

# 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 2019

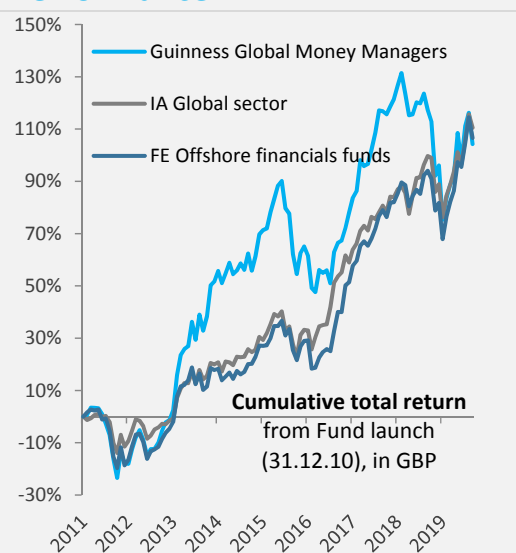
### Aim

**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

31.09.2019



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.



THOMSON REUTERS  
LIPPER FUND AWARDS 2015  
SWITZERLAND

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 third quarter of 2019, mutual fund and ETF flows across the industry, and portfolio valuation for the rest of the year and beyond. World equities posted small gains over the quarter, with the MSCI World Index (the benchmark for the fund) rising by 0.7%. Global financials underperformed, with the MSCI World Financials Index rising by 0.4% over the period. The fund fell by 3.3% over the quarter, with the asset management sector underperforming other financial subsectors.

The alternative asset management sector (including private equity and hedge funds) was particularly strong in the third quarter, whilst US traditional large caps lagged. Among the best performers in the fund were stocks that fell the hardest in the previous quarter, including:

- **Blackstone (+11.0%).** Blackstone has raised a record \$102bn of new funds so far in 2019, led by good inflows into both flagship funds and new initiatives. One of Blackstone's growing successes is in its perpetual capital funds. The majority of this growth comes in the company's real estate strategies, which now comprise around \$42bn of Blackstone's \$97bn total perpetual capital. Trading on around 22x 2019 earnings, Blackstone's shares are not cheap but the prospect for earnings growth in 2020/21, combined with dividend increases, continue to leave the stock looking attractive.
- **Liontrust (+7.1%).** Liontrust enjoyed a transformational year in 2018, thanks mainly to (organic) net inflows and the acquisition of the Sustainable Investment Team from Alliance Trust. This year the company has built on that success. AuM reached £14.6bn at the end of September 2019, up from £12.7bn six months earlier. Overall, Liontrust has achieved one of the highest rates of organic inflows in the industry, raising £3.1bn of net inflows over the last three years. On 1 October 2019, the company also completed the

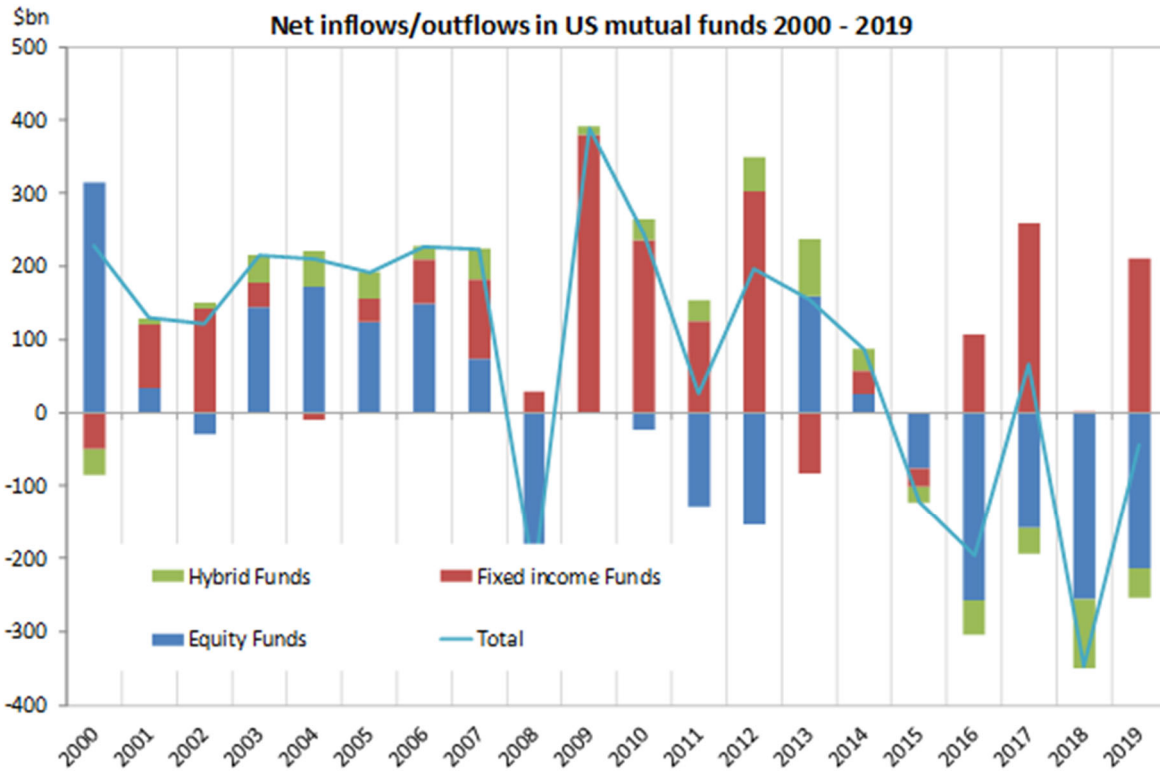
acquisition of Neptune Investment Management, adding a further £2.7bn of AuM.

- **Banca Generali (+7.3%).** Assets under administration at Banca Generali have risen impressively over the past three years, now at around EUR61bn vs EUR48bn at the end of 2016. Inflows for 2019 are expected to be around EUR4-4.5bn. The company has managed to maintain net fee income margins over this period better than most, though operating costs have crept up (reflecting the hiring of new financial advisors), depressing margins somewhat. Overall, EPS has risen by just over 40% since 2016, and Banca's shares now trade at 15x 2019 earnings.

Weaker performers over the quarter included:

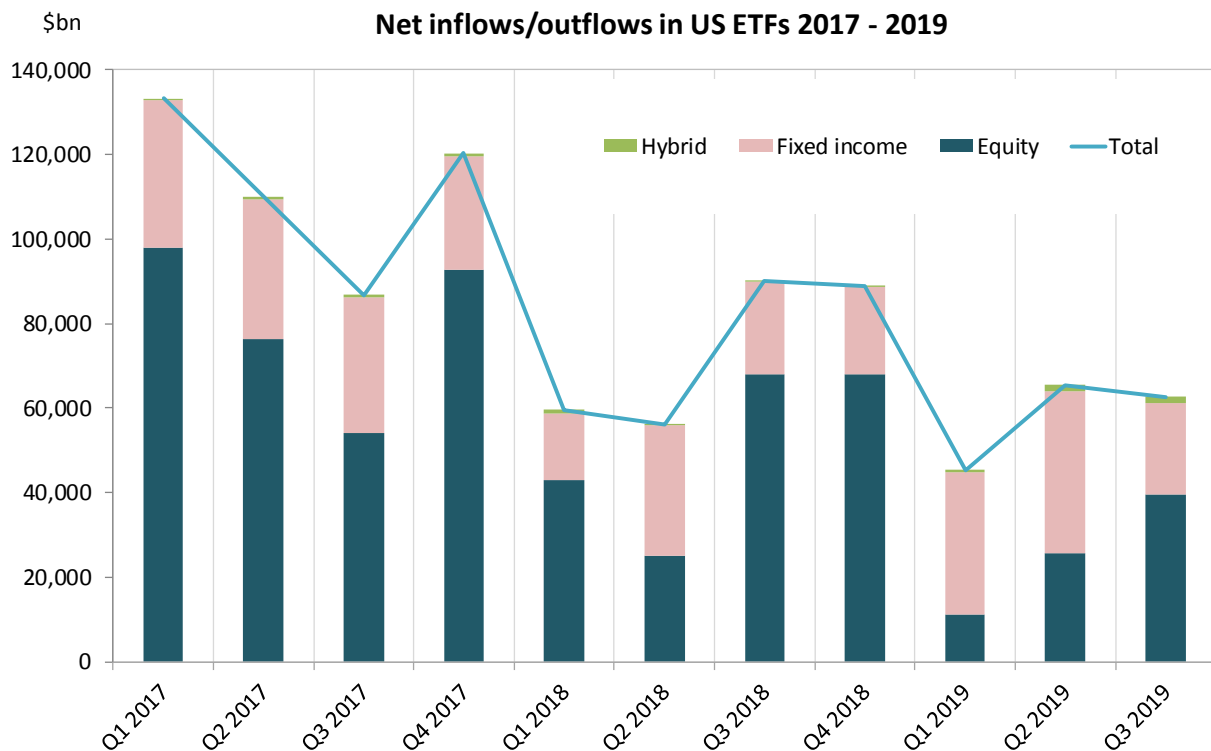
- **Value Partners (-24.5%).** Hong Kong based asset manager Value Partners suffered over the quarter due to the downturn in sentiment towards Hong Kong's market in general, amidst unrest between locals and Chinese authorities. The company, which remains reliant on performance fees for a significant portion of its profitability, also saw earnings downgraded in line with the general poorer performance of Asian markets. Despite weaker market sentiment, Value Partners has managed to maintain net inflows of AuM this year. 1H 2019 inflows totalled US\$1.8bn, lifting company AuM to US\$18.1bn.
- **Jupiter Asset Management (-16.7%).** Jupiter saw net outflows of £1.3bn in the third quarter, led by withdrawals from the company's European equity strategy following the departure of their lead European manager, Alex Darwall. This took overall AuM at the firm to £45bn, which compares to £43bn at the end of 2018. Jupiter has seen its profitability decline since 2017, but the good overall 1 and 3 year performance of its fund range, plus a dividend yield of over 7%, keeps the stock in our portfolio.
- **Invesco Ltd (-15.5%).** Invesco has expanded over the past three years with several significant acquisitions (ETF providers Guggenheim & Source, digital platform Gemstep). This has depressed operating margins, thanks to a rise in the company's core expenses. The company has also failed to stem regular outflows in its mutual fund range, with organic outflows of around 3.5% of AuM expected for 2019, and similar expected in 2020. particularly in its diversified dividend and equity income range. Against this, we see Invesco's stock trading on a 2019 P/E of 7x, paying a dividend yield of around 7.5% and offering a free cashflow yield of over 14%, which we believe represents attractive value.

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 2018, surpassing the outflows seen in 2016. The picture for active bond & income funds was more positive, with flows essentially flat. The start of 2019 has seen a sharp rebound in positive net inflows for bond & income funds, though equity funds continued to see outflows.



Source: ICI; Bloomberg; Guinness Asset Management

Data from the US ETF industry shows a contrasting picture, with inflows across equity ETFs, bond & income ETFs and hybrid ETFs in every quarter since the start of 2017:



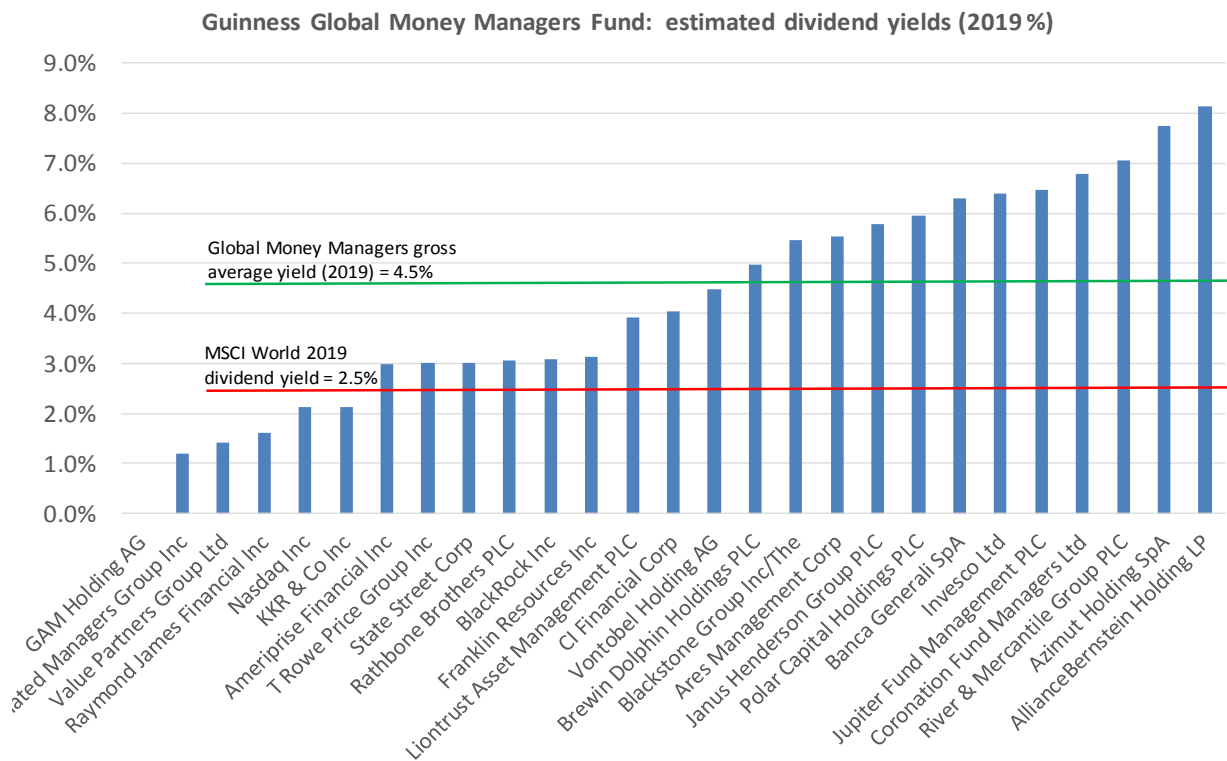
Source: ICI; Guinness Asset Management

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.

Although equity ETF inflows have slowed in 2019, the secular trend in equities remains a rotation from mutual funds into ETFs. In the fixed income sector, the picture is different, with consistent inflows for ETFs and mutual funds. Ultimately we consider these trends to keep pressure on larger US traditional asset managers, who have failed to differentiate their active product versus passive and ETF competition, and are suffering sustained outflows as a result.

Looking across the money management industry, the standout sector has been alternative managers, and in particular the larger private equity houses. 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.

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 30 September 2019, the portfolio currently shows an average gross dividend yield for 2019 of 4.5% (n.b. this is rolled up in the fund rather than paid out), well ahead of the MSCI World at 2.5%.



Source: Bloomberg; Guinness Asset Management

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 30 September 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 1.9x, 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 30 September 2019, the P/E ratio of the Fund was 12.5x 2019 earnings. This sits at a significant discount to the broad market, with the S&P 500 trading on a 2019 P/E ratio of 18.4x earnings.

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.

**Fund P/E ratios versus the S&P 500 Index (30.09.19)**

	'16	'17	'18	'19
<b>Fund P/E</b>	16.5	11.2	<b>11.9</b>	<b>12.5</b>
<b>S&amp;P 500 P/E</b>	28.1	23.9	<b>19.6</b>	<b>18.4</b>
<b>Premium (+)/ Discount (-)</b>	<b>-41%</b>	<b>-53%</b>	<b>-39%</b>	<b>-32%</b>

*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.

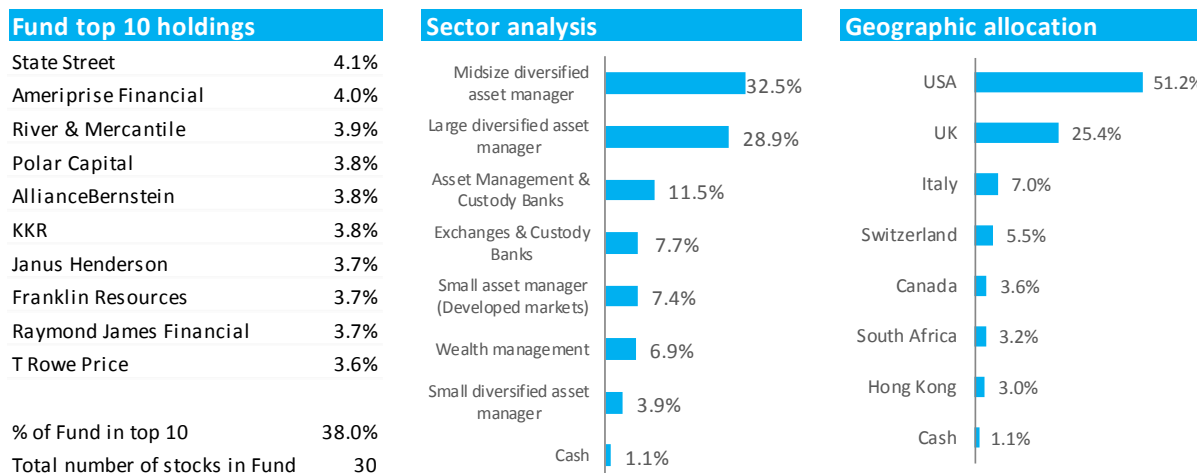
The Fund remains positioned to capitalise on the increasing value of successful companies in the sector.

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

**October 2019**

**PORTFOLIO**

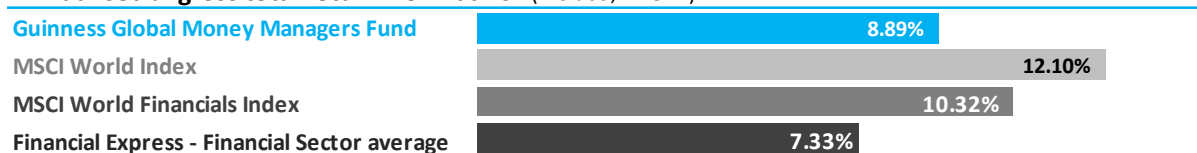
30/09/2019



**PERFORMANCE**

30/09/2019

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	3.2	20.3	-1.0	26.0	110.8
MSCI World Index	0.9	21.6	7.8	41.1	158.8
MSCI World Financials Index	4.1	19.3	5.2	42.0	124.9
Financial Express - Financial Sector average	-0.9	17.6	5.4	37.6	85.8

Discrete years (X Class, in GBP)	Sep '15	Sep '16	Sep '17	Sep '18	Sep '19
Guinness Global Money Managers Fund	-0.8	8.3	28.8	-1.3	-1.0
MSCI World Index	1.6	29.9	14.4	14.4	7.8
MSCI World Financials Index	0.7	19.3	28.8	4.8	5.2
Financial Express - Financial Sector average	0.7	11.3	23.8	5.4	5.4

**RISK ANALYSIS**

30/09/2019

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	-2.29	-3.33
Beta	1	1.09	1.14
Information ratio	0	-0.24	-0.28
Maximum drawdown	-18.26	-28.87	-29.47
R squared	1	0.83	0.77
Sharpe ratio	0.59	0.38	0.31
Tracking error	0	6.63	8.41
Volatility	13.34	15.99	17.29

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.**

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.

### 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, 18 Smith Square, London SW1P 3HZ.

#### 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.

**Telephone calls** will be recorded and monitored.

**GUINNESS**

ASSET MANAGEMENT

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

Tel: +44 (0) 20 7222 5703

Email: [info@guinnessfunds.com](mailto:info@guinnessfunds.com)

Web: [guinnessfunds.com](http://guinnessfunds.com)