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 – October 2017

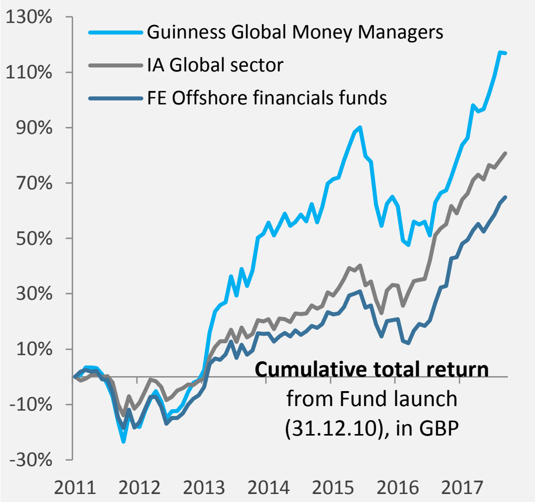
Aim

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

30.09.17



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

In this month's brief, we discuss our Fund performance over the third quarter of 2017 and consider the outlook, including trends in flows and the impact of MiFID II on the European money management sector.

Third quarter 2017 performance

World equities posted strong gains over the quarter, with the MSCI World Index (the benchmark for the Fund) rising 5.0%. Global Financials slightly outperformed, with the MSCI World Financials Index gaining 5.5% over the period. The Fund outperformed both, rising 6.6% over the quarter.

The third quarter saw positive moves from most stocks in the portfolio, with no particular sub-sector pattern amongst the strongest and weakest performance. Among the best performers were:

- **Och-Ziff (+26.7%).** Och-Ziff's share price rebounded in the quarter after a very difficult period for the company. The aftermath of the 2016 SEC investigation into corrupt foreign practices, coupled with weak performance from Och-Ziff's flagship funds, saw significant outflows. However, assets under management now appear to be stabilizing, whilst the Och-Ziff Master Fund achieved positive performance for twelve consecutive months to 30 June 2017.

- **T Rowe Price (+23.2%).** T Rowe Price's overall fund performance continues to be very strong for a company of its size, with 72% of its US retail funds rated either 4 or 5 stars by Morningstar on a 3 year basis. This has allowed the company to buck some of the active-to-passive trends seen in the US, with underlying US mutual fund flows estimated in August to have turned positive.

- **Ameriprise Financial (+17.3%).** Ameriprise announced retail client assets at 30 June to have risen to \$512bn, up from \$479bn at the

- start of the year. Total assets under management and administration rose by 7% in the second quarter to $835bn, consolidating the company's position as one of the US's largest wealth management and financial planning houses.

Weaker performers over the quarter included:

- **Value Partners (-0.9%).** Value Partners, a Hong Kong based asset manager which specializes in Asian equity investing, saw its share price lag the sector. Generally, the company has benefitted this year from strong Asian markets, with AuM up from $13.2bn at the start of the year to $16.4bn at 31 August 2017. However, the company had been trading on a relatively high P/E ratio for 2017, which has now moderated.

- **Coronation Fund Managers (-0.4%).** Like Value Partners, Coronation Fund Managers saw slightly negative share price performance in the third quarter. Coronation has seen its assets under management expand in 2017, reported at 30 June 2017 to be $44.3bn versus $40.8bn at the start of the year, but growth has been better in other parts of the asset management sector.

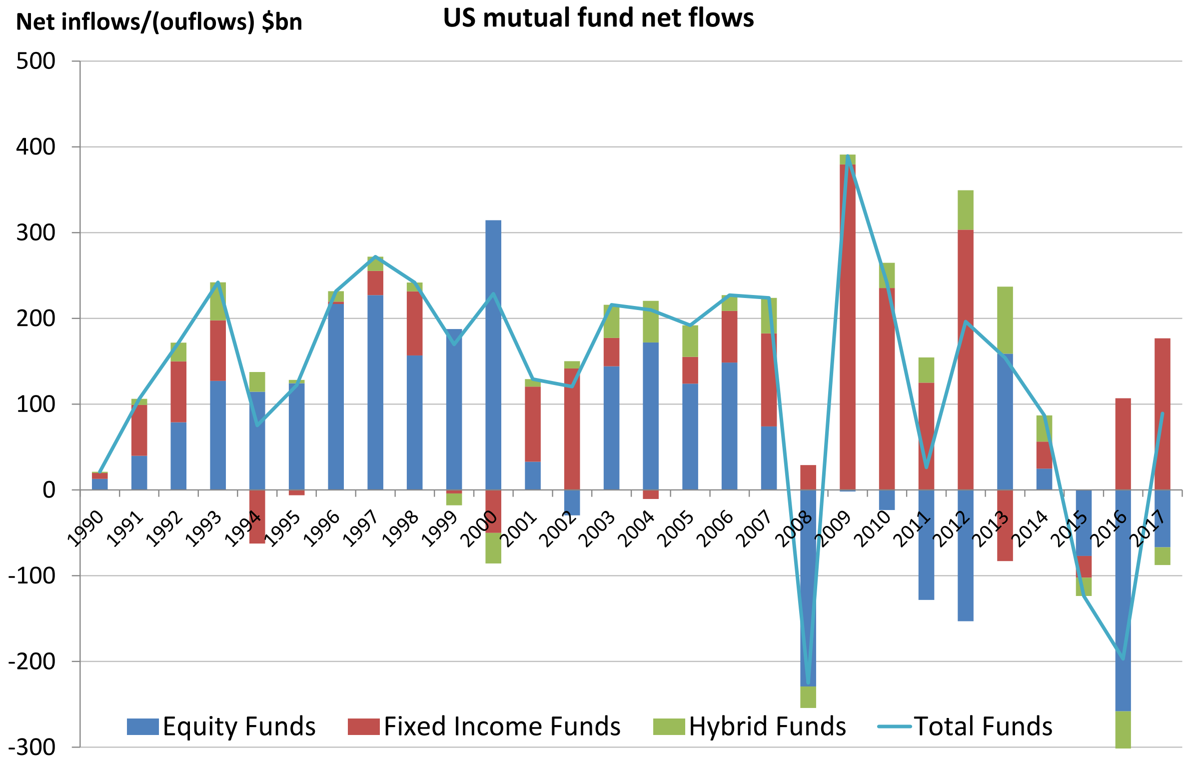
Mutual fund flows

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 2016, but a more stable picture for 2017. Outflows from equity funds have continued in the third quarter, albeit at a more modest pace than 2016. Bond & income funds have seen inflows in the first three quarters, reversing the outflows at the end of 2016.

US Mutual Fund flows ($bn)	Latest quarter Q3 2017	Q2 2017	Q1 2017	Q4 2016	Q3 2016	Q2 2016	Q1 2016	Q4 2015	Q3 2015	Q2 2015	Q1 2015
Equity Funds	-30.3	-18.8	-17.9	-100.1	-92.1	-60.7	-6.0	-67.2	-28.4	-8.3	26.1
Bond & Income Funds	40.8	61.4	74.6	-16.6	65.2	40.5	17.3	-27.7	-51.7	20.5	33.6
Hybrid Funds	-7.2	-7.5	-6.0	-24.9	-6.6	-5.3	-8.9	-19.1	-12.8	1.5	9.1
Money Markets	83.4	-33.8	-66.3	53.7	-22.6	-66.5	1.1	83.7	50.6	-32.8	-80.1
Total	**86.7**	**1.3**	**-15.6**	**-87.9**	**-56.1**	**-92.0**	**3.4**	**-30.2**	**-42.4**	**-19.2**	**-11.2**
Total (ex Money Markets)	**3.3**	**35.1**	**50.7**	**-141.6**	**-33.5**	**-25.5**	**2.4**	**-114.0**	**-92.9**	**13.6**	**68.9**
(Data to August 2017)											
Index returns											
MSCI World Index	5.0%	4.2%	6.5%	2.0%	5.0%	1.2%	-0.2%	5.6%	-8.3%	0.5%	2.5%
MSCI World Financials Index	5.5%	5.4%	4.9%	14.8%	7.1%	-1.8%	-6.1%	4.4%	-9.3%	1.8%	1.0%
IBOXX (IBOXIG) Corp Bond Indices	1.5%	3.0%	1.3%	-3.7%	1.3%	4.1%	4.7%	-0.3%	0.9%	-3.8%	2.6%

Source: ICI/Bloomberg

Net outflows from the equity sector (mutual funds) in 2016 reached a record $259bn, 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 has more positive, however, with a return to net inflows in 2016 after small outflows in 2015. Overall, US mutual funds (equity, fixed income and hybrid) have enjoyed net inflows in 2017, after seeing net outflows in 2015 and 2016.



Source: Bloomberg

MiFID II

As many readers will be only too aware, one of the key impacts of the implementation of the MiFID II Directive at the start of 2018 is the banning of asset and wealth managers from receiving free or bundled research. Asset managers remain permitted to purchase research from client funds via a Research Payment Account, but the landscape has shifted significantly in recent months. Initially, there was a reasonably even split of asset managers who indicated they would use RPAs, versus those who chose to absorb external research costs into their own finances. However, after two of the industry's largest players, Blackrock and JP Morgan, announced that they would absorb costs, we saw a decisive shift to this camp. The table below shows the intentions of listed asset managers, with a number still undeclared.

Taking research costs on P&L	Passing research costs to clients
Jupiter	Amundi
Schroders	
Standard Life Aberdeen	
Polar Capital	
Man Group	
GAM	
Brewin Dolphin	
Franklin Templeton	
Blackrock	
Janus Henderson	
Rathbones	
T Rowe Price	
Vontobel	
Invesco	

source: FT (19 Oct 2017)

For all the column inches and headaches that MiFID II generates, the overall impact on profits of absorbing external research costs should not be that great. At the smaller end of the market cap spectrum, Polar Capital has announced a research budget for 2018 of £1.5m, which represents around 6% of estimated pre-tax profits for the last financial year. However, for most managers, the sharp contraction in research 'list prices' in combination with rationalised use of external research means that nearly all listed managers will be targeting a P&L impact of less than 3% of 2018 profit before tax. It is also a foreseeable expense, and is already reflected in consensus earnings for 2018.

There may be less direct cost pressure on wealth managers (or not, if they are direct consumers of research), but we expect the unbundling of costs and greater disclosure requirements under MiFID II to shine a light on some of the more expensive product offerings, leading to downward pricing pressure for some.

Elsewhere in the money management sector, MiFID II requirements can be argued to be positive for stock exchanges, as equity trading shifts away from OTC venues, and the volume of lower-cost straight-through-processed trades likely increases.

Outlook & valuation

As we look ahead to the next few years 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.

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 September 2017):

	Theme	Example holdings	Weighting (%)
1	High active share	LIONTRUST, POLAR CAPITAL	26.4%
2	Alternatives	Blackstone, KKR	10.1%
3	Growth of ETFs/passive distribution	BLACKROCK, Invesco	7.2%
4	Wealth management	BREWIN DOLPHIN	10.5%
5	Traditional value	ALLIANCEBERNSTEIN, RAYMOND JAMES	21.6%
6	Support services	Nasdaq	7.2%
7	Asset management consolidators	AMG	3.6%
8	Secular shift in Europe to equities	VONTOBEL, AZIMUT	10.8%
9	Other (incl cash)		2.5%

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.

At 30 September 2017, the P/E ratio of the Fund was 15.6x 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 19.8x earnings. Earnings for the portfolio fell by 19% between 2015 and 2016, but are expected to grow by 32% in 2017.

Fund P/E ratios versus the S&P 500 Index (30.09.17)

	'11	'12	'13	'14	'15	'16	'17
Fund P/E	27.5	22.5	16.6	15.7	16.8	20.6	15.6
S&P 500 P/E	26.1	26.0	23.5	21.7	25.1	23.8	19.8
Premium (+)/ Discount (-)	5%	-13%	-29%	-28%	-33%	-13%	-21%

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 willing to return the cash to shareholders in the form of dividends. The portfolio currently shows a dividend yield of 3.2%, well ahead of the MSCI World at 2.4%. 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.

Dividend yield (%)	**2012**	**2013**	**2014**	**2015**	**2016**	**Current**
Guinness Money Managers Fund	2.07	1.89	2.56	3.22	3.29	**3.19**
MSCI World	2.33	2.20	2.24	2.54	2.44	**2.38**
Premium to MSCI World yield (%)	-11%	-14%	14%	27%	35%	**34%**

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
October 2017

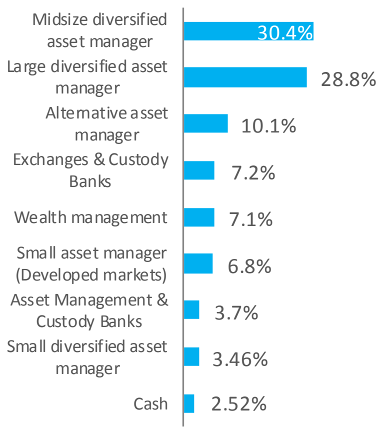
PORTFOLIO

30/09/2017

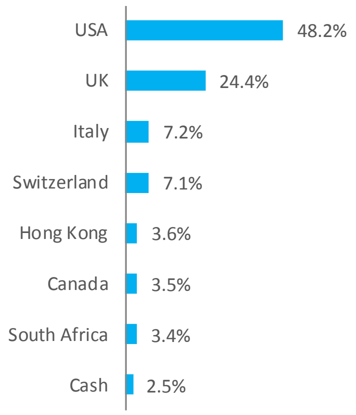
Fund top 10 holdings

Blackrock	3.9%
T Rowe Price	3.7%
Janus Henderson	3.7%
Franklin Resources	3.7%
BANCA GENERALI SPA	3.6%
Affiliated Managers Group	3.6%
Value Partners	3.6%
Azimut Holding	3.6%
State Street	3.6%
GAM Holding	3.6%
% of Fund in top 10	36.5%
Total number of stocks in Fund	30

Sector analysis



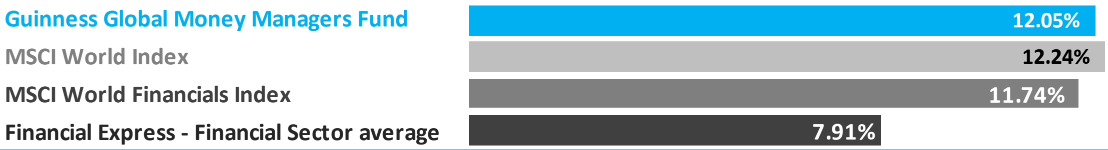
Geographic allocation



PERFORMANCE

30/09/2017

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	-0.6	17.4	28.8	38.4	115.6
MSCI World Index	-1.8	7.3	15.1	53.5	118.1
MSCI World Financials Index	-0.1	7.4	29.5	57.3	111.6
Financial Express - Financial Sector average	-1.5	11.8	23.8	38.8	67.2

Discrete years (X Class, in GBP)	Sep '13	Sep '14	Sep '15	Sep '16	Sep '17
Guinness Global Money Managers Fund	46.3	12.6	-0.8	8.3	28.8
MSCI World Index	20.6	12.7	2.1	30.6	15.1
MSCI World Financials Index	28.4	10.0	1.2	20.1	29.5
Financial Express - Financial Sector average	23.4	7.6	0.7	11.3	23.8

RISK ANALYSIS

30/09/2017

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	-1.44	-1.21
Beta	1	1.12	1.18
Information ratio	0	-0.07	0.04
Maximum drawdown	-18.26	-28.87	-29.47
R squared	1	0.84	0.81
Sharpe ratio	0.59	0.46	0.47
Tracking error	0	6.64	8.00
Volatility	13.46	16.40	17.67

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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.**

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.

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