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 - October 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.

COMMENT

What does Neil Woodford's departure mean for Invesco Perpetual and our Fund?

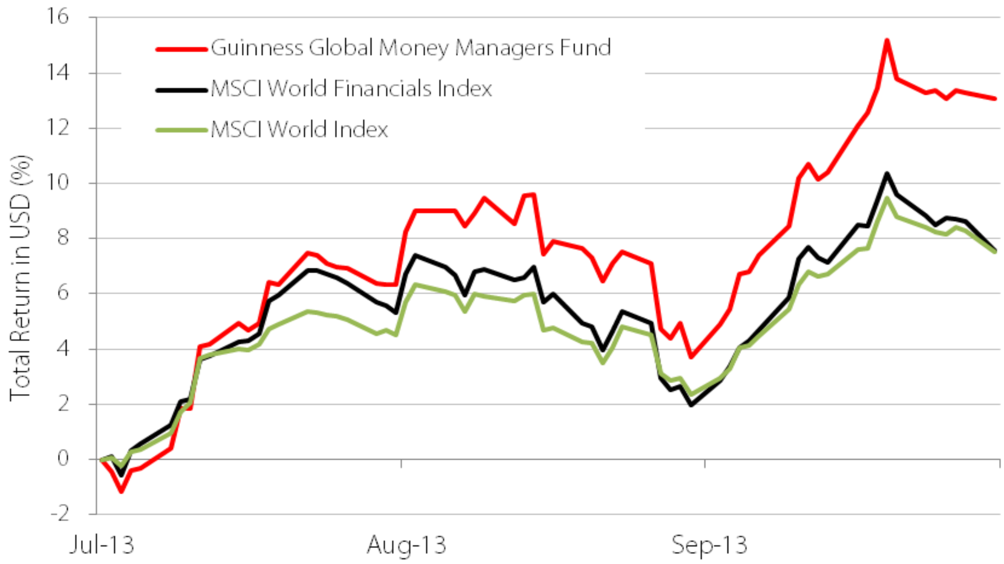
On Tuesday 15th October, Invesco Perpetual announced that long-standing fund manager Neil Woodford would be leaving. Woodford, who manages $51 billion of assets under management (AUM), is stepping down to start his own asset management business next year. The flagship Income and High Income funds he manages at Invesco Perpetual will be handed to his colleague, Mark Barnett.

From the perspective of our Fund, we have to consider the implication of Woodford's departure on Invesco Perpetual's US listed parent company, Invesco Ltd. At the end of June 2013, Invesco had AUM of $706 billion. The proportion of that currently managed by Woodford is around 7%. Since the announcement, Invesco has underperformed the broad equity market by just over 7%. Adjusting Invesco's forecast earnings for a likely fall in AUM and slower growth, we believe that a severe decline in Woodford-related AUM is already priced in.

When constructing our Fund, we always remain alive to star manager risk. Some concentration risk to individual managers is inevitable, but by diversifying our portfolio across 30 equally-weighted positions, we believe that the risk posed by individuals or small teams departing is sufficiently well mitigated.

Asset management sector

In this month's report we review the performance of the asset management sector and the Fund for the third quarter of 2013. In this period, the MSCI World Index (the Fund's benchmark) rose by 8.3% (in USD). The MSCI World Financials Index rose by 8.4% over the quarter. The Guinness Global Money Managers Fund rose by 14.1% over the same period (A Class, in USD), outperforming the MSCI World Index by 5.8%, and the MSCI World Financials Index by 5.7%, as the chart overleaf shows:



Source: Bloomberg, bid to bid, gross income reinvested, in US dollars

Reflecting the strong performance in equity markets, money management companies had a good quarter. In fact, the asset management sector performed better than broad equities (and the Fund beat both). As the chart above shows, world equities and financial stocks in particular rose in July, were weaker in August, but then rallied again in early September. Fixed income fared less well: the IBOXX (IBOXIG) Corp Bond Index was up only 1.0% over the quarter.

Accompanying the divergence in performance between bonds and equities, investor outflows from bond funds globally in the quarter were a record $61.5 billion. By contrast, inflows into equity funds were $73 billion over the same period. *(Source: Reuters, EPFR Global.)* US data showed a similar pattern, with significant outflows from active bond funds (both taxable and municipal bonds), and significant inflows to equity funds (both active funds and ETFs) and money market funds, as the following table shows:

Net fund flows in the US *USD, quarterly, billions*		**Q3 2013**	**Q2 2013**	**Q1 2013**	**Q4 2012**	**Q3 2012**
Active	Equity	51.1	49.3	108.6	-54.3	-30.5
ETF	Equity	46.1	25.0	60.4	33.5	33.9
Total net equity		**97.2**	**74.3**	**169.0**	**-20.8**	**3.4**
Active	Taxable Bond	-22.7	-2.1	74.6	8.0	81.6
Active	Municipal Bond	-32.3	-19.0	10.5	8.2	17.2
ETF	Taxable Bond	2.0	3.3	6.4	9.1	7.0
Total net fixed income		**-52.9**	**-17.8**	**91.5**	**25.3**	**105.8**
Money Market		35.8	-17.6	-96.8	143.6	37.5
Total money market		**35.8**	**-17.6**	**-96.8**	**143.6**	**37.5**

Source: EPFR, Credit Suisse

We note the very sizeable flows into US equity funds over the course of this year. To the end of the third quarter, net equity flows almost equal net fixed income flows for the whole of 2012, as the following table illustrates:

Net fund flows in the US *USD, annually, billions*		**2013** (YTD)	**2012**	**2011**	**2010**	**2009**
Active	Equity	209.0	-66.6	-51.4	26.1	15.6
ETF	Equity	131.5	96.0	58.7	75.3	57.4
Total net equity		**340.5**	**29.4**	**7.4**	**101.4**	**72.9**
Active	Taxable Bond	49.8	265.0	135.7	216.6	280.4
Active	Municipal Bond	-40.8	55.4	-12.0	11.6	72.7
ETF	Taxable Bond	11.8	49.1	43.0	28.5	42.7
Total net fixed income		**20.8**	**369.4**	**166.7**	**256.8**	**395.8**
Money Market		-78.6	-2.8	-135.7	-509.4	-504.2
Total money market		**-78.6**	**-2.8**	**-135.7**	**-509.4**	**-504.2**

Source: EPFR, Credit Suisse

Large inflows into equity funds are clearly beneficial for the equity-biased asset management companies that we own. The combination of these inflows and rising equity prices are particularly attractive.

The Portfolio

We made no changes to the portfolio in the quarter.

The best performing stocks in the portfolio over the quarter, on a total return basis in USD, were Henderson (+39.3%), GAMCO Investors (+37.2%), Jupiter Fund Management (+36.5%), Liontrust Asset Management (+34.9%) and Equity Trustees (+27.6%). The best performers were generally the small to mid cap diversified asset managers (Henderson, GAMCO, Jupiter and Liontrust).

Jupiter, in particular, benefitted from good half-year results. The company has been accumulating assets under management, which increased from £23.4 billion at the end of June 2012 to £29.0 billion at the end of June 2013, an increase of 24%. Slightly better EBITDA margins resulting from improved trading have contributed to the company's increased net cash position. The positive results and their announcement of an increased interim dividend contributed to the good performance of the stock in the quarter.

The weakest performers were ARA Asset Management (-3.8%), AllianceBernstein (-2.9%), Raymond James (-2.7%), NASDAQ OMX (-1.7%) and Federated Investors (-0.1%). Following the poor performance of fixed income, managers with greater exposure to this asset class suffered (AllianceBernstein and Federated Investors). One of our stocks with greater exposure to banking was also among the poor performers (Raymond James). Last, one of our emerging markets stocks, ARA, also suffered in the quarter from a combination of weaker half-year results and the relatively poor performance of the Singapore stock market index in August.

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 13.9x at 30 June 2013 to 15.2x at 30 September 2013, but this is broadly in line with the market, as shown below.

The table shows the Fund's PE ratios versus the S&P 500 Index at 1,682 at 30 September 2013:

	'09	'10	'11	'12	'13
Fund PE	24.7	22.2	21.5	19.2	15.2
S&P 500 PE	29.6	20.1	17.4	17.4	15.7
Premium (+)/ Discount (-)	-17%	10%	24%	10%	-3%

Source: Standard and 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 and $107.1 for 2013.)

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.

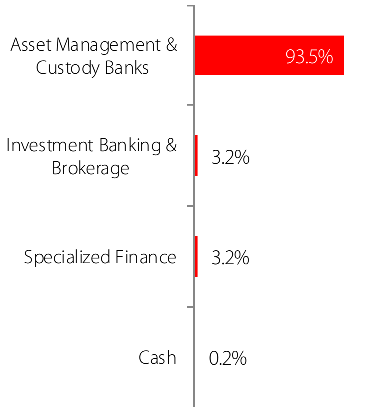
Will Riley, Tim Guinness & Mark Hammonds
October 2013

PORTFOLIO (30.9.13)

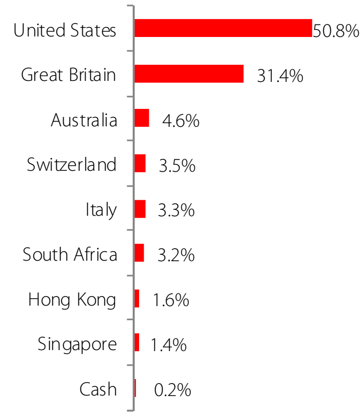
Fund top 10 holdings

Gamco Investors INC	4.3%
Liontrust Asset Management	3.9%
Equity Trustees	3.9%
Blackrock	3.8%
Affiliated Managers Group	3.7%
Henderson Group	3.7%
Blackstone Group	3.6%
Ashmore Group	3.5%
GAM Holding	3.5%
Jupiter Fund Management	3.5%
% of Fund in top 10	37.3%
Total number of stocks in Fund	35

Sector analysis



Geographic allocation



PERFORMANCE

Cumulative % total return (E Class, in GBP)

30/09/2013	1 month	3 months	6 months	1 year	From launch
Guinness Global Money Managers Fund	4.2	7.0	10.0	46.3	38.4
MSCI World Index	0.3	1.3	2.1	19.9	24.1
MSCI World Financials Index	0.7	1.3	3.2	27.7	20.5

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

	30/09/2013
Guinness Global Money Managers Fund	**12.54%**
MSCI World Index	**8.16%**
MSCI World Financials Index	**7.01%**

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
			30/09/2013
Alpha	0	-2.24	2.19
Beta	1	1.20	1.24
Information ratio	0	-0.16	0.47
Maximum drawdown	-18.26	-28.87	-28.30
R squared	1	0.90	0.88
Sharpe ratio	0.33	0.20	0.45
Tracking error	0	6.75	7.69
Volatility	14.85	18.80	19.63

Discrete years (C Class, in GBP)

12 months to month end:	Sep '09	Sep '10	Sep '11	Sep '12	Sep '13
Guinness Global Money Managers Fund	-	-	-	22.6	45.2
MSCI World Index	12.0	8.6	-4.9	13.0	18.8
MSCI World Financials Index	0.0	0.0	0.0	23.5	46.3

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 Money Managers 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.