

# Guinness European Equity Income Fund

INVESTMENT COMMENTARY – September 2020

<b>Launch date</b>	19.12.2013		
<b>Team</b>	Ian Mortimer Matthew Page Nick Edwards		
<b>Aim</b>	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.		
<b>Performance</b>	31.08.20		
<b>Fund</b>	European Equity Income (Z Class, 0.35% OCF)		
<b>Index</b>	MSCI Europe ex UK		
<b>Sector</b>	IA Europe ex UK		
	<b>1 year</b>	<b>3 years</b>	<b>From launch</b>
<b>Fund</b>	-2.2	2.8	57.9
<b>Index</b>	-0.1	5.3	55.5
<b>Sector</b>	3.2	6.1	60.4
<b>Annualised % total return from launch (GBP)</b>			
<b>Fund</b>	7.1%		
<b>Index</b>	6.8%		
<b>Sector</b>	7.3%		
<b>Risk analysis (annualised, weekly, from launch)</b>			
	<b>Index</b>	<b>Sector</b>	<b>Fund</b>
<b>Alpha</b>	0.0	1.3	0.9
<b>Beta</b>	1.0	0.9	0.9
<b>Info ratio</b>	0.0	0.1	0.1
<b>Max drwn</b>	-25.0	-24.4	-30.3
<b>Tracking err</b>	0	6	5
<b>Volatility</b>	15.8	14.6	15.6
<b>Sharpe ratio</b>	0.2	0.3	0.2
<b>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</b>			
Source: Financial Express, Z class 0.35%, bid to bid, total return.			

## Summary Performance

In August, the Guinness European Equity Income Fund produced a total return of 2.90% (in GBP) versus the Index return of 2.21% (in GBP), meaning the fund outperformed its benchmark by 69bps.

	1 month	YTD	1 Yr	3 Yr	5 Yr	Since Launch
<b>Fund</b>	2.9%	-6.6%	-2.2%	2.8%	52.3%	57.9%
<b>Index</b>	2.2%	-2.0%	-0.1%	5.3%	49.5%	55.5%
<b>Sector</b>	2.5%	0.2%	3.2%	6.1%	50.8%	60.4%
<b>Fund vs Sector</b>	0.4%	-6.8%	-5.4%	-3.3%	1.5%	-2.5%

**Figure 1: Performance data.**  
Source: Financial Express 0.35% OCF. Cumulative Total Return in GBP as of 31.08.2020

The largest positive contributors to performance over the month of August (and their returns in EUR) were **Deutsche Post** +15.3%, **Konecranes** +13.3%, **Salmar** +13.1%, **Siemens** +8% and **Sika** +7.9%.

At the other end of the spectrum the biggest detractors from performance were **Fresenius SE** -5.6%, **Danone** -2.5%, **Unilever** -2.3%, **Roche** -0.3% and **Novo Nordisk** 0%.

August saw European markets continue to drift higher (see tables overleaf) supported by a backdrop of low rates and increasing liquidity as central banks lent further support to the crisis. PMIs displayed a healthy rebound but have softened again as new coronavirus cases spiked in Spain and other European countries. The latest iteration of Eurostat CPI data turned negative, with -0.2% in August, raising the unwelcome spectre of deflation. We would very much expect the response from the ECB to mirror the latest prescription of the Federal Reserve, lending more visibility to the duration of low rates even if inflation were to move above the 2% target range, alongside a greater imperative to fiscal policy and reform. In total, alongside the response to COVID-19 itself, this is supportive for quality, growth, resilience (via digital and automation) and job creation

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## Guinness European Equity Income Fund

(via green infrastructure), the latter two stemming from both corporate response and government-led fiscal policy.

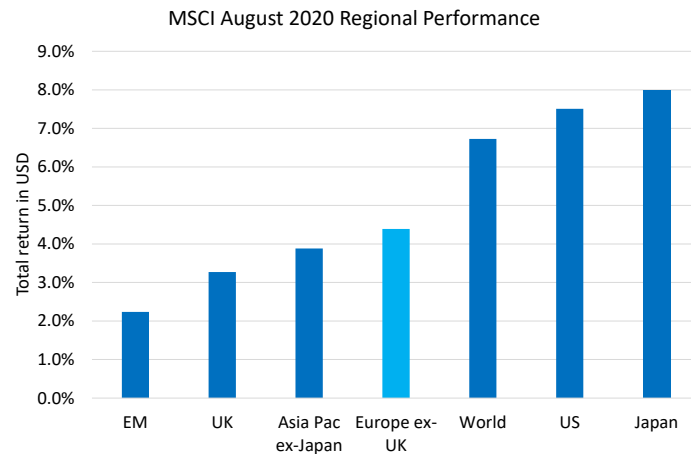


Figure 2: MSCI regional performance in August 2020 in USD. Source: Bloomberg

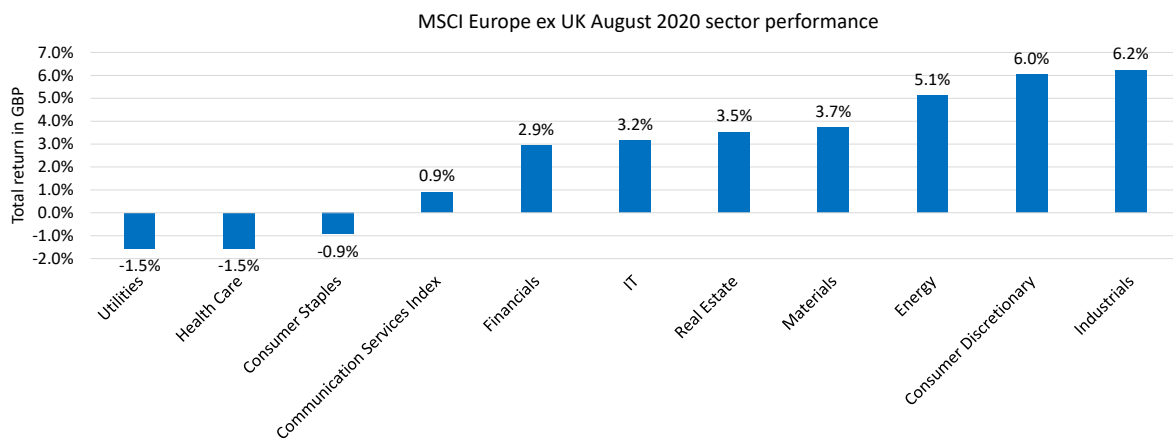


Figure 3: MSCI Europe ex UK sector performance August 2020. Source: Bloomberg

## Portfolio positioning

Irrespective of the uncertainties of the current situation, this is a backdrop for which the Guinness European Equity Income Fund is well placed. Persistent high cash returns, low payout ratios and strong balance sheets mean our all dividend paying companies have the room to do the right thing in the short term to come out of the crisis stronger. Q2 results have shown across the board that our holdings have both continued to prioritise long-term investment in R&D and capital expenditure, while also supporting stakeholders (suppliers, customers and employees) through the crisis. Your portfolio averages 8-year cash flow return on investment of 16% vs. MSCI Europe ex UK of 10.5%, ROE of 21% vs. the Index at 6.5% and net debt to equity of just 48% vs. the Index at 60.5%. Market leaders with strong cash flow (and in EEI's case, high levels of recurring income) accompanied by balance sheet flexibility, and which can continue to reinvest and support their own ecosystems while others can't, are in a great place to continue to take market share as they emerge from the crisis.

Many of our holdings are also well positioned as direct beneficiaries of the coronavirus crisis response. All companies in our portfolio use digital well, offering them an edge in the current digital fast-forward. Many (such as Cap Gemini, Tieto, ASML, Sika, ABB, Siemens, Epiroc, Assa Abloy, Alberts, KoneCranes, Smurfit Kappa,

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## Guinness European Equity Income Fund

Schneider Electric, Fresenius and Roche) offer digital and automation solutions to corporates and governments looking to keep up with the pace of digital change, improve their own agility or support the economy through smart clean and healthy infrastructure investment.

We continue to view our overweight in clean smart Industrials as undervalued relative to quality and opportunity, in aggregate trading on near market multiples alongside growing recurring service revenue streams and installed bases. The trend to digital, outsourcing and remote monitoring and maintenance is the friend of market leaders and innovators. None of this is at the expense of value, where the fund continues to trade at a near 10% discount to 2021e MSCI Europe ex UK multiples of 16.6x, and our focus on value, including our holdings in high quality Insurers and Industrials mean that if the value does make a comeback vs. growth the fund should continue to do well. Fund beta remains well below one, and exposure is broadly evenly balanced between growth and value, domestic and international, and the eurozone vs. Scandinavia and Switzerland. The key characteristics of market leaders, widening moats and aligned interests remain. In short, the Guinness European Equity Income Fund is positioned for all weathers.

We thank you for your continued support.

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

## Guinness European Equity Income Fund

### 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

Industrials	29.6%
Financials	18.9%
Consumer Staples	16.3%
Health Care	12.9%
IT	9.8%
Materials	6.9%
Consumer Disc.	3.2%
Cash	2.3%

#### Geographic allocation

France	22.3%
Switzerland	16.0%
Germany	13.4%
Netherlands	13.3%
Finland	6.7%
Sweden	6.5%
Ireland	3.5%
Norway	3.4%
Denmark	3.3%
Spain	3.2%
Other	6.2%
Cash	2.3%

### PERFORMANCE

31/08/2020

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

Fund (0.35% OCF)	7.1%
MSCI Europe ex UK Index	6.8%
IA Europe ex UK sector average	7.3%

#### Discrete years % total return (GBP)

	Aug '20	Aug '19	Aug '18	Aug '17	Aug '16
Fund (0.35% OCF)	-2.2	6.2	-1.0	23.0	20.3
MSCI Europe ex UK Index	-0.1	4.3	1.0	24.4	14.1
IA Europe ex UK sector average	3.2	0.3	2.5	23.5	15.0

#### Cumulative % total return (GBP)

	1 month	Year-to-date	1 year	3 years	5 years	From launch
Fund (0.35% OCF)	2.9	-6.6	-2.2	2.8	52.3	57.9
MSCI Europe ex UK Index	2.2	-2.0	-0.1	5.3	49.5	55.5
IA Europe ex UK sector average	2.5	0.2	3.2	6.1	50.8	60.4

### RISK ANALYSIS

31/08/2020

#### Annualised, weekly, from launch on 19.12.13, in GBP

	Index	Sector	Fund
Alpha	0.00	1.25	0.87
Beta	1.00	0.87	0.93
Information ratio	0.00	0.07	0.07
Maximum drawdown	-25.02	-24.43	-30.29
R squared	1.00	0.88	0.89
Sharpe ratio	0.21	0.26	0.24
Tracking error	0.00	5.52	5.27
Volatility	15.76	14.62	15.58

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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.

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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](http://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](http://www.carnegie-fund-services.ch). The paying agent is Banque Cantonale de Genève, 17 Quai de l'Île, 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.

**GUINNESS**

ASSET MANAGEMENT

Guinness Asset Management Ltd is authorised and regulated by the Financial Conduct Authority

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