

# Guinness European Equity Income Fund

## INVESTMENT COMMENTARY – February 2021

<b>Launch date</b>	<b>19.12.2013</b>		
<b>Manager</b>	<b>Nick Edwards</b>		
<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>	31.01.21		
<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>	1.9	12.9	67.7
<b>Index</b>	6.8	12.4	66.7
<b>Sector</b>	9.9	12.5	73.1
<b>Annualised % total return from launch (GBP)</b>			
<b>Fund</b>	7.5%		
<b>Index</b>	7.4%		
<b>Sector</b>	8.0%		
<b>Risk analysis (annualised, weekly, from launch)</b>			
	<b>Index</b>	<b>Sector</b>	<b>Fund</b>
<b>Alpha</b>	0.0	1.4	0.7
<b>Beta</b>	1.0	0.9	0.9
<b>Info ratio</b>	0.0	0.1	0.0
<b>Max drwn</b>	-25.0	-24.4	-30.3
<b>Tracking err</b>	0	5	5
<b>Volatility</b>	16.2	15.1	16.1
<b>Sharpe ratio</b>	0.2	0.3	0.3
<p>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.</p> <p>Source: Financial Express, Z class 0.35%, bid to bid, total return.</p>			

## Summary Performance

In January, the Guinness European Equity Income Fund outperformed the MSCI Europe ex UK Index by 0.75%, producing a total return of -1.5% (in GBP) versus the Index return of -2.3% (in GBP). The fund remains first quartile versus European income peers over three years, five years and since inception.

	1 month	YTD	1 Yr	3 Yr	5 Yr	Since Launch
<b>Fund</b>	-1.5%	-1.5%	1.9%	12.9%	64.5%	67.7%
<b>Index</b>	-2.3%	-2.3%	6.8%	12.4%	61.3%	66.7%
<b>Sector</b>	-2.0%	-2.0%	9.9%	12.5%	63.4%	73.1%
<b>Fund vs Sector</b>	0.5%	0.5%	-8.1%	0.5%	1.1%	-5.4%

Figure 1: Performance data.

Source: Financial Express 0.35% OCF. Cumulative Total Return in GBP as of 31.01.2021

The largest positive contributors to performance over the month of January (in EUR) were **ASML Holding** +10.3%, **Siemens** +9.1%, **ABB** +7.1%, **Konecranes** +4.4% and **Smurfit Kappa** +4.3%.

At the other end of the spectrum, the biggest detractors from performance were **Kering** -8.3%, **Amundi** -8.1%, **Axa** -6.2%, **Capgemini** -5.8% and **Recordati** -5.8%.

One month into the year and the best-performing names in the portfolio (above) are all enablers of resilience (namely digital), industrial automation and sustainable leaders; entirely logical against a backdrop of corporates buffeted by the uncertainties of viruses and extraordinary political action. The latter are not just represented by lockdowns of entire workforces, but the prospect of massive green and digitally focused fiscal stimulus alongside the prospect of other actions by mid-year 2021, including a European carbon border adjustment tax, ensuring expensive climate action doesn't just haemorrhage into lower cost bases abroad. Foreign policy is about

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## Guinness European Equity Income Fund

to become a big topic for the European Union. If the last decade was primarily a story about technology to the consumer, the next looks likely to be far more focused on industrial technology and infrastructure. The former is very much Europe's domain.

There have been some notable data points over the last few weeks. **ASML's** largest customer TSMC announced a minimum +47% capex increase for 2021. **Deutsche Post** reported FY 2020 EBIT +34% as the pandemic underscored the systemic importance of its unique and globally leading logistics network. **Epiroc** announced a SEK3 special dividend, meaning a 129% YoY increase rather than the +4% that was expected on the heels of a 14% increase in 2020. Epiroc is the leading clean productivity enabler to a dirty industry (mining), increasingly a licence to operate for the industry, and a good and cash generative place to be (with some 70% of sales stemming from aftermarket and consumables). **Sika** just announced that it sees 2021 operating margins up an impressive +10% – +28%. Sika (like Epiroc) is the leading clean productivity enabler to a fragmented dirty industry, in this case the construction chemicals industry. Like all the companies held in the Guinness European Equity Income Fund's portfolio, they all use technology well and add a lot of value to their customers.

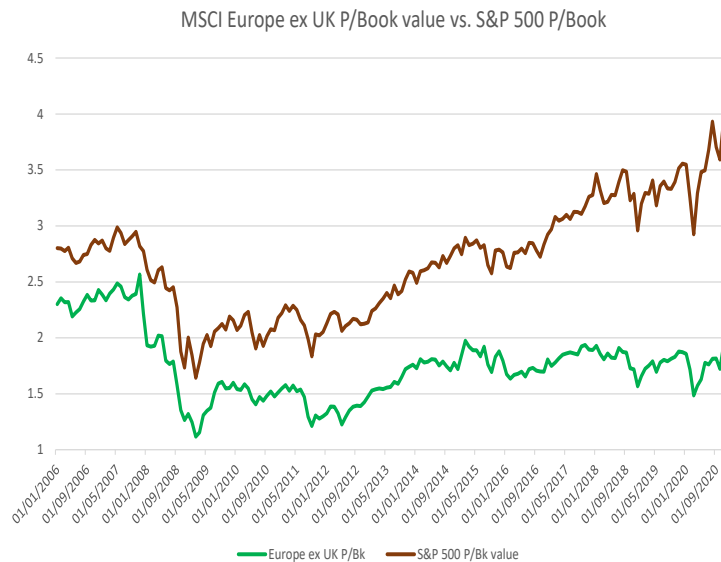
At the other end of the portfolio, we note that the four biggest detractors from performance were French. I sense I am on dangerous ground, but also think that there may be a (rather petty) link to events of the month. Has the market really linked France's lack of progress over developing its own vaccine to the prospects for Emmanuel Macron in the French 2022 general election? We are used to the market inferring new negatives from past negatives leading to even more depressed European domestic asset prices; but the reality is that the populists had a really bad 2020 and the outlook for economic and political cohesion in Europe is steadily mending. The same could be said of fears around Prime Minister Conte's resignation in Italy, where the spat over spending of European Recovery funds looks likely to result in better capital allocation towards more economically productive areas including AI, digitalisation and climate – particularly if, as we suspect, Mario Draghi succeeds in forming a new cross party coalition government. Meanwhile there is no let up in the shift away from the austerity of the last ten years, exemplified by Angela Merkel's top aide Helge Braun calling for the abandonment of the Schwarz Null and Le Maire, the French finance minister, arguing that "rules should be re-evaluated to take account of reality: we have the highest debt levels in our history, the lowest interest rates in our history (-0.33% 10Y), and the largest investment needs in our history". The bottom line is that there is nothing fundamentally awry with our holdings in **Kering, Amundi, Axa** or **CapGemini**; they are high quality global businesses of French origin operating against a backdrop of negative sentiment that looks likely to shift in their favour.

The same could be argued for Europe itself with 15Y Price/Book divergence versus the US (below) highlighting the point. Is it absurd to suggest that European earnings might regain form and return to their historic trend growth rate aided by foreign and domestic post Brexit post vaccine policy moving in the region's favour? While high US multiples might revert towards historic norms as domestic taxation rises? Probably precisely wrong but could be approximately right.

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## Guinness European Equity Income Fund



**Figure 1: MSCI Europe ex UK P/Book value vs. S&P 500 P/Book, 01/01/2006–31/12/2020. Source: Bloomberg**

Whatever the economic weather in 2021, we believe our focus on quality companies that generate persistent high cash returns supported by strong balance sheets will serve investors well for the long-term. The fund's holdings are characterised by high levels of self-determination: namely, identifiable barriers to entry, leading market positions, widening moats, aligned interests and long runways for growth. On a related note, downturns often confer significant market share gains on market leaders and innovative companies like those held in the fund. Based on the below measures, holistically, the high-conviction fund has companies which are significantly higher quality and better value verses the index.

		<b>Guinness European Income Fund</b>	<b>MSCI Europe ex UK Index</b>
<b>Quality</b>	Average 8 year CFROI %	13.2	8.4
	Debt / equity %	77.6	229.0
	Net debt / Equity %	50.1	60.8
	ROE %	20.3	7.9
<b>Value</b>	PE (2021e)	16.4	18.3
	FCF Yield % 12m trailing	5.4	3.3
<b>Dividend</b>	Dividend Yield (2021e) % gross	3.2	2.8
	Weighted average payout ratio %	46.0	63.0
<b>Conviction</b>	Number of stocks	30	344
	Active share	85	NA

Source: Bloomberg, Guinness data

We thank you for your continued support.

**Nick Edwards** (Portfolio Manager)

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## Guinness European Equity Income Fund

### PORTFOLIO

31/01/2021

#### Fund top 10 holdings

Smurfit Kappa Group	3.6%
Siemens	3.6%
ABB	3.5%
Salmar	3.4%
Konecranes	3.4%
Danone	3.3%
ASML Holding	3.3%
Sika	3.3%
Bakkafrost	3.3%
Deutsche Boerse	3.3%
% of Fund in top 10	33.9%
Total number of stocks	30

#### Sector analysis

Industrials	29.50%
Financials	18.80%
Consumer Staples	16.60%
Health Care	12.90%
Information Technology	9.60%
Materials	6.90%
Consumer Discretionary	3.20%
Cash	2.60%

#### Geographic allocation

France	22.20%
Switzerland	16.30%
Germany	13.10%
Netherlands	9.70%
Norway	6.80%
Finland	6.60%
Sweden	6.40%
Ireland	3.60%
Italy	3.30%
UK	3.30%
Other	6.30%
Cash	2.60%

### PERFORMANCE

31/01/2021

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

Fund (0.35% OCF)	7.5%
MSCI Europe ex UK Index	7.4%
IA Europe ex UK sector average	8.0%

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

	Jan '21	Jan '20	Jan '19	Jan '18	Jan '17
Fund (0.35% OCF)	1.9	18.6	-6.5	9.8	32.6
MSCI Europe ex UK Index	6.8	14.6	-8.2	16.5	23.2
IA Europe ex UK sector average	9.9	14.0	-10.3	17.4	23.7

#### Cumulative % total return (GBP)

	1 month	Year-to-date	1 year	3 years	5 years	From launch
Fund (0.35% OCF)	-1.5	-1.5	1.9	12.9	64.5	67.7
MSCI Europe ex UK Index	-2.3	-2.3	6.8	12.4	61.3	66.7
IA Europe ex UK sector average	-2.0	-2.0	9.9	12.5	63.4	73.1

### RISK ANALYSIS

31/01/2021

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

	Index	Sector	Fund
Alpha	0.00	1.43	0.69
Beta	1.00	0.88	0.94
Information ratio	0.00	0.10	0.04
Maximum drawdown	-25.02	-24.43	-30.29
R squared	1.00	0.89	0.90
Sharpe ratio	0.23	0.29	0.25
Tracking error	0.00	5.46	5.20
Volatility	16.22	15.06	16.13

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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

Tel: +44 (0) 20 7222 5703

Email: [info@guinnessfunds.com](mailto:info@guinnessfunds.com)

Web: [guinnessfunds.com](http://guinnessfunds.com)