Guinness European Equity Income Fund

INVESTMENT COMMENTARY – April 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 31.03.2020

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

	1 year	3 years	From launch
Fund	-13.0	-9.5	28.4
Index	-8.3	-3.5	30.9
Sector	-9.4	-5.4	29.7

Annualised % total return from launch (GBP)

Fund	4.1%
Index	4.4%
Sector	4.2%

Risk analysis (annualised, weekly, from launch)

	Index	Sector	Fund
Alpha	0.0	0.5	0.2
Beta	1.0	0.9	0.9
Info ratio	0.0	0.0	0.0
Max drwdn	-25.0	-24.4	-30.3
Tracking err	0	6	5
Volatility	15.3	14.3	14.9
Sharpe ratio	0.0	0.0	0.0

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 Q1 2020 the Guinness European Equity Income Fund produced a total return of -24.03% (in GBP) versus the MSCI Europe ex UK Index return of -17.47% (in GBP). The fund therefore underperformed the index by -5.05% over the quarter.

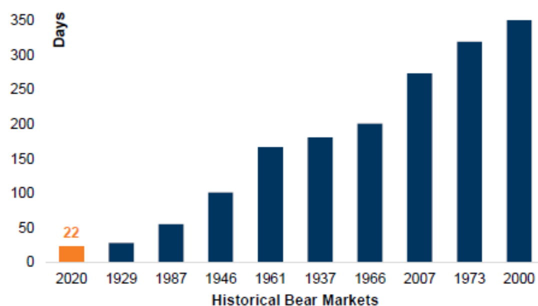
	1 month	YTD	1 Yr	3 Yr	5 Yr	Since Launch
Fund	-17.0%	-24.0%	-13.0%	-9.5%	17.7%	28.4%
Index	-11.4%	-17.5%	-8.3%	-3.5%	16.3%	30.9%
Sector	-12.2%	-19.0%	-9.4%	-5.4%	14.9%	29.7%
Fund vs Sector	-4.8%	-5.1%	-3.6%	-4.0%	2.8%	-1.3%

Source: Financial Express 0.35% OCF. Cumulative Total Return in GBP as of 31.03.2020

Quarter in review

The year 2020 looks set to join others such as 1929, 1987 and 2008 in the financial history books, but sadly with more acute human consequences. The Q1 sell-off was notable for its speed, being the fastest on record to reach the commonly accepted definition of a bear market; the S&P 500 lost 20% from its peak in just 22 days. There were few places to hide, and European markets were among the hardest hit due to Europe's large but fragmented banking system and sizeable export markets.

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.



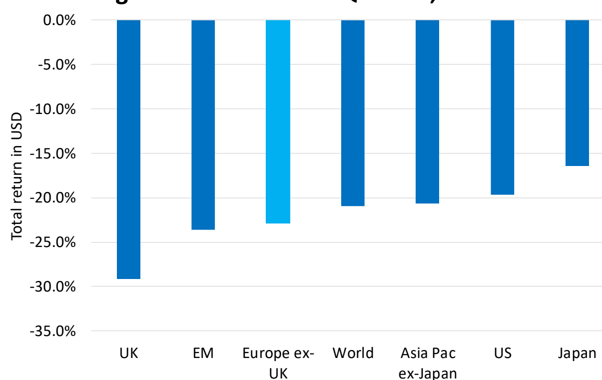
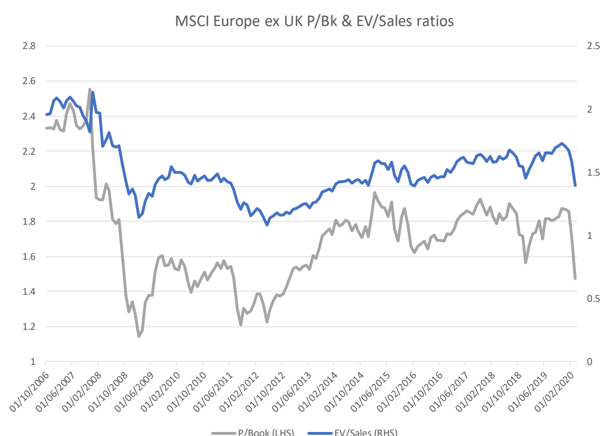


Chart 1: LHS Days from peak to -20%. Source: Bloomberg, GS Research. RHS MSCI regional performance Q1 2020. Source: Bloomberg

As the implications of the global spread of the virus set in, valuations dropped from the upper end of ten-year ranges to touch bottom quartiles. No one knows where earnings will settle for 2020, leaving only earnings multiples based on longer-term estimates relevant. However, metrics such as Price to Book and EV/Sales retain validity; with the former for MSCI Europe ex UK falling from c.1.9x book value to under 1.4x book value intra-month. As shown in the left-hand chart below, 1.2 – 1.4x book value (grey line, left hand scale) proved a key support level in both 2008 and the Euro crisis. The right-hand chart also holds a mirror to 2008 and the Eurocrisis with the CAC equity risk premium blowing out above 7% alongside contracting 2021 earnings multiples. Both these valuation measures would suggest that 2020 should prove a good year for long-term investors to increase allocations to quality value equity strategies. Within that time-frame, timing the bottom, assuming it hasn't already passed, is likely to prove difficult and allocations should probably be gradual.



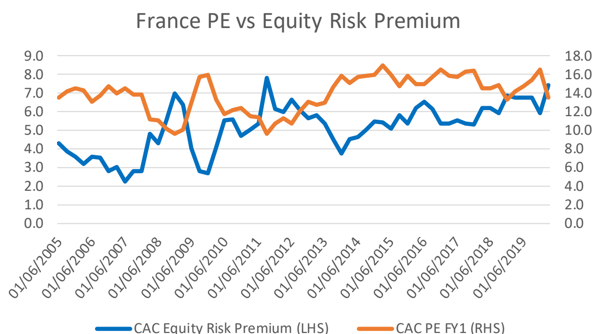


Chart 2: LHS MSCI Europe ex UK P/Book and EV/Sales multiples since 2006. RHS CAC40 Equity risk premium vs. FY1 PE since 2005. Source: Guinness Asset Management, Bloomberg data.

At the moment, the impact of this crisis appears deflationary as consumers and corporates seem likely to focus on resilience and sustainability over growth as they eventually emerge from lockdown. Meanwhile, at a government level, Europe needs to use all of its collective will to find a joint solution, and one that avoids individual government solvency being called into question by the market. Over and above the existing >€1trn QE programme, the obvious solution is for the ECB to engage in monetary financing of member states, thereby neutralising the deflationary impact. To date, the pyrrhic winners of this bear market have been growth stocks and bond proxies (as show below by the MSCI Europe value vs. growth

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.

chart) as interest rate and growth expectations have collapsed once more. Such a course of action could put a halt to the extreme historic stretch of value vs. growth. The Guinness European Equity Income Fund is prepared for such an eventuality, having a good balance between 'growth' and 'value' with its quality value income focus.

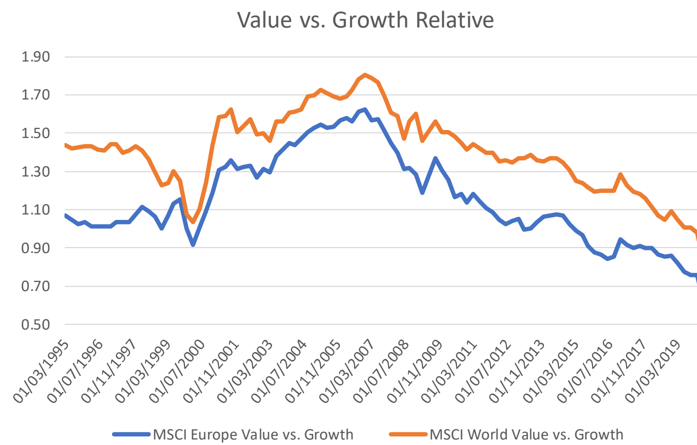


Chart 3: MSCI Europe ex UK Value vs. Growth (blue) and MSCI World Value vs. Growth (orange). Source: Guinness Asset Management, MSCI and Bloomberg data.

Positioning

The Guinness European Equity Income Fund was, in terms of sector allocation, sub-optimally positioned for this crisis, being heavily overweight Industrials and Financials alongside only a small overweight in Staples and a large underweight in Healthcare (ahead of a US election that looked set to be tough on drug pricing). The rationale for that positioning still holds to a great extent, with quite high fund exposure to high-quality 'green' industrials which are characterised by normally resilient recurring earnings streams, trade on favourable valuations, and seem likely to benefit from a sustainable policy response. Indeed, it is probable that recent events will accelerate the timetable for infrastructure spend, with Ursula von der Leyen's €1trn Green Deal part of the discussions to be included in fiscal recovery packages.

Our holdings in Financials include names such as Deutsche Boerse and Euronext, both of which benefit from rising equity and derivative volumes, and Amundi, a leading global asset manager focused on defensive credit and multi-asset, which have been relative outperformers in the recent drawdown. The market however didn't care much for this over the last month, washing our Industrials and Financials down with the rest of the pack (as shown below).

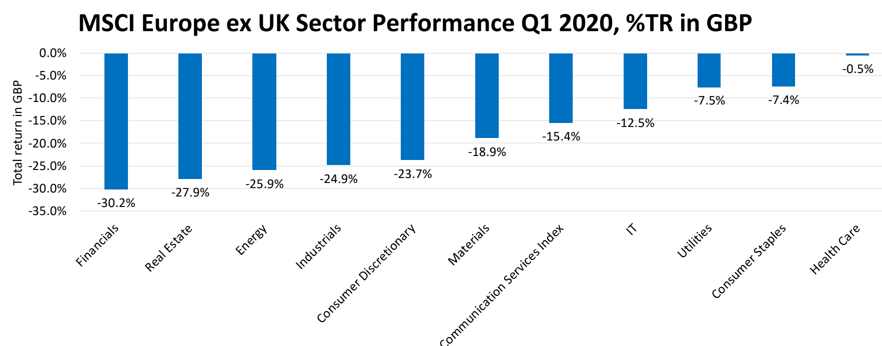


Chart 4: MSCI Europe ex UK Index sector total return breakdown for Q1 2020, in GBP. Source: Bloomberg

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.

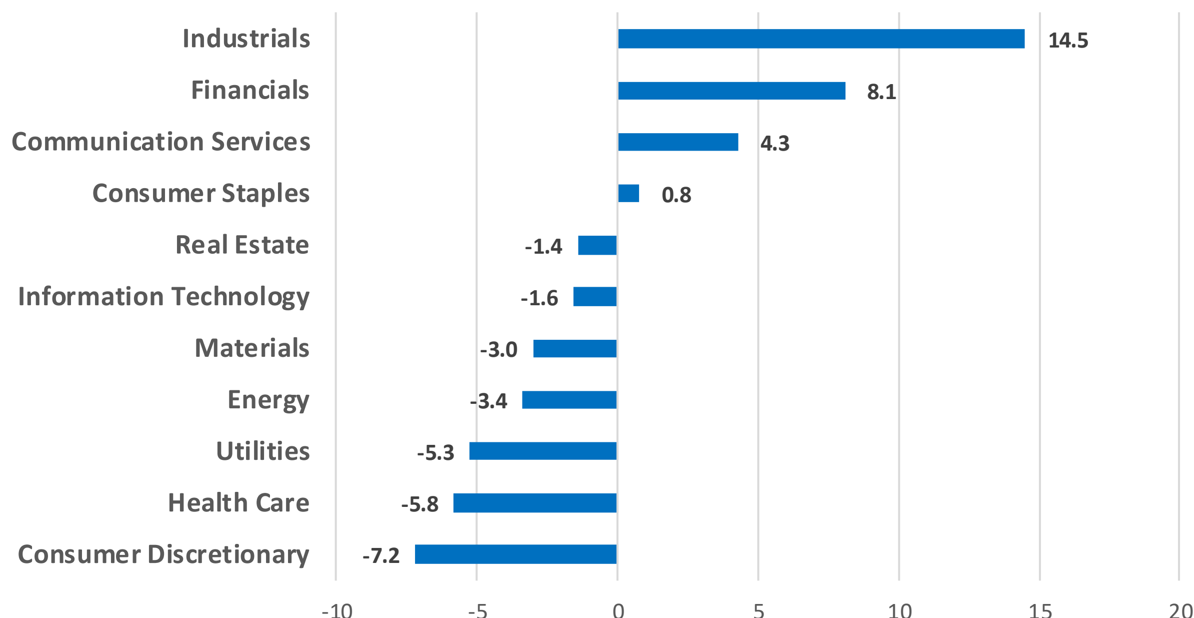


Chart 5: Guinness European Equity Income Fund sector Overweight and Underweight positions relative to MSCI Europe ex UK Index sectors, in USD. Source: Bloomberg

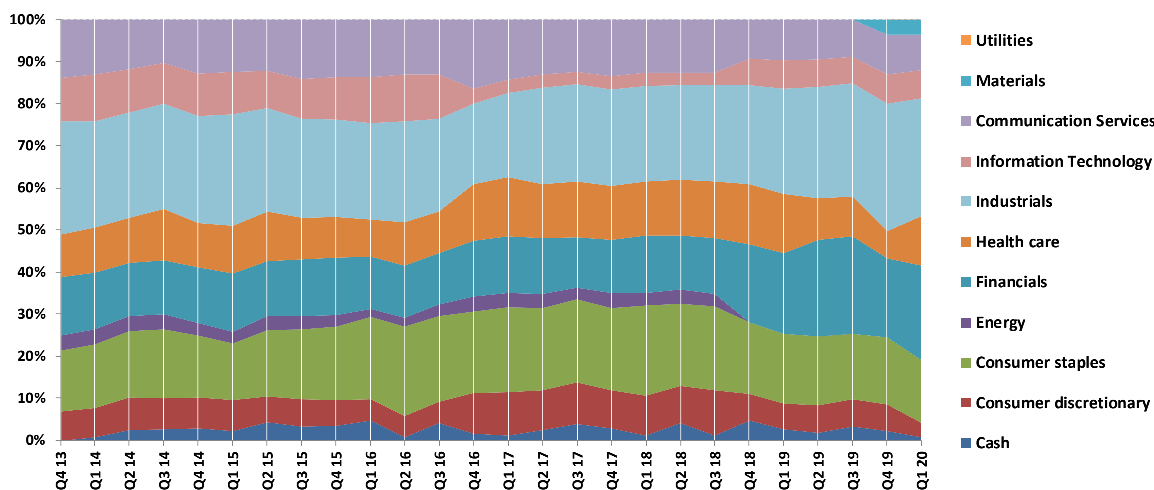


Chart 6: Guinness European Equity Income sector weightings since inception, in USD. Source: Bloomberg

Portfolio resilience

Several of the companies in the portfolio have been able to provide active solutions to the crisis, such as Roche with its Cobas diagnostics kits, each performing over 4000 coronovirus tests a day, and Schneider Electric, part of the French consortium to make ten thousand respirators a month. Naturally, we wish the fund had gone into this crisis in a stronger position to enable us to reallocate capital from outperformers to eventual beneficiaries of recovery, much as we did in Q4 2018. Nevertheless, companies with strong cash flow and balance sheet characteristics accompanied by widening moats, like those held in the Guinness European Equity Income Fund, all have the potential to take market share and come out of this downturn stronger. On looking at the bottom quartile of Q1 fund performers in the table below, we naturally consider the possible extent of permanent capital loss. We see broadly good upside potential to

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.

a recovery, when it comes, alongside the related opportunity to re-weight up some of the underperformers as appropriate.

Working up from the bottom of the table below, **C&C Group** (-54% at quarter end) last week issued a €140m low coupon bond, putting it in a stronger position from a liquidity perspective to see out the shutdown without risk of dilution. **Aalberts** (-45%) has a strong balance sheet and many of its manufacturing operations have special dispensation to remain open, making critical parts including medical oxygen pressure regulators and valves. **Konecranes** (-43%), the sole provider of global industrial crane servicing, last week won its largest ever order of 39 reach stackers in Germany and with its automation-focused product set looks well placed to provide long-term solutions to the crisis. **Millicom** (-40%) is the Swedish-listed central American market leader in cable (akin to Virgin Media), characterised by good contract revenue visibility, and with half the debt of its closest peer Liberty Latin America. Equally, **Metropole Television** (-39%), while advertising rates are down, should be a relative media beneficiary of stay-at-home French television, and having cut its dividend alongside having just 25% debt to equity has the liquidity to consolidate its position. **Cerved** (acquired halfway through the quarter) is the market leader in Italian credit data services, where demand is currently on the rise; and is supported by a scalable and capital-light business model. Meanwhile, for the insurers **Axa, Mapfre and Helvetia** (c.-36%) which all have strong solvency ratios, one can certainly say that low auto casualty rates resulting from stay-at-home regulations are likely to prove a positive offset to a weak environment, alongside the fact that central banks and governments are backstopping credit.

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

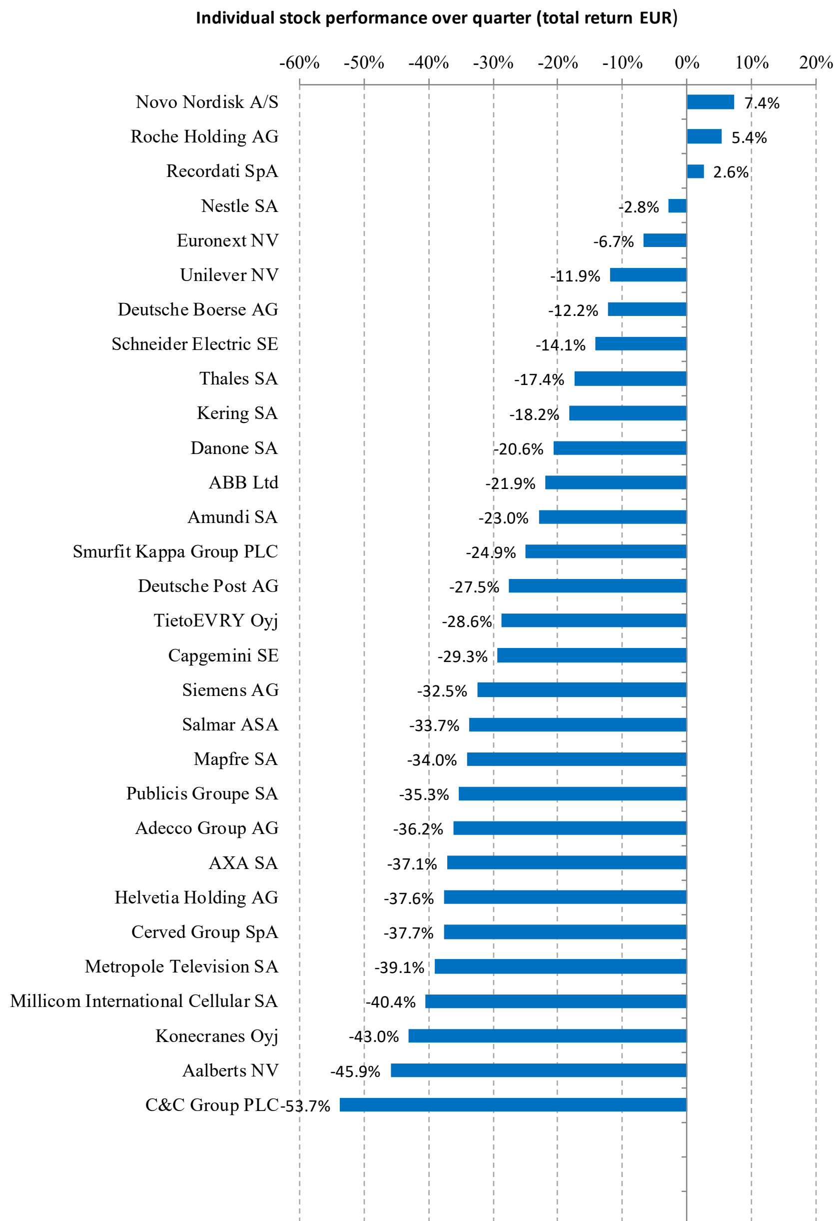


Chart 7: Guinness European Equity Income Fund holdings performance over Q1 2020. Source: Bloomberg data as at 31.03.2020, in EUR.

Dividends

Events so far suggest that our dividend growth rate may indeed take a knock in 2020. As things stand, we have five companies in the portfolio that have cut their dividend for the year. Thales and Amundi are prohibited from doing so due to government holdings of stock and part ownership by Credit Agricole respectively (although Amundi has said it will review the decision in H2 2020). M6 Metropole Television has cut its dividend despite its strong balance sheet but has said it will review the decision in the second half in case restrictions ease quickly. Both Salmar and Cerved have cut from positions of relative strength, citing capital allocation opportunities, with Cerved requesting a 10% buyback facility. We also have to accept Adecco and Axa could cut since the former has taken government part-time working subsidy and for the latter the French insurance regulator has recommended that insurers should withhold dividends, though Axa is fighting back. These moves alone could leave us in the order of 25% light for the full year

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.

(incorporating little benefit for other dividends that have grown year over year), assuming another three (Kering, TietoEvry and KoneCranes) which have been unable to hold AGMs do pay. It is a moving target and we will keep you updated.

We also promise not to let the (dividend) tail wag the dog, and remain 100% focused on balance sheet safety, quality and value. Where we can move up the quality curve (buying a higher-quality business that wasn't previously available at an attractive price) and pick up a dividend where we have lost one we will. However, we will not move around the market simply in order to grow the dividend. What is paramount is that the fund holds our best quality-value ideas on a 3 – 5 year total return basis at any time.

Looking back at how this same portfolio would have behaved in 2008 – 2009, the dividend fell by -2% in 2008, and rebounded by 22% in 2010. Over the 2007 – 2010 timeframe the dividend rose 18%. We also have no exposure to the most affected industries, including airlines, banks, Energy, travel or restaurants (outside of C&C Group's exposure to the on-trade).

Taking that analysis a step further, we think it is also worth highlighting the portfolio's excellent MSCI ESG scores, with a full 70% of the portfolio scoring AA – AAA vs. 27% for the Index, and 90% of the portfolio A-rated vs. 47% for the Index. Companies with strong sustainability scores naturally tend to have better risk-adjusted runways; and these numbers underscore the Guinness European Equity Income Fund's good potential for eventual recovery when it comes.

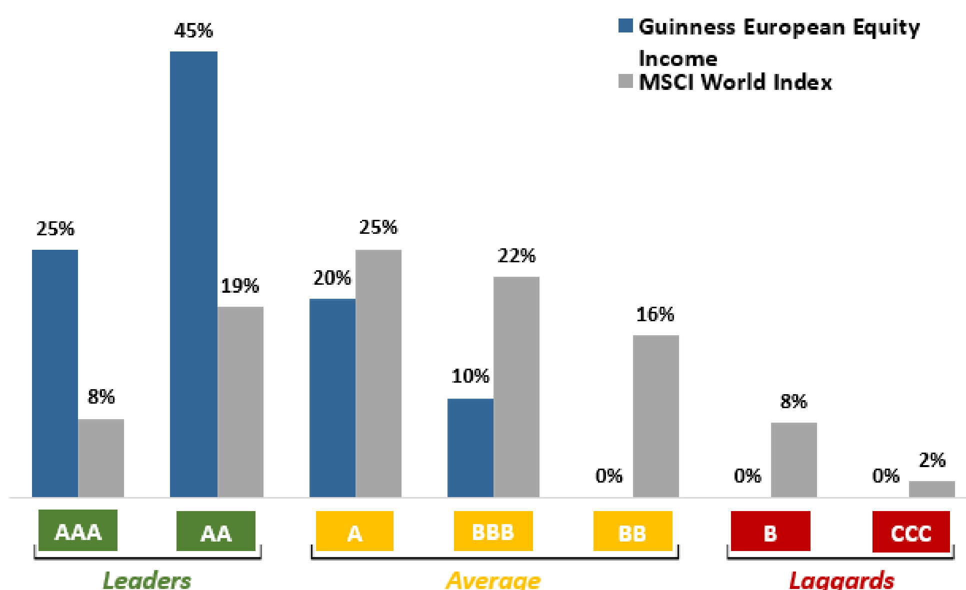


Chart 8: Guinness European Equity Income MSCI ESG scores relative to MSCI World. Source MSCI.

For more on our dividend philosophy and the benefits of investing in dividend-paying companies (and especially those that grow and initiate dividends), please get in touch for a copy of our white paper by Ian Mortimer and Matthew Page on Why Dividends (Still) Matter.

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.

Published 2020
Guinness Asset Management

Figure 5 **S&P 500 DPS and EPS falls in the last 5 US recessionary periods, in USD**

US Recessionary period	Dividend per share (DPS) trough date	Earnings per share (EPS) trough date	Peak to trough (%)	
			DPS	EPS
Nov 1973 to Feb 1975	Dec 1975	Sep 1975	-1%	-15%
Jul 1981 to Oct 1982	No decline in DPS	Mar 1983	-	-19%
Jul 1990 to Feb 1991	Dec 1991	Jun 1992	-1%	-32%
Mar 2001 to Oct 2001	Jun 2001	Dec 2001	-6%	-54%
Dec 2007 to May 2009	Mar 2009	Mar 2009	-24%	-92%
Average			**-8%**	**-42%**

Source: Robert J. Shiller, stock market data used in "Irrational Exuberance", Princeton University Press, Guinness Asset Management

Holdings Performance Analysis

We made four portfolio changes over the course of Q1 2020. In February, before the implications of coronavirus had become fully apparent we bought **Thales, CapGemini** and **Cerved** and sold Atlas Copco, Inficon and Andritz. In March we bought **Recordati** and sold Continental.

We bought **Thales** and sold **Atlas Copco**, which had become stretched at the upper end of historical valuation extremes. Thales has a good track record of generating persistent high cash returns and has a strong balance sheet characterised by just 40% net debt/equity. Identifiable **barriers to entry** stem largely from high switching costs due to the high degree of integration in customer platforms**. Leading market positions** (global top three, or first in Europe) are apparent in the Aerospace division (36% sales and 34% adj profit, of which service represents 30% of sales vs. Honeywell at 50%) notably in in-flight avionics, microwave systems (no.1 with 80% mkt share, ahead of Varian Medical Systems) and global no.2 in in-flight entertainment and connectivity (after Panasonic). Thales is the only global aerospace company with leadership positions in both onboard equipment and ground equipment (radar and air traffic management systems). In Defence & Security (51% sales, 60% adj profit of which 20% service) Thales is the European market leader in ground radar systems and airforce optronics, and the global no.1 in air traffic management (with some 40% of world airspace controlled by its TopSky platform). Thales also makes sensors, mission systems and focuses on cybersecurity. Thales is the top supplier of defence electronics in Europe and should be a principal beneficiary of rising defence spending in Europe. The smaller Transport division represents 13% of sales, largely accounted for by signalling and digital traffic management systems equipment (key comps include Siemens, Alstom, CRSC). By geography, Europe represents 55% of sales, Asia 14%, US 9%, ME 10%, Auz & NZ 5%.

Evidence of **a widening moat** is apparent in the high and rising 6% of sales spent on R&D in 2019, vs. 5% in 2018 and 4% three years ago and 3% ten years ago. Also notable has been the steadily rising gross margin (and increasing cash returns to shareholders now halted by the coronavirus outbreak). The acquisition of Gemalto in December 2017 (effective April 2019) consolidates Thales' lead in digital and builds its position in the digital security market. Gemalto is focused on software, biometrics, multi-factor authentication and issuance of secure physical and digital certificates and this leaves Thales as arguably the only player in the world able to offer "comprehensive solutions for securing critical decision-making chains all the way through from data generation by sensors to real-time decision making". We also note

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.

Thales was recently selected by the US army to equip regiments with inter-team radio and satcom terminals, which speaks to the quality of the communications product.

The French state's 26% holding in the company's shares means we won't receive the 2019 FY dividend, but that also represents a support which should be beneficial down the line. With regards to valuation Thales represents excellent value vs. peers and history and has a **long runway for growth** in the form of rising European defence expenditure, which looks set to continue to move up to 2% of GDP in aggregate vs. 1.6% in 2019. Equally, the potential for rising higher-margin service revenue from 30% of sales towards some peers at 50% should see continued margin growth resume once the current environment stabilises.

In March we acquired **Capgemini** and sold **Inficon**, which had also moved up beyond the bounds of its historical valuation ranges. Capgemini has a track record of generating persistent high cash returns in the region of 12-14%. It has high and identifiable barriers to entry in the form of high switching costs. Once embedded in a client, Capgemini is indispensable, and service revenues are ongoing. Capgemini is the no.1 IT service provider in Europe and in France and an enabler of business agility and productivity. Global partners include SAP, Salesforce, AWS, Microsoft, IBM, Adobe, Oracle and Google. Key clients range from private sector SMEs to government and infrastructure-led clients including Heathrow Airport and the Environment Agency, highlighting that Capgemini has the potential to benefit from an upturn in infrastructure investment. We find strong evidence of a widening moat in the form of continued net new client wins (Q3 bookings +19.6%) and market-leading product offerings. Management and employee incentives look well aligned with shareholders, with holdings of company shares amounting to 6.1% of outstanding share capital. The company's sustainability policy focuses on addressing the digital divide (outside of its corporate work) emphasising that this is a company that shareholders can feel good about owning.

Capgemini looks great value versus peers, trading at a near 50% discount to its closest peer Accenture's c.22x multiple, along with some 20% upside to Accenture's operating margin of 15%. Meanwhile, in absolute terms Capgemini is trading on around 10% free cash flow yield, which we consider exceptional for a market leader. Key growth drivers include digital transformation and cloud services including edge computing and reshoring, cybersecurity, AI and digital printing. In terms of runway, core application services are expected to approximately double by 2025 (according to McKinsey pre-crisis) and IDC estimated the offshore IT Services market will grow 7% annually to reach $112bn by 2023. In our view, such growth rates may be impacted in the short-term, but if anything one would expect this crisis to drive higher levels of digital transformation over the medium term as companies focus increasingly on resilience and efficiency.

Cerved replaced **Andritz** after we became concerned about the risk of permanent capital loss stemming from the latter's metals forming division Schuler, which is focused on the automotive industry. Cerved has an exceptional track record of over eight years of 50%-plus cash flow returns on investment, excellent cash conversion and 3Y annualised dividend growth of 10% alongside low correlation to the economic cycle. It is disappointing that the company has cancelled its dividend in response to the crisis, but may well prove to be in shareholders' best interests. Cerved has high and identifiable barriers to entry in the form of strong network effects, being the market leader with 42% share of the Italian credit information market (62% sales, 52.4% ebitda margin) and the no.2 in credit management (33% sales, 36% ebitda margin) which prior to the crisis was lined up for sale. Assuming the

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.

transaction eventually continues, there should also be good scope for Cerved to consolidate its position. On a low teens earning multiple set against c.25% ROE and c.50% CFROI, with countercyclical qualities (credit data demand rises in a downturn), the shares are great value even if the market continues to demand a discount due to the company's Italian domestic exposure.

In March we acquired **Recordati** and sold **Continental** after becoming concerned about the risk of permanent capital loss at the latter, as the auto component supply chain ground to a halt with OEM clients such as Volkswagen losing some €2bn a week. Recordati has a ten-year-plus track record of generating cash returns on capital invested between 10% and 16%. Barriers to entry are clearly identifiable in the form of both patent IP and its strong marketing and distribution infrastructure. The company occupies a market-leading position in rare diseases (c.20% sales), alongside a strong specialty and primary care drug franchise characterised by high market shares in areas including cardiovascular, gastrointestinal, urology, muscolo-skeletal and respiratory. A widening moat can be seen in high levels of R&D amounting to some 10% of sales annually for over ten years.

A strong culture of capital allocation can be seen in regular growing dividends alongside periodic buybacks, all funded out of organic cash from operations. Management and shareholder incentives look well aligned, with Fimei Spa owning 51.8% of shares, represented by a private equity consortium led by CVC and the Recordati family. Optically multiples may look quite high on near 20x earnings, but this is a business than makes excellent c.40% returns on tangible capital, and when paired with the long growth duration of the company's core 'ageing' markets, does call for a sustained sector premium. In rare diseases the company has some 500 approved indications vs. over 7000 designated diseases, highlighting good potential for continued double-digit growth rates.

In light of these changes our Financials and Healthcare exposures both rose by approximately 3% over the quarter, while our Industrials and Consumer Discretionary exposures each fell by approximately 3%. Our Industrials and Financials overweight positions remain, as shown in chart 5 above.

Key Fund Metrics Today

The four key tenets to our approach are: quality, value, dividend, and conviction. At the quarter end, we are pleased to report that the portfolio continues to deliver on all four of these measures relative to the benchmark MSCI Europe ex UK Index.

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 Income Fund	MSCI Europe ex UK Index	GEEI Delta vs. MSCI Europe
Quality	Average 8 year CFROI %	16.0	10.5	5.5
	Debt / equity %	75.0	193.0	-118.0
	Net debt / Equity %	51.3	68.4	-17.1
	ROE %	22.4	11.0	11.4
	R&D to Sales	3.5	0.5	3.0
Value	PE (2020e)	11.5	14.7	-3.2
	FCF Yield %	6.6	5.0	1.6
Dividend	Dividend Yield (LTM) % *	4.2	3.9	0.3
	Weighted average payout ratio %	47.0	59.0	-12.0
Conviction	Number of stocks	30	344	-314.0
	Active share	85	NA	

Chart 9: Portfolio metrics versus index. Guinness Asset Management, Credit Suisse HOLT, Bloomberg (data as at 31.03.2020)

Outlook

An equally weighted conviction portfolio of high-quality companies trading at reasonable valuations, paying moderate to high and growing dividends is an attractive profile in a low-growth volatile environment. Your fund also offers superior return characteristics and balance sheet metrics compared to the wider index, while trading at a discount. Our portfolio companies exhibit strong levels of self-determination, characterised by market leadership positions, widening moats, aligned interests and significant market opportunities for growth. We believe that whatever the weather this represents a good place to be.

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

31/03/2020

Fund top 10 holdings

Holding	%
Novo Nordisk	4.4%
Roche Holding	4.3%
Schneider Electric	3.9%
Thales SA	3.9%
Danone	3.7%
Amundi	3.7%
Deutsche Post	3.7%
Tieto	3.6%
Smurfit Kappa Group	3.6%
ABB	3.5%
% of Fund in top 10	38.3%
Total number of stocks	30

Sector analysis

Sector	%
Industrials	27.9%
Financials	22.5%
Consumer Staples	15.1%
Health Care	11.8%
Comm Serv.	8.4%
IT	6.9%
Materials	3.6%
Consumer Disc	3.3%
Cash	0.5%

Geographic allocation

Country	%
France	30.7%
Switzerland	17.6%
Germany	10.2%
Finland	6.8%
Netherlands	6.8%
Ireland	6.1%
Italy	6.0%
Denmark	4.4%
UK	3.2%
Spain	2.8%
Other	5.1%
Cash	0.5%

PERFORMANCE

31/03/2020

Annualised % total return from launch (19/12/2013 in GBP)

Fund (0.35% OCF)	4.1%
MSCI Europe ex UK Index	4.4%
IA Europe ex UK sector average	4.2%

Discrete years % total return (GBP)	Mar '20	Mar '19	Mar '18	Mar '17	Mar '16
Fund (0.35% OCF)	-13.0	4.2	-0.2	32.7	-2.0
MSCI Europe ex UK Index	-8.3	2.2	3.0	27.2	-5.2
IA Europe ex UK sector average	-9.4	-1.2	5.6	23.7	-1.8

Cumulative % total return (GBP)	1 month	Year-to-date	1 year	3 years	5 years	From launch
Fund (0.35% OCF)	-17.0	-24.0	-13.0	-9.5	17.7	28.4
MSCI Europe ex UK Index	-11.4	-17.5	-8.3	-3.5	16.3	30.9
IA Europe ex UK sector average	-12.2	-19.0	-9.4	-5.4	14.9	29.7

RISK ANALYSIS

31/03/2020

Annualised, weekly, from launch on 19.12.13, in GBP	Index	Sector	Fund
Alpha	0.00	0.48	0.16
Beta	1.00	0.87	0.92
Information ratio	0.00	0.00	-0.04
Maximum drawdown	-25.02	-24.43	-30.29
R squared	1.00	0.87	0.88
Sharpe ratio	0.03	0.03	0.02
Tracking error	0.00	5.51	5.29
Volatility	15.29	14.26	14.93

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

This is an advertising document. 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.