK sector average	-1.7	-1.7	14.0	20.1	48.7	57.4

RISK ANALYSIS

31/01/2020

Annualised, weekly, from launch on 19.12.13, in GBP	Index	Sector	Fund
Alpha	0.00	1.02	1.79
Beta	1.00	0.88	0.90
Information ratio	0.00	0.03	0.22
Maximum drawdown	-17.99	-14.98	-16.49
R squared	1.00	0.86	0.88
Sharpe ratio	0.29	0.32	0.39
Tracking error	0.00	4.99	4.65
Volatility	13.28	12.67	12.72

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.