Guinness European Equity Income Fund

INVESTMENT COMMENTARY – June 2020

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

Aim

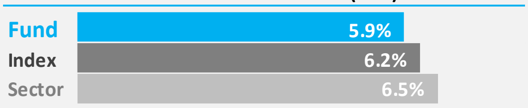
The Guinness European Equity Income Fund is designed to provide investors with exposure to high quality dividend-paying companies in the Europe ex UK region. The Fund aims to provide long-term capital appreciation and a source of income that has the potential to grow over time.

Performance 31.05.20

Fund	European Equity Income (Z Class, 0.35% OCF)
Index	MSCI Europe ex UK
Sector	IA Europe ex UK

	1 year	3 years	From launch
Fund	-5.7	-5.1	44.8
Index	1.3	2.6	47.3
Sector	2.9	1.9	50.2

Annualised % total return from launch (GBP)



Risk analysis (annualised, weekly, from launch)

	Index	Sector	Fund
Alpha	0.0	1.1	0.4
Beta	1.0	0.9	0.9
Info ratio	0.0	0.1	0.0
Max drwdn	-25.0	-24.4	-30.3
Tracking err	0	6	5
Volatility	15.5	14.5	15.2
Sharpe ratio	0.2	0.2	0.2

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 May, the Guinness European Equity Income Fund produced a total return of 7.67% (in GBP) versus the Index return of 7.82% (in GBP), meaning the fund underperformed its benchmark by 14bps.

	1 month	YTD	1 Yr	3 Yr	5 Yr	Since Launch
Fund	7.7%	-14.3%	-5.7%	-5.1%	35.9%	44.8%
Index	7.8%	-7.1%	1.3%	2.6%	31.8%	47.3%
Sector	8.0%	-6.2%	2.9%	1.9%	31.5%	50.2%
Fund vs Sector	-0.3%	-8.1%	-8.6%	-7.0%	4.4%	-5.4%

Figure 1: Performance data. Source: Financial Express 0.35% OCF. Cumulative Total Return in GBP as of 31.05.2020

The largest positive contributors to performance over the month of April (in EUR) were **Siemens** +17%, **Salmar** +14%, **Epiroc** +12%, **Fresenius** +11% and **Assa Abloy** +11%.

At the other end of the spectrum the biggest detractors from performance were **Millicom** -10%, **Mapfre** -5%, **Helvetia Holding** -5%, **Aalberts** -4% and **Danone** -3%.

May was a quiet month for news from portfolio companies. Markets continued to rebound as European countries started to open back up and as increased confidence in adequate fiscal support and stimulus grew. Sector rotation worked to the benefit of our Industrials overweight though against our Consumer Discretionary underweight. We were pleased to see three of our recent portfolio additions among the top five performers for the month of May and no appearances among the detractors. We took the opportunity to reweight the portfolio, trimming winners like Roche, Novo Nordisk and Nestle and adding to the value side of the portfolio, notably depressed insurance holdings Mapfre and Helvetia and also cable operator Millicom; the former and latter both having exposure to the LATAM region, broadly behind Europe in its progress with COVID-19 but benefitting from younger populations.

What was notable and significant in May, in our view, was the progress made in Europe towards a coordinated and balanced response to COVID-19 regional impacts. The prospect of northern European countries, which are the main beneficiaries of the Euro, emerging stronger from the crisis while their southern counterparts flounder was not one that anyone wanted to consider, but may well prove to have been the trigger for a meaningful step forward in Eurozone fiscal architecture – and one that should give investors long-term confidence in the region, and the Euro representing some 20% of world currency reserves.

The €750bn Next Gen EU proposal, presented by Ursula von der Leyen and proposed by Angela Merkel and Emmanuel Macron, is notable and exceptional for two key features. First, it aims to distribute some two thirds of proceeds as grants, not loans, to the most impacted COVID-19 countries (including €82bn to Italy or some 4% of GDP). Second, it appears likely to be funded by significant new own-EC resources (on top of existing member state contributions, VAT and import duty, which account for about 1% of block GDP), notably via an extension of the Emissions Trading Scheme (ETS) to maritime and aviation sectors, a levy on companies that draw huge benefits from the single market, a carbon border adjustment tax and a digital tax on larger consumer-facing technology companies. In short, the proposal is for a fairer Europe in terms of distributions across member states, stronger in terms of funding ability and greener in terms of investment expenditure. The way the funds are to be borrowed by the EC and paid back over the period 2028-2058 also opens the potential to introduce a pan-European yield curve all the way out to 2058, thereby offering the prospect of banking and capital markets union and also enabling infrastructure spend via long-dated low-cost borrowing (akin to the US). Scepticism will remain, but this programme, if it comes to pass – which seems probable given the realistic size of the package, the fact that it is not the start of a monetary transfer or debt union, and that it is proposed by both Germany and France – is good news for confidence in Europe as a long-term investment proposition vis-à-vis the current market positioning.

Specifically of interest to the Guinness European Equity Income Fund positioning (long on green Industrials, critical businesses and enablers or resilience and job creation) was how the funds are earmarked to be spent; namely, along the lines of the European Green Deal and Digital Transition plans. That means renovation of buildings and infrastructure (think Aalberts, Sika, Assa Abloy, Epiroc and Siemens), a more circular economy (Smurfit Kappa), new renewable projects and cleaner transport and logistics including one million EV charging points (ABB, Siemens, Deutsche Post and Epiroc). In terms of Digital Transition there will be a focus on rapid deployment of 5G networks and a stronger presence in strategic sectors such as AI, cyber security, supercomputing and cloud (which all feed back to our technology holdings ASML, CapGemini and TietoEvry).

The next Eurogroup meeting is scheduled for 19th June, and one might expect some outline agreement by the end of July before implementation from 2021.

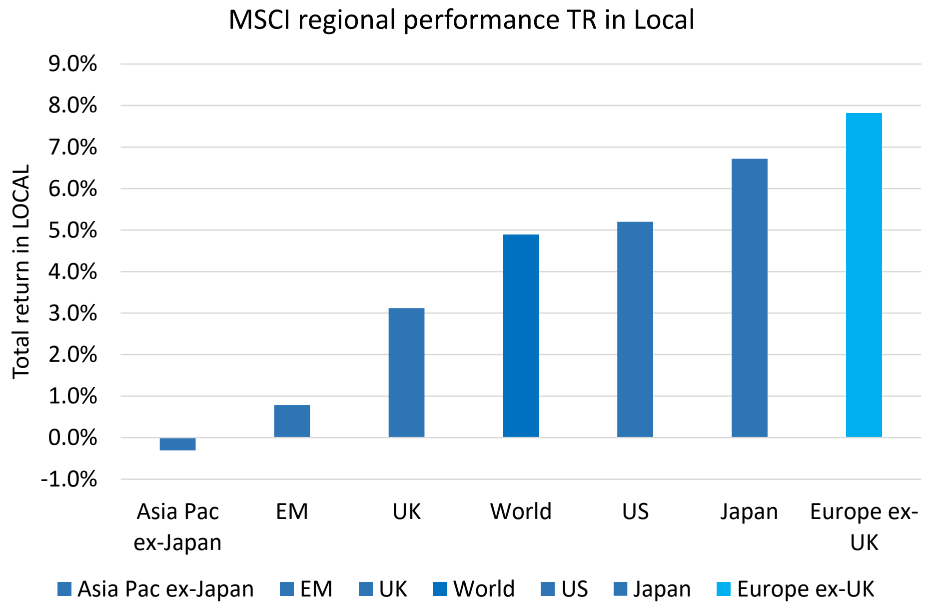


Figure 2: MSCI regional performance in May 2020 in local currency (as the Euro strengthened). Source Bloomberg data.

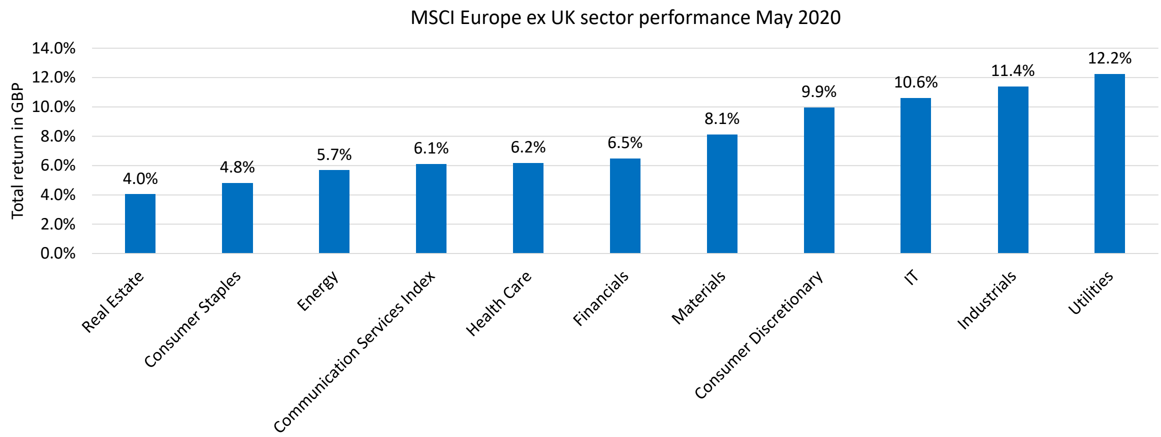


Figure 3: MSCI Europe ex UK sector performance May 2020. Source: Bloomberg data

But what about the elephant in the room that is Brexit? Our best guess is that common sense and win-win outcomes will prevail. What the Europeans really want is their Euro finance functions out of London and installed in the Eurozone (good news for fund holdings Deutsche Boerse and Euronext, the latter also with the potential to benefit as Borsa Italiana / MTS is prised out of the LSE Refinitiv deal). That will be good for Eurozone confidence, and appears highly probable given EC leverage over passporting rights if the UK goes over the no deal / no renewal line (which may momentarily feel like a disaster but could prove a good opportunity to pick up shares of UK-based companies). What they do not want, however (after Greece and bearing in mind a lot of history), is to be seen as a wrecker, particularly of Europe's largest and arguably most dynamic city, London (which voted remain). Therefore expect, as the Germans have said, a new bridge to be built with London and the UK, enabling it to thrive as a global (financial) services hub and gateway on Europe's doorstep, to the benefit of everyone.

Guinness European Equity Income Fund

The Guinness European Equity Income Fund is both positioned for recovery (across the areas of communications, automation and green infrastructure) and characterised by resilience and diverse revenue streams. In fact, we calculate that some 93% of portfolio holdings can be deemed critical businesses. We also hold an outsized number of companies which benefit from recurring higher-margin service revenues or sales of consumables, both of which should hold up well in the event of a slow stop-start COVID-19 recovery. The fund is focused on quality across both growth and value and companies with long global and local European runways, making it well placed to deliver in all weathers.

Fund multiples remain compelling trading at a small c.10% discount to market, on c.13.5x earnings for c.22% ROE; double that of the market for half the leverage of the market on a total debt / equity basis.

We thank you for your continued support.

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

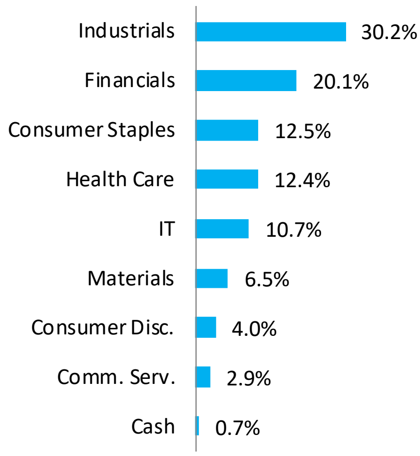
PORTFOLIO

31/05/2020

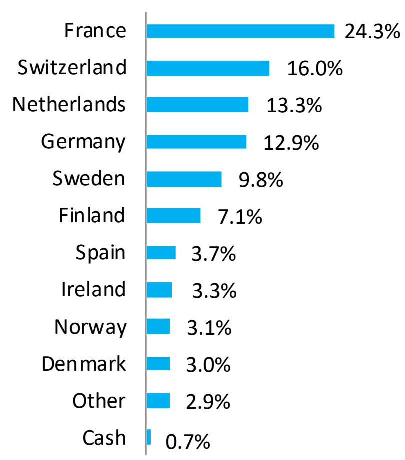
Fund top 10 holdings

Capgemini SE	4.1%
Kering SA	4.0%
Konecranes	3.8%
Mapfre	3.7%
Amundi	3.6%
Epiroc AB	3.5%
Assa Abloy AB	3.4%
Schneider Electric	3.4%
Aalberts	3.3%
Euronext	3.3%
% of Fund in top 10	36.0%
Total number of stocks	30

Sector analysis



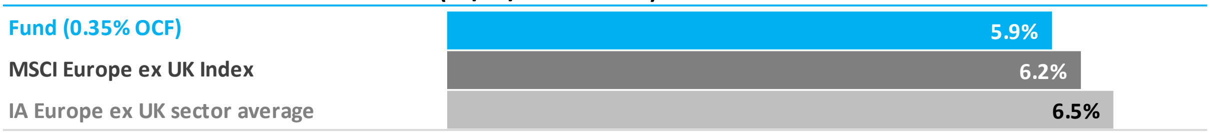
Geographic allocation



PERFORMANCE

31/05/2020

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



Discrete years % total return (GBP)	May '20	May '19	May '18	May '17	May '16
Fund (0.35% OCF)	-5.7	5.9	-5.0	37.1	4.5
MSCI Europe ex UK Index	1.3	1.1	0.2	34.5	-4.5
IA Europe ex UK sector average	2.9	-3.3	2.4	32.7	-2.8

Cumulative % total return (GBP)	1 month	Year-to-date	1 year	3 years	5 years	From launch
Fund (0.35% OCF)	7.7	-14.3	-5.7	-5.1	35.9	44.8
MSCI Europe ex UK Index	7.8	-7.1	1.3	2.6	31.8	47.3
IA Europe ex UK sector average	8.0	-6.2	2.9	1.9	31.5	50.2

RISK ANALYSIS

31/05/2020

Annualised, weekly, from launch on 19.12.13, in GBP	Index	Sector	Fund
Alpha	0.00	1.06	0.40
Beta	1.00	0.88	0.92
Information ratio	0.00	0.06	-0.02
Maximum drawdown	-25.02	-24.43	-30.29
R squared	1.00	0.88	0.89
Sharpe ratio	0.16	0.20	0.16
Tracking error	0.00	5.52	5.27
Volatility	15.51	14.51	15.18

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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.

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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.