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 - September 2013

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. 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.

Favourable fundamentals: dividends

In this month's update, we examine one of the favourable characteristics that the companies in our asset management universe demonstrate: higher than average dividend yields. The important point to stress about our universe and fund is that it generates high free cashflow, giving companies the ability to grow *and* pay good dividends.

A quick aside on the universe…

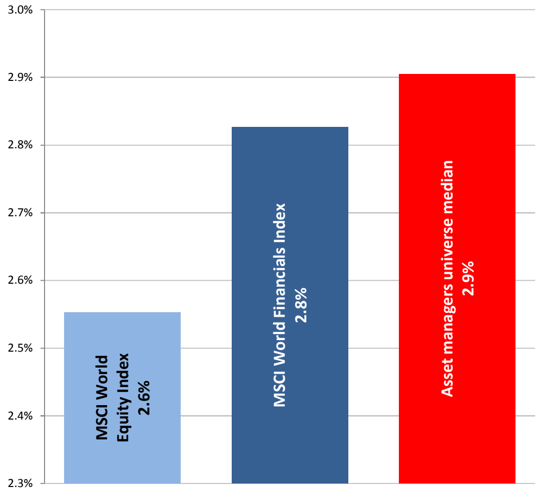
Before looking into the detail of the dividends paid by stocks in our universe, we start by taking a moment to consider which companies are included within the universe. Of the approximately 8,000 companies included within the finance GICS sector (excluding those with a market capitalisation under $25m), we typically rule out the banks, insurers and investment vehicles to focus on around 150 "money managers" and associated service providers. The majority of the group can be described as traditional asset managers, many focusing on long-only or long-biased products, but it also includes alternative asset managers (mainly private equity and hedge fund providers), wealth managers, stock exchanges and custody banks.

So onto the good news: of the 147 companies studied, 118 pay a dividend. The yield they each offer is where we next turn our attention.

Healthy yields

The dividend yield (calculated as total gross dividends over the past 12 months, divided by current share price) of our universe is higher than both that of the MSCI World Equity Index and the MSCI World Financials Index. Looking at our group of companies, the average of the universe is 3.5%. This simple average has the potential to be skewed by abnormally large yields, so a better measure is the median, which for the group is 2.9%. By comparison, the yield of the MSCI World Equity Index (a market cap weighted index of the world's largest listed companies) is 2.6%. Taking just the financial sector in isolation, the yield of the MSCI World Financials Index is 2.8% – lower than our asset management universe.

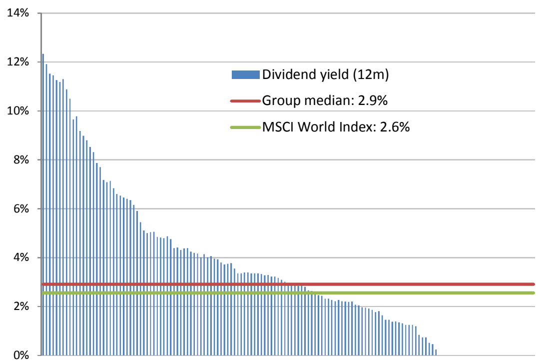
Figure 1: Dividend yield of MSCI World indices and Guinness' universe of asset managers



Source: Bloomberg, Guinness Asset Management

Looking at Figure 2, which shows the yield of each individual company in our universe, we see that despite a tail of several companies paying no dividends (the area to the right), many of the companies in the universe pay dividends at a decent level. 52 companies (35% of the universe) have a dividend yield of at least 4%.

Figure 2: Dividend yield of constituent companies in our universe



Source: Bloomberg, Guinness Asset Management

Turning our attention next to the companies held in our portfolio, they have an average dividend yield of around 3.6%, well ahead of the asset management universe and the MSCI World. All but one of the core holdings pays a dividend, and two-thirds of the portfolio has a yield of higher than the MSCI World. (NB. The Fund does not currently pay dividends out to investors.)

Figure 3: Dividend yield of companies in our portfolio

Source: Bloomberg, Guinness Asset Management

Why should we care?

Maintaining an affordable dividend payment is a highly attractive quality for a company to have. A significant proportion of the long-term real return on investing in shares is due to the dividend paid out by companies, so the dividend yield forms a key part of the total return received by an investor.

The point to stress about our universe is that it generates high free cashflow, and so companies typically have the ability to grow *and* pay good dividends. The reasons for high levels of cashflow in the asset management industry will be explored in future commentaries, but in essence, it is a capital-light industry where scale can be achieved from a relatively fixed cost base.

Higher dividends tomorrow

It is important to consider not only whether a company is capable of sustaining a given dividend, but whether it may be able to increase it, particularly as the business grows in size. We next look at growth in dividend per share over the last 12 months. Again, we find that our universe scores well on this metric.

Of the 147 companies in the universe, 76 (52%) were able to grow their dividend over the past year, 73 (50%) were able to grow it by at least 3%, and 63 (43%) were able to grow it by at least 6%.

Looking again at our portfolio, many of the companies held have achieved impressive rates of growth in their dividends over one, three and five year periods. That said, in selecting stocks for the Fund, we are attracted both to companies that have a long history of dividend growth (e.g. Franklin; Waddell & Reed; Blackrock) and to those in turn-around situations (e.g. Liontrust; F&C) where longer term dividends have declined over five years but the prospects for growing them again are now greatly enhanced.

Table 1: Dividend growth of companies in our portfolio

	Market cap (USD)	Dividend yield (12m)	Dividend growth (1yr)	Dividend growth (3yr annualised)	Dividend growth (5yr annualised)
Franklin Resources	33,939	2.6%	35.3%	2.3%	40.7%
Azimut Holding	3,251	3.3%	120.0%	122.4%	40.6%
Coronation Fund Managers	2,475	4.0%	46.5%	46.0%	34.2%
Ameriprise Financial	18,506	2.1%	60.3%	40.5%	25.6%
Och-Ziff Capital Management	5,087	11.5%	248.6%	14.9%	24.0%
Waddell & Reed Financial	4,531	4.0%	120.0%	40.1%	23.8%
Aberdeen Asset Management	7,488	3.7%	36.5%	27.0%	18.1%
BlackRock	47,950	2.3%	11.3%	20.0%	16.8%
GAMCO Investors	1,881	3.3%	44.3%	-7.2%	16.6%
Invesco	14,489	2.4%	34.7%	23.2%	14.7%
ARA Asset Management	1,123	3.0%	10.0%	11.3%	10.8%
Polar Capital Holdings	573	3.4%	44.4%	42.4%	8.9%
Ashmore Group	4,609	4.1%	3.5%	8.0%	7.8%
Raymond James Financial	6,177	1.2%	5.8%	7.7%	5.0%
Rathbone Brothers	1,184	3.4%	4.3%	4.6%	3.2%
Henderson Group	3,456	4.2%	0.7%	5.7%	2.7%
State Street Corp	30,549	1.5%	19.0%	192.4%	1.7%
Brewin Dolphin Holdings	1,221	2.9%	0.7%	0.2%	0.3%
Affiliated Managers	9,946	0.0%	0.0%	0.0%	0.0%
GAM Holding	3,321	2.9%	0.0%	0.0%	0.0%
Jupiter Fund Management	2,814	2.8%	25.6%	0.0%	0.0%
NASDAQ OMX Group	5,309	1.6%	100.0%	0.0%	0.0%
Blackstone Group	27,675	4.2%	101.9%	9.5%	-2.6%
Equity Trustees	147	7.7%	8.2%	-5.8%	-3.5%
Value Partners Group	1,089	3.3%	175.9%	26.0%	-4.3%
Federated Investors	2,889	9.0%	158.3%	3.8%	-7.5%
F&C Asset Management	917	3.4%	0.0%	-20.6%	-12.9%
AllianceBernstein Holding	2,319	7.1%	82.4%	-9.0%	-17.5%
Fortress Investment Group	3,882	2.9%	53.3%	0.0%	-23.9%
Liontrust Asset Management	166	0.5%	0.0%	-26.3%	-39.7%

Source: Bloomberg, Guinness Asset Management. Includes regular and special dividends.

Conclusion

Asset managers as a group have an above average dividend yield and many are able to grow the amount they pay out at a rate faster than the wider equity market. These attributes have contributed to the outperformance from the Fund since launch.

The Portfolio

We made no portfolio changes in July or August.

Will Riley, Tim Guinness & Mark Hammonds
September 2013

Recent Performance

Total return, in USD, Fund A Class	**Jul '13**	**Aug '13**
Guinness Global Money Managers Fund	7.34%	-2.47%
MSCI World Index	5.31%	-2.06%

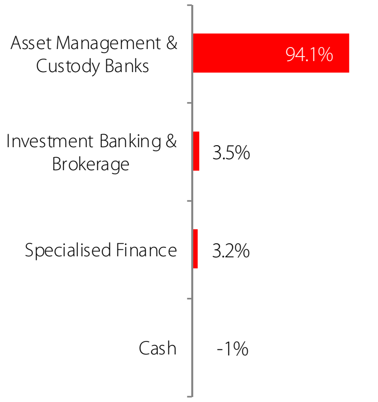
Past performance should not be taken as an indicator of future performance. The value of investments and any income arising from them can fall as well as rise.

PORTFOLIO (31.8.13)

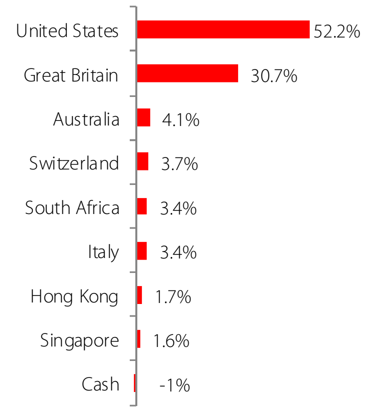
Fund top 10 holdings

Blackrock	4.0%
Affiliated Managers Group	3.9%
Liontrust Asset Management	3.8%
GAM Holding	3.7%
State Street	3.7%
Gamco Investors INC	3.6%
Raymond James Financial	3.5%
Waddell & Reed Financial	3.5%
EQUITY TRUSTEES LTD	3.5%
Blackstone Group	3.4%
% of Fund in top 10	36.5%
Total number of stocks in Fund	35

Sector analysis



Geographic allocation



PERFORMANCE

Cumulative % total return (E Class, in GBP)

31/08/2013	1 month	3 months	6 months	1 year	From launch
Guinness Global Money Managers Fund	-4.4	-2.5	7.5	47.6	32.9
MSCI World Index	-4.1	-1.5	4.1	20.8	23.7
MSCI World Financials Index	-5.2	-2.7	3.5	29.9	19.6

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

	31/08/2013
Guinness Global Money Managers Fund	11.23%
MSCI World Index	8.30%
MSCI World Financials Index	6.94%

Risk analysis (E Class, in GBP)

31/08/2013

Annualised, weekly, from launch on 31.12.10, relative to the MSCI World Index	MSCI World	MSCI World Financials	Fund
Alpha	0	-2.44	1.15
Beta	1	1.20	1.24
Information ratio	0	-0.20	0.32
Maximum drawdown	-18.26	-28.87	-28.30
R squared	1	0.89	0.88
Sharpe ratio	0.30	0.16	0.36
Tracking error	0	6.82	7.71
Volatility	15.02	19.00	19.80

Discrete years (C Class, in GBP)

12 months to month end:	Aug '09	Aug '10	Aug '11	Aug '12	Aug '13
Guinness Global Money Managers Fund	-	-	-	6.4	46.5
MSCI World Index	-6.7	6.7	6.7	6.4	19.2
MSCI World Financials Index	0.0	0.0	0.0	7.2	47.6

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.

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 KIID 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
Tel: +44 (0) 20 7222 5703
Email: info@guinnessfunds.com
Web: guinnessfunds.com