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 2019

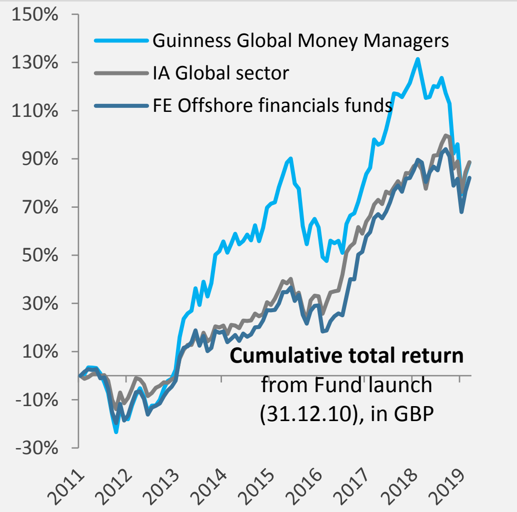
Aim

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

31.03.2019



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 (X class, 1.24% OCF), bid to bid, total return.

2015: BEST FUND OVER 3 YEARS

EQUITY SECTOR BANKS & OTHER FINANCIALS

Asset management sector

In this month's update, we review the asset management sector and our Fund performance in the first quarter of 2019, and consider the outlook and portfolio valuation for the rest of the year and beyond.

World equities posted strong gains over the quarter, with the MSCI World Index (the benchmark for the fund) rising by 12.7%. Global financials underperformed, with the MSCI World Financials Index rising by 8.6% over the period. The Guinness Money Managers Fund rose by 12.0% over the quarter, with the asset management sector outperforming other financial subsectors.

The alternative asset management sector (including private equity and hedge funds) was particularly strong in the first quarter, whilst wealth managers and stock exchanges lagged. Smaller and mid cap asset managers generally fared better than the large caps. Among the best performers in the fund were stocks that fell the hardest in the previous quarter, including:

- **Och Ziff (+80.9%)**. Och-Ziff has suffered a significant decline in its business in recent years, following a SEC investigation in various practices. The company is now in recovery mode, with 2018 likely marking a trough in revenues and earnings. Och-Ziff's EPS fell to less than a dollar in 2018 but if earnings rebound in 2019 as expected, to over $3 per share, the stock trades on around 5x P/E. Performance of the OZ Master Fund will, as always, be key: performance in January was very strong at +4.0%, in comparison to -1.3% for the whole of 2018.

- **Azimut (+55.8%).** Azimut was significantly oversold at the end of 2018, caught up in the general sell-off of Italian equities, and enjoyed a healthy bounce in the first quarter. The company remains the leading independent asset manager in Italy. Growth in AuM did stall in 2018, but still finished higher than 2017, putting the company in the top half of its global peer group in terms of asset retention. Year-end results, presented in March, in fact showed net new money growth for 2018 of 9%, and a similar run-rate for the start of 2019. The

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company proposed a dividend which gives it a yield of around 12%, the highest yield in the FTSE MIB for the second year running.

- **Jupiter Fund Management (+32.3%)**. Jupiter, which we have held since the inception of the fund, suffered in the market downturn late last year, but also reported relatively large net outflows. However, at the start of March the company announced results that were slightly better than market expectations, with profit before tax down only 7% versus the previous year. Jupiter also announced at 28.5p dividend, giving a dividend yield of around 9% when calculated on the company's share price at the start of the quarter. The news that Jupiter had hired Andrew Formica (ex Henderson) as its new CEO, announced in January, was also received well.

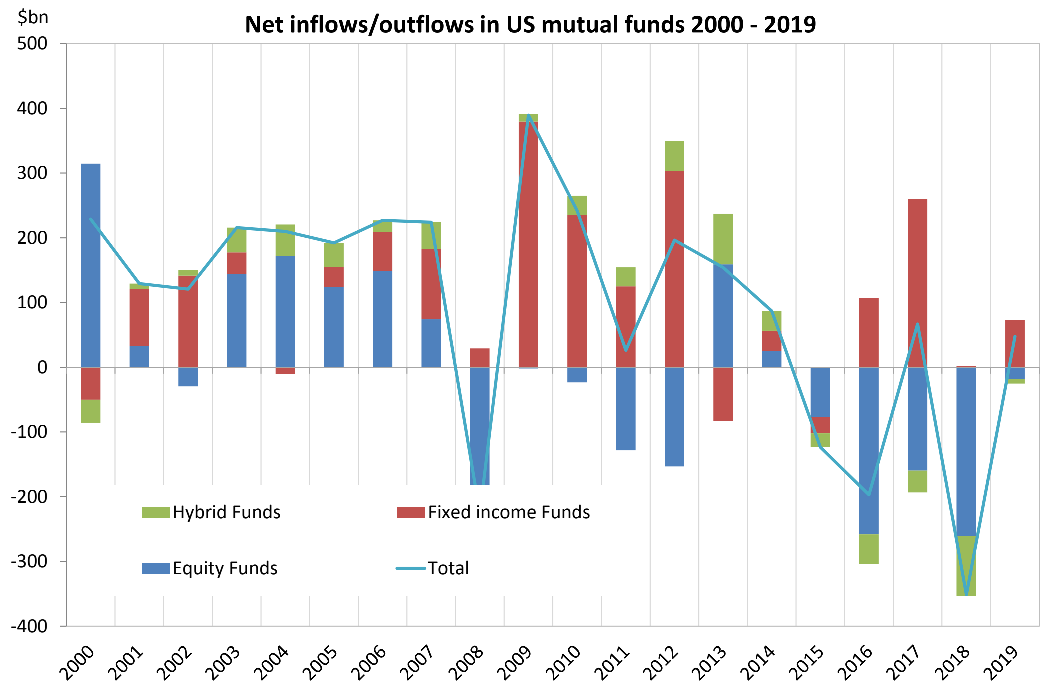
Weaker performers over the quarter included:

- **GAM Holding (-20.2%)**. Fallout from the liquidation of GAM's absolute return bond funds continued in the first quarter. In February, the company announced that they had seen CHF10.5bn of net outlows from their investment management division, resulting in profit before taxes being reduced by 27%. We sit nursing our losses with this investment after a torrid 2018, but ultimately expect a rebound in the stock price from these levels. Importantly, underlying investment performance remains strong, with 77% of assets under management ranking 1st or 2nd quartile over the last three years.

- **Rathbones & Brewin Dolphin (-3.1%; +2.3%).** UK wealth managers Rathbones and Brewin Dolphin were relative safe havens in 2018, owing to the diverse spread of their underlying assets and stickiness of their investor bases. As expected in a strong quarter for equities at the start of 2019, their stock prices did not rebound as far as more directly levered equity asset managers. For Rathbones, assets under management and administration grew again in 2018 by more than 10% to £44bn (thanks in part to the acquisition of Spiers), but underlying operating margins dipped by 1% versus 2017. Improving operating margins again remains a key challenge for both companies in 2019.

We made one change to the fund in the quarter, purchasing a position in Ares Management. Ares is one of the largest global alternative asset managers, running around $131bn of assets under management across credit, private equity and real estate strategies. Ares has recently converted to a C-Corp, boosting the breadth of its shareholder base (it will likely be added to the Russell 2000 in June). Company management expects AuM growth of 15% p.a. across the three strategies. Today, the company sits on 16x 2018 earnings (falling to 14x 2019) and pays a dividend yield of nearly 5%. With alternatives likely in the sweet spot for institutional and retail flows over the next few years, we find the combination of attractive valuation and growth as strong enough to merit inclusion in our portfolio.

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 2018, surpassing the outflows seen at the end of 2016. The picture for active bond & income funds was also negative, with net outflows of $123bn, though net flows for bond & income were flat overall during the year. The start of 2019 has seen a sharp rebound in positive net inflows for bond & income funds, though equity funds continued to see shallow outflows.



Source: ICI; Bloomberg; Guinness Asset Management

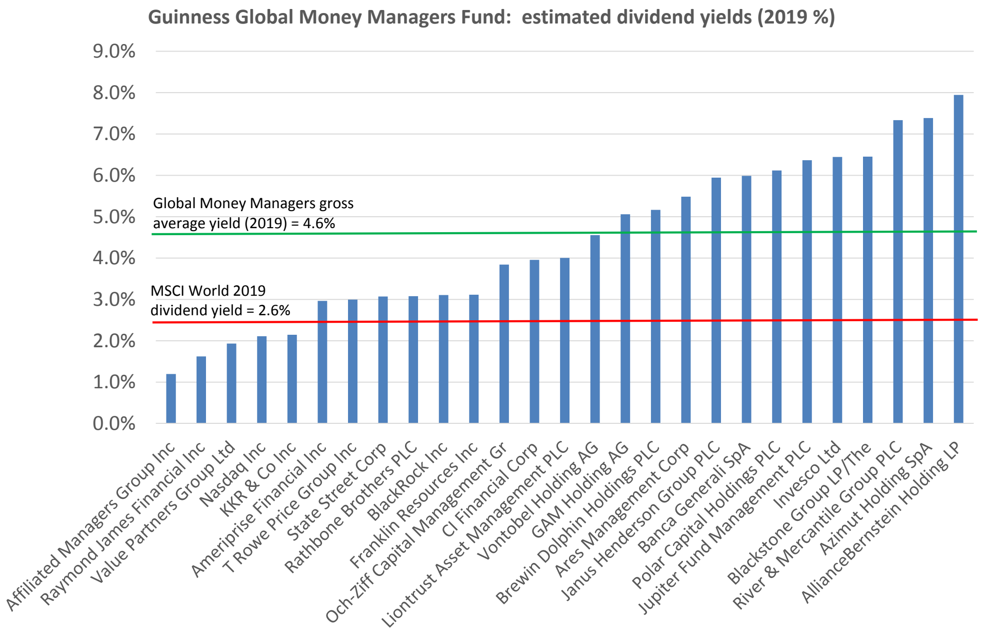
Outlook

Fund flows generally bounced back well in the first quarter of 2019 after a sharp rush for the exit in the final few months of 2018. Amongst the asset management community, the stock prices of alterative managers have come back the strongest. We are not surprised by this, as we see them as one of the five 'pillars of growth' within the money management industry over the next few years, well placed to pull in new money and generally well shielded against the competitive pressures that passives bring to long-only focused managers. For this reason, we upped our weight to alternatives in the portfolio this quarter with the purchase of Ares.

It was interesting to see Blackrock this week announce a major management shake-up, creating Blackrock Alternative Investors as a specialised business unit to spearhead the company's push into alternatives. For Blackrock then, active long-only management is increasingly becoming the forgotten cousin when compared to efforts to grow ETFs, alternatives and the Aladdin software business.

Long-only managers have a fight on their hands with passives. We are pleased to see, though, that the proportion of funds managed by long only managers that are beating their benchmarks over three years is on the rise again. It is striking that a company the size of T Rowe Price, with AuM of around $1trn, has asset-weighted performance in the first quartile versus peers over the last five years. It is an extraordinary achievement, and one which has helped T Rowe retain assets far better than most large-cap competitors.

We continue to focus on the dividend being generated by companies in our portfolio. 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. At 31 March 2019, the portfolio currently shows an average gross dividend yield for 2019 of 5.3% (n.b. this is rolled up in the fund rather than paid out), well ahead of the MSCI World at 2.7%.



It is of course important to consider the sustainability of the portfolio's yield: dividend harvesting is of little use if it represents a return of capital rather than a return on capital. At 31 March 2019, the median dividend cover (defined as the ratio of estimated 2019 net earnings to dividends paid to ordinary shareholders) of the fund stood at around 2.0x, with all companies owned achieving at least 1x cover. By comparison, the MSCI World's dividend cover stands at around 2.4x. Arguably, asset managers should have a higher dividend cover, due to the greater volatility of their earnings versus the broader index, but we still take comfort that the 'affordability' of portfolio's dividend remains high. Indeed, despite the dividend yield for the portfolio being as high as it is, the payout ratio is in line with the last ten years.

At 31 March 2018, the P/E ratio of the Fund was 12.2x 2018 earnings and 12.3x 2019 earnings. This sits at a significant discount to the broad market, with the S&P 500 trading on a 2018/19 P/E ratio of 18.7/17.1x earnings.

Fund P/E ratios versus the S&P 500 Index (31.03.19)

	'16	'17	'18	'19
Fund P/E	16.7	11.6	**12.2**	**12.3**
S&P 500 P/E	26.7	22.8	**18.7**	**17.1**
Premium (+)/ Discount (-)	-37%	-49%	**-35%**	**-28%**

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
January 2019

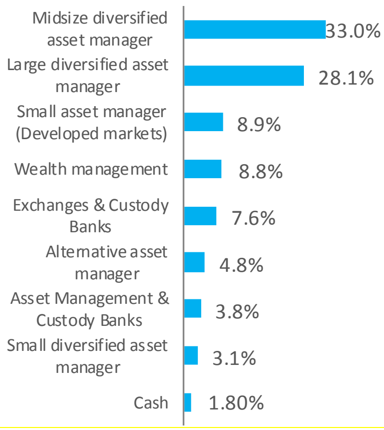
PORTFOLIO

31/12/2018

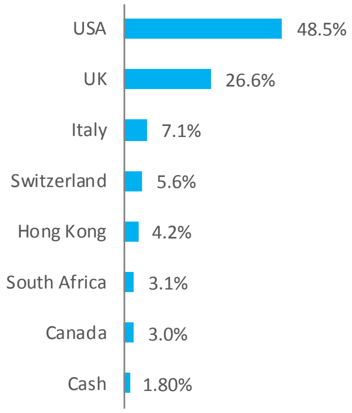
Fund top 10 holdings

Liontrust Asset Management	4.9%
AllianceBernstein	4.8%
Brewin Dolphin	4.5%
Blackstone Group	4.5%
Rathbone Brothers	4.2%
Value Partners	4.2%
Raymond James Financial	4.1%
T Rowe Price	4.1%
Polar Capital	4.1%
Nasdaq	4.0%
% of Fund in top 10	43.4%
Total number of stocks in Fund	29

Sector analysis



Geographic allocation



PERFORMANCE

31/03/2019

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

Guinness Global Money Managers Fund	8.22%
MSCI World Index	11.48%
MSCI World Financials Index	9.35%
Financial Express - Financial Sector average	6.76%

Cumulative % gross total return (X Class, in GBP)	1 month	Year-to-date	1 year	3 years	From launch
Guinness Global Money Managers Fund	1.8	9.5	-10.9	22.9	91.9
MSCI World Index	3.4	9.9	12.0	49.6	134.1
MSCI World Financials Index	-0.7	6.0	-1.2	46.3	99.8
Financial Express - Financial Sector average	1.4	8.6	2.1	41.4	71.5

Discrete years (X Class, in GBP)	Mar '15	Mar '16	Mar '17	Mar '18	Mar '19
Guinness Global Money Managers Fund	15.4	-14.8	25.5	9.9	-10.9
MSCI World Index	19.1	-0.3	31.9	1.3	12.0
MSCI World Financials Index	16.0	-7.2	44.5	2.5	-1.2
Financial Express - Financial Sector average	14.5	-10.0	30.1	6.4	2.1

RISK ANALYSIS

31/03/2019

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	-2.62	-3.42
Beta	1	1.10	1.14
Information ratio	0	-0.29	-0.30
Maximum drawdown	-18.26	-28.87	-29.47
R squared	1	0.84	0.78
Sharpe ratio	0.54	0.32	0.26
Tracking error	0	6.61	8.31
Volatility	13.49	16.16	17.40

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, gross 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 Performance data note on the next page.**

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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: 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.

Telephone calls will be recorded and monitored.