

Guinness European Equity Income Fund

INVESTMENT COMMENTARY – December 2020

Launch date 19.12.2013

Manager 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 30.11.20

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	0.6	12.1	66.5
Index	6.4	14.2	67.1
Sector	9.1	14.0	72.0

Annualised % total return from launch (GBP)

Fund	7.6%
Index	7.7%
Sector	8.1%

Risk analysis (annualised, weekly, from launch)

	Index	Sector	Fund
Alpha	0.0	1.2	0.6
Beta	1.0	0.9	0.9
Info ratio	0.0	0.1	0.0
Max drwn	-25.0	-24.4	-30.3
Tracking err	0	5	5
Volatility	16.3	15.2	16.2
Sharpe ratio	0.3	0.3	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. For further details on fund performance, please refer to the penultimate page of this document.

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

Summary Performance

In November, the Guinness European Equity Income Fund produced a total return of +11.8% (in GBP) versus the Index return of +13.4% (in GBP), meaning the fund underperformed its benchmark by 1.6%.

	1 month	YTD	1 Yr	3 Yr	5 Yr	Since Launch
Fund	11.8%	-1.5%	0.6%	12.1%	60.9%	66.5%
Index	13.4%	5.3%	6.4%	14.2%	56.7%	67.1%
Sector	14.1%	7.5%	9.1%	14.0%	56.8%	72.0%
Fund vs Sector	-2.3%	-9.0%	-8.5%	-1.9%	4.1%	-5.5%

Figure 1: Performance data.

Source: Financial Express 0.35% OCF. Cumulative Total Return in GBP as of 30.11.2020

The largest positive contributors to performance over the month of November (in EUR) were **Axa** +42.8%, **Thales** +37.9%, **Aalberts** +25.9%, **TietoEVRY** +24.2% and **Mapfre** +24.2%

At the other end of the spectrum, the biggest detractors from performance were largely quality names which drove outperformance over Q3, including **Nestle** -3.2%, **Euronext** -0.6%, **Roche** +0.1%, **Sika** +1.3% and **Recordati** +1.4%.

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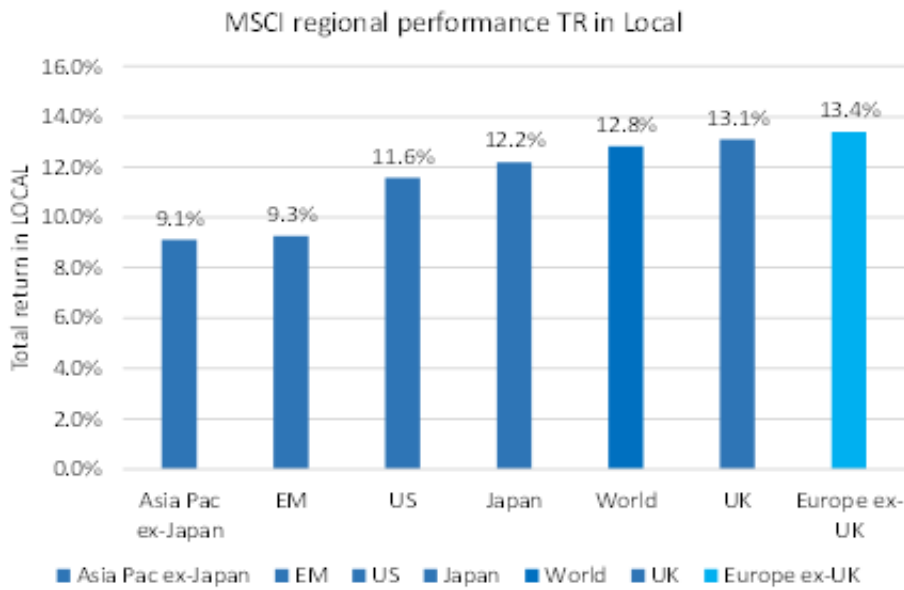


Figure 2: MSCI regional performance for November 2020, in GBP. Source: Bloomberg

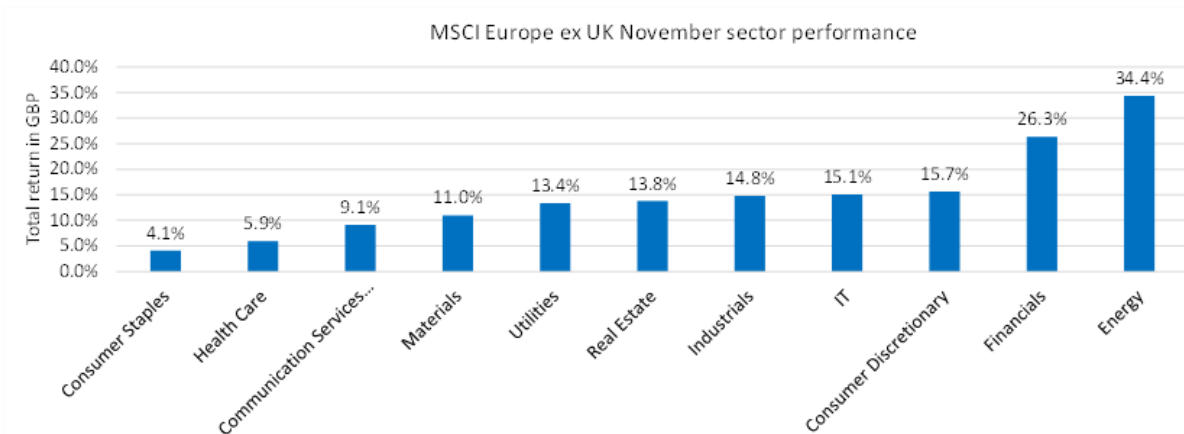


Figure 3: MSCI Europe ex UK sector performance for November 2020, in GBP. Source: Bloomberg

Market & Fund review

Markets rebounded sharply in November, with Europe leading MSCI regional performance as multiple positive vaccine announcements sparked a fierce rally across **MSCI Value (+19%)** vs. **Growth (+8%)** indices. The fund is well balanced across both value and growth through holdings of high-quality defensives and cyclicals, and did a fair job of keeping up with the advance, but lagged the Index slightly as lower quality components led sector performance. The fund holds no **Energy (+34%)** stocks, and within Financials **Banks** rose +30%, leading performance over **Insurers (+24%)** and our exchanges (**Euronext** and **Deutsche Boerse**) which lagged. MSCI Europe High Dividend rose 15% over the month. Within **Consumer Discretionary** and **Industrials**, it was the downtrodden **Auto** OEMs and **Travel & Leisure** components that zoomed back to life fastest. We might have made life a little harder for ourselves right now by adding some duration to the portfolio in Q2, but continue to feel that the tilt towards high-quality enablers of resilience and job creation will be rewarded over time; as companies look to increase agility through a greater emphasis on communications and automation capex and governments work hard to address deficits and bring employment back to prior highs. In contrast, the current sharp rebound in out-of-favour oils, banks and Auto OEMs will likely prove to be one-off in nature.

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Guinness European Equity Income Fund

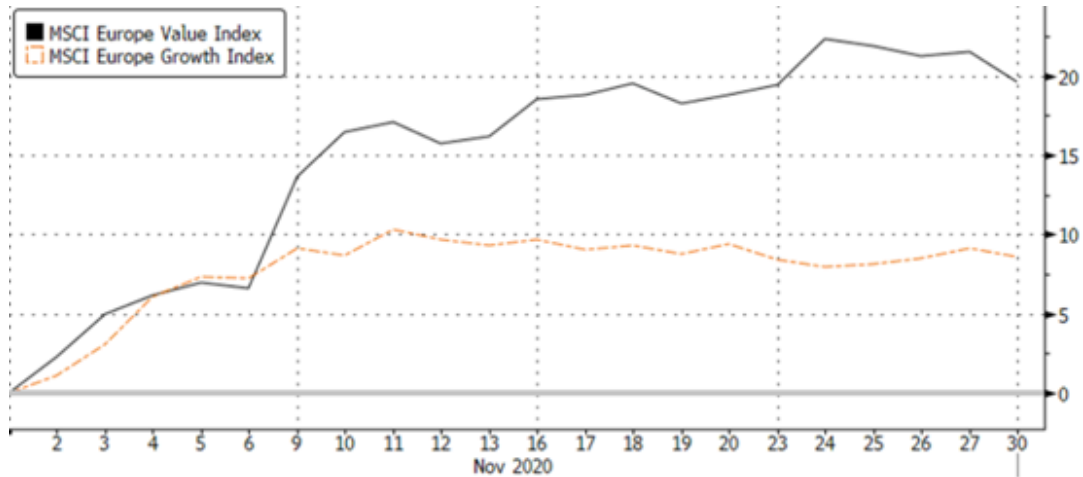


Figure 4: MSCI Europe Value and Growth indices performance for November 2020, in GBP.
Source: Bloomberg

That it was a German company, **BioNTech**, that crossed the vaccine finishing line first in validating the mRNA platform was perhaps a surprise. What was also notable from our point of view was that the company is significantly owned by husband and wife couple **Dr Sahin & Sureci**, who have diligently worked away for a lifetime in a product area they love, innovating, experimenting, investing and thinking for the long-term. The same dynamic has driven outperformance at many of the family-run **German Mittelstand** and immaculately governed **Swedish OMX** companies over time. Namely, managers who are passionate and whose interests are well aligned with all shareholders and stakeholders for the long-term. Needless to say, the point pertains to many of the quality track records and future prospects of current holdings in the Guinness European Equity Income Fund. In fact, some half of fund holdings are in some way actively managed by a significant long-term shareholder.

Fuel was added to the fire just as the **ECB** indicated that it would top up its **PEP** program in December, and as Joe Biden confirmed former Fed Chair and dove **Janet Yellen** as his nomination for treasury secretary. Meanwhile proposals to break the US Democrat Republican deadlock on a ~\$2trn fiscal package emerged. In Europe, we do not expect Hungary and Poland to hold up the €750bn recovery fund for much longer, as they risk shooting themselves in the foot as significant financial beneficiaries of the package by being cut out of a substitute version. The future continues to look rather fiscally led, but with long rates capped for the foreseeable future by QE morphing towards yield curve control. Notably the ECB looks set to acquire more net new sovereign debt than is expected to be issued by the 19 Euro area countries next year.

That relations with Continental Europe are high on the new US administration's agenda was confirmed as president elect **Joe Biden** nominated two fluent French speakers to key positions; **Anthony Blinken** for Secretary of State and **John Kerry** as presidential envoy on climate. "The most French speaking administration in history" according to Gerard Araud, the recent French ambassador to the US. There is a clear link, according to IEA, OECD and World Bank data: France comes out top of the pile among twelve advanced economies for public clean energy R&D investment as a percentage of GDP and correspondingly bottom for CO2 emissions (albeit helped by EDF's fleet of reactors). With the UK out of the European Union, France is also joint top of the pile in terms of policy influence across the largest single market in the world (though London's ties in Washington of course run far deeper than those of France or the EU). In short, all three need each other and we remain confident that the dead weight of Brexit negotiations will be lifted shortly. Though for the financial sector, which looks unlikely to be covered by a deal, there

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may be a creaking sound as the EU leverages passporting rights to extract Euro finance functions, which means more Euro trading functions moving towards the fund's holdings in **Euronext** and **Deutsche Boerse**. That said, we are optimistic and do not ultimately foresee a beggar-thy-neighbour approach, as the EU at the end of the day also wants a healthy customer, and **LSE** itself should prove well placed in a global context with the added clout of the Refinitive acquisition.

At the company level, developments over the month were again encouraging:

- **Unilever's** weighting in the UK has now doubled following the change in domicile (while a Euro-denominated line will continue to be traded on Euronext Amsterdam) leaving the way open for portfolio optimisation
- **Thales** won its third largest ever order – €1.5bn to equip radar in four new German navy frigates
- **Smurfit Kappa** highlighted an excess of structural, sustainable and efficiency opportunities
- **Novo Nordisk's** key trial for Semaglutide 2.0mg for the rapidly expanding Obesity segment – where it already holds over 50% market share – achieved significant weight reduction over Semaglutide 1.0mg
- **Deutsche Boerse's** capital markets day highlighted a 10% 3Y CAGR, 5% secular and 5% driven by M&A, with no cyclical component suggesting conservatism on the part of management
- **Danone's** large reorganisation and cost-savings program suggests high teens operating margins through 2023 vs. 14% today
- **ABB's** capital markets day highlighted that most costs have now been passed down to 18 divisions which now enjoy significantly greater autonomy and incentive than under the old hierarchical structure
- **Siemens** reported expectations for 25% order growth in Mobility and plans to separate traffic-systems, as it continues on its path towards higher returns

Whatever the weather the Guinness European Equity Income Fund remains well placed, invested in companies characterised by persistent high cash returns and strong balance sheets, alongside high levels of self-determination, namely, identifiable barriers to entry, leading market positions, widening moats, aligned interests and long runways for growth.

We thank you for your continued support.

Nick Edwards (Portfolio Manager)

Guinness European Equity Income Fund

PORTFOLIO

30/11/2020

Fund top 10 holdings

AXA	3.7%
Konecranes	3.6%
Mapfre	3.5%
ABB	3.5%
Smurfit Kappa Group	3.5%
ASML Holding	3.5%
Tieto	3.5%
Aalberts	3.5%
Novo Nordisk	3.4%
Unilever	3.4%
% of Fund in top 10	35.2%
Total number of stocks	30

Sector analysis

Industrials	30.2%
Financials	20.1%
Consumer Staples	16.5%
Health Care	13.0%
Information Technology	10.3%
Materials	6.7%
Consumer Discretionary	3.3%
Cash	-0.3%

Geographic allocation

France	23.7%
Switzerland	16.5%
Germany	13.1%
Netherlands	10.0%
Finland	7.0%
Sweden	6.4%
Spain	3.5%
Ireland	3.5%
Denmark	3.4%
UK	3.4%
Other	9.6%
Cash	-0.3%

PERFORMANCE

30/11/2020

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

Fund (0.35% OCF)	7.6%
MSCI Europe ex UK Index	7.7%
IA Europe ex UK sector average	8.1%

Discrete years % total return (GBP)

	Nov '20	Nov '19	Nov '18	Nov '17	Nov '16
Fund (0.35% OCF)	0.6	14.5	-2.6	18.0	21.6
MSCI Europe ex UK Index	6.4	13.1	-5.1	23.5	11.1
IA Europe ex UK sector average	9.1	12.1	-6.8	23.7	11.1

Cumulative % total return (GBP)

	1 month	Year-to-date	1 year	3 years	5 years	From launch
Fund (0.35% OCF)	11.8	-1.5	0.6	12.1	60.9	66.5
MSCI Europe ex UK Index	13.4	5.3	6.4	14.2	56.7	67.1
IA Europe ex UK sector average	14.1	7.5	9.1	14.0	56.8	72.0

RISK ANALYSIS

30/11/2020

Annualised, weekly, from launch on 19.12.13, in GBP

	Index	Sector	Fund
Alpha	0.00	1.17	0.59
Beta	1.00	0.88	0.94
Information ratio	0.00	0.05	0.02
Maximum drawdown	-25.02	-24.43	-30.29
R squared	1.00	0.89	0.90
Sharpe ratio	0.26	0.29	0.26
Tracking error	0.00	5.49	5.24
Volatility	16.28	15.15	16.18

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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.

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.

GUINNESS

ASSET MANAGEMENT

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

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