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.

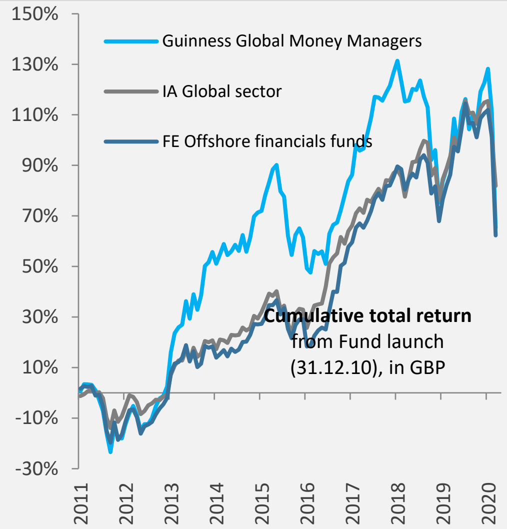
INVESTMENT COMMENTARY – April 2020

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 (in GBP) 31.03.2020



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. Simulated Past Performance – see performance data note on the last page of this document.

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 over the first quarter of 2020, and consider the outlook for the rest of the year and beyond.

The Global Money Managers Fund (class E, in USD) in the first quarter of 2020 produced a total return of -30.5%. This compares to the return of the MSCI World Index (net return) of -21.1% and the MSCI World Financials Index of -31.8%.

The sharp slowdown of the world economy as governments tried to mitigate the COVID-19 crisis resulted in weakness across most asset classes, in particular equities. Against this backdrop, the money management sector underperformed broader equities since nearly all participants are operationally geared to rises and falls in the market.

The alternative asset management sector (private equity) was weaker initially but ended up a relative hiding place in the first quarter, enjoying the protection of a more resilient fee model versus traditional asset managers. Stock exchanges also outperformed, with trading activity increasing as a result of the heightened volatility that COVID-19 has brought. Equity exposed long-only managers and UK wealth managers were generally the weakest subsectors.

Among the Fund's better performers were:

- **Nasdaq (-10.9%).** Stock markets as a sector have been relatively defensive in this downturn, including Nasdaq. Volatility has helped to spur stronger trading activity, a positive for Nasdaq, whilst the company's continued focus on high growth, non-transactional streams (e.g. their Market Technology and Information Services divisions) has so far been reasonably unaffected. Indeed, recent earnings estimates for 2020 have been revised higher since the start of the year. Nasdaq posted good results in January, reiterating their expectation for 5-7% long-term growth in recurring revenues.

- **Blackrock (-11.8%).** Blackrock remains one of the traditional asset managers best placed to capitalize on the secular shift to passives, and this has helped the company so far this year. Whilst active equity mutual funds continued to see sizeable outflows over the quarter, equity ETFs saw inflows, albeit at a slower pace than 2019. We expect that Blackrock was therefore able to maintain positive overall net flow, despite the volatility. Blackrock now trades on a 2020 P/E ratio of around 14x versus the fund on around 9x, but its superior growth prospects justifies the valuation premium, in our view.

- **Blackstone (-17.7%).** Alternative asset managers initially sold off harder than the broad equity market, as fears around both the ability to raise new money and monetize existing investments came to the fore. However, some of the larger alternative managers, including Blackrock, proved more resilient, as the diversity of their asset base was appreciated. Blackstone reported strong results in January, with total AuM at $571 billion, up by 21% year-on-year. Importantly, the 'perpetual capital' AuM channel, which improves the sustainability of Blackrock's management fee earnings, reached $104bn, up by 43% year-on-year.

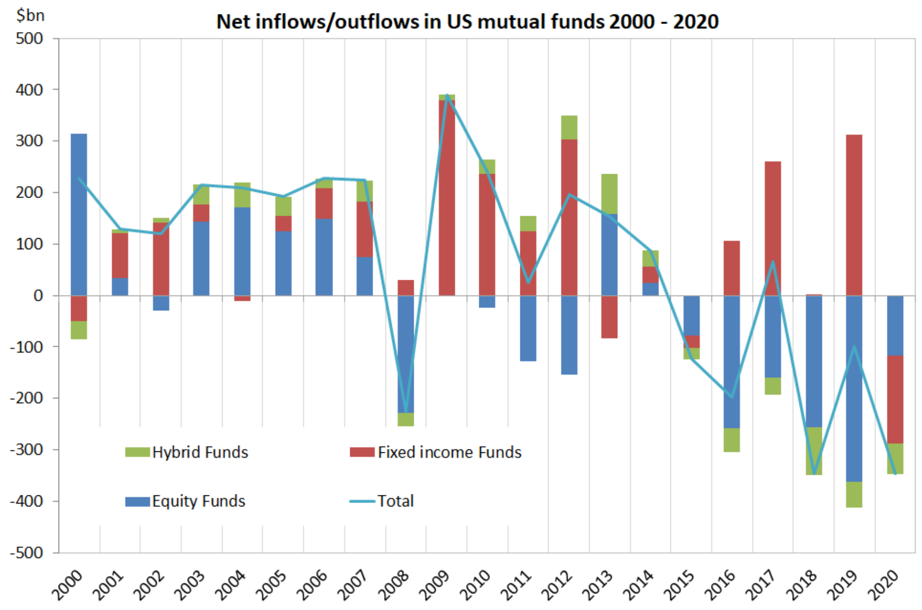
Weaker performers over the quarter included:

- **Jupiter Asset Management (-52.4%).** In mid-February, Jupiter announced the acquisition of Merian Global Investors. At the time of the announcement, the acquisition would have given the enlarged Jupiter group AuM of around £65bn, with Merian contributing around £23bn. Merian Global Investors was known as Old Mutual Global Investors until a management buyout in June 2018. Market reaction to the announcement was lukewarm, with many seeing it as a merger out of necessity rather than a more positive strategic move. The move also came just before the major sell-off in markets, and likely compounded the size of the fall in Jupiter's share price. More reassuringly, in its latest operational update, Jupiter confirmed that 72% of mutual fund AuM had outperformed median peer performance over three years.

- **Invesco (-48.7%).** Invesco has seen steady outflows from its mutual fund range, and there have been concerns about the assimilation of Oppenheimer into the group, which was acquired in late 2018. The company has built as sizeable passives division (AuM of $282bn), but still has the bulk of its AuM ($878bn) in active strategies, where performance has been below average. The stock now trades on a 2020 P/E ratio of 4.7x, with a projected dividend of $1/share (>10% yield) representing a 50% payout of expected earnings per share.

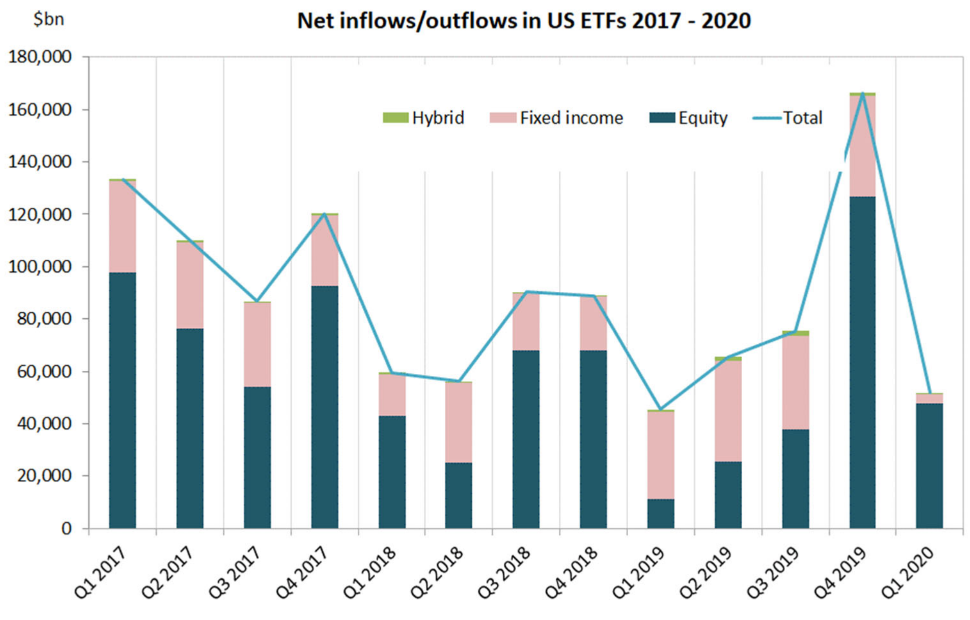
- **Brewin Dolphin (-43.2%).** Brewin looks to have been caught up in the particularly sharp sell-off experienced by UK mid-cap companies over the quarter. As a UK wealth manager, its underlying client portfolios also have a greater bias to UK equities, which likely compounded its share price decline. Leading into the COVID-19 crisis, Brewin's business looked in reasonable shape, with total AuM at £48.5bn, up from £45bn at the end of the previous quarter. The company now trades on 10.5x 2020 earnings.

Within the asset management sector, data for US mutual fund flows (which we treat as a proxy for global flows) indicated record outflows from active equity funds in 2019, surpassing the outflows seen in 2018. The picture for active bond & income funds was better, with strong positive flows in every quarter. Flows in the first quarter of 2020 turned heavily negative across all categories. Equity fund outflows were consistent with the previous two quarters, but bond and income flows turned negative for the first time since the fourth quarter of 2018.



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

As the world confronts the COVID-19 crisis and ensuing global recession, we of course need to consider how the money management sector is placed to weather the storm.

One of the key facets of the sector is that it is operationally geared to market movements, so tends to outperform in rising markets and underperform when they fall. This pattern has played out during 2019 and 2020, with the sector outperforming last year and underperforming this year.

Beyond their operational gearing, asset management companies tend to be well equipped to weather serious downturns. Firstly, they tend to maintain healthy balance sheets with little or no debt. And secondly, they have a flexible cost base, with their main asset (people) being paid less while profitability is lower.

Looking back at recent history gives a sense of how the sector has behaved in severe downturns.

Starting with the financial crisis, and asset managers experienced higher volatility than the broad market during the downturn in 2008/09. Asset managers experienced a maximum drawdown in 2008/09 of 55.8%, higher than the broad market (48.4%) but significantly less than the financial sector as a whole (67.5%).

However, we can also look at 'time underwater', i.e. if an investment had been made at the peak of the market in 2007, how long would it take for it to recover in value? Asset managers took 21 quarters to recover to their previous peak, slightly less than the broad market's 22 quarters, indicating that a strong rebound in the former overcame the slightly larger drawdown suffered. By contrast, an investment made at the peak of the market in the MSCI World Financials Index would still be underwater.

What about other bear markets this century?

In 2001-02, following the dot-com bubble, the drawdown for asset managers was still fairly sizeable, but this time it was slightly less than the broad market (thanks to excessive valuations in other sectors). Again, the asset management sector then recovered quicker than the other indices.

% total return in USD	Maximum drawdown	Drawdown period	Time under-water (quarters)
Bear market 2008/09			
Asset managers	–55.8%	Dec '07 – Mar '09	21
MSCI World Financials	–67.5%	Jun '07 –	50*
MSCI World	–48.4%	Sep '07 – Mar '09	22
**(and counting)*			
Bear markets prior to 2008			
Asset managers	–42.9%	Dec '00 – Mar '03	12
MSCI World Financials	–34.9%	Dec '00 – Sep '02	13
MSCI World	–46.2%	Mar '00 – Sep '02	24

Source: Bloomberg, Guinness Asset Management.
Asset managers based on equally weighted basket.

So assuming a reasonable recovery in broader equity markets post the worst of COVID-19, it seems reasonable to assume that underperformance on the downside should be recovered on the upside.

At 31 March 2020, the P/E ratio of the Fund was 9.1x 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 16.5x earnings.

Fund P/E ratios versus the S&P 500 Index (31.03.20)

	'16	'17	'18	'19	'20
Fund P/E	9.9	12.5	8.4	9.1	9.3
S&P 500 P/E	24.4	20.8	17.0	16.5	16.4
Premium (+)/ Discount (-)	-59%	-40%	**-51%**	**-45%**	**-43%**

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 2020

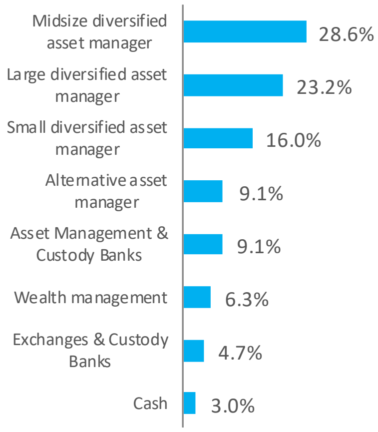
PORTFOLIO

31/03/2020

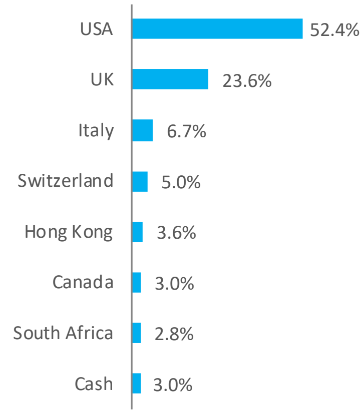
Fund top 10 holdings

Ares Management	4.8%
Nasdaq	4.7%
Liontrust Asset Management	4.3%
Blackstone Group	4.3%
KKR	4.3%
Blackrock	4.2%
State Street	4.1%
T Rowe Price	3.9%
Polar Capital	3.8%
Vontobel	3.7%
% of Fund in top 10	42.0%
Total number of stocks in Fund	30

Sector analysis



Geographic allocation



PERFORMANCE (see Performance Data notes below)

30/04/2020

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

Guinness Global Money Managers Fund	**5.58%**
MSCI World Index	**9.54%**
MSCI World Financials Index	**6.21%**
Financial Express - Financial Sector average	**5.34%**

Cumulative % gross total return (X Class, in GBF	**1 month**	**Year-to-date**	**1 year**	**3 years**	**From launch**
Guinness Global Money Managers Fund	-21.7	27.0	-13.8	-15.6	65.3
MSCI World Index	-10.6	22.7	-5.8	6.8	120.4
MSCI World Financials Index	-20.0	20.7	-17.0	-16.0	65.8
Financial Express - Financial Sector average	-12.0	18.2	-5.6	2.5	61.9

Discrete years (X Class, in GBP)	**Apr '20**	**Apr '19**	**Apr '18**	**Apr '17**	**Apr '16**
Guinness Global Money Managers Fund	-13.8	-10.9	9.9	25.5	-14.8
MSCI World Index	-5.8	12.0	1.3	31.9	-0.3
MSCI World Financials Index	-17.0	-1.2	2.5	44.5	-7.2
Financial Express - Financial Sector average	-5.6	2.1	6.4	30.1	-10.0

RISK ANALYSIS

30/04/2020

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	-3.43	-4.08
Beta	1	1.11	1.18
Information ratio	0	-0.42	-0.36
Maximum drawdown	-24.58	-33.04	-36.61
R squared	1	0.85	0.79
Sharpe ratio	0.37	0.12	0.09
Tracking error	0	6.85	8.91
Volatility	14.20	17.15	18.73

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.**

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 since launch 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, 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

This is an advertising document. 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.