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 - December 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.

A good month

Rising equity markets in 2013 have brought particular cheer to the asset management sector, and November was no exception to this trend. The MSCI World Index, a proxy for global equities, rose by 1.8% during the month, whilst the Guinness Global Money Managers Fund returned 2.89% (B share class). Over the first eleven months of the year, the Fund is up 48.0%, outperforming the MSCI World Index (up 24.8%) by 23.2%. *(All returns in USD.)*

The most notable event affecting the portfolio in November was the news that one of our holdings, Aberdeen Asset Management, is set to overtake Schroder as the UK's largest listed asset management firm by acquiring Scottish Widows Investment Partnership. The corresponding 14.7% jump in Aberdeen's share price on the day of the announcement was an indication that the market expects the deal to be strongly accretive for Aberdeen's earnings. We share this view.

Two examples of growth in asset managers

What is it about asset management firms that make them attractive investments? Among the companies we own in the Fund, we highlight the recent success of two: Waddell & Reed and Liontrust.

Waddell & Reed

Though less well known in Europe, Waddell & Reed is a large, diversified, US-listed manager offering investment services to institutional clients. The company has $114bn of assets under management (AUM). Despite their considerable size, the company is still growing at a significant rate, with revenue forecast to grow 16% to $1,360m in 2013 and 15% to $1,568m in 2014. Growth forecasts for an asset manager are to be taken with a pinch of salt, but the strong recent performance of the company's underlying funds and asset raising momentum gives us some confidence that the forecasts can be achieved.

Not only has the company been able to grow revenues, it has been able to earn decent profits, with operating margins at 26% in 2012, and 28% forecast for 2013. Contributing to these healthy margins has been the company's ability to control costs: in a period of rising revenues, headcount – typically an asset manager's greatest cost – has been relatively stable.

As is common with many of the asset management companies in our universe, Waddell & Reed have a track record of paying steadily rising dividends, and also paid a special dividend in 2012. The company is highly cash generative meaning that dividends are well-covered and the balance sheet is in good shape.

While the stock valuation relative to history looks fairly high, we do not think it is too far stretched. The company is targeting decent rates of organic growth and operating margin improvement, and should benefit from its exposure to equity markets.

Liontrust

Liontrust sit at the smaller end of the asset management spectrum, with AUM of $5.5bn. The company has been firmly in recovery mode in recent years after the departure in 2009 of two highly regarded fund managers and the decline in AUM that followed. As an illustration of this turbulent period and subsequent recovery, the firm chose not to pay a dividend in 2011 and 2012, before reinstating it (at a lower level) in 2013. Further improvement in the dividend is expected in 2014 and 2015.

In common with Waddell & Reed, revenues are expected to increase handsomely: growth is forecast at 41% in 2014 and 20% in 2015. This is expected to translate into an improved bottom line, with forecast adjusted earnings per share up 89% in 2014 and 39% in 2015. The ability of asset management firms to increase their earnings significantly as revenues improve demonstrates the scalability and operational gearing that many of these companies have – it does not take much more for a fund manager to manage $1bn than it does to manage $100m, so when a fund range takes off, profits can soar.

Contributing to the recovery has been the excellent long-term performance of one of the company's larger funds, the Liontrust Special Situations Fund. Representing a significant proportion of total AUM, the fund has significantly outperformed its benchmark, the FTSE All-Share Index, as the chart below shows.

Liontrust Special Situations Fund versus benchmark

Source: Liontrust website

Despite the problems that Liontrust has faced, the balance sheet is remarkably healthy, as the company has cash and no debt. This strength bodes well for future returns of capital to shareholders in the form of dividends.

Our Fund

Asset management companies have many favourable characteristics, and the Guinness Global Money Managers Fund seeks to take advantage of these qualities. The Fund invests solely in asset managers and other companies associated with the sector, giving it exposure to highly cash-generative financial companies that benefit from high returns on capital. Our thesis is simple: over the long term, we expect asset management companies to be able to grow their earnings and free cashflow faster than the broad market, leading to a superior overall return. While 2013 has so far been a particularly good year for the industry, we remain optimistic about the prospects for the sector.

Will Riley, Tim Guinness & Mark Hammonds
Co-managers
Guinness Global Money Managers Fund

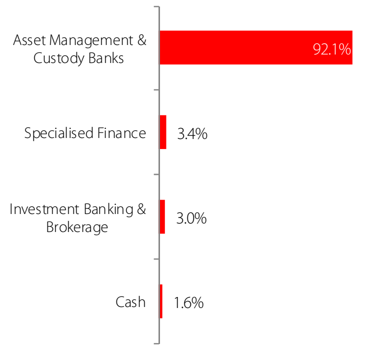
December 2013

PORTFOLIO (30.11.13)

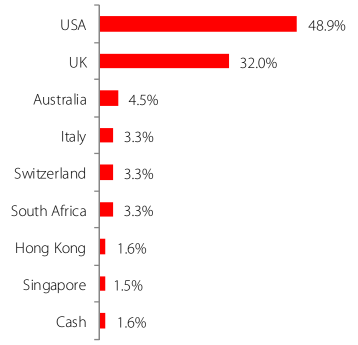
Fund top 10 holdings

Affiliated Managers Group	3.8%
Rathbone Brothers	3.5%
Aberdeen Asset Management	3.4%
Equity Trustees	3.4%
NASDAQ OMX	3.4%
Ashmore Group	3.4%
Invesco	3.4%
Liontrust Asset Management	3.4%
Blackstone Group	3.3%
Azimut Holding	3.3%
% of Fund in top 10	34.3%
Total number of stocks in Fund	35
AUM	$2.1m

Sector analysis



Geographic allocation



PERFORMANCE

Cumulative % total return (E Class, in GBP)

30/11/2013	1 month	3 months	6 months	1 year	From launch
Guinness Global Money Managers Fund	1.0	14.2	11.3	53.6	51.7
MSCI World Index	-0.2	4.9	3.3	23.7	29.7
MSCI World Financials Index	0.0	5.8	3.0	28.3	26.6

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

	30/11/2013
Guinness Global Money Managers Fund	15.34%
MSCI World Index	9.33%
MSCI World Financials Index	8.41%

Risk analysis (E Class, in GBP)

30/11/2013

Annualised, weekly, from launch on 31.12.10, relative to the MSCI World Index	MSCI World	MSCI World Financials	Fund
Alpha	0	-2.23	3.65
Beta	1	1.20	1.24
Information ratio	0	-0.15	0.69
Maximum drawdown	-18.26	-28.87	-28.30
R squared	1	0.89	0.87
Sharpe ratio	0.39	0.25	0.59
Tracking error	0	6.61	7.61
Volatility	14.47	18.31	19.17

Discrete years (C Class, in GBP)

12 months to month end:	Nov '09	Nov '10	Nov '11	Nov '12	Nov '13
Guinness Global Money Managers Fund	-	-	-	19.0	52.4
MSCI World Index	23.2	11.7	0.5	11.5	23.7
MSCI World Financials Index	26.1	-0.04	-12.2	21.9	28.3

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.

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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 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 FCA 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.

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