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 - April 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.

Alternative asset managers

This month we look at Blackstone, one of the 'alternative' asset managers we hold in the portfolio. We also review US fund flows data, and discuss the performance of the Fund in the first quarter of 2014. Last, we compare the Fund valuation with that of the broad market.

Blackstone

The Blackstone Group, listed in the US with a market cap of $17bn, is the second largest company held in the portfolio. Blackstone was founded in 1986 by Stephen Schwarzman, the current Chairman and CEO, and Peter Peterson.

The company is an 'alternatives' specialist, managing a range of assets outside the conventional areas of equities, bonds and money market securities. Assets under management total $266bn, and are split fairly evenly between four areas: Real Estate (30% AUM), Private Equity (25%), Credit (24%) and Hedge Funds (21%). Revenues are more heavily distributed towards Real Estate (49%), followed by Private Equity (22%), Credit (13%) and Hedge Funds (10%). Given that these business areas can be very cyclical, it is attractive that Blackstone has a diverse source of revenues.

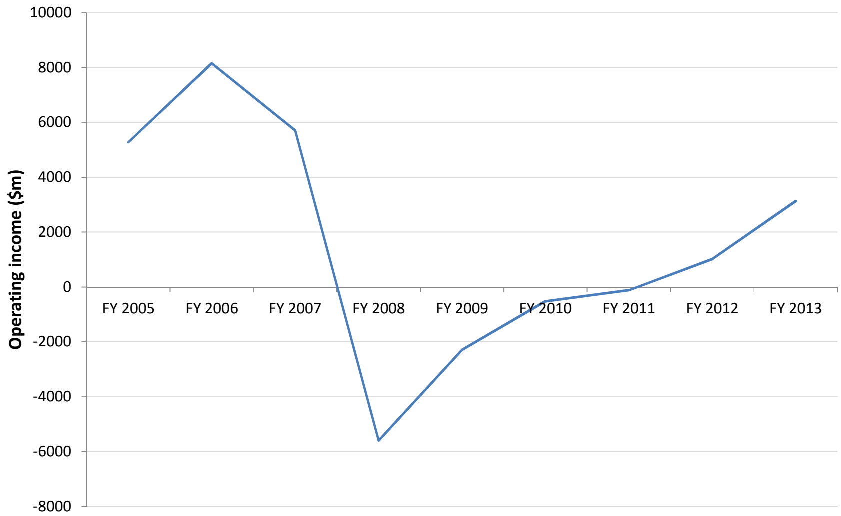
The company has been investing in real estate since launching its first fund in 1994, and roughly 190 of a total 970 investment professionals are employed in this area. Blackstone invests in both the equity and debt of real estate assets, managing real estate funds, debt investment funds and collateralised debt obligations (CDOs). The underlying assets are spread across geographies, and include offices, shopping centres and residential buildings.

Private equity is one of the older parts of Blackstone's business, established in 1987. The company has raised six general private equity funds and two sector funds, which represent the majority of the committed private equity capital. The business invests in leveraged buy-outs of mature companies, as is common for private equity firms, but also in start-up businesses, distressed debt, structured products and other areas. Revenues come from a combination of management fees (32% of private equity revenue) and performance fees (50% of revenue), as is also typical for the industry.

Blackstone is dependent on there being a positive economic environment in order to be able to realise value from its investments. When we purchased the company's shares in 2010 at the inception of the fund, conditions in the financial markets were relatively poor – private equity, in particular, was at a low point in the cycle. Since then, conditions in the market have significantly improved. Over all of the Blackstone's business segments, realisations (disposals of investments) have grown from less than $5bn in 2010 to $17bn in 2013. Furthermore, the company believes that 2014 will provide more opportunities to exit existing investments using various methods: M&A, IPOs and secondary equity offers, other financial buyers (e.g. secondary private equity) and dividend recapitalisation (companies taking on debt in order to pay dividends to equity holders).

Given the areas in which Blackstone operates, its financial results are subject to considerable fluctuation. The following chart shows the company's operating income over the past nine years.

Blackstone operating income



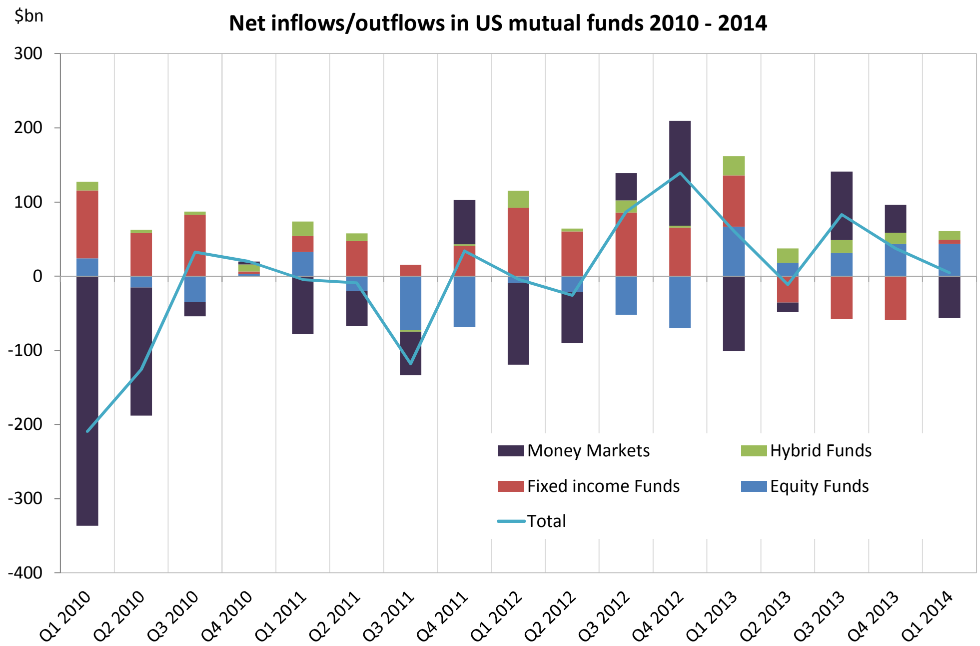
Source: Bloomberg, Guinness Asset Management

Operating income has recovered over the past years, but is still below the peak years of 2005-07. Given this cyclicality, we expect the company to be valued at a discount to conventional asset managers, as is reflected in Blackstone's PE ratio (2013 PE ratio of 12x versus an average of 19x for large cap diversified asset managers in our universe). We are optimistic that the strength in equity markets in 2013 will benefit Blackstone. A more favourable environment for IPOs in particular will provide opportunities for private equity managers to realise gains from existing investments.

Fund flows

As part of our macro analysis on the asset management sector, we study global fund inflows and outflows.

Data for US mutual fund flows (which we treat as a proxy for global flows) indicated continued strong inflows into equity funds during the first quarter of 2014.



Source: ICI/Bloomberg (data to February 2014)

2013 saw the largest inflows into equity funds since 2004. The inflows, which began in the first quarter of 2013, reversed the trend observed in 2010 and 2011 for outflows from equity funds.

While equity investors became more bullish, bond investors turned bearish. Bond funds began to see outflows in 2013, again reversing the trend of the preceding two years. Outflows have also come from money market (cash) funds, as investors have sought better returns.

Fund flows in Europe show a similar pattern of inflows into equity funds from 2013.

Fund flows in Europe ($m)	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014
Equity funds (inc. ETFs)	-22,182	4,839	-22,228	-2,021	15,384	23,995	-19,698	7,237	7,651	7,158
Bond funds	-14,880	18,375	11,330	22,613	34,202	14,990	6,417	-3,808	4,700	20,672
Money market funds	10,329	15,329	3,323	-35,249	-25,192	2,263	-32,408	-35,882	-26,346	29,359
Total flows	-26,733	38,543	-7,575	-14,657	24,394	41,248	-45,689	-32,453	-13,995	57,189

Source: EPFR/Goldman Sachs

The 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

Over the first quarter of 2014, the performance of asset managers in the portfolio was mixed, with global equity markets fairly flat over the period. Global equity markets were positive in the quarter, after recovering from poor performance in January. The Fund returned 1.93% over the quarter, compared with the MSCI World Index (the Fund's benchmark) return of 0.72% and the MSCI World Financials Index return of 0.17% (all returns given in GBP terms).

On a sector basis, our wealth manager and small-cap holdings performed well over the quarter. Among the top performers, Charlemagne Capital (a research holding) increased by 33.5% during the quarter. F&C Asset Management performed strongly (up 32.6% during the quarter) following a takeover approach from Bank of Montreal. Azimut continued to perform well, returning 29.0% in the quarter.

Our poorer performers were those with emerging market exposure; markets in these regions sold off in January as investors took fright. Value Partners (a half position) fell by 22.4% in the quarter, Aberdeen lost 21.9%, and Ashmore fell by 16.0%.

The Fund outperformed the market in March, returning 2.41% compared with the MSCI World Index return of 0.49%, and the MSCI World Financials Index return of 1.55%.

Within the Fund, March's stronger performers were Coronation, Federated Investors, Invesco, Azimut and Affiliated Managers Group. Poorer performers were Fortress, Jupiter, Value Partners, F&C Asset Management and NASDAQ OMX.

The portfolio

We sold our position in Equity Trustees in March (having held the company since March 2013), primarily on valuation grounds, after a period of strong outperformance relative to the Fund. As a replacement, we initiated a position in T Rowe Price, the large cap US asset manager. T Rowe's fund range has good five year performance, and we expect the company to benefit from the strong performance of global equity markets in 2013.

Fund valuation

Despite the good performance of the sector, we do not regard the Fund's current valuation as excessive. The portfolio's price/earnings ratio on 2013 earnings has risen from 15.2x at 30 September 2013 to 17.0x at 31 March 2014, in line with the broad market. The table shows the Fund's PE ratios versus the S&P 500 Index at 31 March 2014:

	'09	'10	'11	'12	'13	'14
Fund PE	29.1	25.4	24.8	22.2	17.0	14.8
S&P 500 PE	33.2	22.5	19.6	19.5	17.6	15.5
Premium (+)/ Discount (-)	-12%	13%	27%	14%	-3%	-4%

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, $107.3 for 2013 and $121.7 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

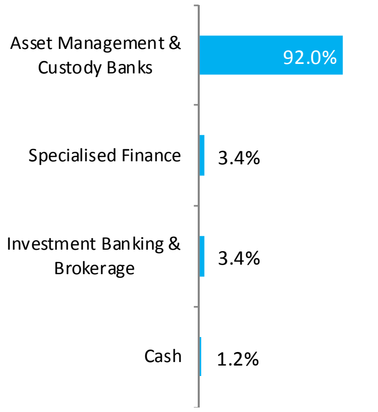
April 2014

PORTFOLIO (31.3.14)

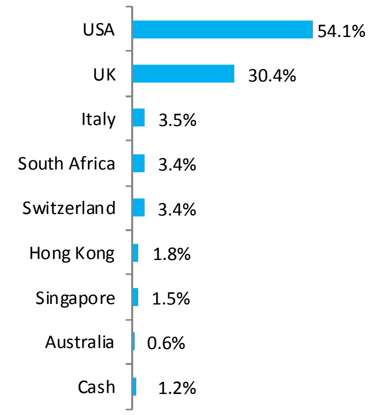
Fund top 10 holdings

BlackRock	3.6%
Affiliated Managers Group	3.6%
Federated Investors	3.5%
Azimut Holding	3.5%
Blackstone Group	3.5%
Och-Ziff Capital Management	3.5%
Brewin Dolphin	3.5%
Coronation Fund Managers	3.4%
Invesco	3.4%
Fortress Investment Group	3.4%
% of Fund in top 10	34.8%
Total number of stocks in Fund	35

Sector analysis



Geographic allocation



PERFORMANCE

Cumulative % total return (X Class, in GBP) **31/03/2014**	**1 month**	**Year-to-date**	**1 year**	**3 years**	**From launch**
Guinness Global Money Managers Fund	2.7	2.0	26.2	53.7	58.9
MSCI World Index	0.7	0.6	8.5	28.8	31.8
MSCI World Financials Index	1.7	0.0	8.7	24.3	26.9

Annualised % total return from launch (X Class, in GBP)	**31/03/2014**
Guinness Global Money Managers Fund	15.31%
MSCI World Index	8.87%
MSCI World Financials Index	7.61%

Risk analysis (X Class, in GBP) **31/03/2014**

Annualised, weekly, from launch on 31.12.10, relative to the MSCI World Index	**MSCI World**	**MSCI World Financials**	**Fund**
Alpha	0	-2.53	4.13
Beta	1	1.20	1.24
Information ratio	0	-0.21	0.76
Maximum drawdown	-18.26	-28.87	-28.30
R squared	1	0.89	0.87
Sharpe ratio	0.36	0.20	0.60
Tracking error	0	6.36	7.46
Volatility	13.98	17.70	18.58

Discrete years (C Class, in GBP)

12 months to month end:	**Mar '10**	**Mar '11**	**Mar '12**	**Mar '13**	**Mar '14**
Guinness Global Money Managers Fund	-	-	-9.0	31.8	25.3
MSCI World Index	44.0	7.4	0.9	17.7	8.5
MSCI World Financials Index	66.1	-0.94	-7.6	23.8	8.7

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

Issued by Guinness Asset Management Limited, authorised and regulated by the Financial Conduct Authority.

This report is primarily designed to inform you about recent developments in the asset management sector invested in by the Guinness Global Money Managers Fund. It may also provide information about the Fund's portfolio, including recent activity and performance. It contains facts relating to investment markets and our own interpretation. Any investment decision should take account of the subjectivity of the comments contained in the report.

This document is provided 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 contents of the document should not therefore be relied upon. It should not be taken as a recommendation to make an investment in the Fund or to buy or sell individual securities, nor does it constitute an offer for sale.

Risk

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 an investment and the income from it can fall as well as rise as a result of market and currency movement, and you may not get back the amount originally invested. The Fund invests only in companies involved in asset management and other related industries; it is therefore susceptible to the performance of that one sector, and can be volatile. Details on the risk factors are included in the Fund's documentation, available on our website.

Documentation

The documentation needed to make an investment, including the Prospectus, the Key Investor Information Document (KIID) and the Application Form, is available from the website www.guinnessfunds.com , or 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.

Residency

In countries where the Fund is not registered for sale or in any other circumstances where its distribution is not authorised or is unlawful, the Fund should not be distributed to resident Retail Clients. **NOTE: THIS INVESTMENT IS NOT FOR SALE TO U.S. PERSONS.**

Structure & regulation

The 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, which operates under EU legislation. The Fund has been approved by the Financial Conduct Authority for sale in the UK. If you are in any doubt about the suitability of investing in this Fund, please consult your investment or other professional adviser.

Switzerland

The prospectus and KIID for Switzerland, the articles of association, and the annual and semi-annual reports 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, www.carnegie-fund-services.ch. The paying agent is Banque Cantonale de Genève, 17 Quai de l'Ile, 1204 Geneva, Switzerland.

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