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 - March 2014

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 as a sector 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.

Investment case

High returns on capital

Successful asset management companies can grow using relatively little capital. Shareholder returns can therefore be very high.

Growing global sector

Conventional assets under management globally have grown much faster over the last 20 years than world equity returns, supporting growing revenues in the sector.

Low balance sheet risk

Asset management companies tend to have very low gearing versus other financial sectors (especially banks), reducing balance sheet risk.

Above average dividend yield

The sector typically exhibits high free cashflow, which translates into higher dividend yields on average than the broad equity market.

Higher beta

The sector has the potential to outperform the market during periods of market strength, particularly in equities.

The asset management sector: 20+ years of outperformance

In this month's update, we explore a topic that we first touched on in our third year anniversary paper published earlier this year: the past performance of quoted companies in the asset management sector.

Our conclusions are:

- The asset management sector outperformed the MSCI World Index in 20 of the 24 calendar years since 1990. Total returns from the sector were 17.9% p.a., compared to 6.5% p.a. for the MSCI World.

- The asset management sector outperformed the MSCI World Financials Index in 16 of the 18 calendar years since 1995 (when the Index started).

- Asset managers have been somewhat more volatile, underperforming in the two main bear markets since 1990 (2001/02 and 2008/09). However, the sector has recovered quickly from these periods of underperformance, and on a three year rolling basis, we are unable to find a period in the last 25 years when the asset management sector underperformed the broad equity market.

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Guinness Global Money Managers Fund

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GUINNESS FUNDS

1) Introduction

We've always stated in our investment case for Guinness Global Money Managers Fund that "we expect asset managers as a sector to outperform the broad market over the long term". So far, since the Fund was launched in 2010, this expectation has been borne out, even if three years is not quite "the long term".

Here we will look further back by exploring the performance of the sector over 24 years, since 1990. To our knowledge, there is no readily available asset management index to turn to, so instead we have had to construct our own. For full details of how we constructed the index, which comprises 36 companies, please see the notes on page 9.

2) Calendar year performance

The following table shows the performance of the asset management sector as compared to the broad market (MSCI World) and wider financials sector (MSCI World Financials Sector) for each calendar year from 1990 (total returns, in USD):

	Fund	Asset managers	MSCI World Index	Asset managers vs. broad market	MSCI World Financials Index	Asset managers vs. financial sector
1990		-11.5%	-18.7%	7.1%	n/a	n/a
1991		54.6%	16.0%	38.6%	n/a	n/a
1992		7.3%	-7.1%	14.4%	n/a	n/a
1993		55.2%	20.4%	34.8%	n/a	n/a
1994		1.7%	3.4%	-1.6%	n/a	n/a
1995		28.7%	21.4%	7.3%	n/a	n/a
1996		33.2%	14.2%	19.0%	8.4%	24.7%
1997		45.1%	16.4%	28.7%	19.5%	25.7%
1998		27.5%	25.0%	2.5%	12.9%	14.6%
1999		50.1%	25.6%	24.5%	8.8%	41.2%
2000		50.4%	-12.8%	63.2%	10.9%	39.5%
2001		-12.6%	-16.4%	3.8%	-16.4%	3.8%
2002		-27.6%	-19.5%	-8.1%	-15.8%	-11.8%
2003		63.8%	33.9%	29.9%	40.0%	23.9%
2004		24.8%	15.5%	9.3%	18.3%	6.5%
2005		22.8%	10.2%	12.7%	12.4%	10.5%
2006		28.9%	20.9%	8.1%	24.6%	4.3%
2007		16.4%	9.8%	6.7%	-7.5%	23.9%
2008		-51.2%	-40.2%	-11.0%	-53.5%	2.3%
2009		50.1%	30.9%	19.1%	32.1%	18.0%
2010		20.9%	12.5%	8.5%	5.3%	15.7%
2011	-18.7%	-21.0%	-4.9%	-16.1%	-18.0%	-3.0%
2012	30.9%	31.3%	16.7%	14.6%	30.3%	1.0%
2013	54.8%	41.8%	27.5%	14.3%	28.2%	13.6%

Source: Bloomberg, Guinness Asset Management

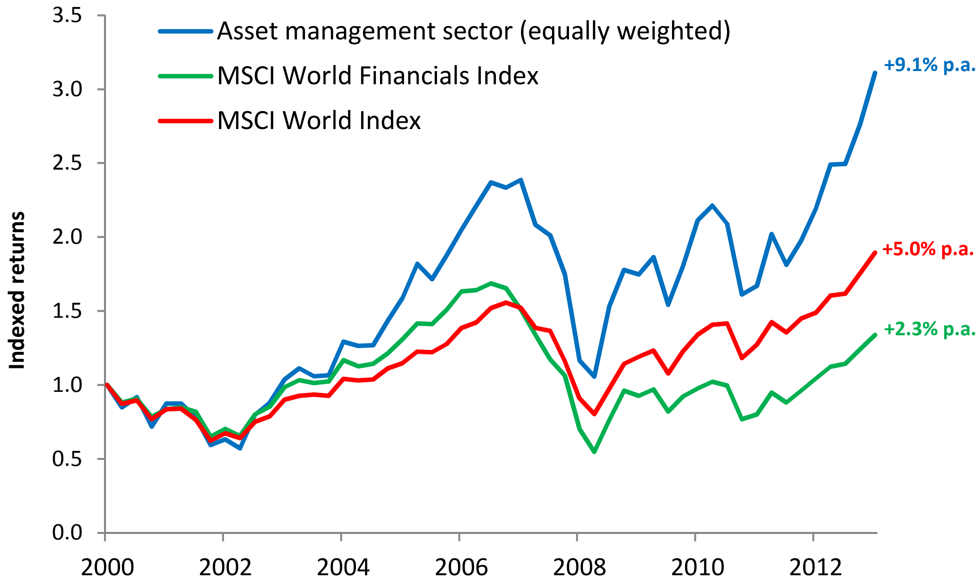
Asset managers outperformed the MSCI World Index in 20 out of 24 calendar years and the MSCI World Financials Index (which launched in 1995) in 16 out of 18 calendar years.

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.

3) Performance in the 2000s

Asset managers have performed strongly over the past decade. The following chart illustrates the performance, in US dollar terms, of the sector from December 31 2000 to December 31 2013:

Asset management sector performance 2001-2013 (in USD)



Source: Bloomberg, Guinness Asset Management

As the chart shows, the performance of asset managers comfortably beats that of both financial companies (MSCI World Financials Index, which includes banks and insurance companies as well as the asset managers) and the broad market (MSCI World Index). Particularly strong performance in the 2005-07 and 2012-13 bull markets has more than compensated for the poor performance experienced during the 2008 financial crisis. The actual returns for the period shown above are as follows:

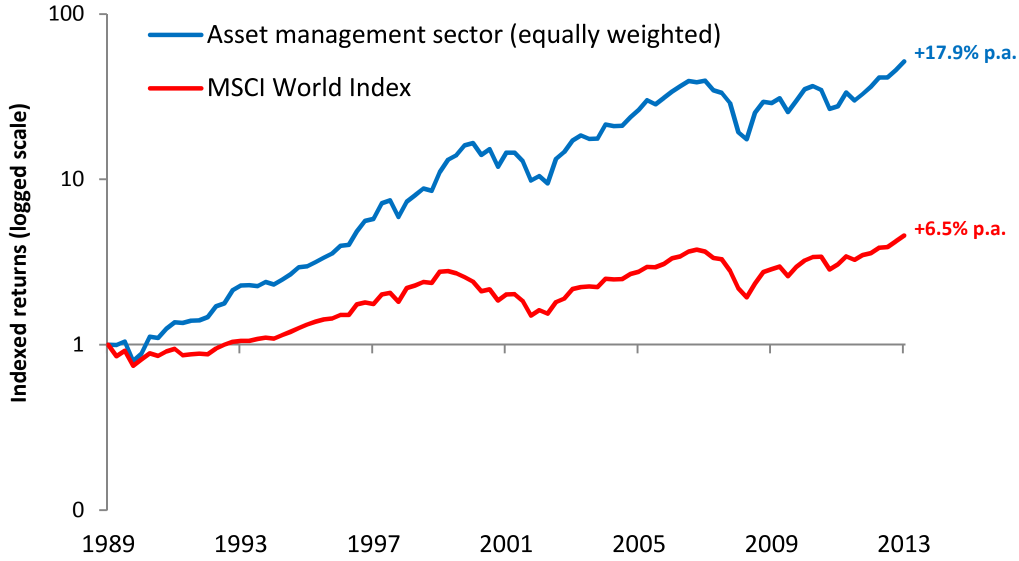
31.12.2000 – 31.12.2013 (in USD)	Asset management sector (equally weighted)	MSCI World Financials Index	MSCI World Index
Total return	210.9%	33.9%	89.6%
Annualised return	9.1%	2.3%	5.0%
Volatility (quarterly)	15.0%	12.7%	9.6%

The performance of an equally-weighted basket of asset managers is not indicative of the future performance of the Guinness Global Money Managers Fund. The value of investments and any income arising from them can fall as well as rise as a result of market and currency fluctuations.

4) What about the preceding decade?

Again, the performance was very good in the 1990s: asset managers vastly outpaced the broad market. The following chart shows the performance of the same group of companies from 31.12.1989 (where performance data is available) against the broad market (NB log scale):

Asset management sector performance 1990-2013 (in USD)



Source: Bloomberg, Guinness Asset Management

We acknowledge that these results since 1989 contain elements of hindsight and survivorship bias, as we are looking back at companies selected at the end of 2000. However, the results are still indicative of how the group performed in the late 1990s bull market. The actual returns for the period are as follows:

31.12.1989 – 31.12.2013 (in USD)	Asset management sector (equally weighted)	MSCI World Index
Total return	5,052.8%	356.4%
Annualised return	17.9%	6.5%
Volatility (quarterly)	13.2%	8.6%

5) How did asset managers perform through the 2008/09 financial crisis?

As mentioned above, asset managers experienced higher volatility than the broad market during the downturn in 2008/09. One way to consider performance during this period is to calculate the maximum drawdown suffered by the group compared with the financial sector and the broad market:

(in USD)	Asset management sector (equally weighted)	MSCI World Financials Index	MSCI World Index
Maximum drawdown	-55.8%	-67.5%	-48.4%
Drawdown period	Dec 31 2007 – Mar 31 2009	Jun 30 2007 – Mar 31 2009	Sep 30 2007 – Mar 31 2009

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 management sector (equally weighted)	MSCI World Financials Index	MSCI World Index
Time underwater (quarters)	21	26*	22

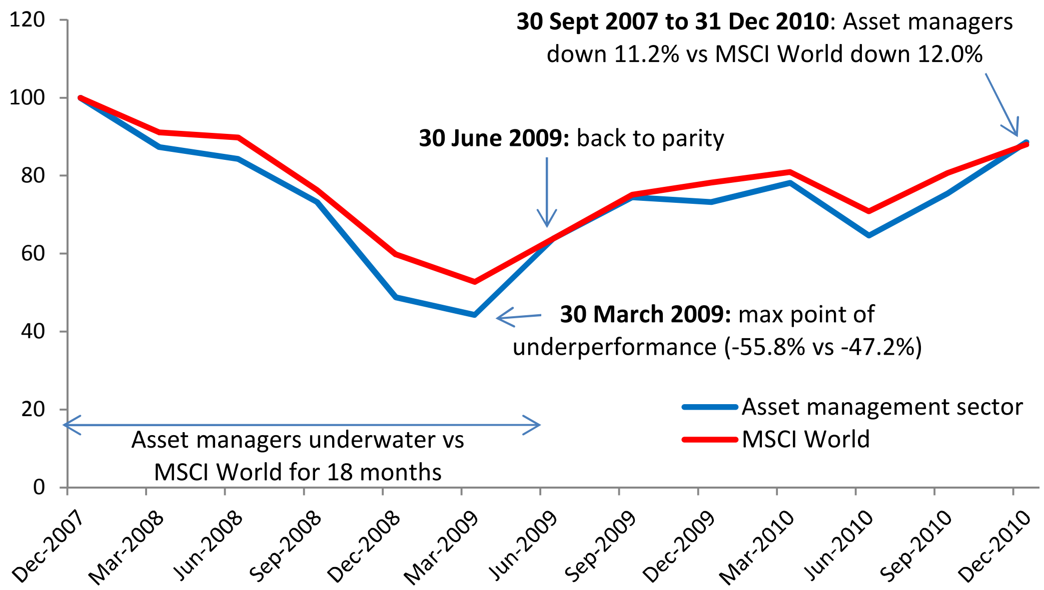
*(and counting)

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 (as illustrated in figure 1). By contrast, an investment made at the peak of the market in the MSCI World Financials Index would still be underwater.

Another way to look at this period is to imagine an ill-timed investment in the asset management sector at the worst possible quarter-end (chosen since it represented the high for the sector versus the broad market), which would have been December 31 2007.

Though asset managers underperformed the MSCI World in 2008 and early 2009, by mid-2009 they were back at parity with the broad market. By 2010, three years after the peak, asset managers were slightly ahead. So despite initiating an investment at the worst quarter end, investors would still have received a better total return by owning the sector than by owning the MSCI World.

Asset management sector vs MSCI World (Dec 2007 - Dec 2010)



6) What about the 2000/01 bear market?

We can perform similar analysis for the bear market that occurred in 2001-02 following the dotcom bubble. Again, we have calculated maximum drawdown (from end of 1995 to end of 2007):

(in USD)	Asset management sector (equally weighted)	MSCI World Financials Index	MSCI World Index
Maximum drawdown prior to 2008	-42.9%	-34.9%	-46.2%
Drawdown period	Dec 31 2000 – Mar 31 2003	Dec 31 2000 – Sep 30 2002	Mar 31 2000 – Sep 30 2002

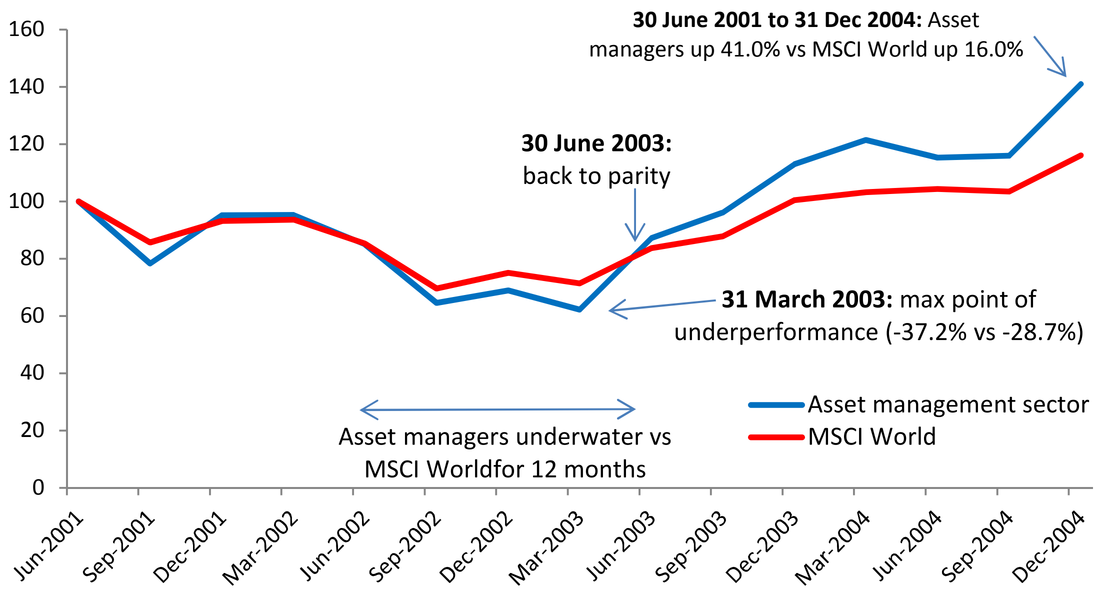
The drawdown for asset managers was still fairly sizeable, but this time it is slightly less than the broad market. The corresponding time underwater is as follows:

	Asset management sector (equally weighted)	MSCI World Financials Index	MSCI World Index
Time underwater (quarters)	12	13	24

Again, the asset management sector recovers quicker than the other indices.

As is the case for the 2008-09 bear market, an investment made near the top of the market in 2001 would have outperformed the broad market index over a three year period. While asset managers underperformed the MSCI World Index from mid-2001 to early 2003, by mid-2003 they were back at parity with the broad market. By the end of 2004, they had significantly outperformed the index.

Asset management sector vs MSCI World (June 2001 - Dec 2004)



Furthermore, on a three year rolling basis, we are unable to find a period in the last 25 years when the asset management sector underperformed the broad equity market. This is quite a thought.

7) What has the volatility of the sector been?

We can calculate beta (using quarterly return data) for the group of asset managers and the other indices over the two timeframes for which we have produced performance data:

(in USD)	Asset management sector (equally weighted)	MSCI World Financials Index
Beta vs. MSCI World Index (2000-2013)	1.47	1.24
Beta vs. MSCI World Index (1990-2013)	1.35	n/a

We expect the asset managers to have a high beta, as is indeed the case over both time periods, and note that beta is higher than the corresponding value for the MSCI World Financials Index. High beta is indicative of the strong recovery by asset managers following the large drawdowns referred to above.

8) Conclusion

Asset managers outperformed the broad equity market considerably in the 1990s. Given the strength of equity markets over that decade, this result is perhaps unsurprising. But they have also significantly outperformed in the 2000s, a period when broad equity returns have been less impressive. We attribute the success of the asset management sector over this period to the growth of household wealth globally, the long-term redeployment of savings into bonds and equities and the high returns on capital that asset managers enjoy. The factors that drove the outperformance of asset management stocks over the past 24+ years are strong secular factors that we believe will remain in place for a long time to come. Our Global Money Managers Fund seeks to be well placed to benefit from this environment.

Fund review

1) Performance

After selling off in January, markets recovered somewhat in February. The Fund's performance for the month was marginally behind the broad market, up 2.4% (in GBP) versus its benchmark MSCI World Index return of 3.0%. The MSCI World Financials Index also gained, up 1.9%.

Within the Fund, February's stronger performers were Jupiter, Henderson, Brewin Dolphin, Azimut and Coronation. Poorer performers were AMG, Liontrust, GAMCO, Polar Capital and State Street.

2) The portfolio

We made no changes to the portfolio in February.

3) Fund valuation

Despite the good performance of the sector, we do not regard the Fund's current valuation as excessive. The 2013 PE has risen from 15.2x at 30 September 2013 to 16.8x at 28 February 2014, but this is still a slight discount to the market. The table shows the Fund's PE ratios versus the S&P 500 Index at 28 February 2014:

	'09	'10	'11	'12	'13	'14
Fund PE	28.0	24.9	24.2	21.7	16.8	14.5
S&P 500 PE	32.7	22.2	19.3	19.2	17.3	15.2
Premium (+)/ Discount (-)	-14%	12%	25%	13%	-3%	-4%

Source: Standard & Poor's; Guinness Asset Management Ltd.

(Multiples based on S&P 500 'operating' earnings per share estimates of $56.9 for 2009, $83.8 for 2010, $96.4 for 2011, $96.8 for 2012, $107.3 for 2013 and $122.4 for 2014.)

Overall, we are optimistic that the companies in our Fund will continue to benefit from increasing assets under management, following the recent strong performance of equity markets.

Will Riley, Tim Guinness & Mark Hammonds
March 2014

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NOTES

How did we compile these performance results?

We screened for companies classified as Asset Managers and Custody Banks under the GICS classification system with a market cap over $500m, as at 31 December 2000. Of the 53 companies identified, we then eliminated companies for whom asset management, wealth management or related services represented less than half of the business. The final list of 36 companies is as follows:

Bank of New York Mellon Corp	BlackRock Inc
State Street Corp	Man Group PLC
Northern Trust Corp	Eaton Vance Corp
Invesco Ltd	CI Financial Corp
3i Group PLC	Aberdeen Asset Management PLC
Franklin Resources Inc	SBI Holdings Inc/Japan
Janus Capital Group Inc	AGF Management Ltd
GAM Holding AG	Affiliated Managers Group Inc
SEI Investments Co	Gimv NV
Schroders PLC	GAMCO Investors Inc
T Rowe Price Group Inc	DeA Capital SpA
Jafco Co Ltd	F&C Asset Management PLC
AllianceBernstein Holding LP	Perpetual Ltd
IGM Financial Inc	American Capital Ltd
Legg Mason Inc	Ratos AB
Federated Investors Inc	Banque Privee Edmond de Rothschild SA
Vontobel Holding AG	Brewin Dolphin Holdings PLC
Waddell & Reed Financial Inc	Rathbone Brothers PLC

Source: Bloomberg, Guinness Asset Management

For each company we compiled quarterly total return data (in USD) since 1989 (where available). Using this performance data, we then calculated the overall return of a basket of the 36 companies. We used an equally weighted portfolio of stocks, and assumed that rebalancing was conducted on a quarterly basis. This series is the equally weighted asset management sector that we refer to throughout.

What is not included in the analysis?

We have not accounted for fees or transaction costs, which would lower the actual returns achieved from holding the group of companies in a fund. In particular, portfolio rebalancing (implicit in our methodology) would have incurred some transaction costs (see below). That said, we believe the performance of this basket of companies is a valid and appropriate comparison with the performance of the MSCI World Index, both of which are shown before costs.

What impact does rebalancing have on the results?

By averaging the quarterly returns of the companies in the group, we have assumed that the group is equally weighted and rebalanced quarterly. However, we can also look at the performance of the group without rebalancing. Starting with an equally weighted basket as at end of 2000 and holding to the end of the period would have produced very good total returns for the period, increasing 178.6%. This result is somewhat behind the 210.9% highlighted above, indicating that rebalancing would have had a positive impact (before transaction costs), but is not central to our results.

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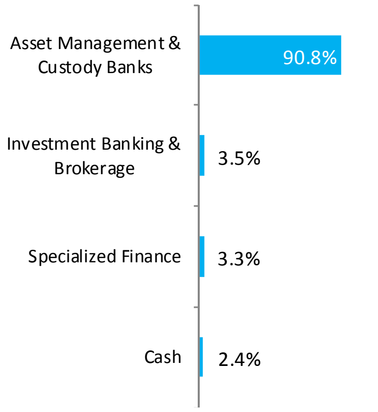
PORTFOLIO (28.2.14)

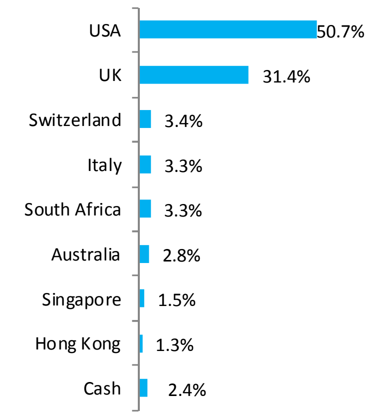
Fund top 10 holdings

Blackstone Group	3.6%
Ameriprise Financial	3.5%
Raymond James Financial	3.5%
Jupiter Fund Management	3.4%
F&C Asset Management	3.4%
Invesco	3.4%
GAM Holding	3.4%
Federated Investors	3.4%
Franklin Resources	3.4%
Och-Ziff Capital Management	3.4%
% of Fund in top 10	34.4%
Total number of stocks in Fund	35

Sector analysis



Geographic allocation



PERFORMANCE

Cumulative % total return (X Class, in GBP) **28/02/2014**	1 month	Year-to-date	1 year	3 years	From launch
Guinness Global Money Managers Fund	2.4	-0.6	25.2	49.6	54.7
MSCI World Index	3.0	-0.1	10.2	28.5	30.9
MSCI World Financials Index	1.9	-1.7	8.0	20.1	24.8

Annualised % total return from launch (X Class, in GBP)	**28/02/2014**
Guinness Global Money Managers Fund	14.79%
MSCI World Index	8.89%
MSCI World Financials Index	7.25%

Risk analysis (X Class, in GBP) Annualised, weekly, from launch on 31.12.10, relative to the MSCI World Index	MSCI World	MSCI World Financials	**28/02/2014** Fund
Alpha	0	-2.83	3.68
Beta	1	1.20	1.24
Information ratio	0	-0.25	0.70
Maximum drawdown	-18.26	-28.87	-28.30
R squared	1	0.89	0.87
Sharpe ratio	0.37	0.19	0.58
Tracking error	0	6.41	7.45
Volatility	14.08	17.81	18.63

Discrete years (C Class, in GBP)

12 months to month end:	Feb '10	Feb '11	Feb '12	Feb '13	Feb '14
Guinness Global Money Managers Fund	-	-	-11.8	33.4	24.3
MSCI World Index	44.5	13.9	0.1	16.5	10.2
MSCI World Financials Index	74.0	9.12	-11.3	25.4	8.0

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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 15.02.12. 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 clean-fee (RDR-compliant) share class since the Fund's launch on 31.12.10.

Important information and risk factors

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: Capita Financial Managers (Ireland) Limited, 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. The Fund has been approved by the Financial Conduct Authority for sale in the UK. 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.

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