

# 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 - November 2014

### 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 as a sector 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.

### Investment case

#### High returns on capital

Successful asset management companies can grow using relatively little capital. Shareholder returns can therefore be very high.

#### Growing global sector

Conventional assets under management globally have grown much faster over the last 20 years than world equity returns, supporting growing revenues in the sector.

#### Low balance sheet risk

Asset management companies tend to have very low gearing versus other financial sectors (especially banks), reducing balance sheet risk.

#### Above average dividend yield

The sector typically exhibits high free cashflow, which translates into higher dividend yields on average than the broad equity market.

#### Higher beta

The sector has the potential to outperform the market during periods of market strength, particularly in equities.

## Asset management sector

This month, we look at Bill Gross's departure from Pimco, and the impact it has had on financial markets. We also review US fund flows data, and discuss the performance of the Fund in recent months. Last, we compare the Fund valuation with that of the broad market.

### Bill Gross

On Friday 26th September, Janus shocked financial markets when it announced that Bill Gross would be joining the company from Pimco.

Bill Gross founded Pimco in 1971, and helped to grow its assets under management to almost \$2tn. The investor, labelled by some the "bond king", had established an impressive track record, running the Total Return Bond fund over several decades, during which there has been a strong bull market for bonds. More recently, however, performance relative to peers has been weaker, and accusations of in-fighting between executives have emerged.

The markets reacted significantly to the announcement. Shares in Janus leapt on the news, gaining 33%, while shares in Allianz (Pimco's parent) fell by 3.5%. While these movements reflect the perception that the news is transformational for Janus, it is interesting to note that the change in market cap of the two companies was not equal. Allianz lost €2.8bn (\$3.7bn) in value, while Janus gained \$650m. This difference may be an indication that the outflows expected from Allianz are unlikely to be matched with inflows to Bill Gross's new fund at Janus.

The instant market reaction was not without grounds, as figures have since shown that \$23.5bn of redemptions were made from the Total Return fund in September – representing 10% of its assets.

In terms of how the news affects our Fund, we note that we have previously held Janus in the portfolio, and we regularly monitor the performance of its underlying funds. It may be that Bill Gross will achieve better



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**BEST FUND OVER 3 YEARS**

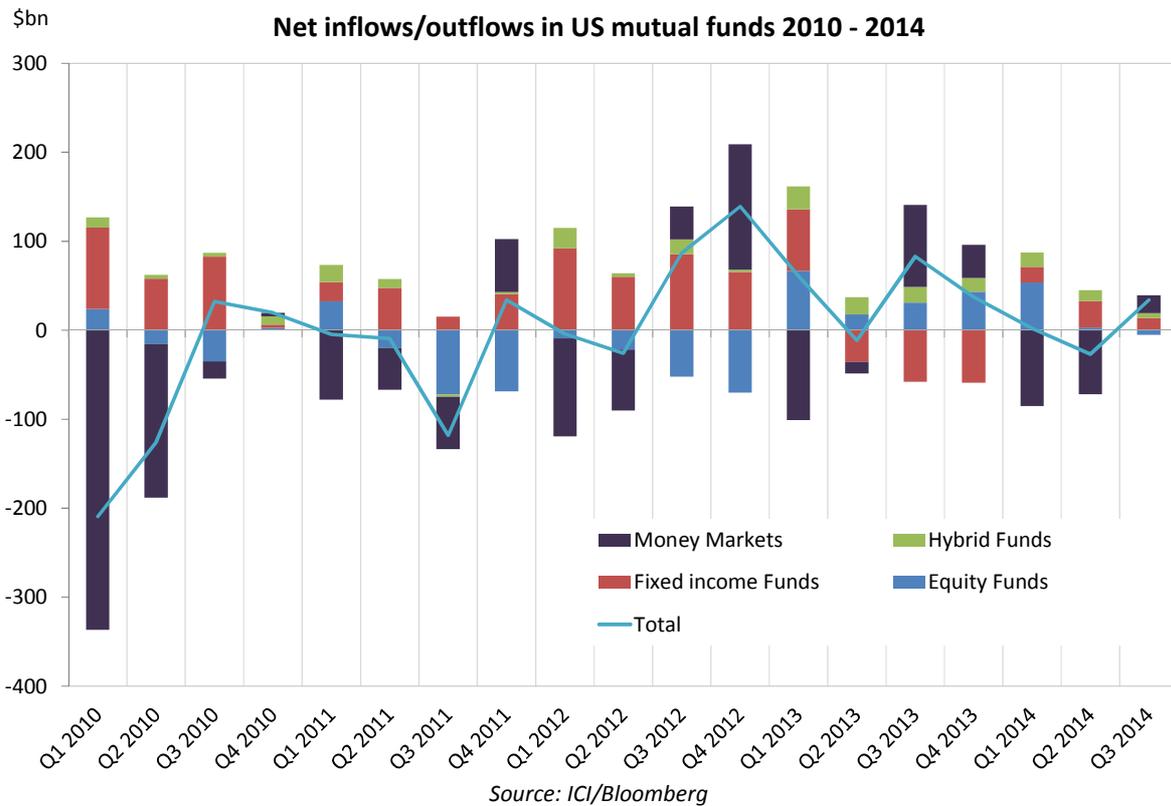
EQUITY SECTOR BANKS & OTHER FINANCIALS

**Guinness Global Money Managers**

results in the future managing a smaller fund – we will watch the performance of the Janus Global Unconstrained Bond fund with interest.

**Fund flows**

As part of our macro work on the sector, we study data that shows inflows and outflows into funds. US mutual fund flows data (which we treat as a useful proxy for global flows) showed that 2013 saw the largest inflows into equity funds since 2004. This pattern continued in the first quarter of 2014, but then stalled in the second quarter. Outflows from money markets in the first half of this year reversed in the third quarter, as equity markets dipped in September. Fixed income has also experienced inflows this year, as compared with outflows during much of 2013. The following chart illustrates these trends (data for Q3 2014 is to the end of August):



The shorter data series we have for fund flows from European investors shows a roughly similar pattern for 2014: significant inflows into bond funds, particularly during the second quarter, with smaller inflows into equity funds. Flows from European investors to money market funds were positive for the first half of the year, but turned negative in the third quarter.

Fund flows in Europe (\$m)	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014
Equity funds (inc. ETFs)	-22,228	-2,021	15,384	23,995	-19,698	7,237	7,651	7,158	11,402	4,913
Bond funds	11,330	22,613	34,202	14,990	6,417	-3,808	4,700	20,672	38,515	18,079
Money market funds	3,323	-35,249	-25,192	2,263	-32,408	-35,882	-26,346	29,359	14,201	-4,734
Total flows	-7,575	-14,657	24,394	41,248	-45,689	-32,453	-13,995	57,189	64,118	18,258

Source: EPFR/Goldman Sachs

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.

The inflows into equity funds that we saw last year have slowed for the time being, as markets have become increasingly turbulent. However, we have not yet seen significant outflows. More recent market volatility in October may change this – we will monitor Q4 data closely for evidence of outflows from equity funds.

### Fund performance

In August, equity markets were strong and the Fund performed in line with the market, returning 2.31% (E share class, in USD) versus 2.24% for the MSCI World Index, the Fund’s benchmark. The MSCI World Financials Index increased by 1.91%.

In September, equity markets deteriorated, and the Fund underperformed its benchmark. The Fund lost 6.34%, versus the MSCI World Index down 2.67%, and the MSCI World Financials Index down 2.91%.

Within the Fund, August’s stronger performers were Treasury Group, Federated Investors, Invesco, Blackrock and AllianceBernstein. Poorer performers were Liontrust, Och-Ziff, Henderson, Brewin Dolphin and Mattioli Woods.

September’s stronger performers were State Street, River & Mercantile, Blackrock, Raymond James and Ameriprise. Poorer performers were Treasury Group, Henderson, Ashmore, Och-Ziff and Polar Capital.

### The portfolio

We made no changes to the portfolio in August or September.

### Fund valuation

Following the market sell-off in September, valuations have moderated somewhat. While the 2013 PE for the Fund has risen from 15.2x at 30 September 2013 to 15.6x at 30 September 2014, it is still a discount to the market, as the table below shows.

The table shows the Fund’s PE ratios versus the S&P 500 Index on 30 September 2014:

	'09	'10	'11	'12	'13	'14
<b>Fund PE</b>	28.4	25.2	24.7	21.8	15.6	14.0
<b>S&amp;P 500 PE</b>	34.7	23.5	20.5	20.4	18.4	16.6
<b>Premium (+)/ Discount (-)</b>	-18%	7%	21%	7%	-15%	-16%

*Source: Standard & Poor’s; Guinness Asset Management Ltd.  
(Multiples based on S&P 500 ‘operating’ earnings per share estimates of \$56.9 for 2009, \$83.8 for 2010, \$96.4 for 2011, \$96.8 for 2012, \$107.3 for 2013 and \$118.6 for 2014.)*

Overall, we are optimistic that the companies in our Fund will continue to benefit from increasing assets under management, following strong performance of equity markets over the long term.

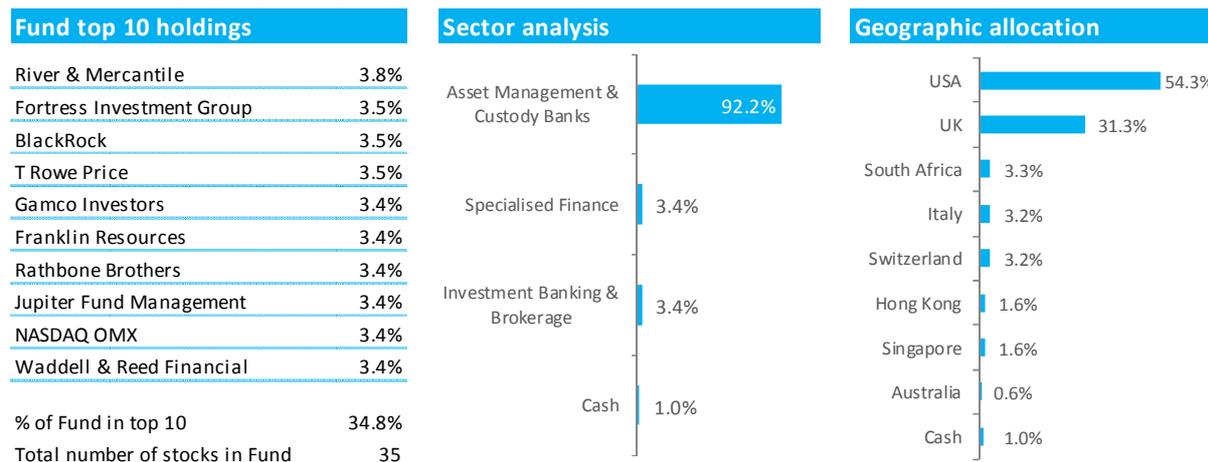
### Will Riley, Tim Guinness & Mark Hammonds

### November 2014

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**PORTFOLIO (30/09/2014)**



**PERFORMANCE**

Cumulative % total return (X Class, in GBP)	1 month	Year-to-date	1 year	3 years	From launch
<b>30/09/2014</b>					
<b>Guinness Global Money Managers Fund</b>	-4.1	0.1	12.6	103.5	55.8
<b>MSCI World Index</b>	-0.3	6.1	12.1	57.6	39.1
<b>MSCI World Financials Index</b>	-0.6	3.9	9.4	67.6	31.9

**Annualised % total return from launch (X Class, in GBP) 30/09/2014**

<b>Guinness Global Money Managers Fund</b>	<b>12.55%</b>
<b>MSCI World Index</b>	<b>9.19%</b>
<b>MSCI World Financials Index</b>	<b>7.65%</b>

**Risk analysis (X Class, in GBP) 30/09/2014**

Annualised, weekly, from launch on 31.12.10, relative to the MSCI World Index	MSCI World	MSCI World Financials	Fund
<b>Alpha</b>	0	-2.74	1.29
<b>Beta</b>	1	1.19	1.26
<b>Information ratio</b>	0	-0.24	0.41
<b>Maximum drawdown</b>	-18.26	-28.87	-28.30
<b>R squared</b>	1	0.90	0.86
<b>Sharpe ratio</b>	0.42	0.24	0.50
<b>Tracking error</b>	0	6.00	7.51
<b>Volatility</b>	13.41	16.90	18.11

**Discrete years (C Class, in GBP)**

12 months to month end:	Sep '10	Sep '11	Sep '12	Sep '13	Sep '14
<b>Guinness Global Money Managers Fund</b>	-	-	22.6	45.2	11.8
<b>MSCI World Index</b>	8.4	-3.2	17.3	19.9	12.1
<b>MSCI World Financials Index</b>	-3.2	-16.30	20.0	27.7	9.4

**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.**

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### 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](http://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. The Fund has been approved by the Financial Conduct Authority for sale in the UK. 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](http://www.carnegie-fund-services.ch). The paying agent is Banque Cantonale de Genève, 17 Quai de l'Île, 1204 Geneva, Switzerland.

**Telephone calls** may be recorded and monitored.

**GUINNESS**

ASSET MANAGEMENT LTD

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