

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 - February 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.

Asset management sector

This month, we look at news of a takeover bid for one of our holdings, F&C Asset Management. We also review US fund flows data, and discuss the performance of the Fund in January 2014. Last, we compare the Fund valuation with that of the broad market.

F&C takeover bid

On Monday 27th January, F&C Asset Management announced that they had received a takeover bid from BMO Financial Group, part of Bank of Montreal. The cash offer for 120p per share led to a 25% jump in F&C's share price. (In addition to the amount offered, F&C also confirmed that shareholders would receive the 2p annual dividend.) At the time of writing, F&C's share price is 124p, indicating that there may be competing bids for the company still to come, following that from BMO.

The acquisition of F&C by BMO would double the latter's assets under management, taking them to £162bn. Significantly, the deal would lead to greater diversification for BMO, by increasing its exposure to the European fund management business.

As shareholders of F&C, we welcome the news from the perspective of the Fund. In light of other recent transactions (such as the acquisition of Scottish Widows Investment Partnership by Aberdeen Asset Management), should we also take this M&A activity as a sign that confidence is returning to the market?

Data from Berkshire Capital Securities shows that, on the whole, M&A activity has actually been fairly steady since 2010, both in terms of volume of transactions and total value, as shown in the table below.



BEST FUND OVER 3 YEARS

EQUITY SECTOR BANKS & OTHER FINANCIALS

Guinness Global Money Managers

Asset Manager M&A Transactions		2009	2010	2011	2012	2013
No. of deals	Majority equity	115	115	119	127	129
	Minority equity	5	15	15	29	20
	Management buyout	15	13	10	13	10
	Total	135	143	144	169	159
Value of deals	Total transaction value (\$bn)	\$31.7	\$21.2	\$10.3	\$12.6	\$14.8
	Total AUM changing hands (\$bn)	\$3,300	\$1,134	\$756	\$1,133	\$1,636

Source: Berkshire Capital Securities LLC

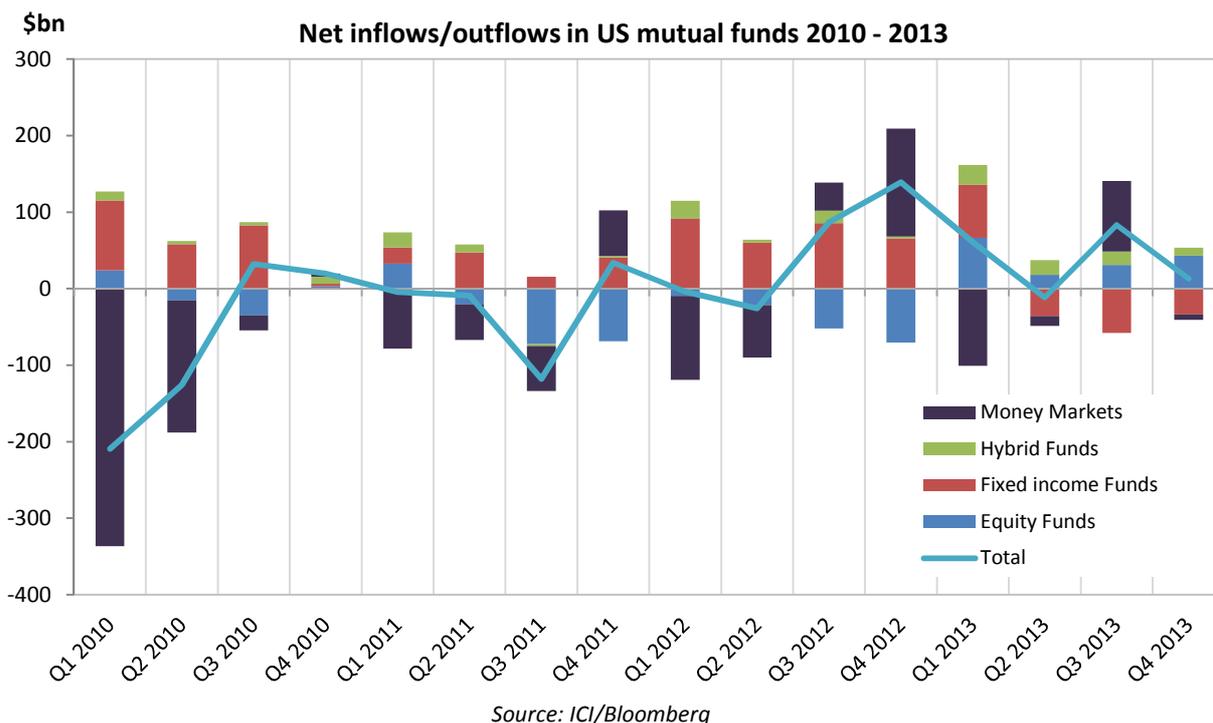
Included in the total for 2013 are several large disposals of asset management businesses by banks. As regulators sought to improve banks' capital position with the introduction of Basel III and other regulatory changes during the year, many large institutions took the opportunity to restructure by selling their asset management divisions. Notable deals included the Japanese firm Orix Corp's \$2.6bn acquisition of Robeco from the Dutch bank Rabobank, New York Life's \$514m purchase of the asset management division of the European bank Dexia, and the \$885m acquisition of Scottish Widows Investment Partnership from Lloyds Banking Group by Aberdeen Asset Management.

The wide geographic spread of buyers and sellers in these transactions reflects another trend in recent M&A activity – increased cross-border transactions. Berkshire Securities state that the number of transactions between US and international firms has grown from 8 in 2009 at a value of \$1.4bn to 27 in 2013 at a value of \$3.9bn. Similarly, the number of transactions between international firms has grown from 13 in 2009 at a value of \$3.2bn to 22 in 2013 at a value of \$3.9bn. In addition to those listed above, other significant cross-border transactions include the purchase of 50% of Santander's asset management arm by US firms Warburg Pincus and General Atlantic for \$1.3bn, and the acquisition of Credit Suisse's European exchange traded funds (ETF) business by US company BlackRock.

Fund flows

As part of our macro work on the sector, we study data that shows inflows and outflows into funds. US mutual fund flows data (which we treat as a useful proxy for global flows) showed that 2013 saw the largest inflows into equity funds since 2004. Inflows in the first quarter were particularly strong, reversing the trend observed in 2010 and 2011 for outflows from equity funds. This pattern continued throughout the year as inflows into equity funds gathered momentum.

While equity investors were becoming more and more bullish as markets rallied, bond investors turned bearish. Bond funds began to see outflows in 2013, again reversing the trend of the preceding two years. The following chart clearly shows this change of direction, of money flowing out of bond funds and into equity funds.



The shorter data series we have for fund flows from European investors shows a similar pattern for 2013: strong inflows into equity funds, with outflows from money market funds, as the following table shows.

Fund flows in Europe (\$m)	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013
Equity funds (inc. ETFs)	-30,132	-22,182	4,839	-22,228	-2,021	15,384	23,995	-19,698	7,237	7,651
Bond funds	-12,768	-14,880	18,375	11,330	22,613	34,202	14,990	6,417	-3,808	4,700
Money market funds	-19,457	10,329	15,329	3,323	-35,249	-25,192	2,263	-32,408	-35,882	-26,346
Total flows	-62,357	-26,733	38,543	-7,575	-14,657	24,394	41,248	-45,689	-32,453	-13,995

Source: EPFR/Goldman Sachs

This combination of inflows into equity funds and strong equity markets has created a positive environment for the asset management sector, particularly benefitting those fund managers with greater exposure to equities.

Fund performance

Markets sold off in January, as fears about emerging markets and the consequences of the Federal Reserve's tapering of asset purchases reignited. With this negative backdrop, the Fund performed in line with the market, down 2.99% (in GBP) compared with the Fund's MSCI World Index benchmark return of -2.95%, and the MSCI World Financials Index's -3.47%.

Within the Fund, January's stronger performers were F&C Asset Management, Equity Trustees, Azimut, AllianceBernstein and Blackstone. Poorer performers were Aberdeen, Ashmore, Value Partners, GAM Holding and Franklin Resources.

The portfolio

We made no changes to the portfolio in January.

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 16.2x at 31 January 2014, but this is still a slight discount to the market, as the table below shows.

The table shows the Fund's PE ratios versus the S&P 500 Index at 1,783 at 31 January 2014:

	'09	'10	'11	'12	'13	'14
Fund PE	27.0	23.8	23.1	20.9	16.2	14.2
S&P 500 PE	31.4	21.3	18.5	18.4	16.5	14.6
Premium (+)/ Discount (-)	-14%	12%	25%	14%	-2%	-3%

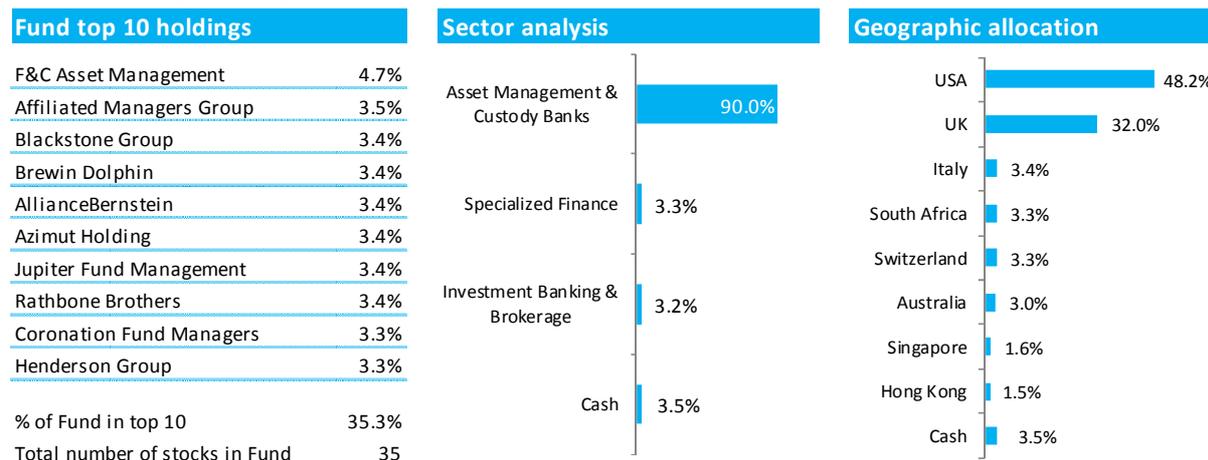
*Source: Standard & Poor's; Guinness Asset Management Ltd.
(Multiples based on S&P 500 'operating' earnings per share estimates of \$56.9 for 2009, \$83.8 for 2010, \$96.4 for 2011, \$96.8 for 2012, \$108.0 for 2013 and \$122.2 for 2014.)*

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

February 2014

PORTFOLIO (31.1.14)



PERFORMANCE

Cumulative % total return (X Class, in GBP)	1	Year-	1	3	From
31/01/2014	month	to-date	year	years	launch
Guinness Global Money Managers Fund	-3.0	-3.0	30.3	50.1	51.1
MSCI World Index	-3.0	-3.0	12.0	27.2	27.1
MSCI World Financials Index	-3.5	-3.5	10.7	20.4	22.5

Annualised % total return from launch (X Class, in GBP) 31/01/2014

Guinness Global Money Managers Fund	14.29%
MSCI World Index	8.09%
MSCI World Financials Index	6.80%

Risk analysis (X Class, in GBP) 31/01/2014

Annualised, weekly, from launch on 31.12.10, relative to the MSCI World Index	MSCI World	MSCI World Financials	Fund
Alpha	0	-2.38	4.17
Beta	1	1.20	1.24
Information ratio	0	-0.20	0.73
Maximum drawdown	-18.26	-28.87	-28.30
R squared	1	0.89	0.87
Sharpe ratio	0.31	0.16	0.55
Tracking error	0	6.47	7.53
Volatility	14.24	18.02	18.86

Discrete years (C Class, in GBP)

12 months to month end:	Jan '10	Jan '11	Jan '12	Jan '13	Jan '14
Guinness Global Money Managers Fund	-	-	-13.7	31.4	29.3
MSCI World Index	22.9	19.3	-1.5	15.4	12.0
MSCI World Financials Index	36.9	14.15	-13.6	25.9	10.7

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, 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.**

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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 15/02/2012. 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-based clean-fee (RDR-compliant) share class since the Fund's launch on 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'Île, 1204 Geneva, Switzerland.

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