Guinness European Equity Income Fund

INVESTMENT COMMENTARY – March 2020

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

Aim

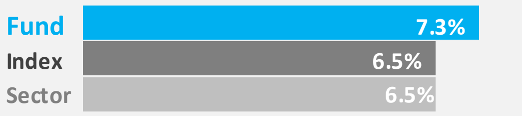
The Guinness European Equity Income Fund is designed to provide investors with exposure to high quality dividend-paying companies in the Europe ex UK region. The Fund aims to provide long-term capital appreciation and a source of income that has the potential to grow over time.

Performance 29.02.2020

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

	1 year	3 years	From launch
Fund	9.1	11.0	54.7
Index	6.1	13.7	47.7
Sector	5.1	12.2	47.8

Annualised % total return from launch (GBP)



Risk analysis (annualised, weekly, from launch)

	Index	Sector	Fund
Alpha	0.0	0.7	1.5
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	13.9	13.3	13.3
Sharpe ratio	0.2	0.2	0.3

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 February, the Guinness European Equity Income Fund produced a total return of -6.04% (in GBP) versus the Index return of -5.42% (in GBP), meaning the fund underperformed its benchmark by 0.62% in the month of February. 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 (and their returns in EUR) over the month of February were **Schneider Electric** (0%), **Atlas Copco** (-0.6%), **Continental** (-1.3%), **Konecranes Oyj** (-2.5%) and **Millicom** (-3%).

At the other end of the spectrum the biggest detractors from performance were **Aalberts** (-14.6%), **Deutsche Post** (-14.1%), **Siemens** (-13.5%), **TietoEvry** (-13%) and **Axa** (-13%).

	1 month	1 Yr	3 Yr	5 Yr	Since Launch
Fund	-6.0%	24.2%	9.1%	11.0%	45.1%
Index	-5.4%	20.0%	6.1%	13.7%	35.0%
Sector	-6.2%	20.3%	5.1%	12.2%	36.1%
Fund performance vs Sector	0.1%	3.8%	4.0%	-1.2%	9.1%

Figure 1 source: Financial Express 0.35% OCF. Cumulative Total Return in GBP as of 29.02.2020

Backdrop

Nascent signs of recovery in European economic data following the Trump trade deal with China were cast aside by the market in February as coronavirus cases spread to multiple countries outside China. Hitherto resilient equity markets turned tail and recorded their sharpest move lower since the financial crisis. Sector rotation over the month continued to be very defensive, with regulated sectors such as Utilities, Telecoms and Real Estate, where we have low exposure, the top performers (the former starting to look quite long in the tooth). Highly cyclical sectors such as Materials and Energy, to which we also have very low exposure, were among the biggest underperformers. Our underweight in Healthcare has worked to our disadvantage so far in 2020 given developments but retains logic both from a bottom-up point of view and also as we head into a US presidential election likely to be full of negative rhetoric around drug pricing.

Our large overweight in Industrials also did us no great favours as the market broadly pressed the sell button on anything remotely sensitive to industrial or consumer confidence. That said, it does seem likely that this setback will work to accelerate the (green) fiscal stimulus that had been gradually appearing on the horizon, as further monetary policy response seems unlikely with rates in Europe already well below the zero bound and QE both unpopular – and already in train. To this point, last week saw German finance minister Olaf Scholz announce plans to lift Germany's 'schwartz null' (or 'debt break') in order to increase government spending and help some 2500 cash-strapped local authorities. We also await European Commission president Ursula von der Leyen's Green Deal presentation on Wednesday 4th March with interest.

Whatever the outcome from the coronovirus global health scare (or any other narrative applied to a period of mean reversion), we continue to have a high level of confidence in our underlying positions and their long-term opportunity set. Companies with leading market positions that generate persistent high cash returns and have strong balance sheets hold the potential to take market shares, particularly during a downturn. Your fund remains well balanced between global and domestic facing exposures; and this crisis does hold the potential to continue the nascent shift towards local over global (note China's determination to get the workforce back to work). If that trend were to continue, supported by fiscal stimulus, high-quality domestic value and rate-sensitives should fare better.

Portfolio changes

Along those lines we made three changes in the month of February. We took profits in two of our global growth names, Atlas Copco and Inficon, which had both done about three years' work in one (up c.70% in 2019), and also sold Andritz where we had concerns about cash flow and balance sheet deterioration in spite of the low headline multiple. In turn we bought **Thales**, **Capgemini** and **Cerved**, thereby increasing our Financials exposure by 3.3%, reducing our Industrials exposure by the same amount and maintaining our IT sector exposure at neutral.

The sum of these changes increased the fund's discount vs. the market FY1 PE multiple to approximately -8% whilst also raising portfolio CFROI, reducing the pay-out ratio and increasing the FCF yield to around 6.6%.

Thales is the European market leader in aerospace and defence communications equipment and service, and the global no.1 in air traffic management (with 40% of world airspace controlled by its TopSky platform). Thales is the only global aerospace company with leadership positions in both onboard communications equipment and ground (radar and air traffic control systems). It is the lead supplier to the Airbus platform, which currently has an opportunity to take market share from Boeing. The recent 2017 acquisition of Gemalto also compliments Thales' expertise in electronics and software, pushing it towards a global leadership position in cyber security. Thales spent a high 6% of sales on R&D in 2019 vs. 5% in 2018 and 3% ten years ago, underlining the increasingly innovative nature of the business. We can be pretty sure that the French state, which owns 26% of shares, will look after itself, and hence also shareholders in the process. Meanwhile, rising Nato defence expenditure means that there should be a good runway for top line growth and orders as European countries move up towards 2% of GDP from under 1.5% a few years ago. For all of that, Thales shares are currently on offer for just 13x earnings, a 6.5% FCF yield and results last week saw the dividend rise 27% at a 40% payout ratio. In our view Thales is an aerospace and defence company that shareholders can feel safe owning for the long term.

Capgemini is the European market leader in IT and software services. Cash flow return on investment (CFROI) has been on an upward trend to around 15% over the last five years amid market share gains and increased demand to harness the potential of areas such as cloud, 5G and edge computing. Barriers to entry are high and characterised by switching costs; once embedded in a client Capgemini is indispensable, and recurring service revenues ongoing. The company is an enabler of business agility and productivity, notably in financial and infrastructure segments of the market. This means Capgemini would be a likely beneficiary of upcoming fiscal stimulus, European banking union or Brexit resolution. This is also a company where interests look well aligned with shareholder interests, with employees owning some 6.1% of shares outstanding, and the company mission statement is focused on addressing the 'digital divide'. The shares look good value here with a FCF Yield of c.9%, and a wide multiple discount to closest peer Accenture, which trades on 23x earnings with 15% EBIT margins vs. Capgemini on c.13x earnings and upside potential from current 12% EBIT margins. The IT services market looks set to grow at around 7% CAGR through 2023 (IDC). On top of this, Capgemini could benefit from the current increase in immigration security in the US which is causing skilled labor shortages and causing vendors to increase their focus on continental Europe. Meanwhile, the ongoing acquisition of Altran Technologies, assuming it is completed, should give Capgemini an additional driver for growth particularly in industrial IT services markets. Capgemini is a high-quality company trading at an attractive valuation that holds the potential to do well for its shareholders (and stakeholders) for the long term.

Cerved has a track record of over eight years for generating cash flow returns on investment of over 50% per annum and 3Y annualised dividend growth of around 10%. Cerved is the market leader in Italian credit information and ratings services (62% sales, 52% ebitda margin) with some 42% market share. It is also the no.2 in credit management (33% sales, 36% ebitda margin), where management are currently in discussions with Intrum regarding a sale of the division. This potentially leaves us as investors with more exposure to the highest-quality asset and the company with excess capital, therefore in turn increasing the potential for buybacks, bolt-on acquisitions and also inbound M&A (with companies like Deutsche Boerse and Euronext keen to grow their data businesses). The profile is quite defensive, being positively correlated to demand for Italian credit information. With the stock trading on just 13x for c.24% ROE and over 50% CFROI alongside a 4.1% dividend yield, we see good upside in this high-quality, under-the-radar

(€1.6bn mkt cap) investment. The path to growth may also be better than one might at first imagine, given the trend to falling bank balance sheet lending in favour of listed debt issuance driven by increased regulation of the banking sector – alongside nascent opportunities in the peer-to-peer lending market, enabled by Cerved's position at the centre of the credit information market.

We thank you for your continued support.

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

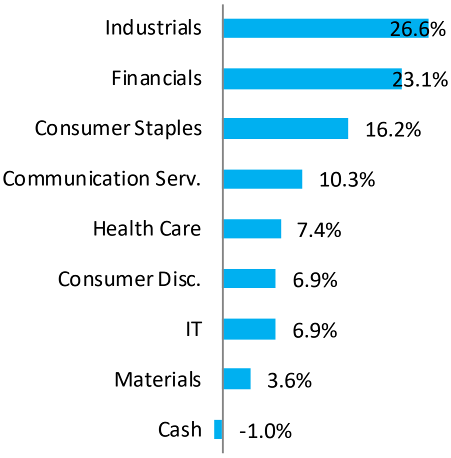
PORTFOLIO

29/02/2020

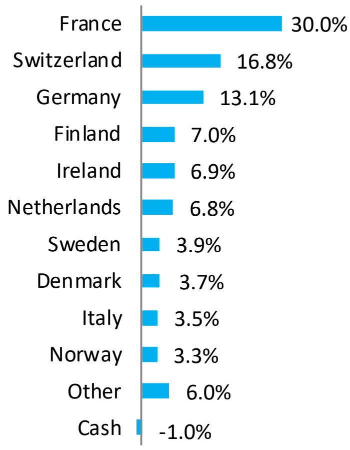
Fund top 10 holdings

Millicom International Ce	3.9%
Schneider Electric	3.7%
Novo Nordisk	3.7%
Roche Holding	3.6%
Continental	3.6%
Smurfit Kappa Group	3.6%
Tieto	3.6%
THALES SA	3.5%
Deutsche Boerse	3.5%
Euronext	3.5%
% of Fund in top 10	36.2%
Total number of stocks	30

Sector analysis



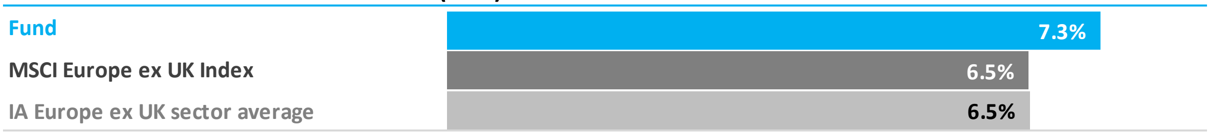
Geographic allocation



PERFORMANCE

29/02/2020

Annualised % total return from launch (GBP)



Discrete years % total return (GBP)	Feb '16	Feb '17	Feb '18	Feb '19	Feb '20
Fund	-4.6	37.1	5.9	-4.0	9.1
MSCI Europe ex UK Index	-6.0	26.2	11.2	-3.6	6.1
IA Europe ex UK sector average	-1.4	23.0	13.7	-6.1	5.1

Cumulative % total return (GBP)	1 month	Year-to-date	1 year	3 years	5 years	From launch
Fund	-6.0	24.2	9.1	11.0	45.1	54.7
MSCI Europe ex UK Index	-5.4	20.0	6.1	13.7	35.0	47.7
IA Europe ex UK sector average	-6.2	20.3	5.1	12.2	36.1	47.8

RISK ANALYSIS

29/02/2020

Annualised, weekly, from launch on 19.12.13, in GBP	Index	Sector	Fund
Alpha	0.00	0.73	1.53
Beta	1.00	0.89	0.90
Information ratio	0.00	0.01	0.20
Maximum drawdown	-17.99	-14.98	-16.49
R squared	1.00	0.87	0.89
Sharpe ratio	0.21	0.22	0.29
Tracking error	0.00	4.98	4.63
Volatility	13.86	13.25	13.28

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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
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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.