# Guinness Global Money Managers Fund

**A high conviction equity fund managed by Will Riley and Tim Guinness investing in quoted companies in the money management sector.**

## INVESTMENT COMMENTARY - July 2013

### Aim

**We aim to capture the strong returns that successful asset management companies can deliver to shareholders.**

The Fund aims to deliver long-term capital growth through investment in listed money management companies.

### Investment case

**High returns on capital**

Successful asset management companies can grow using relatively little capital. Overall 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 (capture higher beta) during periods of market strength, particularly in equities.

## Money management sector

In this month's review we take the opportunity to review the asset management sector and our Fund performance over the first half of 2013.

The first six months of the year have seen strong returns for the money management sector. Our Global Money Managers Fund returned 26.2% (GBP), compared to the return of 16.2% by the MSCI World Index, outperformance of 10%.

Asset managers were helped over the period by strong gains in equities (though hindered by poor fixed income returns, as typified by the IBOXX Corp Bond Index being down in USD terms by 4.9%). The dominant feature, however, was very strong fund inflows, particularly for equities. US active equity mutual funds saw positive flows in January, February and March, contrasting with the outflows that the sector saw in every month in 2012 (source: CSFB; EPFR). The first week of January was especially striking, with active equity inflows at their highest level on record (measured since 2000). A similar pattern was seen in the UK, with net flows into equities in February at their highest level since April 2011 (source: IMA).

The sector was pegged back in late May and June by announcements over the likely slowing of quantitative easing measures in the US, concerns over Chinese GDP growth and the health of the Chinese banking sector. The MSCI World Index, which was up over 6% at the halfway point of the second quarter, finished up just 0.8%. Inflows into equity and bond funds remained strong in April and May, particularly in the US (source: EPDR Global), but reversed in June.

Generally speaking, for the first half of the year, large cap (>$5bn) diversified asset managers have outperformed the mid cap ($1-5bn) managers. 'Alternative' managers and small cap ($0.5-1bn) managers have also performed strongly.

Asset managers exposed to equities have fared particularly well, but the rally has been broad based, with stock exchanges, wealth managers and custody banks all performing well too.

It's worth putting all this in the context of the Fund's history since launch at the end of 2010. The Fund underperformed the MSCI World Index in 2011 as declines in equity and fixed income markets globally and poor sentiment towards financials weighed on the sector. Since the start of 2012, the Fund has outperformed, coinciding with strength in the broader equity market. This is as we would expect.

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 managers to grow their earnings more rapidly than the broad market is able.

# The Portfolio

The better performers over the first six months of 2013 (on a total return basis) were: Polar Capital (+87.6%), Liontrust (+63.6%), Centuria Capital (+53.8%), Fortress Investment Group (+62.8%) and Blackstone Group (+49.8%). We have been particularly impressed by asset gathering achieved by Polar and Liontrust, capitalising on first class fund performance.

The worst performers in the first half of 2013 were: Value Partners (-9.8%), Ashmore Group (-3.2%), City of London Investment Group (-0.3%), Aberdeen (+5.6%) and Jupiter (+6.0%).

We have made a handful of switches in the portfolio over this period. In March we sold our positions in Artio Global Investors, Janus Capital, AGF Management and Diamond Hill. Artio had been a very weak performer over the previous two years but its share price was buoyed in February 2013 by news that the company was being acquired by Aberdeen Asset Management. We chose to sell our position at a price close to that being offered by Aberdeen. Janus Capital and AGF have also been relatively weak performers since we bought them when the fund launched. Janus' share price has recovered somewhat since the start of 2012 but, with both companies' underlying fund performance below average over the past three years, we decided that there are better opportunities elsewhere. We held the position in Diamond Hill since July 2012, and it has been a reasonable performer, but we felt that with underlying fund performance deteriorating somewhat, again we should look elsewhere.

We replaced the sells made in March with positions in GAMCO Investors and Equity Trustees Limited. GAMCO Investors is a US-centered diversified asset manager with particular focus on value investing. The company has grown its assets under management by 38% from $26bn at the end of 2009 to $36bn at the end of 2012 and, with good fund performance, we think the company's prospects for growth are good. Equity Trustees is an Australian company which offers wealth management, managed funds, institutional and superannuation services. We were attracted to the company by a combination of reasonable valuation, growth in assets under management and recent earnings upgrades.

# Outlook

Valuations in the asset management sector are richer now than they were at the start of the year (the 2013 PE ratio of the Fund was 12.9x at 31 December 2012 and rose to 13.9x at 30 June 2013) but not excessive, in our view.

| | 2009 | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|
| **Fund PE ratio** | 21.5 | 19.7 | 19.4 | 17.1 | 13.9 |
| **S&P 500 PE** | 28.2 | 19.2 | 16.7 | 16.6 | 14.7 |
| **Premium (+)/ Discount (-)** | -24% | +3% | +16% | +3% | -5% |

*Source: Standard and Poor's; Guinness Asset Management Ltd, all ratios using valuations as at 30.6.13.*

Overall we remain optimistic about the prospects for the world economy and believe that successful asset management companies will benefit from the continuing broad market recovery.

**Will Riley & Tim Guinness**

Co-managers,
Guinness Global Money Managers Fund

**July 2013**

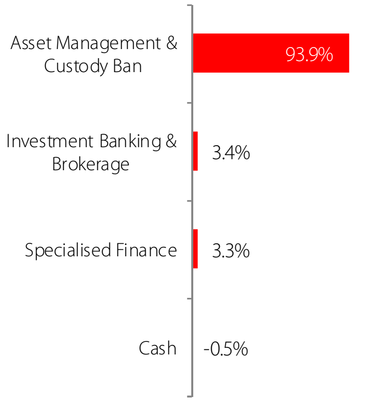
Past performance should not be taken as an indicator of future performance. The value of investments and any income arising from them can fall as well as rise.

## PORTFOLIO (30.6.13)

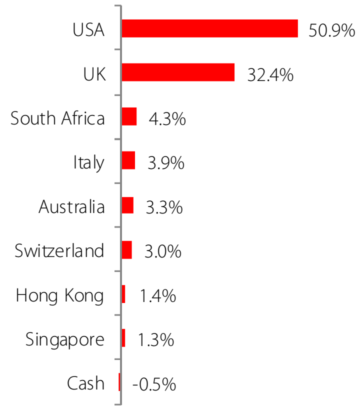
### Fund top 10 holdings

| | |
|---|---|
| Polar Capital | 4.4% |
| Coronation Fund Managers | 4.3% |
| Ameriprise Financial | 4.0% |
| State Street | 4.0% |
| Federated Investors | 3.9% |
| Invesco | 3.9% |
| Azimut Holding | 3.9% |
| Liontrust Asset Management | 3.8% |
| Och-Ziff Capital Management | 3.8% |
| Brewin Dolphin | 3.7% |
| % of Fund in top 10 | 39.7% |
| Total number of stocks in Fund | 35 |

### Sector analysis




### Geographic allocation




## PERFORMANCE

### Cumulative % total return (E Class, in GBP)

| 30/06/2013 | 1 month | 3 months | 6 months | 1 year | From launch |
|---|---|---|---|---|---|
| **Guinness Global Money Managers Fund** | -5.0 | 2.8 | 26.2 | 47.7 | 29.4 |
| **MSCI World Index** | -2.5 | 0.8 | 16.2 | 22.6 | 22.5 |
| **MSCI World Financials Index** | -3.3 | 1.8 | 17.1 | 33.4 | 18.9 |

### Annualised % total return from launch (E Class, in GBP)

| | 30/06/2013 |
|---|---|
| **Guinness Global Money Managers Fund** | **10.86%** |
| **MSCI World Index** | **8.45%** |
| **MSCI World Financials Index** | **7.18%** |

### Risk analysis (E 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 | -2.42 | 0.59 |
| **Beta** | 1 | 1.20 | 1.24 |
| **Information ratio** | 0 | -0.19 | 0.25 |
| **Maximum drawdown** | -18.26 | -28.87 | -28.30 |
| **R squared** | 1 | 0.90 | 0.88 |
| **Sharpe ratio** | 0.31 | 0.17 | 0.34 |
| **Tracking error** | 0 | 6.98 | 7.84 |
| **Volatility** | 15.21 | 19.35 | 20.13 |

30/06/2013

### Discrete years (C Class, in GBP)

| 12 months to month end: | Jun '09 | Jun '10 | Jun '11 | Jun '12 | Jun '13 |
|---|---|---|---|---|---|
| **Guinness Global Money Managers Fund** | - | - | - | -10.7 | 46.6 |
| **MSCI World Index** | -16.3 | 20.4 | 19.1 | -7.5 | 21.4 |
| **MSCI World Financials Index** | 0.0 | 0.0 | 0.0 | -10.0 | 47.7 |

**The Fund's 'E' share class, with an Annual Management Charge (AMC) of 0.75%, represents "clean fee" RDR share class performance. The Fund's 'C' share class has an AMC of 1.5%.**

**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, net total return. Fund launch date: 31.12.10.

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## IMPORTANT INFORMATION

This report is primarily designed to inform you about the Guinness Global Money Managers Fund, including recent activity and performance. For regulatory purposes it falls within the legal definition of a financial promotion. Please therefore note the risk warnings below and the following statements: it contains facts relating to equity markets and our own interpretation. Any investment decision should take account of the subjectivity of the comments contained in the report. It is 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 content of the document should not therefore be relied upon. It should not be taken as a recommendation to buy or sell individual securities.

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 the Fund's portfolio changes daily and can be affected by changes in currencies, interest rates, general market conditions and other political, social and economic developments, as well as specific matters relating to the companies in whose securities the Fund invests. Investment in the Fund carries with it a degree of risk and investors should read the risk factors section in the prospectus before investing. Shareholders should note that all or part of the fees and expenses can be charged to the capital of the Fund, which will have the effect of lowering the capital value of your investment.

The full Fund documentation contains more complete and detailed information of risk, fees, charges and expenses that are to be borne by an investor. The documentation should be read carefully before investing. The full documentation needed to make an investment, including the Prospectus, the KIID and the Application Form are available, 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. **Documentation is also available from the website guinnessfunds.com.** This document should not be distributed to Retail Clients who are resident in countries where the Fund is not registered for sale or in any other circumstances where its distribution is not authorised or is unlawful. THIS INVESTMENT IS NOT FOR SALE TO U.S. PERSONS.

The Guinness Global Equity Income 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. The Fund has been approved by the Financial Conduct Authority for sale in the UK. The Company and the Fund have been recognised in the UK by the FSA pursuant to section 264 of the FSMA. Guinness Asset Management Ltd is authorised and regulated by the Financial Conduct Authority.

Telephone calls to Guinness Asset Management may be recorded.

The prospectus for Switzerland, the simplified prospectus for Switzerland, the articles of association, the annual and semi-annual reports, as well as the list of the buying and selling transactions 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, Fax: + 41 22 705 11 79, www.carnegie-fund-services.ch. The paying agent is Banque Cantonale de Genève, 17 Quai de l'Ile, 1204 Geneva, Switzerland.

## GLOSSARY

**Alpha**
Alpha is a measure of a fund's over or underperformance by comparison to its benchmark. It represents the return of the fund when the benchmark is assumed to have a return of zero, and thus indicates the extra value that the manager's activities have contributed.

**Beta**
Beta is a statistical estimate of a fund's volatility by comparison to that of its benchmark, i.e. how sensitive the fund is to movements in the section of the market that comprises the benchmark. A fund with a Beta close to 1 will move generally in line with the benchmark. Higher than 1 and the fund is more volatile than the benchmark.

**Information Ratio**
An assessment of the degree to which a manager uses skill and knowledge to enhance returns, this is a versatile and useful risk-adjusted measure of actively-managed fund performance. It is calculated by deducting the returns of the fund's benchmark from the fund's overall returns, then dividing the result by its Tracking Error. In this way, we arrive at the value, per unit of extra risk assumed, that the manager's decisions have added to what the market would have delivered anyway.

**Maximum Drawdown**
Represents the worst possible return over a period, e.g. buying at the highest price over the period and selling at the lowest.

**R-Squared**
The R-Squared measure is an indication of how closely correlated a fund is to an index or a benchmark. It can be treated as a percentage, showing what proportion of a fund's movements can be attributed to those of the benchmark. Values for R-Squared range between 0 and 1, with 0 indicating no correlation at all, and 1, rarely, showing a perfect match.

**Sharpe Ratio**
This is a commonly-used measure which calculates the level of a fund's return over and above the return of a notional risk-free investment, such as cash or Government bonds. The difference in returns is then divided by the fund's standard deviation - its volatility, or risk measurement. The resulting ratio is an indication of the amount of excess return generated per unit of risk.

**Tracking Error**
This statistic measures the standard deviation of a fund's excess returns over the returns of an index or benchmark portfolio. As such, it can be an indication of "riskiness" in the manager's investment style. A Tracking Error below 2 suggests a passive approach, with a close fit between the fund and its benchmark. At 3 and above the correlation is progressively looser: the manager will be deploying a more active investment style, and taking bigger positions away from the benchmark's composition.

**Volatility**
Standard deviation is a statistical measurement which, when applied to an investment fund, expresses its volatility, or risk. It shows how widely a range of returns varied from the fund's average return over a particular period. Low volatility reduces the risk of buying into an investment in the upper range of its deviation cycle, then seeing its value head towards the lower extreme.

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

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