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 - July 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.

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Guinness Global Money Managers

Favourable fundamentals: growth

In this month's update, we examine the ability of companies in our asset management universe to grow. Over the past 13 years, since 2000, asset managers have achieved impressive rates of growth, despite the unprecedented financial crisis that occurred during the period.

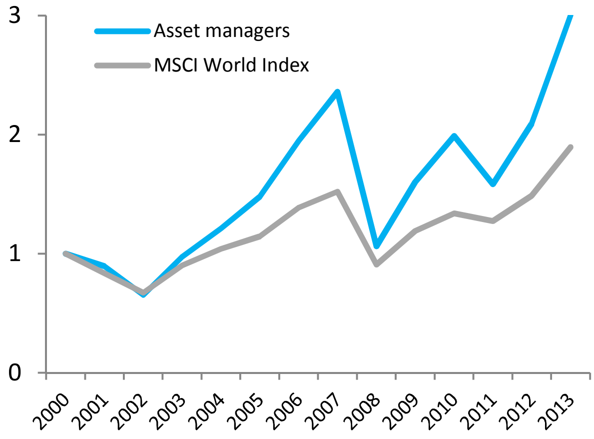
The universe

Before diving in to look at our findings, it is worth having a quick aside on the universe. We have used a basket of 29 asset management companies as our sample – substantially the same group of companies that we used in the Fund's March report, *The asset management sector: 20+ years of outperformance*. We provide more detail about this group of companies on page 5. *(All data on asset managers is based on an average of all the constituent companies, with all graphs rebased to 1.)*

Returns

We start by looking at the total returns of the group over the past 13 years. While returns over this period have been, at times, very volatile, asset managers have significantly outperformed broad equities.

Total return: Asset managers versus MSCI World



Source: Bloomberg, Guinness Asset Management

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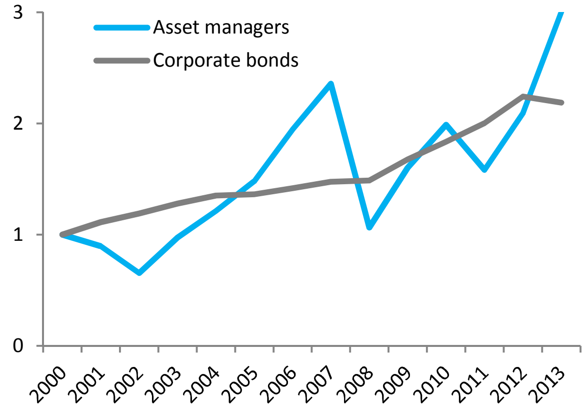
GUINNESS FUNDS

Since 2000, asset managers have returned 200%, versus the MSCI World Index, which returned 90%. Equivalently, the compound annual growth rate (CAGR) was 8.8% for asset managers versus 5.0% for the MSCI World. This greater return, however, has not come without volatility – the standard deviation of annual returns over the period was 32.5% for asset managers versus 21.9% for the MSCI World. (NB: these figures include a small positive effect from annually rebalancing the portfolio. The equivalent CAGR without rebalancing is 8.1%).

Asset managers have also outperformed bond markets.

Total return: asset managers versus corporate bonds



Source: Bloomberg, Guinness Asset Management

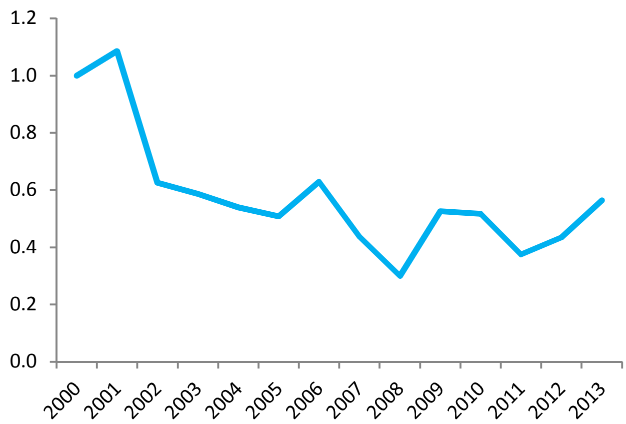
Bond markets have performed even better than equities, with the iBoxx Liquid Investment Grade Index (a proxy for corporate bonds) returning 119% (versus 90% for the MSCI world), or a CAGR of 6.2%.

How have these returns from asset managers been generated?

Valuations

With such high returns to asset managers over the period, one might assume that a large contributor to these returns is valuation multiple expansion. In fact, the price earnings ratio (PE) of these companies has actually declined over the period.

Asset managers' PE ratio



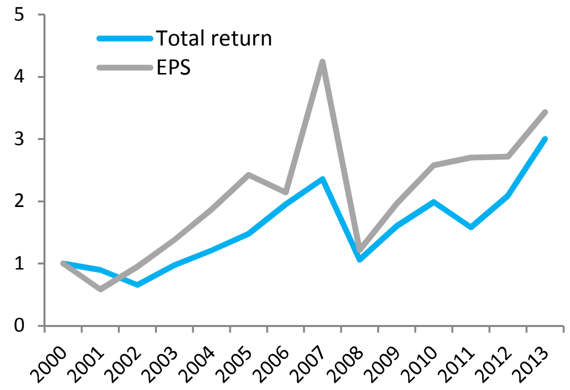
Source: Bloomberg, Guinness Asset Management

The PE ratio has fallen by 43.6% over the period, making the group's total returns above all the more impressive. On reflection, the decline in valuation multiples is unsurprising, given how inflated general stock market valuations were in 2000.

Earnings

Earnings have grown handsomely over the period, though this growth has not been the sole contributor to good returns. The following chart shows earnings per share (EPS) over the period:

Asset managers: total return versus earnings per share



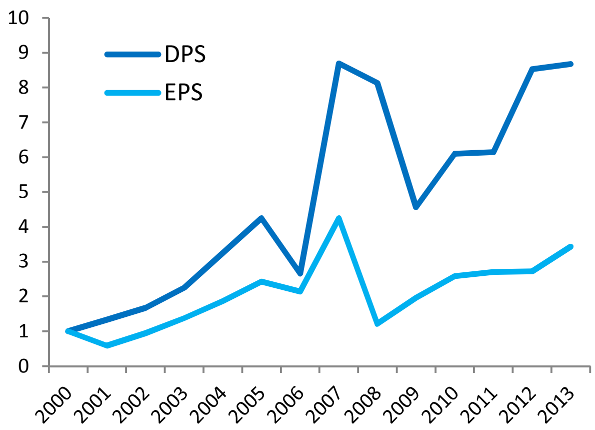
Source: Bloomberg, Guinness Asset Management

Over the past 13 years, EPS grew considerably, by 243%, representing a CAGR of 10.0%. The growth in earnings has been somewhat volatile, however, with a standard deviation of 45.1% – not unexpected given that several companies incurred a loss over the 2008-09 period. We will later show that other metrics that represent the underlying growth of the businesses have been less volatile.

Dividends

Both price appreciation and dividends contribute to total returns, and asset managers have a good track record of paying dividends, as we discussed in our September 2013 brief. Our group of asset managers has demonstrated an ability to grow dividends per share (DPS) over the past 13 years.

DPS versus EPS



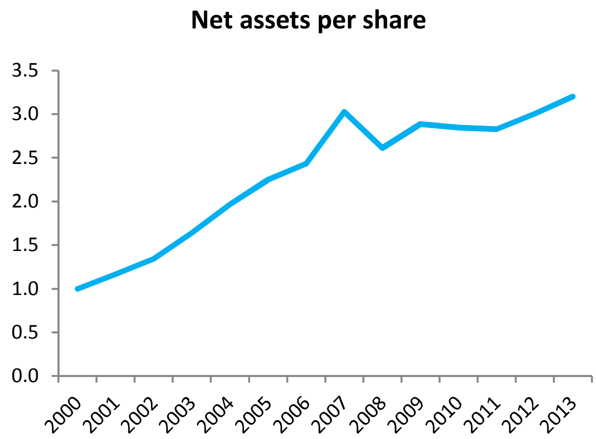
Source: Bloomberg, Guinness Asset Management

DPS has grown significantly, by 767% over this period, or a CAGR of 18.1%, outstripping the growth in EPS and well ahead of the growth of dividends enjoyed by the broad market. Dividends, which represent an actual cash payment to shareholders, provide a good indication of the growth in free cashflow that these companies have achieved. However, the impressive dividend growth has not been achieved without volatility – the standard deviation of the series is 66.0%. In practice, this illustrates the fact that asset managers tend to be willing to distribute excess cash when market conditions are good, but will also vary the dividend if times are harder.

Resources

Another way to look at the underlying growth of the group is to consider how companies' resources have grown. As with companies in general, we can look at the growth in net assets. For this group of companies in particular, we can also look at growth in assets under management (AUM) – AUM being the resource from which asset managers earn their revenues.

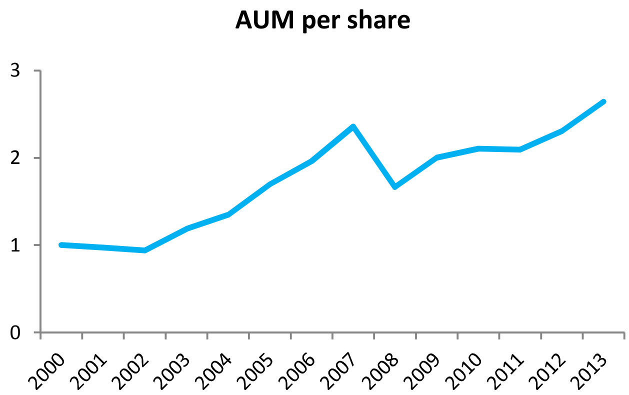
Looking at net assets on a per share basis, the following chart shows how this has grown since 2000:



Source: Bloomberg, Guinness Asset Management

Despite asset managers in general being capital-light businesses, growth is still reflected in rising net assets. Net assets per share rose 220%, with a CAGR of 9.4%. The volatility of the series was low, at 10.7%.

Growth is also reflected in rising assets under management (AUM).



Source: Bloomberg, Guinness Asset Management

AUM per share increased by 164% over the period – a CAGR of 7.8%. Part of this growth in AUM has come from market returns (as stated above, the MSCI World Index grew at a CAGR of 5.0% over the period), and part of the growth has come from asset gathering, which reflects the fact that the pool of investible assets has also grown. While the volatility of this series will have been affected by volatile equity markets, the standard deviation was actually lower than that of EPS, at 15.3% compared with 45.1%.

Conclusion

Asset managers have demonstrated an excellent ability to grow over the past 13 years. The foundation for this is the faster-than-broad-market growth in assets under management, which has translated into strong earnings growth. And because the sector typically requires relatively low reinvested capital to grow, free cash flow (in the form of dividends) has grown at an even better rate.

Our aim with this Fund is to capitalise on a belief that the growth trends described in this month's report are likely to continue for the asset management sector for a long time to come.

Notes

Our sample of companies is substantially the same as that used in our March brief 'The asset management sector: 20+ years of outperformance'. We originally screened for companies classified as Asset Managers and Custody Banks under the GICS classification system with a market cap over $500m, as at 31 December 2000. Of the 53 companies identified, we then eliminated companies for whom asset management, wealth management or related services represented less than half of the business. We made a further adjustment to remove companies where data was incomplete. The final list of 29 companies is as follows:

Bank of New York Mellon Corp	BlackRock Inc
State Street Corp	Man Group PLC
Northern Trust Corp	Eaton Vance Corp
3i Group PLC	CI Financial Corp
Franklin Resources Inc	Aberdeen Asset Management PLC
Janus Capital Group Inc	AGF Management Ltd
GAM Holding AG	Affiliated Managers Group Inc
SEI Investments Co	GAMCO Investors Inc
Schroders PLC	F&C Asset Management PLC
T Rowe Price Group Inc	American Capital Ltd
AllianceBernstein Holding LP	Banque Privee Edmond de Rothschild SA
IGM Financial Inc	Brewin Dolphin Holdings PLC
Legg Mason Inc	Rathbone Brothers PLC
Federated Investors Inc	Vontobel Holding AG
Waddell & Reed Financial Inc	

Source: Bloomberg, Guinness Asset Management

Series construction

To construct the data series used in this report, we first calculated normalised data series (where data was available). We then calculated the average of these series to produce the graphs shown above. Total returns calculated on an annual basis. All figures calculated in US dollars.

The Fund's portfolio

In May we received the proceeds from our position in F&C Asset Management, after the acquisition of the company by Bank of Montreal was completed.

In June, we participated in the IPO of River & Mercantile, an asset management and pension advisory business. We believe that the company has the potential to grow from gaining additional advisory business, and by attracting inflows to its well-performing funds. River & Mercantile trades at a reasonable multiple of estimated earnings and offers an attractive potential dividend yield.

Fund performance

The Fund produced a return in May of 0.24%, behind the MSCI World which rose by 2.06%. In June, the Fund returned 3.67%, outperforming the MSCI World which rose by 1.83%.

Fund valuation

Despite the good performance of the sector over the past two years, 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 30th September 2013 to 17.3x at 30th June 2014, at a slight discount to the broad market. The table shows the Fund's P/E ratios versus the S&P 500 Index at 30th June 2014:

	'09	'10	'11	'12	'13	'14
Fund PE	31.1	26.8	26.1	23.3	17.3	15.4
S&P 500 PE	34.5	23.4	20.3	20.2	18.3	16.6
Premium (+)/ Discount (-)	-10%	15%	28%	15%	-6%	-7%

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 $118.0 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

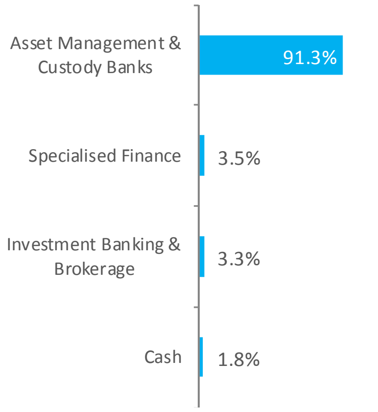
July 2014

PORTFOLIO (30/06/2014)

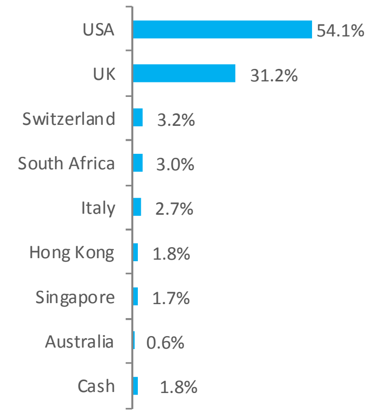
Fund top 10 holdings

Ameriprise Financial	3.8%
Affiliated Managers Group	3.6%
Jupiter Fund Management	3.6%
Franklin Resources	3.6%
River & Mercantile	3.5%
Ashmore Group	3.5%
Polar Capital	3.5%
NASDAQ OMX	3.5%
Och-Ziff Capital Management	3.5%
Invesco	3.5%
% of Fund in top 10	35.7%
Total number of stocks in Fund	35

Sector analysis



Geographic allocation



PERFORMANCE

Cumulative % total return (X Class, in GBP)

30/06/2014	1 month	Year-to-date	1 year	3 years	From launch
Guinness Global Money Managers Fund	1.7	1.8	22.6	63.0	58.6
MSCI World Index	-0.2	2.9	10.0	31.2	34.8
MSCI World Financials Index	-1.0	0.3	7.1	28.3	27.3

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

	30/06/2014
Guinness Global Money Managers Fund	14.09%
MSCI World Index	8.90%
MSCI World Financials Index	7.15%

Risk analysis (X Class, in GBP)

30/06/2014

Annualised, weekly, from launch on 31.12.10, relative to the MSCI World Index	MSCI World	MSCI World Financials	Fund
Alpha	0	-2.94	2.71
Beta	1	1.20	1.25
Information ratio	0	-0.27	0.58
Maximum drawdown	-18.26	-28.87	-28.30
R squared	1	0.90	0.87
Sharpe ratio	0.39	0.20	0.55
Tracking error	0	6.19	7.58
Volatility	13.67	17.28	18.42

Discrete years (C Class, in GBP)

12 months to month end:	Jun '10	Jun '11	Jun '12	Jun '13	Jun '14
Guinness Global Money Managers Fund	-	-	-10.7	46.6	21.6
MSCI World Index	21.3	21.6	-2.7	22.6	10.0
MSCI World Financials Index	18.2	12.48	-10.2	33.4	7.1

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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