

# 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 – April 2018

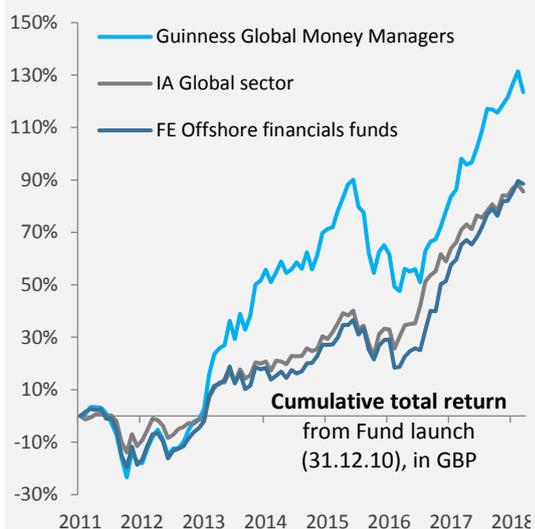
### Aim

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

31.03.18



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

### Money management sector

In this month's update, we review the asset management sector and our Fund performance over the first four months of 2018, and consider the role of dividends in the sector.

### Performance in Q1 2018

World equities posted losses over the quarter, with the MSCI World Index (the benchmark for the fund) falling by 1.2%. Global financials slightly underperformed, with the MSCI World Financials Index falling by 1.8% over the period. The fund fell by 1.6% over the quarter.

The quarter saw an even split of positively and negatively performing stocks in the fund's portfolio, with mid and smaller cap asset managers generally faring better than the large caps. Among the best performers were:

- **Liontrust (+17.2%).** Liontrust, which we have held since the inception of the fund, has enjoyed a transformational twelve months. AuM has moved over £10bn, thanks mainly to (organic) net inflows of £1.0bn and the acquisition of the Sustainable Investment Team from Alliance Trust. The Sustainable Team joined Liontrust with assets of £2.3bn, and finished the financial year managing close to £3bn. With the company's Economic Advantage team managing nearly £5bn, the addition of Sustainable Investments creates a healthy degree of diversification in the business, which has been well received. Further diversification in assets is likely with the addition of an experienced new global fixed income team, joined recently from Kames Capital.

- **Coronation Fund Managers (+14.2%).** General strength in the South Africa stock market in the first quarter benefited Coronation, which also saw reasonable momentum following an operationally successful year in 2017 (when assets under management grew from \$40.8bn to \$49.6bn). Coronation has been enjoying the 'post-Zuma' bounce in the in South African stock market, with around 70% of its assets being domestic, whilst the company's global products are also faring well. We note, in particular, the success of the

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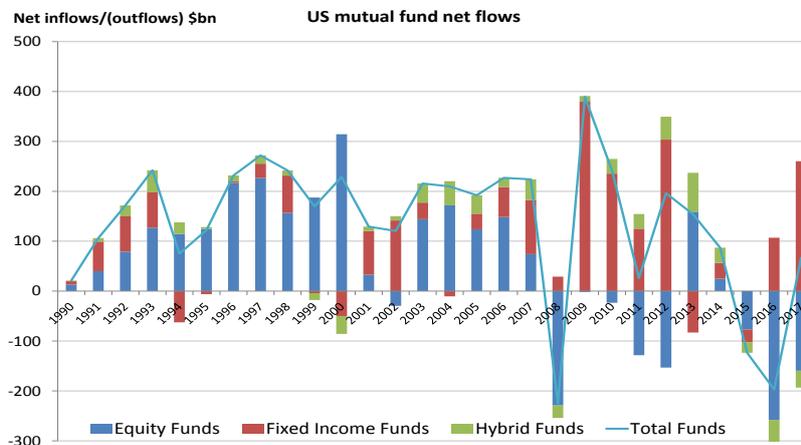
Coronation Global Opportunities Equity Fund (currently around USD\$2.4bn in size), which is ranked comfortably in the first quartile versus peers over one, three and five years, and likely to continue to grow well

- **Nasdaq (+12.7%).** Nasdaq hosted its 2018 Investor Day in March, which was well received by the market. The company raised slightly its long term organic growth guidance outside trading revenues, the upgrade driven mainly by its Market Technology segment, where growth of 8-11% per annum is now expected. We were also pleased to see that, in 2017, the company was successful in expanding its market share in all key trading markets, despite increasing competition and low market volatility.

Weaker performers over the period included:

- **Jupiter Fund Management (-18.2%).** Jupiter reported a slowdown in net inflows in the final quarter of 2017, after three quarters of exceptionally strong inflows earlier in the year. The company has also confirmed the effects of the removal of box profits and absorption of research costs under MiFID II, reducing profits by around £18m, though these impacts have been known for some time. Despite in April reporting further outflows, we note that the weighted average performance of Jupiter's funds on a three and five year view remains in the second quartile versus peers which, we believe, continues to provide a good backdrop for asset gathering.
- **GAMCO (-16.2%).** GAMCO reported year-end assets under management of \$43.1bn, reduced by \$1.1bn of net outflows in the latest reported quarter. Overall in 2017, GAMCO saw \$1.7bn of net outflows (equivalent to 4% of opening AuM). The company's small-cap strategies have been under particular pressure, with underperformance versus all-cap and growth.
- **Franklin Resources (-12.4%).** Franklin suffered an acceleration of outflows in March 2018, with net outflows of around \$6bn (c.1% of total AuM). Franklin now trades on an undemanding 2018 P/E ratio of around 12x, but needs to demonstrate an improvement in underlying fund performance if it is to achieve a turnaround in 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. Equity outflows continued in 2017, particularly in the second half of the year, but overall the picture was less severe than the year before. However, fixed income funds reported strong inflows across all four quarters in 2017, resulting in overall net flows (equity, fixed income and hybrid combined) swinging from negative in 2016 to positive in 2017.



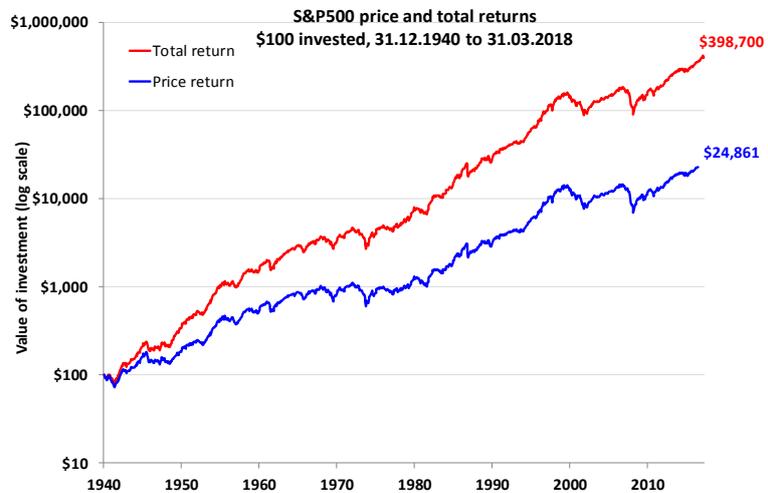
Source: Bloomberg; Guinness Asset Management

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## Role of dividends in the money management sector

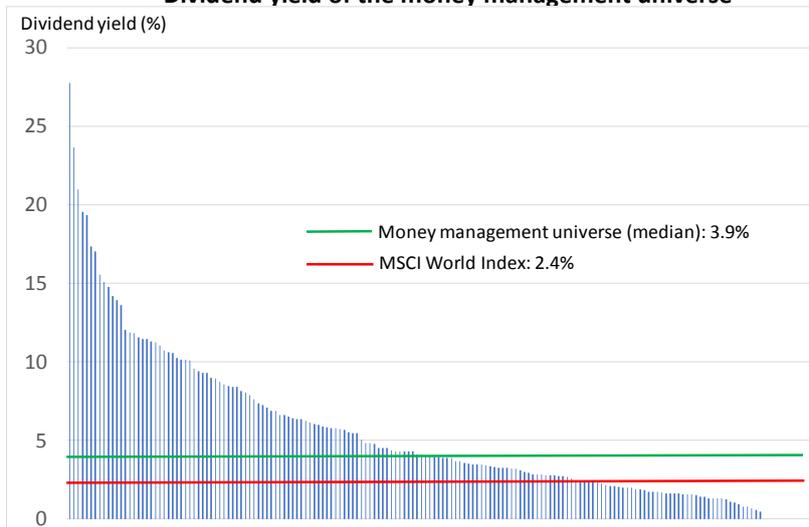
In this month’s update, we make a brief examination one of the favourable characteristics that the companies in our money management universe demonstrate: higher than average dividend yields.

As many investors are aware, dividends make a gradual but potent contribution to long term returns. Indeed, over the long term, dividends have been the main contributors to total return in equity investments. For example, considering S&P 500 total returns since 1940, dividends and dividend reinvestments accounted for over 90% of the index total return during that time. If you had invested \$100 at the end of 1940, with dividends reinvested this would have been worth approximately \$399,000 at the end of March 2018, versus \$25,000 with dividends not paid out.



Asset managers tend to require relatively little capital to grow compared to other industries. Assets under management can be many times the capital employed to start that business. Even average companies in the sector tend to be very high return-on-capital businesses. As a result, companies in the sector tend to exhibit higher-than-average free cashflows (i.e. cash flow from operations after capital spending), which often translates into higher-than-average dividend yields. A large proportion of the cash being generated is not required for the next phase of that company’s growth, and so dividends become the natural home for surplus cash that is generated.

### Dividend yield of the money management universe



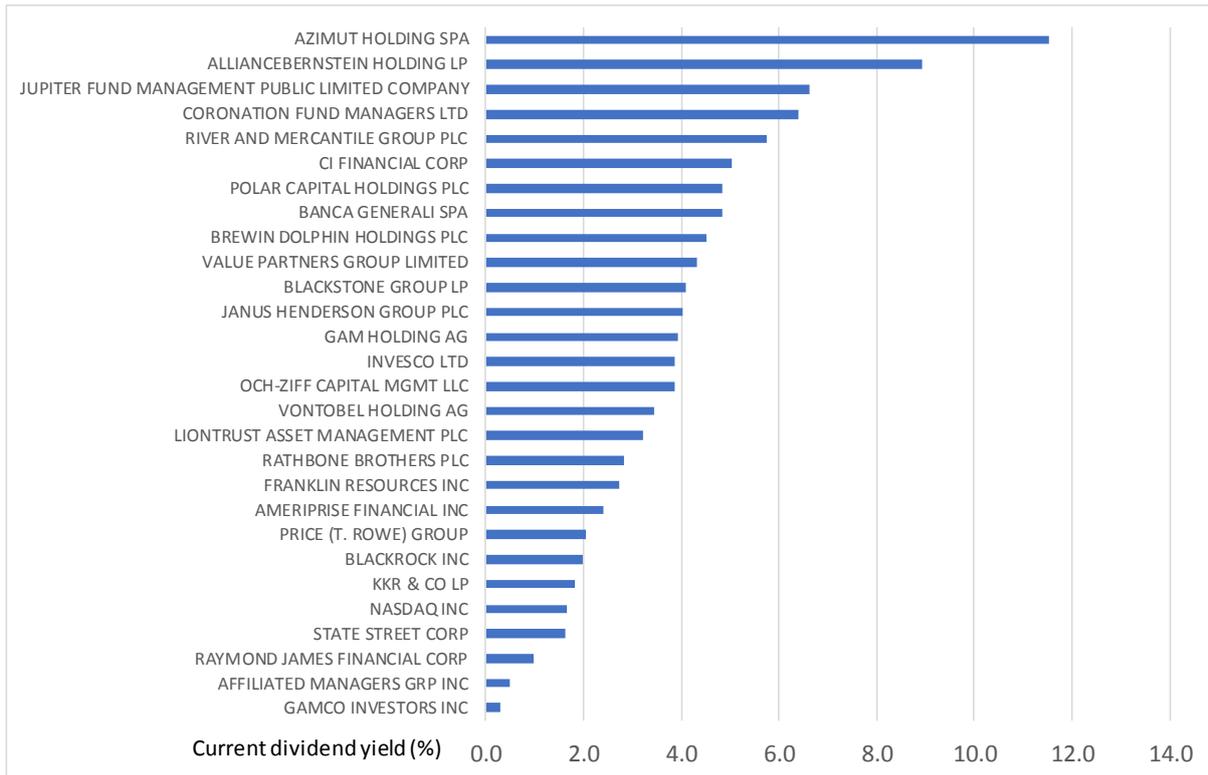
Within our money management universe, which comprises 173 companies, nearly 95% (162) currently pay a dividend. The dividend yield (calculated as total gross dividends over the past 12 months (by ex-date), divided by current share price) of our universe is over 50% higher than both that of the MSCI World Equity Index:

Source: Bloomberg, Guinness Asset Management

The dividend profile of our portfolio mirrors the money management universe, with around 90% of holdings making a payout to shareholders each year. The portfolio’s gross yield is 3.9%, with 20 out of the portfolio’s 29 holdings paying a yield above the MSCI World:

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**Dividend yield of stocks in Guinness Global Money Managers portfolio**



Source: Bloomberg, Guinness Asset Management

**Sustainability and growth of dividends**

It is of course important to consider whether a company is capable of sustaining a given dividend, and whether it may be able to increase it, particularly as the business grows in size.

Considering sustainability, the median dividend cover (defined as the ratio of net earnings to dividends paid to ordinary shareholders) of the fund stands today at around 2.5x, with all companies owned achieving at least 1x cover. By comparison, the MSCI World’s dividend cover stands at around 2.2x. This implies that our fund has around 14% higher dividend coverage, though this is arguably appropriate given the greater underlying volatility of its earnings versus the broader index.

Growth in dividends from the money management sector stacks up well also. Our portfolio has seen average dividend growth since 2012 of 13% (median also 13%), which compares to the growth in the MSCI World’s dividend of 8%. This stands to reason: money management companies have achieved higher earnings growth over the last five years than the broad market, and have been able to return a greater proportion of their higher earnings to shareholders via dividends, as the cash is not often needed to achieve growth.

**Conclusion**

Maintaining an affordable dividend payment is a highly attractive quality for a company to have. A significant proportion of the long-term real return on investing in shares is due to the dividend paid out by companies, so the dividend yield forms a key part of the total return received by an investor.

The point to stress about our universe is that it generates high free cashflow, and so companies typically have the ability to grow and pay good dividends.

Combining this analysis with sector performance and valuation, there have been times in recent history (for example in 2013) where share price outperformance by asset managers versus broader equities drove the

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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 vs MSCI World (at 31 March 2018)**

Dividend yield	2013	2014	2015	2016	2017	2018
Guinness Global Money Managers Fund	2.49	2.71	3.44	3.57	3.38	3.82
MSCI World	2.14	2.14	2.32	2.33	2.29	2.46
Premium to MSCI World yield (%)	16%	27%	48%	53%	48%	55%

At 31 March 2018 the P/E ratio of the Fund was 13.3x 2018 earnings. This sits at a significant discount to the broad market, with the S&P 500 trading on a 2018 P/E ratio of 16.9x earnings. Earnings for the portfolio grew by 46% between 2016 and 2017, and are expected to grow by 12% in 2018.

**Fund P/E ratios versus the S&P 500 Index (31.03.18)**

	'12	'13	'14	'15	'16	'17	'18
<b>Fund P/E</b>	23.0	17.2	16.8	17.5	21.8	14.9	13.3
<b>S&amp;P 500 P/E</b>	27.3	24.6	22.8	26.3	24.9	21.3	16.9
<b>Premium (+)/ Discount (-)</b>	-16%	-30%	-26%	-33%	-13%	-30%	-21%

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.

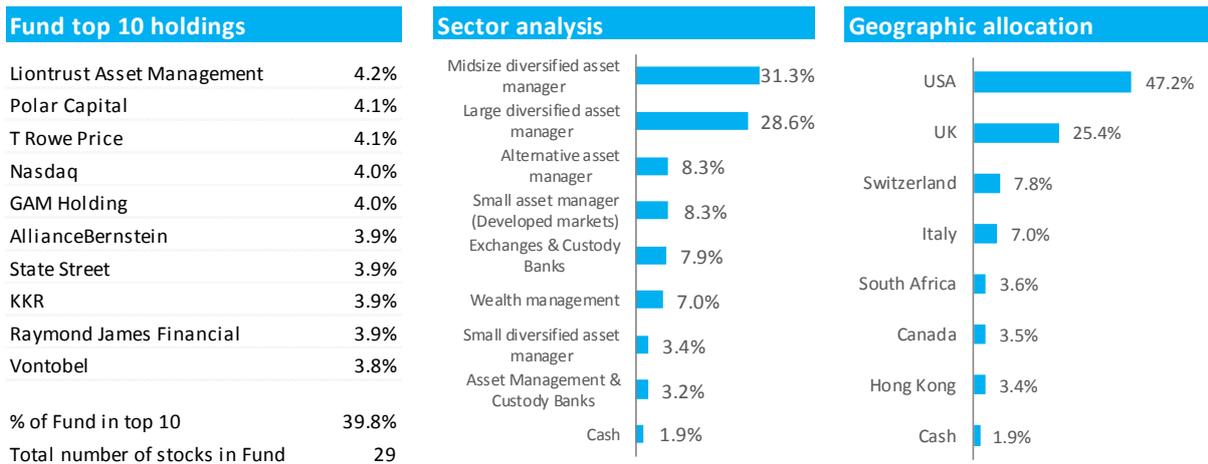
The Fund remains positioned to capitalise on the increasing value of successful companies in the sector.

**Will Riley, Tim Guinness & Mark Hammonds**

**April 2018**

**PORTFOLIO**

31/03/2018



**PERFORMANCE**

31/03/2018

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

Guinness Global Money Managers Fund	11.15%
MSCI World Index	11.33%
MSCI World Financials Index	10.79%
Financial Express - Financial Sector average	7.42%

	1 month	Year-to-date	1 year	3 years	From launch
Guinness Global Money Managers Fund	-3.6	9.9	9.9	17.5	115.3
MSCI World Index	-3.9	1.8	1.8	35.5	117.7
MSCI World Financials Index	-5.7	3.0	3.0	39.8	110.3
Financial Express - Financial Sector average	-5.0	6.4	6.4	24.6	68.0

Discrete years (X Class, in GBP)	Mar '14	Mar '15	Mar '16	Mar '17	Mar '18
Guinness Global Money Managers Fund	26.2	15.4	-14.8	25.5	9.9
MSCI World Index	9.0	19.7	0.3	32.7	1.8
MSCI World Financials Index	9.2	16.5	-6.7	45.4	3.0
Financial Express - Financial Sector average	6.3	14.5	-10.0	30.1	6.4

**RISK ANALYSIS**

31/03/2018

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	-1.31	-0.94
Beta	1	1.11	1.17
Information ratio	0	-0.08	0.04
Maximum drawdown	-18.26	-28.87	-29.47
R squared	1	0.85	0.81
Sharpe ratio	0.52	0.40	0.42
Tracking error	0	6.52	7.92
Volatility	13.54	16.34	17.57

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Source: Financial Express, bid to bid, total return. Fund launch date: 31.12.10. **Fund X class (1.24% OCF):** 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: 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](http://www.carnegie-fund-services.ch). The paying agent is Banque Cantonale de Genève, 17 Quai de l'Île, 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 Global Money Managers Fund

**GUINNESS**

ASSET MANAGEMENT

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