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 – January 2018

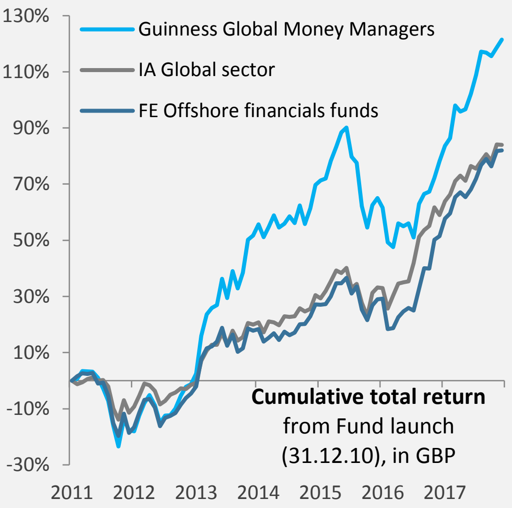
Aim

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

31.12.17



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 (E class, 1.24% OCF), 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 update, we review the asset management sector and our Fund performance in 2017, and consider the outlook for 2018 and beyond.

Performance in 2017

Total return %	**2017**	
	USD	**GBP**
Guinness Global Money Managers Fund	35.1	23.4
MSCI World Index	23.1	12.4
MSCI World Financials Index	23.5	12.7
IA Global Equity Sector	24.8	14.0
FE Offshore Financial Sector Average	27.0	16.0

Source: Financial Express (E Class, 1.24% OCF)

The Global Money Managers Fund (class E, in USD) in 2017 produced a total return of 35.1% (23.4% in GBP). This compares to the return of the MSCI World Index of 23.1% (12.4% in GBP) and the MSCI World Financials Index of 23.5% (12.7% in GBP).

After a difficult year in 2016, the money management sector enjoyed a strong rally in 2017, buoyed primarily by the strength of the broader equity and fixed income markets, which created a rising tide for assets managed by most participants. Active-to-passive rotation continued to impact traditional asset managers, though the level of rotation was far less than experienced in 2016. Active equity management in the US again saw net outflows, but active fixed income and multi-asset funds reported net inflows.

All the subsectors within money management performed well in 2017, with the standout group being alternative asset managers. Having underperformed for the previous couple of years, private equity managers enjoyed particularly strong returns. Their stocks looked undervalued going into the year, and as a group they enjoyed positive market returns, record asset inflows, and the expected benefits of President Trump's economic and fiscal reforms (most being US focused or domiciled).

European money managers adjusted to the prospect of MiFID II regulations coming into force at the start of 2018. Greater transparency, reporting requirements and the burden of external research costs falling directly on asset managers combined to raise operating cost bases. However, the additional costs came at a time of record retail inflows into the European asset management sector, which sugared the pill.

In general, we observed that some active providers reacted to the threat from passive products better than others, and distributed products that were clearly differentiated from passive products, or are sufficiently competitively priced. The active managers whose products provide only high-cost index-like exposure are those that struggled most in 2017, albeit this was masked by positive impact of the rising stock market.

The best performers in the Fund over the year (on a total return basis, in USD) were: Polar Capital (+109.6%), Jupiter Fund Management (+65.9%) & Fortress Group (+65.2%).

Polar Capital, which we have held 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 reversing outflows in the company's flagship Japan fund, success for the company's technology fund, and a successful launch of a UK Value Opportunities Fund. The market also welcomed the arrival of Polar's new CEO, who has outlined plans for an expansion into the US market.

Jupiter Asset Management also reported strong inflows during the year, spread across fixed income, absolute return, multi-asset and global emerging market strategies. Over the first three quarters of 2017, Jupiter saw net inflows of £4.9bn, equivalent to 12% of assets under management at the start of the year. We watch Jupiter's net revenue margin closely, which at 92 basis points in 2016 was in the top quartile versus peers and vulnerable to decline, but expect asset gathering from newly opened offices in Continental Europe to continue successfully over the next few quarters.

Fortress was subject to a US$3.3bn acquisition by Japanese company, SoftBank Group. SoftBank's core business is focused on telecoms and technology, so the addition of Fortress, a New York based manager of real estate, hedge funds and private equity, was something of a departure from their traditional operations. Fortress had around $70bn in assets under management at the time of the bid and is one of few asset managers with funds targeted at Japanese assets.

The worst performers in 2017 were: Och-Ziff (-22.6%), GAMCO Investors (-3.7%) and Franklin Resources (+11.6%).

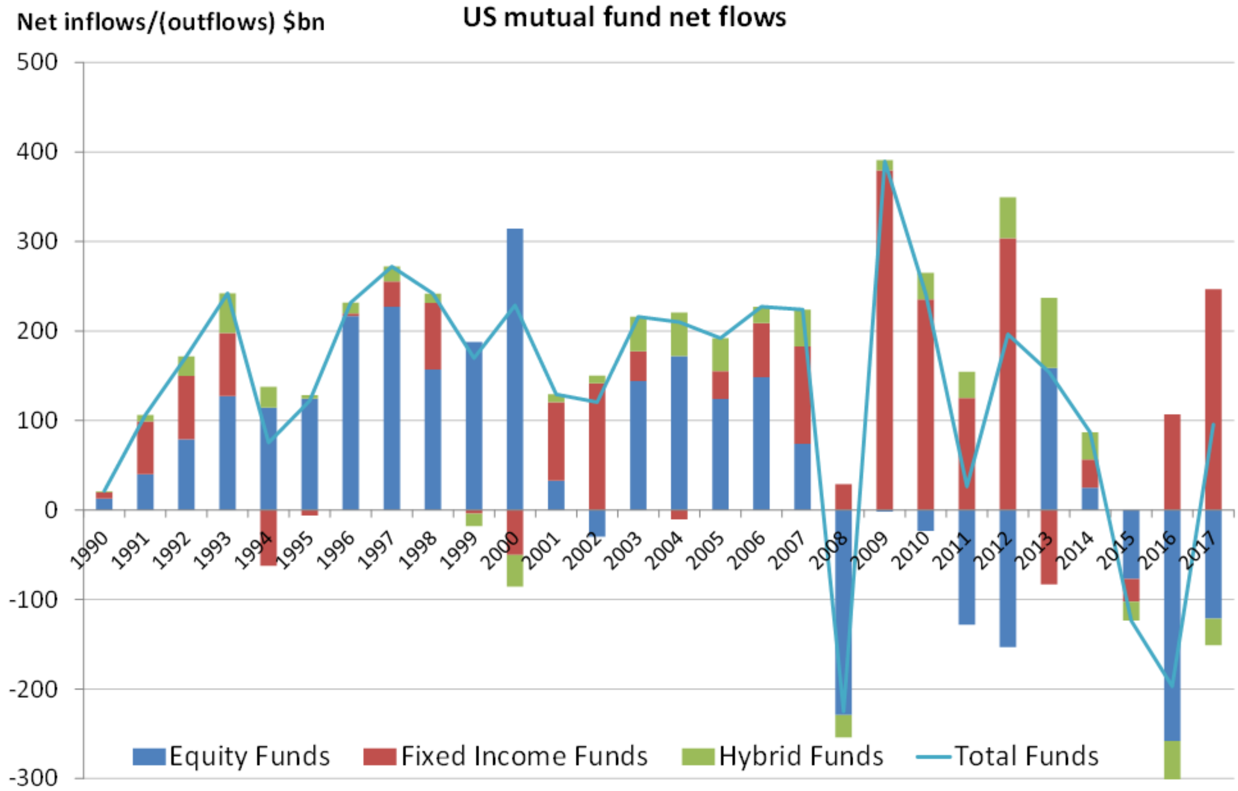
Och-Ziff's progress continues to be hindered by the fall-out from an SEC investigation into federal bribery. Although the investigation was settled in September 2016, the company saw steady asset outflows continue in 2017. In the 12 months to September 2017, net outflows for the company totalled $9.1bn, or 23% of assets under management at the start of the period. We were pleased to see, however, that performance of Och-Ziff's flagship fund looked more positive.

GAMCO Investors reported a rise in assets under management during 2017, up by around 8% to $43.bn, supporting the company's revenues. However, this was more than offset by rising costs in the business, which resulted in a drop in pre-tax earnings and pulled the stock lower.

Franklin Resources is one of the US's larger traditional asset managers, and has proved vulnerable to outflows, particularly from its active US equity franchise. The company also had a relatively high proportion of its assets under management in higher margin retail share classes, which have borne the brunt of the outflows.

Within the US asset management sector, 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 and 2017 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



Outlook

As we consider the outlook for the asset management industry, it is instructive to consider a number of the trends that have developed over the last few years.

Despite the penetration of passives/ETFs into the market over the past five years, the majority of asset management companies have achieved net inflows. 2016 was a poor year for inflows, especially in the US, catalysed by shifts in the US retail channel triggered by the DOL's Fiduciary Standard Rule. However, 2017 has seen a much stronger backdrop than 2016, with around three-quarters of mid and large cap asset managers enjoying net inflows.

There are a number of managers who have seen their overall assets under management decline, particularly traditional active equity businesses in the US that have been most exposed to the rotation to lower cost passive funds and ETFs, but the majority of firms have seen assets under management grow handsomely. This has of course been well supported by market appreciation, as well as net inflows.

There has been pressure on revenue margins, as greater competition from passive products lowers fund pricing. Net revenue margins have declined, on average, by about 10% since 2012. However, operating margins are steady over the period, so 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.

And despite headwinds for the sector, return on capital remains as high today as it was in the years leading up to the 2008-09 financial crisis, at a level far exceeding average returns across the broad market. Indeed, cashflow return on investment (CFROI) for the asset management sector in 2017 averaged just over 20%, which compares to a broad market average of 8.5%. This puts asset management returns comfortably in the top decile of all GICS sub-sectors.

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 gross dividend yield of 3.5% (n.b. this is rolled up in the Fund rather than paid out), well ahead of the MSCI World at 2.3%. 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 far smaller premium to the broad market. However, sustained underperformance in 2015 and 2016, at a time when asset managers were still growing their dividends, leaves the Fund's yield today at its greatest premium to the MSCI World in five years.

Dividend yield (%)	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**
Guinness Money Managers Fund	2.57	2.33	3.01	3.46	3.51	**3.51**
MSCI World	2.22	2.13	2.11	2.42	2.33	**2.29**
Premium to MSCI World yield (%)	16%	9%	43%	43%	51%	**53%**

Source: Bloomberg

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. Weaker traditional asset managers who over-charge for undifferentiated products will continue to see outflows and will underperform. Against this, we expect outperformance from the following participants in the sector:

- **Effective, outperforming, active management.** 49% of US active managers outperformed their benchmarks (after fees) in 2017, the strongest year for active equity performance since 2013 and above the 20 year average of just over 40% (source: CSFB; Morningstar). Managers who can successfully offer products that outperform their benchmarks will continue to be the sector's most attractive revenue opportunity.

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- **Cost-efficient beta (ETFs/passives).** There will be significant growth in the use of easily-accessible passive products, notably ETFs. We expect the global ETF market to triple in size over the next five years. Broadly speaking, this divides into low-cost 'beta delivery' operations (e.g. Vanguard, BlackRock iShares) which rely on scale, and innovative beta products for which appetite is high (e.g. WisdomTree and Invesco Powershares). Increasingly, the winners in the ETF/passive world will be those who can achieve significant scale, so maximising their operating leverage. The sector saw consolidation in 2017, with Invesco buying Guggenheim and Source, and we expect further consolidation this year.

- **Alternative asset managers**. 'Alternative' asset managers, such as private equity and hedge funds, face less threat from passives than large, low active share traditional managers, and therefore sit well placed to continue to grow assets as investors seek differentiated returns. Many alternative managers are seeing record fundraising activity, whilst some US managers (e.g. Blackstone; Ares; KKR) have the opportunity to convert from their current publicly traded partnership structure into a C-Corp structure, driven by US corporate tax reforms. This would likely expand their ownership bases with passive and active-only equity managers, some of whom are unable to own partnership structures.

- **Wealth management consolidators.** The wealth management industry in many developed countries remains a fragmented market with many subscale operators. However, consolidation is taking place, as pricing pressures, low interest rates and additional regulation (e.g. RDR; MiFID II) prompt companies to scale up and exploit potential cost savings. We are attracted towards those wealth managers we think can consolidate effectively, seeing particular opportunities in the UK and continental Europe.

- **Ancillary services to the industry (e.g. custody banks; stock exchanges).** Whilst change is occurring to the composition of assets under management, it remains the case that the total level of AuM is growing at a faster pace than the growth in underlying returns. Since 1990, new investable companies and increasing household wealth have helped grow conventional assets under management by around 10x, versus world equity returns of around 4x. We expect this trend to continue. An expanding pool of assets provides an attractive environment for sectors such as stock exchanges and custody banks.

We believe that the most successful money management investments over the coming 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. 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 31st December 2017):

	Theme	Example holdings	Weighting (%)
1	High active share	LIONTRUST, POLAR CAPITAL	27.5%
2	Alternatives	Blackstone, KKR	8.0%
3	Growth of ETFs/passive distribution	BLACKROCK, Invesco	7.2%
4	Wealth management	BREWIN DOLPHIN	14.3%
5	Traditional value	ALLIANCEBERNSTEIN, RAYMOND JAMES	17.9%
6	Support services	Nasdaq	7.0%
7	Asset management consolidators	AMG	3.7%
8	Secular shift in Europe to equities	VONTOBEL, AZIMUT	10.6%
9	Other (incl cash)		3.8%

At 31st December 2017 the P/E ratio of the Fund was 15.8x 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 21.4x earnings. Earnings for the portfolio grew by 42% between 2016 and 2017, and are expected to grow by 11% in 2018.

Fund P/E ratios versus the S&P 500 Index (31.12.17)

	'12	'13	'14	'15	'16	'17	'18
Fund P/E	23.6	17.6	16.8	18.0	22.4	15.8	14.0
S&P 500 P/E	27.6	24.9	23.0	26.6	25.2	21.4	18.4
Premium (+)/ Discount (-)	-14%	-39%	-39%	-41%	-22%	-24%	-26%

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

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
January 2018

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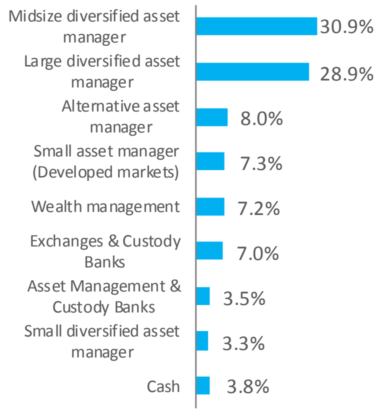
PORTFOLIO

31/12/2017

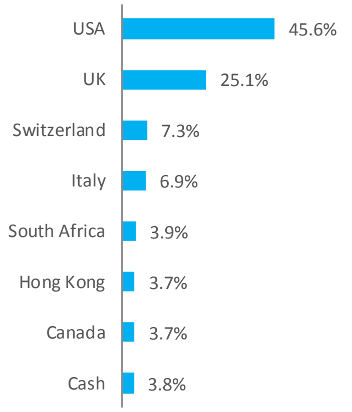
Fund top 10 holdings

Polar Capital	4.0%
Coronation Fund Managers	3.9%
Blackrock	3.9%
KKR	3.8%
Brewin Dolphin	3.8%
T Rowe Price	3.8%
Value Partners	3.7%
Vontobel	3.7%
CI Financial	3.7%
Raymond James Financial	3.7%
% of Fund in top 10	37.9%
Total number of stocks in Fund	29

Sector analysis



Geographic allocation



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PERFORMANCE

31/12/2017

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

Guinness Global Money Managers Fund	12.39%
MSCI World Index	12.51%
MSCI World Financials Index	12.06%
Financial Express - Financial Sector average	8.18%

Cumulative % gross total return (X Class, in GBF	1 month	Year-to-date	1 year	3 years	From launch
Guinness Global Money Managers Fund	2.4	23.4	23.4	32.3	126.7
MSCI World Index	1.5	12.4	12.4	52.9	128.4
MSCI World Financials Index	2.1	12.7	12.7	56.4	122.0
Financial Express - Financial Sector average	1.4	16.0	16.0	36.3	73.5

Discrete years (X Class, in GBP)	Dec '13	Dec '14	Dec '15	Dec '16	Dec '17
Guinness Global Money Managers Fund	51.9	10.0	-5.7	13.7	23.4
MSCI World Index	25.0	12.1	5.5	29.0	12.4
MSCI World Financials Index	25.6	10.1	2.8	35.0	12.7
Financial Express - Financial Sector average	22.7	6.7	0.5	17.0	16.0

RISK ANALYSIS

31/12/2017

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

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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: Link Fund Manager Solutions (Ireland) Ltd, 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 will be recorded and monitored.

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GUINNESS
ASSET MANAGEMENT

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

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