Guinness European Equity Income Fund

INVESTMENT COMMENTARY – August 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.

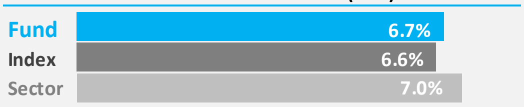
Performance

31.07.20

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	-6.1	2.4	53.4
Index	-3.4	5.8	52.1
Sector	-1.3	5.5	56.6

Annualised % total return from launch (GBP)



Risk analysis (annualised, weekly, from launch)

	Index	Sector	Fund
Alpha	0.0	1.3	0.8
Beta	1.0	0.9	0.9
Info ratio	0.0	0.1	0.1
Max drwdn	-25.0	-24.4	-30.3
Tracking err	0	6	5
Volatility	15.8	14.7	15.6
Sharpe ratio	0.2	0.2	0.2

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Source: Financial Express, Z class 0.35%, bid to bid, total return.

Summary Performance

In July, the Guinness European Equity Income Fund produced a total return of -1.17% (in GBP) versus the Index return of -1.57% (in GBP), meaning the fund outperformed its benchmark by 40bps.

	1 month	YTD	1 Yr	3 Yr	5 Yr	Since Launch
Fund	-1.2%	-9.2%	-6.1%	2.4%	43.2%	53.4%
Index	-1.6%	-4.1%	-3.4%	5.8%	38.0%	52.1%
Sector	-0.1%	-2.2%	-1.3%	5.5%	41.2%	56.6%
Fund vs Sector	-1.1%	-7.0%	-4.8%	-3.2%	2.0%	-3.1%

Figure 1: Performance data. Source: Financial Express 0.35% OCF. Cumulative Total Return in GBP as of 31.07.2020

The largest positive contributors to performance over the month of July (in EUR) were **Sika** +8.7%, **Euronext** +8.6%, **Capgemini SE** +7.4%, **Konecranes** +7.2% and **Unilever** +6%.

The biggest detractors from performance were **Thales** – 14.6%, **ASML** -8.3%, **Bakkafrost** -8.1%, **Helvetia Holding** -7.9% and **Amundi** -7.7%.

July saw European markets hold recent gains and Q2 reporting getting underway. Overall company feedback has to date been favourable, accompanied by some positive news on the dividend front as both **Tieto** and **Smurfit Kappa** reintroduced large parts of previously cancelled dividends.

Unilever was a notable surprise, reporting a huge rise in hand sanitizer sales, with the company accelerating from a near standing start to market leadership position with a near 600x increase in YoY sales by end H1, highlighting a good degree of agility. With the move to a company domicile with full list in London there should also be meaningful scope for improved returns from portfolio rationalisation. **Nestlé** similarly revealed a stronger-than-expected uptick in pet care sales, which rose 12.5%; and here too we see good potential for further shifts towards higher-return healthy and premium products as portfolio rationalisation continues. **Danone** was the ugly sibling this quarter, suffering as consumers stayed at home and traded up to larger (and less profitable per litre) water bottle sizes. Still, underlying margins excluding one-off coronavirus costs were flat YoY and the valuation gap vs peers is now looking quite wide, something we would expect to close with time as the company has been pressing on with innovation and R&D, in common with all our portfolio companies that reported this quarter.

Rapid advances by leaders in the use of technology are apparent in many areas. **Kering'**s pre-existing strengths in digital are coming to the fore with a +72% increase in e-commerce over Q2 vs +21% in Q1. **CapGemini** is seeing rising sales ahead of market expectations driven by strength across social, mobile and cloud offerings. **Epiroc** highlights increased customer interest in its state-of-the-art automation and digital clean hard rock drilling equipment. At **Schneider Electric**, the RIB acquisition is complimenting Aveva's industrial software offering and opening up a whole new vertical in the complimentary buildings efficiency market software market. **Fresenius** has underscored its strengths in digital at home care and overall is in a strong position to take market share from increasingly indebted state/municipal-funded operators, after a market leading performance over the quarter, treating patients well ahead of its own market share.

M&A is showing life too, with **Siemens**' healthcare arm Healthineers acquiring Varian Medical Systems, the global market leader in radiation therapy with some 50% market share. **Euronext** appears to be in a good position to capitalise on EU requirements for LSE to divest Borsa Italiana/MTS as part of its Refinitiv acquisition. **Amundi** is partnering with Société Générale on savings product provision, on the heels of its recent acquisition of Sabadell. Furthermore, there are good reasons to think that the trend to higher returns and scale have plenty of room to run. The recently announced Next Gen EU €750m fiscal stimulus package holds the potential to expedite European capital markets union, while the regulatory outlook appears to be shifting in favour of consolidation as a means of standing ground vis-à-vis the US and China.

We made one portfolio change in June, acquiring **Bakkafrost** in place of **Millicom**, which had been weakened by the crisis and for which the prospect of a return to dividend paying appears far off. Bakkafrost dominates salmon farming in Faroe and is arguably the industry leader in terms of quality and innovation, persistently earning a premium derived from superior genetics alongside best-in-class biologics. Market prices have been hit in the short-term by lower demand from the on-trade relating to COVID-19 and also as Chilean farmers raise cash by selling frozen ahead of the difficult transition away from chemical treatment to biological (which Norwegian operators have already made). That in turn looks likely to see a marked shortage of supply in 2021. Further, Bakkafrost recently acquired the number two farmer in Scotland, The Scottish Salmon Company (SSC), on approximately half its own EV/EBITA multiple. Here there appears to be good scope for Bakkafrost to add value following a degree of mismanagement by prior owners. Ebita margins at SSC are currently in the c.5% range vs Bakkafrost's historical range of 20-40%. Introducing smolts later should drive better biological efficiency alongside group cost overhead synergies. Meanwhile premium Hebridean genetics complement Faroese genetics, and a respected brand portfolio leaves Bakkafrost with a channel down which to increase sales of higher margin value added products (VAP) in the off trade channel, where demand is rising. The starting yield is just over 1% on a post withholdings tax basis but we expect rapid growth to near 3% in 2022 against the current share price. Bakkafrost is a very well run company, and shareholders are in good hands with Regnin and Oddovor Jacobsen, both of whom own over 7% of shares outstanding and are well known in the industry for taking the long view and industry best practice.

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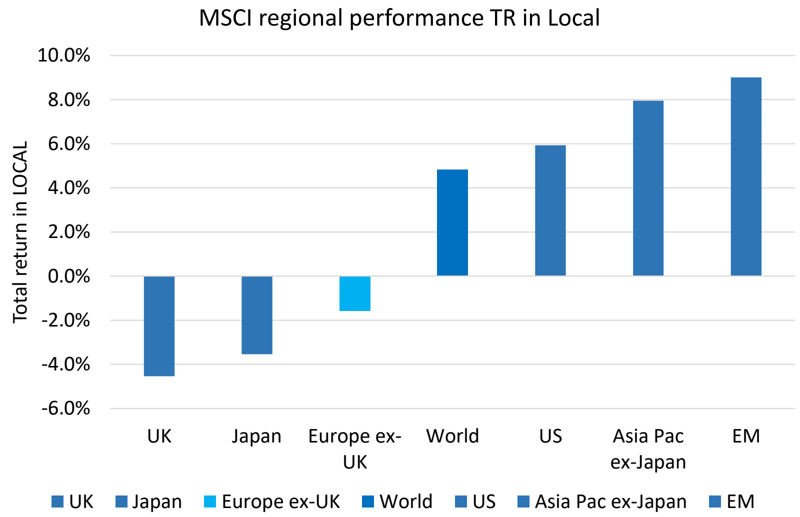

Figure 2: MSCI regional performance in July 2020 in local currency (as the Euro strengthened). Source: Bloomberg

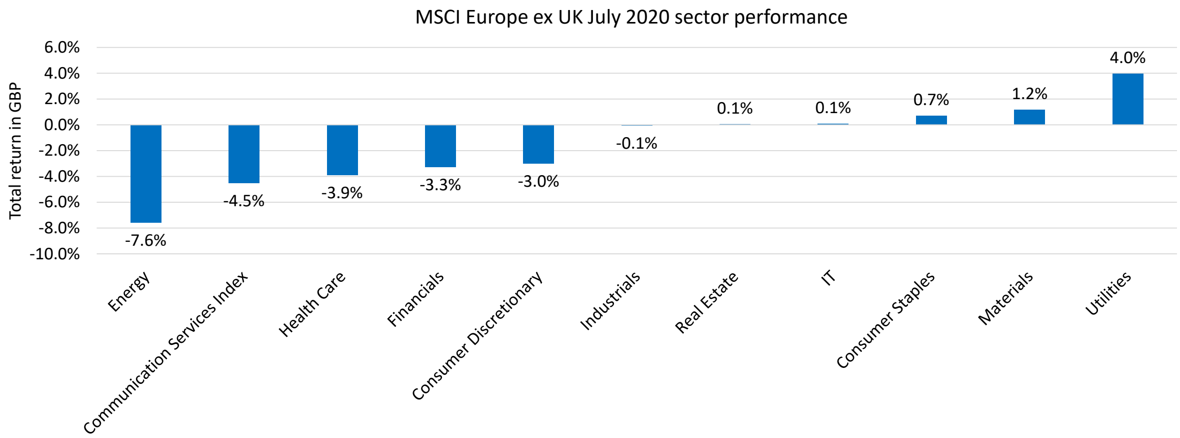

Figure 3: MSCI Europe ex UK sector performance July 2020. Source: Bloomberg

The Guinness European Equity Income Fund is both positioned for recovery (across enablers of resilience and job creation, notably communications, automation and green infrastructure) and resilience. In fact, we calculate that some 93% of portfolio holdings can be deemed critical businesses. All companies have a track record of generating persistent high cash returns and have strong balance sheets, and 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 or stop-start COVID-19 recovery. The fund is focused on quality across both growth and value and companies, with both global and local European runways – all aiming to deliver in all weather.

Fund multiples remain compelling trading at a small c.10% discount to market on c.14.5x 2021 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**

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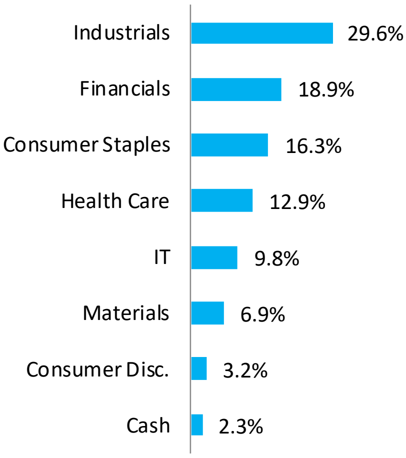
PORTFOLIO

31/07/2020

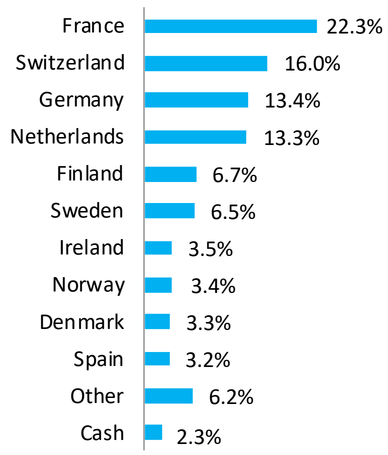
Fund top 10 holdings

Deutsche Post	3.9%
Smurfit Kappa Group	3.5%
Capgemini SE	3.5%
UNILEVER NV	3.5%
Euronext	3.4%
Salmar	3.4%
Aalberts	3.4%
Tieto	3.3%
Sika	3.3%
Epiroc AB	3.3%
% of Fund in top 10	34.6%
Total number of stocks	30

Sector analysis



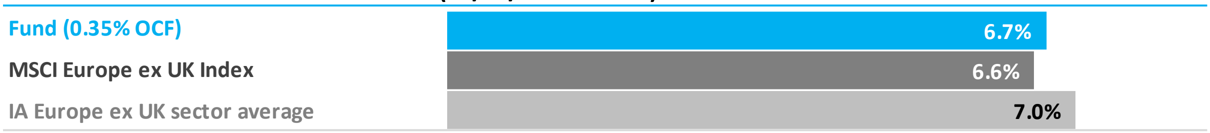
Geographic allocation



PERFORMANCE

31/07/2020

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



Discrete years % total return (GBP)	Jul '20	Jul '19	Jul '18	Jul '17	Jul '16
Fund (0.35% OCF)	-6.1	7.4	1.5	22.0	14.6
MSCI Europe ex UK Index	-3.4	4.1	5.2	23.3	5.9
IA Europe ex UK sector average	-1.3	1.7	5.1	23.8	8.0

Cumulative % total return (GBP)	1 month	Year-to-date	1 year	3 years	5 years	From launch
Fund (0.35% OCF)	-1.2	-9.2	-6.1	2.4	43.2	53.4
MSCI Europe ex UK Index	-1.6	-4.1	-3.4	5.8	38.0	52.1
IA Europe ex UK sector average	-0.1	-2.2	-1.3	5.5	41.2	56.6

RISK ANALYSIS

31/07/2020

Annualised, weekly, from launch on 19.12.13, in GBP	Index	Sector	Fund
Alpha	0.00	1.25	0.75
Beta	1.00	0.87	0.93
Information ratio	0.00	0.08	0.05
Maximum drawdown	-25.02	-24.43	-30.29
R squared	1.00	0.88	0.89
Sharpe ratio	0.18	0.23	0.20
Tracking error	0.00	5.52	5.29
Volatility	15.82	14.69	15.64

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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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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.**

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Telephone calls will be recorded and monitored.