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 – May 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 30/04/2017

Annualised % (GBP)

gross total return from launch

Fund	11.27%
Financial Express Financial Sector average	7.21%

Investment case

High returns on capital
Asset managers need little capital to grow. Shareholder returns can therefore be very high.

Growing global sector
Global AUM is growing faster than world equity markets, supporting revenue growth in the sector.

Low balance sheet risk
Asset managers tend to have low gearing vs other financial companies, reducing balance sheet risk.

Above average dividend yield
The sector's high free cash flow translates into higher average dividend yields than broad markets.

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

Money management sector

In this month's update, we review the asset management sector and our Fund performance over the first four months of 2017, and consider the outlook.

Performance

World equities posted strong gains over the first four months of 2017, with the MSCI World Index rising 8.2% (total return in USD). Global financials have underperformed, with the MSCI World Financials Index gaining 5.7%. The fund outperformed both, rising by 12.1% over the period.

Since the start of the year we have seen positive performance from the majority of stocks in the portfolio, supported by a good run for equities generally. All sectors within the money management industry have risen in value, with the strongest returns seen amongst the alternative managers. The private equity sector, in particular, seems to be warming up to President Trump's $1trn infrastructure spending plans. Large traditional active managers in the US continued to see net outflows (as expected), though the pace of decline from active equity mutual funds has been significantly slower than in 2016.

In the Guinness portfolio, among the best performers were:

- **Fortress Investment Group (+67.3%).** Fortress, which we have help since the inception of the fund, was subject to a US$3.3bn bid for acquisition by Japanese company, SoftBank Group. SoftBank's core business is focused on telecoms and technology, so the addition of Foteress, a New York based manager of real estate, hedge funds and private equity, is something of a departure from their traditional operations. Fortress has around $70bn in assets under management and is one of few asset managers with funds targeted at Japanese assets. We believe the price being paid by SoftBank for Fortress, representing around 4.7% of AuM, is an attractive one for Fortress shareholders.

- **River & Mercantile Group (+39.1%).** River & Mercantile announced positive H2 2016 results, with some AuM growth in the traditional equity management division, but more importantly, significant inflows into the 'derivative solutions' division. We like R&M's diversified investment management offering, which distinguishes their business from the traditional long-only model and should result in 'stickier' assets under management.

- **Rathbone Brothers (+26.2%).** An impressive rise in Rathbone's assets under management, partly helped by the weakness in sterling but also net inflows of 4.9%, supported strong full year results released in February. Looking ahead, we believe that Rathbone's efforts to develop in-house financial planning, together with increased distribution through the IFA channel, should support the business in 2017.

Weaker performers over the period included:

- **Och-Ziff (-27.3%).** $6bn of outflows were reported for the last quarter, contributing to further weakness in Och-Ziff's share price. We retain the position, however, in the hope that recently improved investment performance can stabilize the business after a very difficult two years of SEC investigations and poor investment decision-making.

- **Coronation Fund Managers (-7.7%).** South African based asset manager, Coronation, suffered at the end of March/April from the fall-out of President Zuma's decision to sack his finance minister, Pravin Gordhan. The decision coincided with weakness in the South African Rand, hurting Coronation's USD assets under management.

Over this period, we have exited one position in the portfolio, ARA Asset Management. ARA, a Singapore-based specialist REIT manager, was taken private by a consortium led by the company's founder, John Lim. We had owned ARA since the inception of the fund, during which time it produced a satisfactory compound return of 7.7% per annum, slightly ahead of the performance of the fund.

Within the asset management sector, data for US mutual fund flows (which we treat as a proxy for global flows) indicated record outflows from equity funds in the fourth quarter of 2016, but a more stable picture at the start of 2017. Bond & income funds saw inflows, reversing the outflows at the end of 2016.

US Mutual Fund flows ($bn)	Latest quarter Q1 2017	Q4 2016	Q3 2016	Q2 2016	Q1 2016	Q4 2015	Q3 2015	Q2 2015	Q1 2015	Q4 2014	Q3 2014	Q2 2014	Q1 2014	Q4 2013
Equity Funds	-6.0	-100.1	-92.1	-60.7	-6.0	-67.2	-28.4	-8.3	26.1	-21.3	-10.6	3.1	53.7	43.3
Bond & Income Funds	45.3	-16.6	65.2	40.5	17.3	-27.7	-51.7	20.5	33.6	-10.4	-5.5	29.7	17.6	-58.8
Hybrid Funds	-3.5	-24.9	-6.6	-5.3	-8.9	-19.1	-12.8	1.5	9.1	-5.1	7.3	12.3	16.1	15.3
Money Markets	-47.9	53.7	-22.6	-66.5	1.1	83.7	50.6	-32.8	-80.1	121.2	42.3	-72.1	-85.3	37.4
Total	**-12.1**	**-87.9**	**-56.1**	**-92.0**	**3.4**	**-30.2**	**-42.4**	**-19.2**	**-11.2**	**84.5**	**33.5**	**-26.9**	**2.1**	**37.2**
(Data to February 2017)														
Index returns														
MSCI World Index	6.5%	2.0%	5.0%	1.2%	-0.2%	5.6%	-8.3%	0.5%	2.5%	1.1%	-2.0%	5.0%	1.4%	8.1%
MSCI World Financials Index	4.9%	14.8%	7.1%	-1.8%	-6.1%	4.4%	-9.3%	1.8%	1.0%	1.6%	-1.6%	3.1%	0.9%	7.9%
IBOXX (IBOXIG) Corp Bond Indices	1.3%	-3.7%	1.3%	4.1%	4.7%	-0.3%	0.9%	-3.8%	2.6%	2.1%	-0.1%	3.0%	3.4%	1.5%

Source: ICI/Bloomberg

Net outflows from the equity sector (mutual funds) in 2016 reached a record $233bn, ahead of the figure reported for 2008. Passive equity funds and ETFs were the main beneficiaries as a rotation from active to passive continued. The picture for active bond & income funds was more positive, however, with a return to net inflows in 2016 after small outflows in 2015.

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Outlook

As we look ahead to the next few quarters in the asset management industry, it seems clear that developing industry trends will suit some firms more than others.

In particular, we can see that over the past five years, the lion's share of net flows, especially in the US, have gone to ETFs at the expense of active equity and, to a lesser extent, fixed income products. We expect this trend to continue, at the expense of weaker traditional asset managers who over-charge for undifferentiated products. But this secular trend should not mask the fact that there are plenty of small to mid-sized asset managers in the US and Europe who are thriving, also taking market share from larger competitors and enjoying material net inflows.

We believe that the most successful money management investments over the next five years will generally 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). Combining these themes with our stock selection process, which allows us to identify the equities of managers whose products are succeeding, leads us to the following portfolio positioning, expressed by theme (as at 30th April 2017):

	Theme	Example holdings		Weighting (%)
1	High active share	Liontrust	Polar Capital	27.1%
2	Alternatives	Blackstone	KKR	13.8%
3	Growth of ETFs/passive distribution	BlackRock	Invesco	7.0%
4	Wealth management	Brewin Dolphin		10.4%
5	Traditional value	AllianceBernstein	Raymond James	20.5%
6	Support services	Nasdaq		7.0%
7	Asset management consolidators	AMG		3.4%
8	Secular shift in Europe to equities	Vontobel	Azimut	6.8%
9	Other (incl cash)			4.1%

At 30 April 2017, the P/E ratio of the Fund was 17.9x 2016 earnings. This sits at a significant discount to the broad market, with the S&P 500 trading on a 2016 P/E ratio of 22.7x earnings. A similar discount persists for 2017 P/Es, with the Fund trading on 14.3x versus the S&P 500 on 18.6x. Earnings for the portfolio fell by 19% between 2015 and 2016, but are expected to grow by 25% in 2017.

Fund P/E ratios versus the S&P 500 Index (30.04.17)

	'11	'12	'13	'14	'15	'16	'17
Fund P/E	23.7	19.5	14.2	13.6	14.5	17.9	14.3
S&P 500 P/E	24.9	24.8	22.4	21.1	24.0	22.7	18.6
Premium (+)/ Discount (-)	-5%	-21%	-37%	-36%	-40%	-21%	-23%

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

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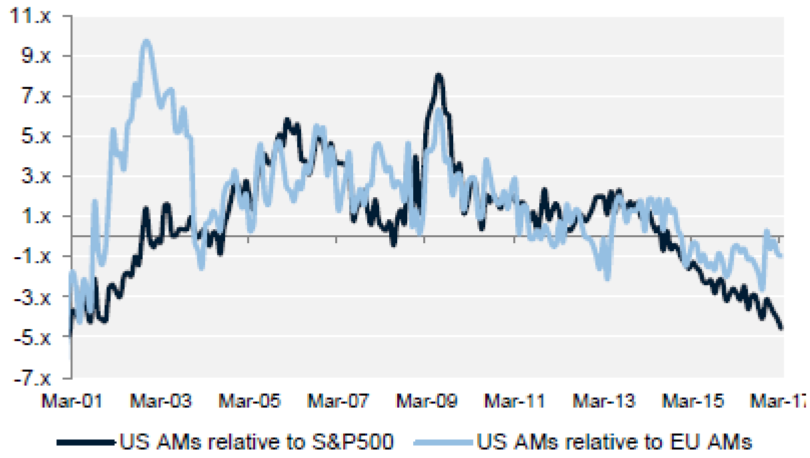
Interestingly, the P/E discount of US asset managers to the broad market (S&P 500) is running at a 15 year high:



Source: CSFB

Since 2013, we have seen a 16% increase in S&P 500 earnings, versus flat earnings for the asset managers (market appreciation being offset by fee pressures), which in part explains the discount. Whilst, for some of the larger traditional managers, we would expect the P/E discount to persist, we see plenty of attractively valued money managers that are exhibiting earnings growth in-line or in excess of the broad market.

In the longer term we expect asset managers as a sector (and therefore the Fund) to outperform the broad market, due primarily to the ability of successful asset management companies to grow their earnings more rapidly than the broad market.

Will Riley, Tim Guinness & Mark Hammonds

May 2017

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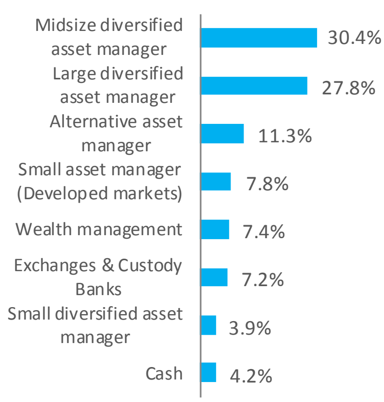
PORTFOLIO

30/04/2017

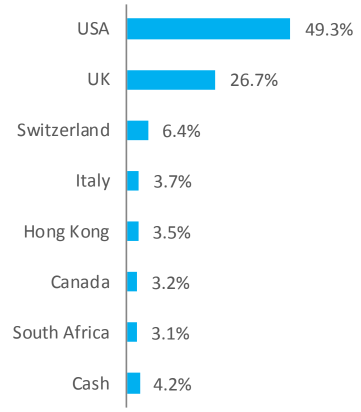
Fund top 10 holdings

Jupiter Fund Management	4.1%
Polar Capital	3.9%
Liontrust Asset Management	3.9%
River & Mercantile	3.9%
State Street	3.8%
Brewin Dolphin	3.8%
Azimut Holding	3.7%
Vontobel	3.7%
Rathbone Brothers	3.7%
Franklin Resources	3.6%
% of Fund in top 10	38.1%
Total number of stocks in Fund	29

Sector analysis



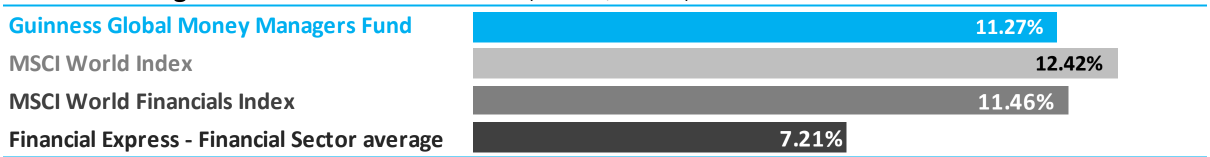
Geographic allocation



PERFORMANCE

30/04/2017

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



Cumulative % gross total return (X Class, in GBF	1 month	Year-to-date	1 year	3 years	From launch
Guinness Global Money Managers Fund	0.4	7.0	26.9	27.3	96.6
MSCI World Index	-1.9	3.3	30.6	56.7	109.9
MSCI World Financials Index	-2.6	0.9	39.3	55.7	98.8
Financial Express - Financial Sector average	-1.5	3.9	26.8	34.6	55.4

Discrete years (X Class, in GBP)	Apr '13	Apr '14	Apr '15	Apr '16	Apr '17
Guinness Global Money Managers Fund	39.2	21.7	21.9	-17.8	26.9
MSCI World Index	22.5	8.1	18.7	1.1	30.6
MSCI World Financials Index	33.9	4.7	17.0	-4.4	39.3
Financial Express - Financial Sector average	26.4	2.4	16.6	-9.0	26.8

RISK ANALYSIS

30/04/2017

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	-1.95	-2.13
Beta	1	1.13	1.19
Information ratio	0	-0.14	-0.07
Maximum drawdown	-18.26	-28.87	-29.47
R squared	1	0.86	0.82
Sharpe ratio	0.60	0.43	0.42
Tracking error	0	6.41	8.11
Volatility	13.74	16.68	18.04

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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, 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.

Telephone calls may be recorded and monitored.