Guinness Global Money Managers Fund

A high conviction equity fund managed by Will Riley and Tim Guinness investing in quoted companies in the asset management sector.

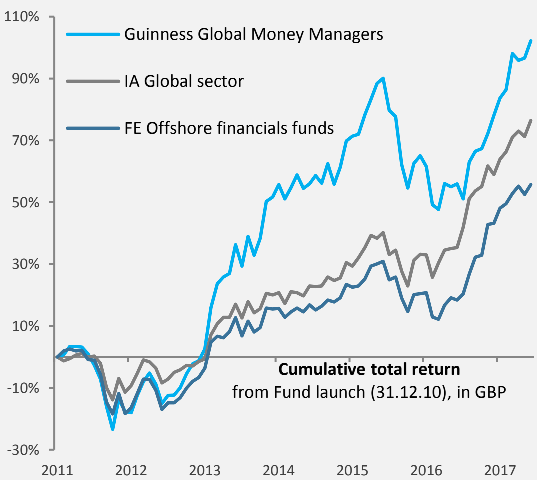
INVESTMENT COMMENTARY – July 2017

Aim

The Fund aims to deliver long-term capital growth by capturing the strong returns that successful asset management companies can deliver to shareholders.

We expect asset managers to outperform the broad market over the long term, primarily due to the ability of successful managers to grow their earnings more rapidly than the broad market.

Performance **30.06.17**



Index	**MSCI World Index**
Financials Index	**MSCI World Financials Index**
Fund launch	**31.12.10**

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.
Source: Financial Express, bid to bid, total return.

THOMSON REUTERS
LIPPER FUND AWARDS 2015
SWITZERLAND

2015: BEST FUND OVER 3 YEARS
EQUITY SECTOR BANKS & OTHER FINANCIALS

What do the last 5 years tell us about the sector?

In this month's brief, we look at the 35 largest listed "pure play" asset managers in the world, to see what we can learn from trends developing in the sector over the past five years, and a closer look at their activity so far this year.

We also discuss our Fund performance over the second quarter of 2017 (the fund rose by 10.7% in USD over this period), and consider the outlook.

Trends in the sector over the last 5 years

The list of the world's 35 largest listed "pure play" asset managers companies ranges in AuM terms from the smallest, Manning & Napier, running $32bn of assets, to Blackrock, running $5.7trn of assets. The list is skewed towards the US, with 19 of the 35 being US based, 10 in Europe (including 6 in the UK) and 6 based elsewhere. In reality, of course, the domicile of the business hides the fact that many of these companies have global operations and client bases.

The majority of the list are long-only equity, fixed income and money market specialists, but it does include 6 private equity firms, all listed in the US. Of the firms specialising in equities, 2 (Blackrock and Invesco) have made significant strides into the ETF market, whilst a handful of others are looking to expand in that direction.

Our main findings are:

- **Assets under management, for many firms, have grown well.** This has of course been well supported by market appreciation. There is a tail of managers, however, who have seen their businesses decline.

- Despite the penetration of passives/ETFs into the market, **the majority of companies have achieved net inflows.** The rotation from active investments to passives/ETFs is mainly affecting the traditional, underperforming, low-active share US asset managers, with non-US firms doing better.

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- **2017 has seen a much stronger net inflow picture than 2016.**

- **Net revenue margins have declined, on average, by about 10% since 2012.** Operating margins are fairly steady over the period, though have come down a little since 2014.

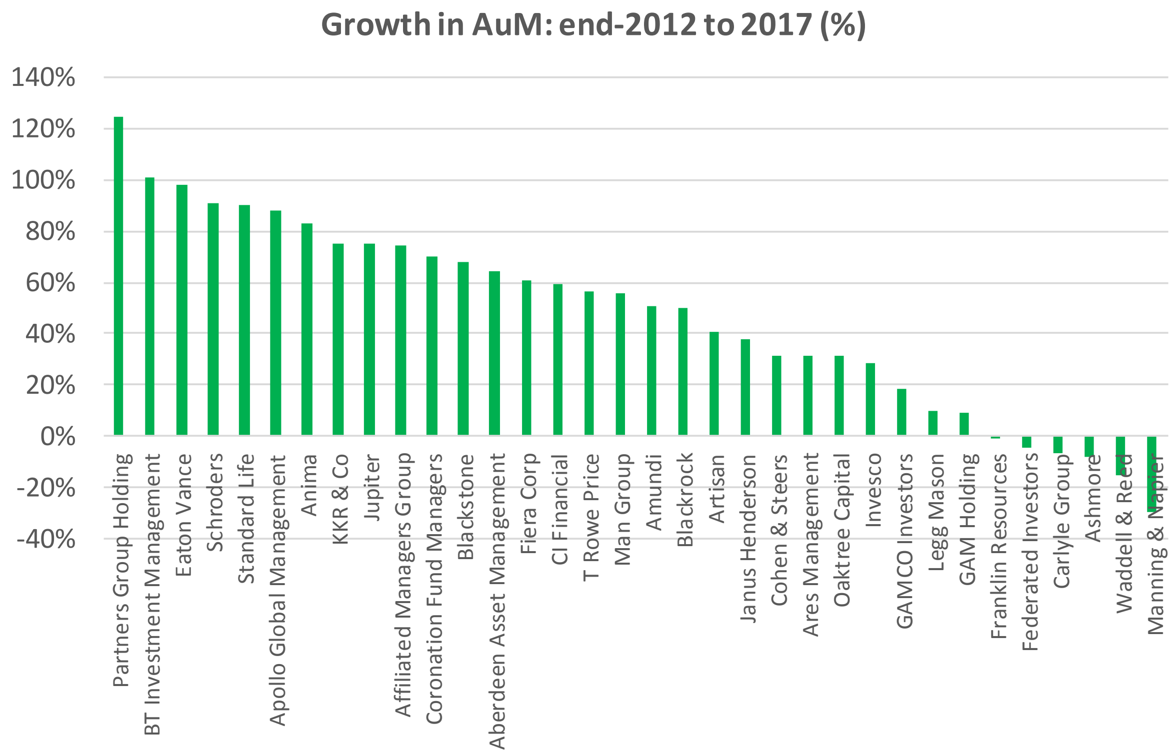
- Cashflow return on investment (CFROI) for the group remains elevated versus the broad market.

- The dividend yield for the asset management sector versus the broader market was compressed in 2013, after very strong equity performance, but underperformance in 2015 and 2016 has result in the dividend yield expanding**. Sector dividend yield now sits at a 40% premium to the broad market** (vs 14% discount in 2013).

How have assets under management grown over the last 5 years?

Since the start of 2012, the MSCI World (which we use as a proxy for equity returns) has produced a price return of 43% and a total return of 61%, whilst the IBOXX Corporate Bond Index (which we use as a proxy for fixed income returns) has produced a total return of 17%.

Unsurprisingly then, average growth in assets under management over this period has been strong, with assets rising on average by 47%. However, this statistic masks a very wide range of outcomes for the 35 participants, with some managers doubling their assets, others seeing declines of up to 30%.



Source: Bernstein; company reports; Guinness Funds

How does this compare to net flows?

Given that the level of assets being managed by each firm has enjoyed the tailwind of rising markets, analysis of the underlying flows of each business (being the net of subscriptions and redemptions) is perhaps more instructive.

Looking first at the group as a whole, we can see that in each of the four years from 2012 to 2015, around two-thirds to three-quarters of the top 35 firms experienced net inflows. 2016 was then an unusual year, with the number of firms enjoying net inflows falling to about half of the group. This worsening of flows for the sector clearly spooked the market, with asset management firms generally de-rating and underperforming the broader equity sector. However, 2017 has so far seen a return to 2012-2015 behaviour, with 71% of the top 35 enjoying net inflows.

Asset managers: net inflows as % of closing AuM, 2012 to 2017

	Net inflow as % of closing AuM						
Company	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**Average**
Partners Group Holding	17.4%	13.9%	12.5%	15.8%	14.3%	13.7%	14.6%
Blackstone	19.3%	14.2%	9.2%	14.5%	10.6%	3.6%	11.9%
KKR & Co	18.3%	25.2%	2.7%	1.4%	12.8%	3.0%	10.6%
Anima	-0.7%	8.3%	16.2%	15.1%	6.9%	2.3%	8.0%
Ares Management	16.7%	9.4%	2.6%	9.4%	2.0%	6.6%	7.8%
Apollo Global Management	2.1%	15.4%	-2.6%	6.7%	8.5%	2.0%	5.3%
Eaton Vance	0.1%	12.4%	1.0%	5.6%	6.2%	6.0%	5.2%
Amundi	2.6%	1.5%	4.1%	9.1%	6.3%	3.0%	4.4%
Schroders	5.0%	3.7%	9.4%	4.3%	0.4%	2.1%	4.2%
BT Investment Management	-1.8%	3.2%	4.3%	8.6%	5.6%	4.0%	4.0%
Jupiter	4.2%	4.6%	2.8%	5.9%	2.8%	3.2%	3.9%
Affiliated Managers Group	9.2%	9.4%	4.0%	-0.5%	1.2%	-0.2%	3.9%
Coronation Fund Managers	16.8%	15.9%	6.5%	-2.6%	-12.3%	-5.0%	3.2%
Blackrock	-0.1%	3.2%	4.5%	3.2%	4.3%	3.3%	3.1%
Cohen & Steers	-6.3%	-4.3%	-0.2%	5.1%	12.6%	3.7%	1.8%
Artisan	10.2%	9.7%	0.8%	-5.4%	-4.8%	-0.3%	1.7%
Standard Life	2.7%	6.4%	0.5%	2.1%	-0.8%	-0.7%	1.7%
Invesco	1.8%	5.2%	-1.1%	0.3%	3.0%	0.6%	1.6%
CI Financial	1.4%	4.9%	4.3%	3.3%	-5.3%	-0.3%	1.4%
Federated Investors	1.2%	-0.8%	1.4%	0.5%	1.1%	-0.5%	0.5%
T Rowe Price	3.5%	-2.1%	0.5%	0.2%	-0.4%	0.6%	0.4%
Fiera Corp	0.0%	0.9%	-0.5%	0.3%	-2.1%	1.1%	0.0%
GAM Holding	1.6%	-3.2%	1.1%	2.4%	-5.4%	2.3%	-0.2%
Franklin Resources	2.4%	6.1%	2.0%	-2.3%	-8.2%	-1.5%	-0.2%
Carlyle Group	-4.8%	9.8%	-1.8%	-0.4%	-7.9%	2.6%	-0.4%
Man Group	-12.5%	-6.3%	6.1%	0.4%	2.4%	3.7%	-1.0%
Oaktree Capital	-10.3%	-5.7%	3.3%	10.4%	-4.8%	0.0%	-1.2%
Ashmore	2.0%	20.9%	-9.7%	-12.7%	-12.7%	4.9%	-1.2%
Legg Mason	-1.8%	1.2%	-0.8%	-3.7%	-3.6%	0.5%	-1.4%
Janus Henderson	-7.1%	-7.7%	0.9%	2.2%	-2.5%	1.7%	-2.1%
GAMCO Investors	-5.0%	3.1%	-4.1%	-12.2%	-8.7%	0.3%	-4.4%
Virtus	n/a	n/a	-2.1%	-11.1%	-10.0%	2.2%	-5.2%
Waddell & Reed	2.8%	8.9%	-2.8%	-11.1%	-24.3%	-7.7%	-5.7%
Aberdeen Asset Management	0.0%	-1.3%	-8.0%	-10.5%	-11.5%	-4.3%	-5.9%
Manning & Napier	-1.9%	-5.6%	-6.5%	-22.9%	-23.1%	-6.3%	-11.0%

Source: company reports; Guinness Funds

Whilst the data shows that majority of firms have achieved net inflows over this period, we would make a couple of further observations. First, we can see something of geographical split here, with a skew towards the US (9 out of 14) in terms of the firms experiencing average net outflows. Second, the US firms that have achieved net inflows are generally either those with ETF franchises or that specialise in alternative investments (mainly private equity). The rotation from active investments to passives, including ETFs, is therefore mainly affecting one category of firm: the traditional, underperforming, low-active share US asset managers. To date, firms outside the US, and those with products that are differentiated versus passives, generally continue to thrive.

Are firms becoming more or less profitable?

Common wisdom might tell you that with the trend towards lower-cost passives in recent years, the profitability of asset management firms is under some pressure.

We first looked at this question by considering net revenue margins, in other words the revenues as a percentage of AuM that firms are charging and how this has evolved. Here, we show average and median net revenue margins of the top 35 firms, excluding the six private equity firms, since their revenues are more lumpy, depending on the realisation cycle of their investments:

	2012	2013	2014	2015	2016
Net revenue margin (as % of AuM) - **Median**	0.58%	0.58%	0.55%	0.56%	0.54%
Net revenue margin (as % of AuM) - **Average**	0.74%	0.72%	0.70%	0.67%	0.64%

Source: Bernstein; company reports; Guinness Funds

Overall, the median fee being charged by these firms has declined by around 7% since 2012, falling from 0.58% to 0.54%. Interestingly, the fall in net revenue margins has been slightly higher outside the US (c.10%) than in the US (c.5%), despite the penetration of passives being greater in the US.

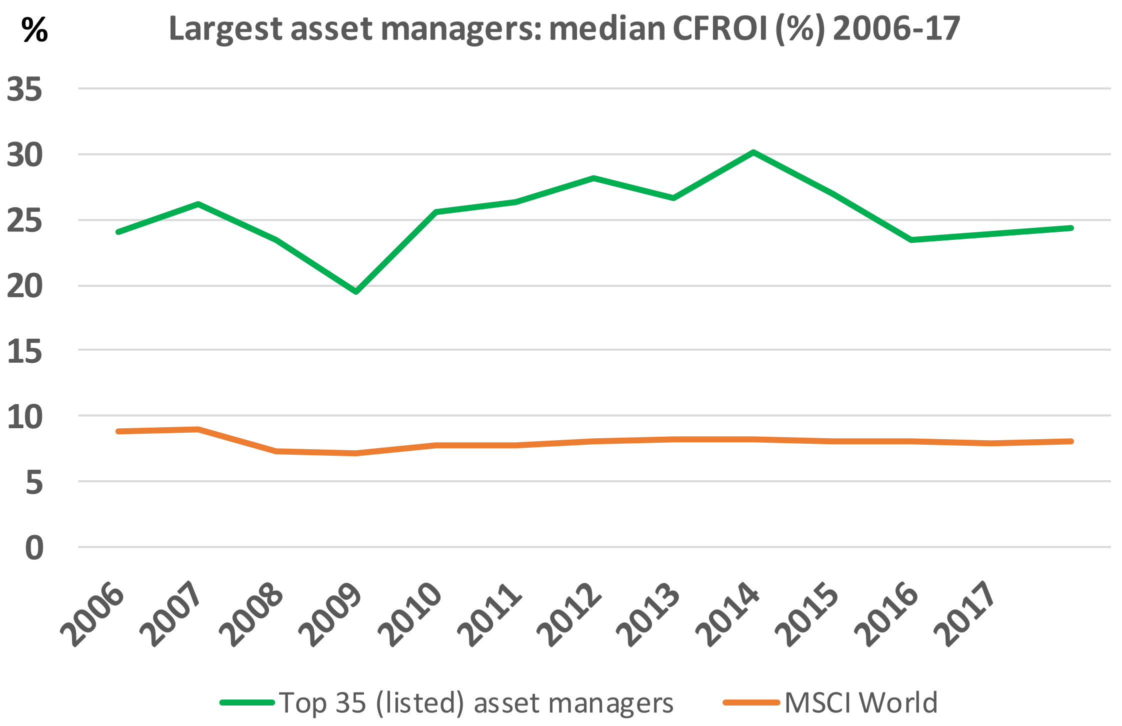
We then looked at the trend in operating margins over the period, including and excluding the private equity constituents of the list:

	2012	2013	2014	2015	2016
Operating margin - **median**	19%	23%	25%	21%	22%
Operating margin - **average**	18%	25%	24%	22%	22%
Operating margin ex private equity - **median**	22%	26%	27%	25%	26%
Operating margin ex private equity - **average**	18%	25%	27%	25%	24%

Source: Bernstein; company reports; Guinness Funds

As the table shows, operating margins in the sector have generally improved since 2012, though effectively been static since 2013 at around 25-26%. How has this result been created? It would seem that the slight erosion in pricing that the average firm has experienced over the last 5 years has been offset by generally growing revenues as a result of net inflows and market appreciation.

Considering the overall profitability of asset management firms over a longer time horizon, we can see that cashflow return on investment (CFROI), as measured by the CSFB HOLT system, shows asset managers maintaining a very high level of return in 2017, albeit slightly below the peak of 2014/15:



Source: CSFB; company reports; Guinness Funds

Median asset management CFROIs have ranged between 20% (the post financial crisis low in 2009) and 30% (2014), but remain consistently more than double the CFROI of the broader market.

An important component of returns generated by money management firms is their dividend. Companies in this sector tend to generate significant excess cash, and usually, Boards are not shy of returning the cash to shareholders in the form of dividends. The portfolio currently shows a dividend yield of 3.3%, well ahead of the MSCI World at 2.4%.

Dividend yield (%)	2012	2013	2014	2015	2016	Current
Guinness Money Managers Fund	2.07	1.89	2.56	3.22	3.29	**3.31**
MSCI World	2.35	2.21	2.22	2.54	2.43	**2.42**
Premium to MSCI World yield (%)	-12%	-14%	15%	27%	35%	**37%**

There have been times in recent history, for example in 2013, where share price outperformance by asset managers versus broader equities drove the dividend yield to a discount to the broad market. However, sustained underperformance in 2015 and 2016, at a time when asset managers were still growing their dividends, leaves the sector's yield today at a healthy premium.

Examining the fortunes of asset management sector over the last 5 years highlights that for some companies, particular the most entrenched traditional US asset managers, the rise of passives has eroded assets and profitability. However, for the majority, net inflows, stable margins and growing revenues have been achieved. And 2017 has seen far better flows than 2016. Market conditions have undoubtedly helped, but we continue to expect the industry to adapt and most participants to grow. Remember also that this has been a study focussing on the large-caps, behind which there are numerous small to mid-cap firms, many of whom are nimbly and energetically expanding their market share and providing healthy returns to shareholders.

Second quarter performance

World equities posted strong gains over the quarter, with the MSCI World Index (the benchmark for the fund) rising 4.2%. Global financials slightly outperformed, with the MSCI World Financials Index gaining 5.4% over the period. The fund outperformed both, rising 10.7% over the quarter.

The second quarter saw positive performance from most stocks in the portfolio, with particular strength amongst UK small and mid-cap managers. Among the best performers were:

- **Polar Capital (+31.4%).** Polar, which we have help since the inception of the fund, has enjoyed a return to net inflows after a period of significant outflows in 2016. The turnaround has been achieved by decreasing outflows in the company's flagship Japan fund, and a successful launch of a UK Value Opportunities Fund. Polar remains highly cash generative, reflected in its prospective dividend yield of 5.8%.

- **River & Mercantile Group (+28.2%).** After announcing strong H2 2016 results in February, River & Mercantile followed up in the second quarter with positive news about performance fees and asset acquisition. In May, the company announced £4.9m of performance fees that were largely unexpected by the market, arising from R&M's UK Micro-cap Investment Company, whilst June saw the acquisition of Credit Suisse's Emerging Market Industrial Lifecycle team, coupled with $360m of assets.

- **Jupiter Fund Management (+22.9%).** In April, Jupiter reported net inflows of £1.3bn for the quarter, equivalent to 3.2% of AuM at the end of 2016. Inflows were spread across fixed income, absolute return, multi-asset and global emerging market strategies. We watch Jupiter's net revenue margin closely, which at 92 basis points in 2016 was in the top quartile versus peers and potentially vulnerable to decline, but expect asset gathering from newly opened offices in Continental Europe to continue successfully over the next few quarters.

Weaker performers over the quarter included:

- **Value Partners (-2.7%).** Value Partners, a Hong Kong based asset manager which specializes in Asian equity investing, saw a slight pull-back in its share price over the second quarter, having been strong in the first quarter. Generally, the company has benefitted this year from strong Asian markets, with AuM up from $13.2bn at the start of the year to $15.5bn at 30 June 2017.

- **Ameriprise Financial (-1.2%).** Like Value Partners, Ameriprise saw slightly negative share price performance in the second quarter after a strong first quarter. In April, Ameriprise announced retail client assets at 31 March 2017 of $499bn, up by 11% over 12 months, but this was somewhat offset by net outflows across the business in the first quarter of $5.6bn.

Position changes in the portfolio

During the second quarter, we sold our position in ARA Asset Management and purchased a position in Banca Generali.

ARA, which we had owned since the inception of the fund, specializes in the management of real estate investment trusts and private real estate funds in Asia. The company was taken private in April, following an offer made by ARA's founder, John Lim. For the time that we owned the stock, ARA produced a satisfactory total return of 59.5%, slightly ahead of the total return of the fund over the same period.

Banca Generali (BG), which we purchased in June, is one of Italy's largest wealth and asset management groups. Traditionally, Italian retail and institutional investors have held relatively low levels of equities in their portfolios, preferring fixed income instruments. With the low returns currently promised in the fixed income market, there is now a shift towards equities, something which we believe Banca Generali is well place to capitalise on. Net inflows in the first quarter of 2017 reached €1.8bn, a higher rate than any quarter in 2016, bringing BG's total assets to €50.1bn. BG traded on 2017 P/E ratio at purchase of 16.0x, just above the P/E for the fund (14.8x) but a premium which we think is justified given the company's growth rate.

Valuation of the Guinness portfolio

At 30 June 2017, the P/E ratio of the Fund was 14.8x 2017 earnings. This sits at a significant discount to the broad market, with the S&P 500 trading on a 2017 P/E ratio of 18.6x earnings. Earnings for the portfolio fell by 19% between 2015 and 2016, but are expected to grow by 34% in 2017.

Fund P/E ratios versus the S&P 500 Index (30.06.17)

	'11	'12	'13	'14	'15	'16	'17
Fund P/E	26.7	21.4	15.6	14.9	16.0	19.8	14.8
S&P 500 P/E	24.9	24.8	22.4	21.1	24.0	22.7	18.6
Premium (+)/ Discount (-)	7%	-14%	-30%	-29%	-34%	-13%	-20%

Source: Standard & Poor's, Guinness Asset Management.

In general, we believe that the most successful money management investments over the next few years will be companies that deliver investment quality to their clients, whether active traditional management, alternatives or passive; companies that provide helpful asset allocation services; well-run wealth managers; and well-run support services (e.g. custody banks; stock exchanges). The Fund remains positioned to capitalise on the increasing value of companies across these themes.

Will Riley, Tim Guinness & Mark Hammonds
July 2017

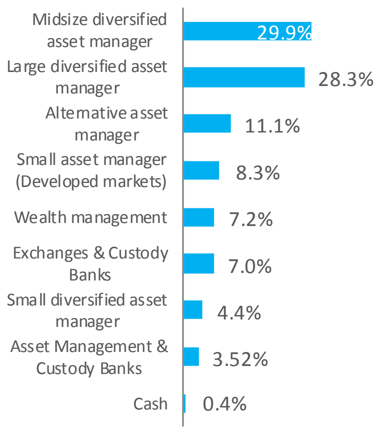
PORTFOLIO

30/06/2017

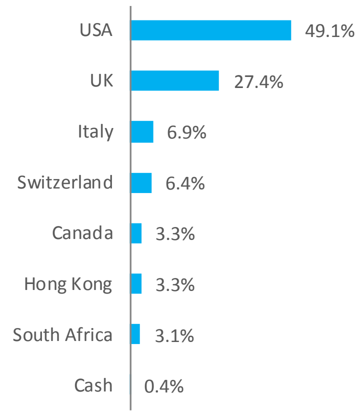
Fund top 10 holdings

River & Mercantile	4.4%
Polar Capital	4.3%
Liontrust Asset Management	4.0%
Jupiter Fund Management	4.0%
Azimut Holding	3.7%
Franklin Resources	3.7%
Raymond James Financial	3.7%
Vontobel	3.7%
Brewin Dolphin	3.6%
T Rowe Price	3.6%
% of Fund in top 10	38.6%
Total number of stocks in Fund	30

Sector analysis



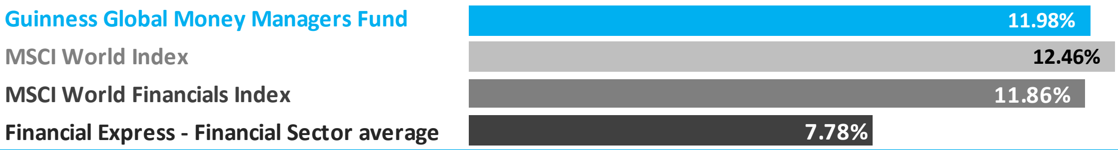
Geographic allocation



PERFORMANCE

30/06/2017

Annualised % gross total return from launch (X Class, in GBP)



Cumulative % gross total return (X Class, in GBP)	1 month	Year-to-date	1 year	3 years	From launch
Guinness Global Money Managers Fund	3.2	13.6	38.2	31.6	108.7
MSCI World Index	-0.2	5.6	22.3	56.0	114.6
MSCI World Financials Index	4.2	5.2	39.7	59.8	107.3
Financial Express - Financial Sector average	2.1	8.8	33.2	39.2	62.8

Discrete years (X Class, in GBP)	Jun '13	Jun '14	Jun '15	Jun '16	Jun '17
Guinness Global Money Managers Fund	47.7	22.6	13.3	-16.0	38.2
MSCI World Index	23.3	10.6	10.9	15.1	22.3
MSCI World Financials Index	34.1	7.6	11.4	2.6	39.7
Financial Express - Financial Sector average	30.4	4.7	11.4	-6.3	33.2

RISK ANALYSIS

30/06/2017

X Class, in GBP, annualised, weekly, from launch on 31.12.10, relative to the MSCI World Index	MSCI World	MSCI World Financials	Fund
Alpha	0	-1.54	-1.50
Beta	1	1.12	1.19
Information ratio	0	-0.09	0.00
Maximum drawdown	-18.26	-28.87	-29.47
R squared	1	0.85	0.82
Sharpe ratio	0.60	0.46	0.46
Tracking error	0	6.59	8.07
Volatility	13.64	16.55	17.89

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.

Source: Financial Express, bid to bid, total return. Fund launch date: 31.12.10. **Fund X class**: Simulated performance based on actual returns of E share class (available from Fund launch), calculated in GBP. **See Note overleaf.**

Performance data note

The performance numbers displayed on the previous page are calculated in GBP (Sterling). Please note: The Fund's X class was launched on 15/02/2012. The performance shown is a simulation for X class performance being based on the actual performance of the Fund's E class, which has the same annual management charge as the X class, and has existed since the Fund's launch. The Fund's E class is denominated in USD but for the purposes of this performance data its performance is calculated in GBP. Hence the Fund's E Share class is used here to illustrate the performance of a GBP-based clean-fee (RDR-compliant) share class since the Fund's launch on 31.12.10.

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 recent developments in the asset management sector invested in by the Guinness Global Money Managers Fund. It may also provide information about the Fund's portfolio, including recent activity and performance. It contains facts relating to investment 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 Global Money Managers 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 companies involved in asset management and other related industries; it is therefore susceptible to the performance of that one sector, and can be volatile. Details on the risk factors are included in the Fund's documentation, available on our website.

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: Capita Financial Managers (Ireland) Limited, 2 Grand Canal Square, Grand Canal Harbour, Dublin 2, Ireland; or,
- the Promoter and Investment Manager: Guinness Asset Management Ltd, 14 Queen Anne's Gate, London SW1H 9AA.

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
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 may be recorded and monitored.

Past performance should not be taken as an indicator of future performance. The value of investments and any income arising from them can fall as well as rise.

GUINNESS
ASSET MANAGEMENT LTD

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

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