Guinness European Equity Income Fund

Investment Commentary – June 2022

This is a marketing communication. Please refer to the prospectus and KIID for the Fund before making any final investment decisions. Past performance does not predict future returns.

ABOUT THE FUND

Launch date	19.12.2013
Index	MSCI Europe ex UK
Sector	IA Europe excluding UK
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. The Fund is actively managed and uses the MSCI Europe Ex UK Index as a comparator benchmark only.

RISK

Lower risk			Risk & reward			Higher risk
1	2	3	4	5	**6**	7

Typically lower rewards — Typically higher rewards

The risk and reward indicator shows where the Fund ranks in terms of its potential risk and return. The Fund has been classed as 6 because its volatility has been measured as above average to high. Historic data may not be a reliable indicator for the future. The value of an investment and the income from it can fall as well as rise as a result of market and currency movement; you may not get back the amount originally invested.

PERFORMANCE

Past performance does not predict future returns

31/05/2022	1 year	3 years	5 years	Launch*
Fund	-2.0	21.1	21.0	81.7
Index	-2.1	24.5	26.1	81.0
Sector	-3.4	26.8	25.5	85.0

Full discrete 12m performance is shown at the end of this commentary. Source: FE fundinfo, 0.89% OCF, bid to bid, total return. *Launch date 19.12.13. Investors should note that fees and expenses are charged to the capital of the Fund. This reduces the return on your investment by an amount equivalent to the Ongoing Charges Figure (OCF). The performance shown has been reduced by the current OCF of 0.89% per annum. Returns for share classes with different OCFs will vary accordingly. The performance returns do not reflect any initial charge; any such charge will also reduce the return.

MAY IN REVIEW

In May the Fund returned -1.2% in GBP. The MSCI Europe ex UK Index was up 0.1%. Over the year to date the Fund is down -6.2%, while the benchmark is down -9.0%.

The largest positive contributors to performance over the month of May (in EUR) were **Mercedes-Benz** +8.2%, **Euronext** +7.9%, **Konecranes** +6.7%, **Siemens** +6.0% and **Henkel** 4.3%.

The biggest detractors from performance were **Salmar** -11.6%, **Roche** -10.2%, **Recordati** -8.2%, **Capgemini** -8.0% and **Nestlé** -7.4%**.**

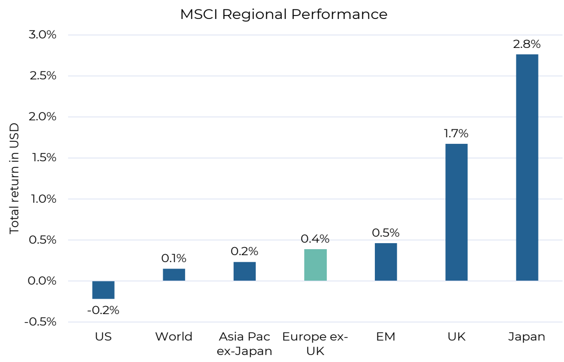


Figure 1: MSCI regional total returns, May 2022, in USD. Europe ex UK in light green. Source: Bloomberg

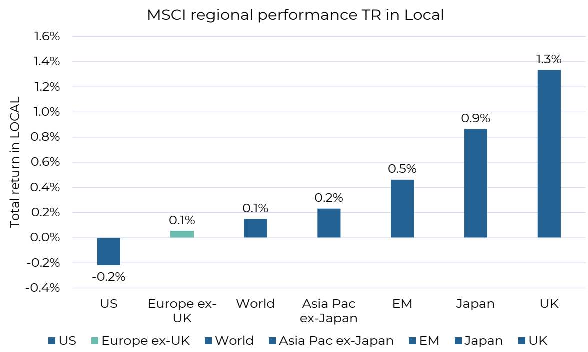


Figure 2: MSCI regional total returns, May 2022, in local currency. Europe ex UK in light green. Source: Bloomberg

The MSCI Europe ex UK Index closed the month of May +0.4% higher in USD terms, after falling -7.6% from the end of April to 9th of May and subsequently rallying 8.5%. Over the month sector rotation worked against the Fund with commodity and regulated sectors the winners. The Energy sector rose +14.5% (in GBP), followed by Financials +4%, Communications Services +3.5% and Utilities +2.1%. Financials performance was led by the banks, with the Stoxx 600 Banks sector up +6.2% (in GBP) vs. Insurance -2.4%. As a result all of the Fund's overweight sectors found themselves at the weaker end of market performance in the month of May.

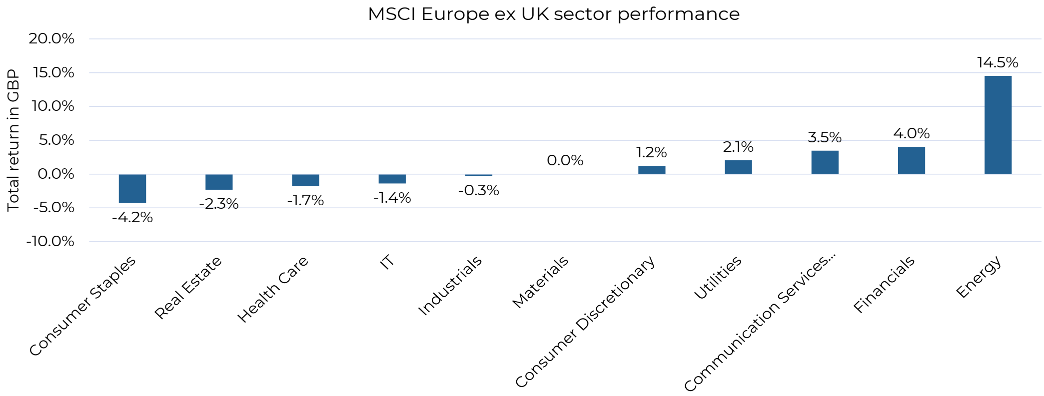


Figure 3: MSCI Europe ex UK sector returns breakdown for May 2022, in GBP. Source: Bloomberg data

Near-term rotation aside, **the Europe ex UK region represents an attractive destination for income in a more inflationary and capex led environment.**

Quality dividend-paying European equities look like an attractive option for income seekers at this juncture. Simply put, investors can come to Europe and invest in high-quality, unique, globally leading and well governed companies trading at favourable valuations and achieve a significant (more than 2x) uplift over the MSCI USA dividend yield of 1.5% without giving up on quality. Even more compelling in this new environment is the alignment between what Europe does well and what works in a rising interest rate, inflationary and capex-led environment. MSCI Europe ex UK Index gives investors nearly double the exposure to Consumer Staples, Industrials and some 40% more exposure to Financials (15% vs 11%) than MSCI USA. By contrast, the US, notably via its Information Technology sector (28% vs 9% sector weight in Europe), holds far more high-multiple growth stocks which tend to struggle against a backdrop of rising discount rates. Meanwhile the valuation spread between MSCI Europe ex UK (13.6x 2022e PE) and MSCI US (18.4x 2022e PE) is at decade highs.

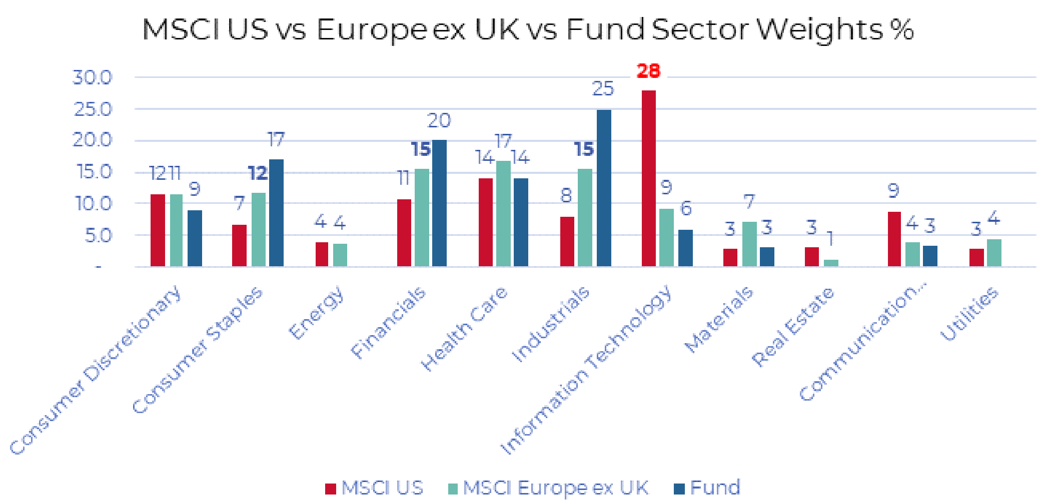


Figure 4: Index sector weights as of 31.05.2022. Source: Bloomberg

Europe's high-quality companies tend to be found across areas of the market with a similar or higher index weighting vs the US – notably Consumer Discretionary (luxury and some autos), Consumer Staples, Financials (ex-banks), Healthcare, industrial technology and materials science. By focusing on these areas of excellence, investors can access returns more equivalent to MSCI US at far lower multiples and achieve a >100% uplift in income. All while avoiding the lower-return, more capital-intensive and domestic-facing highly cyclical and regulated sectors from which many dividend funds tend to derive their higher levels of income; and which tend to see wildly fluctuating performance, or suffer regulatory intervention such as the energy and electricity price clawbacks that are now being put forward in response to the crisis.

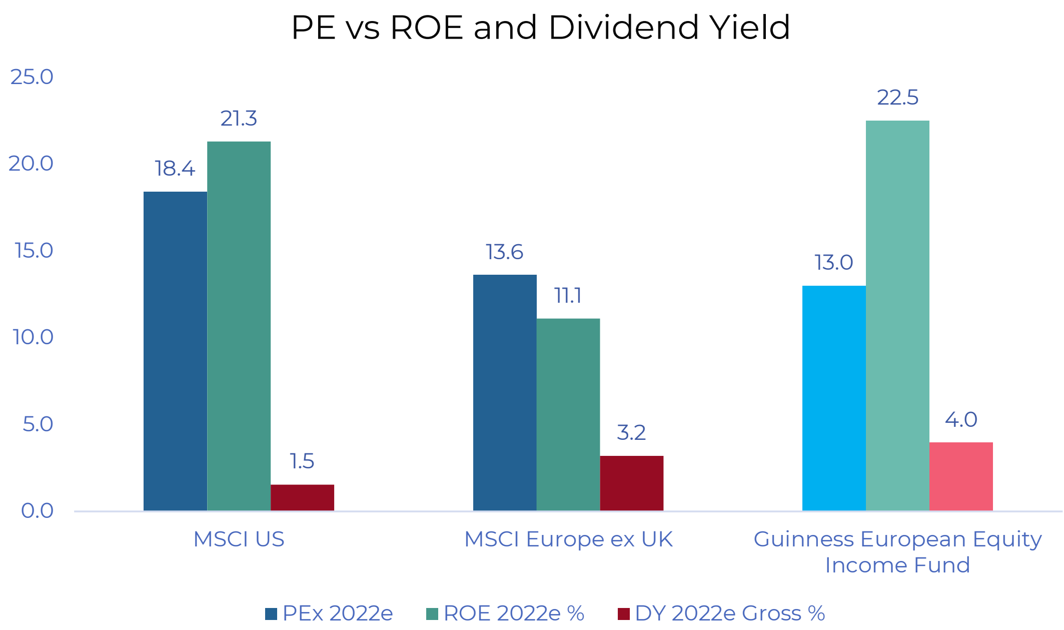


Figure 5: MSCI US vs MSCI Europe ex UK and Fund PE, ROE and DY% as of 31.05.2022. Source: Bloomberg data.

It has been a long time since investors have been confronted by an inflationary environment characterised by rising rates, slowing growth and, in this case, a fiscally led pick-up in capex. Somewhat counter-intuitively, given the tragic events unfolding in Ukraine and related higher energy and input costs, Europe is structurally quite well positioned for this kind of environment. **Consumer Staples** (12% sector weight vs 7% for MSCI US), which tend to sell small, vital and trusted items which make customers look or feel good, have a strong track record of passing on costs. We saw this in action again at Q1 results where Unilever passed on 8% to price against 7% growth in sales, while Nestlé and Danone recorded robust demand at higher price for vital and trusted brands such as Kitkat and Actimel. Similar arguments apply to IP-rich entertainment companies like the Fund's holding in Universal Music, and also to high-end luxury brands such as Mercedes-Benz and Kering's Gucci and Saint Laurent brands in the Consumer Discretionary sector, where high-end demand tends to be relatively unaffected by short-term economic headwinds.

Due to its long history of competing city states and as a hydrocarbon-scarce region, Europe also excels in industrial technology (with **Industrials** 15% vs 8% sector weight in US) and is uniquely well placed to benefit from the fiscally led global wave of capex now targeting resource efficiency and regional self-sufficiency set to run through the next decade and beyond. Growth may be slowing in some areas of the economy, but for Europe's globally leading industrial enablers, Q1 results showed clear evidence of both the ability to pass on costs and a long-term outlook that is robust and improving. Schneider Electric cited an "acceleration of electrification, energy efficiency, Electricity 4.0 and Industry 4.0" alongside the need for "industrial sovereignty". ABB and Siemens offered similarly upbeat outlooks across their dominant automation, robotics and industrial software businesses. What's more, these digital industrial enablers, characterised by high levels of recurring service revenue, are currently available at fair or even discounted multiples.

The European **Financials** sector (ex banks) also offers plenty of high-quality, globally leading companies with persistent high cash returns and strong balance sheets, including insurers and exchanges such as Deutsche Boerse and Euronext, which benefit from higher interest rates and volatility. Here too, dividend yields are in general well above the levels on offer the other side of the pond.

This mix of high-quality cyclicals (Industrials & Financials) and defensives (Staples and Healthcare together with exchanges within Financials) also presents the opportunity to build a well-balanced portfolio that can outperform down markets and keep up in bull markets.

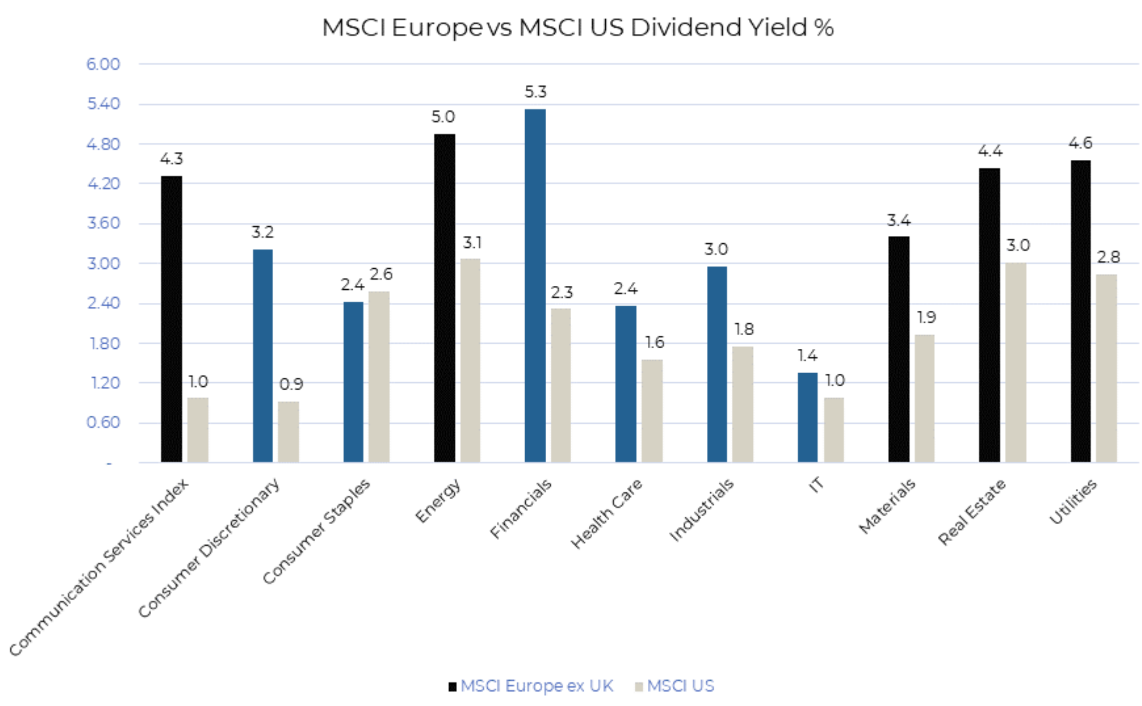


Figure 6: MSCI Europe ex UK vs MSCI US sector dividend yields. "Quality sectors" in blue. Source: Bloomberg data. 31.05.2022.

Most of Europe's current inflationary bout is imported, and in combination with the region's significantly higher labour slack versus the US (6.8% unemployment vs 3.8% in the US), which can be seen in Europe's far lower levels of Core CPI Inflation vs the US (c.3% vs 7%), means Europe looks likely to avoid the extent of rate rises set to unfold in the US. This in turn suggests European real rates should remain low (albeit above prior levels due to the expanding fiscal focus on climate and self-sufficiency), and the environment for quality income supportive for a long time to come. Meanwhile, the successive impacts of Trump, Brexit, coronavirus and now the Russia/Ukraine war are working to make Europe a more politically cohesive and agile block, with positive long-term investment implications for the region.

KEY FUND METRICS

		Guinness European Income Fund	MSCI Europe ex UK Index	Guinness Delta vs. MSCI Europe
Quality	Debt / equity %	76.0	204.0	-128.0
	Net debt / Equity %	40.8	47.4	-6.6
	ROE %	22.5	11.1	11.4
Value	PE (2023e)	13.0	13.6	-0.6
	FCF Yield %	6.9	6.3	0.6
Dividend	Dividend Yield (Best) % gross	4.0	3.2	0.8
	Weighted average payout ratio %	44.4	71.0	-26.6
Conviction	Number of stocks	30	344	-314.0
	Active share	82	NA	

Source: Bloomberg, Guinness data

Figure 7: Key Fund metrics vs MSCI Europe ex UK Index at end May 2022. Source: Bloomberg data. Historic yield reflects the distributions declared over the past 12 months expressed as a percentage of the mid-market price, as at the date shown. It does not include any preliminary charges. Investors may be subject to tax on the distribution.

PORFOLIO HOLDINGS

Mercedes-Benz (+8.2% in EUR) was the best-performing stock over the month of May following a strong set of numbers, at odds with market expectations of a sector slowdown against a backdrop of higher input costs. Mercedes' Q1 sales rose 6% alongside a 19% growth in EBIT driven by strong price mix. We see potential for continued improvements in profitability at Mercedes. For example, one G63 AMG (at >20% margin) offers nearly 3.5x the operating profit opportunity of five Mercedes A Class Sport A180s (at 6% margin). Mercedes is the largest luxury car manufacturer in the world (defined as cars priced >€90k) but 'luxury still only constituted just under 17% of group sales in 2021. It is also a global top-10 brand and trades on just 5.9x 2023e earnings. In terms of current trading we are encouraged to see ongoing evidence that the group is gaining market share at the top end and its historic price premium vs peers such as BMW and Audi. With an industry-leading electric strategy and related potential for higher levels of recurring revenue over the medium term, we see strong potential for both earnings and the multiple.

Euronext (+7.9% in EUR) was the second-best performing stock over the month after a strong set of results. Euronext reported all-time high quarterly adjusted revenues with non-volume related / recurring revenues up to 55% of total sales (from post trade and data). Cost savings estimates relating to the Borsa Italiana acquisition were also increased. Strong cash generation saw leverage fall to 2.3x suggesting room for accretive bolt-on M&A to restart following the sizeable €4.4bn purchase of Borsa Italiana in April 2021. In our view this is all good news, with the company demonstrating discipline having not bid for the Spanish bourse BME vs Swiss SIX or for ICE's Euroclear stake.

Salmar (-11.6% in EUR) was the worst-performing stock over the month. This was technical, coming after a strong run of performance as investors reacted to recent events by looking for cover in real assets and against a backdrop of buoyant salmon pricing in the face of static industry supply growth and robust demand amid post-Covid reopening. Although we recently sold Bakkafrost, which had 20% sales exposure to Russia, this is an industry we continue to like with an attractive supply and demand profile and a healthy product relative to other sources of protein. It is hard to add capacity given specific water temperature and environmental requirements, while the potential for demand growth is significant with European consumption still well above US per capita consumption and many multiples of China demand.

Roche (-10.2% in EUR) was our second-worst performing stock over the month of May as phase III trial results for cancer drug Tiragolumab plus Roche's existing treatment Tecentriq disappointed vs Tecentriq on a standalone basis. Some analysts had already pencilled in Tiragolumab as accounting for 3% of sales several years out, which together with some de-rating associated with optimism around Roche's future oncology pipeline accounts for the weak performance and low multiple (on 12.8x 2023e earnings vs ROE 55%). Roche is a global leader in oncology but has lost market share in recent years, which accounts for the reasonable multiple. We would counter that the dramatic growth seen in the group's high-quality (and arguably under-appreciated) Diagnostics segment since the pandemic, along with Roche's persistent high level of R&D spend (at 21% of sales) driving growth in the wider pharma portfolio outside of oncology, more than makes up for the loss, and implies an improving quality of earnings yet to be reflected in the price.

Thank you for your continued support.

Portfolio Manager

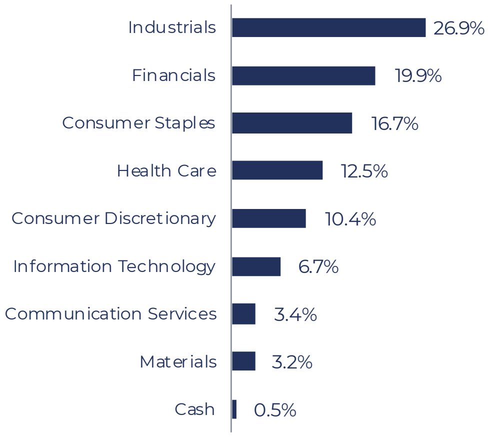
Nick Edwards

PORTFOLIO

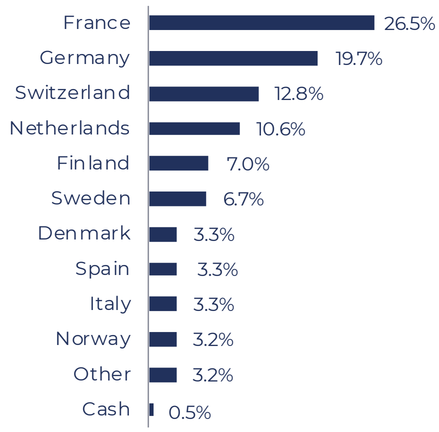
Fund top 10 holdings

UNILEVER NV	3.7%
Konecranes	3.6%
Kering SA	3.5%
Euronext	3.5%
Siemens	3.5%
Kaufman & Broad SA	3.5%
Tieto	3.4%
UNIVERSAL MUSIC GROUP	3.4%
Epiroc AB	3.4%
Daimler AG	3.4%
% of Fund in top 10	34.8%
Total number of stocks	30

Sector analysis



Geographic allocation



PERFORMANCE

Past performance does not predict future returns.

Annualised % total return from launch on 19/12/2013 in GBP **31/05/2022**

Discrete years % total return (GBP)	May '22	May '21	May '20	May '19	May '18	May '17	May '16	May '15
Fund (Y Class, 0.89% OCF)	-2.0	31.7	-6.2	5.6	-5.4	36.4	3.9	-0.2
MSCI Europe ex UK Index	-2.1	25.5	1.3	1.1	0.2	34.5	-4.5	4.3
IA Europe ex UK sector average	-3.4	27.5	2.9	-3.3	2.4	32.7	-2.8	7.3
Fund vs sector	1.4	4.2	-9.1	8.9	-7.7	3.7	6.7	-7.5

Cumulative % total return (GBP)	1 month	YTD	1 year	3 years	5 years	Launch*
Fund (Y Class, 0.89% OCF)	-1.2	-6.2	-2.0	21.1	21.0	81.7
MSCI Europe ex UK Index	0.1	-9.0	-2.1	24.5	26.1	81.0
IA Europe ex UK sector average	0.8	-9.5	-3.4	26.8	25.5	85.0

RISK ANALYSIS **31/05/2022**

Annualised, weekly, from launch on 19/12/2013 in GBP	Index	Sector	Fund
Alpha	0.00	1.05	0.53
Beta	1.00	0.87	0.95
Information ratio	0.00	0.04	0.02
Maximum drawdown	-25.02	-24.43	-30.36
R squared	1.00	0.89	0.91
Sharpe ratio	0.23	0.26	0.24
Tracking error	0.00	5.30	4.98
Volatility	16.07	14.85	16.00

*Fund launch date: 19.12.13.

Fund returns are for share classes with a current Ongoing Charges Figure (OCF) of 0.89%; returns for share classes with a different OCF will vary accordingly. Source: FE fundinfo bid to bid, total return.

IMPORTANT INFORMATION

Issued by Guinness Global investors, a trading name of Guinness Asset Management Limited, which is authorised and regulated by the Financial Conduct Authority.

This report is primarily designed to inform you about 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. 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 in English from www.guinnessgi.com or free of charge from:-

- the Manager: Link Fund Manager Solutions (Ireland) Ltd (LFMSI), 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.

LFMSI, as UCITS Man Co, has the right to terminate the arrangements made for the marketing of funds in accordance with the UCITS Directive.

Investor Rights
A summary of investor rights in English is available here:https://www.linkgroup.eu/policy-statements/irish-management-company/

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. The paying agent is Banque Cantonale de Genève, 17 Quai de l'Ile, 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.