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 - December 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

Asset management sector

This month, we look at a new addition to our portfolio – alternative asset manager KKR. We also review US fund flows data, and discuss the performance of the Fund in recent months. Last, we compare the Fund valuation with that of the broad market.

KKR

KKR & Co. LP (formerly Kohlberg Kravis Roberts & Co.) is a US-based alternative asset manager founded in 1976. The firm manages assets mainly in private markets, which account for 58% of revenue. Revenues come from performance fees (44% of revenue) and management fees (19%) charged on funds. The firm also receives investment income (28% of revenue) from investing capital in its own funds. At the end of 2013, KKR had $61 billion of assets under management in private markets and $33 billion in public markets (though the former accounted for a far greater proportion of performance fees). Public market assets include leveraged and alternative credit, and long-short equity strategies.

KKR has created several barriers to competition. The firm has a prestigious brand name, mainly due to the impressive performance track record it has achieved. Moreover, KKR has been able to maintain its good performance even amid increasing scale. Credit Suisse recognises the strength of KKR's track record, noting that its investments have achieved high Multiples on Invested Capital (MOIC) with low volatility. The firm also has impressive geographic reach relative to peers, with 1,200 staff globally, of which 330 are investment professionals. Further, the firm's second Asia fund is of a similar size to its flagship North American fund.

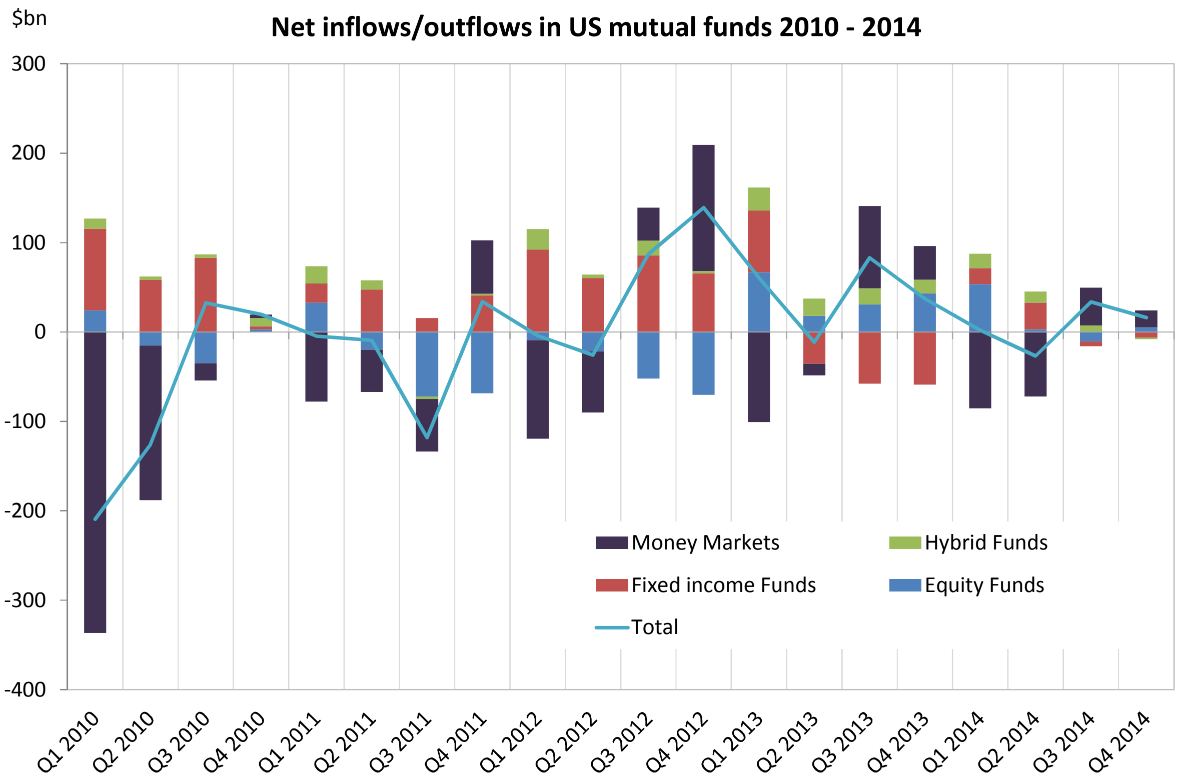
The fact that KKR invests its own capital alongside outside investors is one of its key differentiators over its peers, and allows the firm to benefit to a greater extent when its funds perform well. While this increased leverage also exposes the firm to greater risks, we think it reflects the firm's belief in its investment strategies. It also enables the firm to make seed investments in its own funds, which can then attract outside capital. The firm's balance sheet also provides an element of downside protection to the investor: book value per unit at the end of Q3 2014 was $12.51 – roughly half of the current share price of $22.22.

There are several broad reasons for the success of the private equity industry over recent years. Typically, the capital invested by private equity is more patient than capital from public markets, and investors have a longer-term horizon. PE firms are also adept at realising value from investee companies, either via a strategic (trade) sale, or listing the company shares and/or using secondary offerings (placings). The ability to exit investments via strategic sales provides an important backup option when equity market issuance is relatively subdued.

Overall, we think that KKR will continue to benefit from the structural advantages it has developed, which will translate into continuing strong investment returns. The firm has taken steps to diversify its investment strategy, and is able to invest in markets where investment opportunities are most attractive (such as Asia). KKR's balance sheet provides a degree of downside protection, and the firm also pays an attractive dividend, with an indicated yield of 8.1%.

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. This pattern continued in the first quarter of 2014, but then stalled in the second quarter. Outflows from money markets in the first half of this year reversed in the third and fourth quarter, as equity markets were volatile. Fixed income has also experienced inflows this year, as compared with outflows during much of 2013. The following chart illustrates these trends (data for Q4 2014 is to the end of October):



Source: ICI/Bloomberg

The shorter data series we have for fund flows from European investors shows a roughly similar pattern for 2014: significant inflows into bond funds, particularly during the second quarter, with smaller inflows into equity funds. Flows from European investors to money market funds were positive for the first half of the year, turned negative in the third quarter, but rebounded in the fourth quarter.

Fund flows in Europe ($m)	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014
Equity funds (inc. ETFs)	-2,021	15,384	23,995	-19,698	7,237	7,651	7,158	11,402	4,913	-2,626
Bond funds	22,613	34,202	14,990	6,417	-3,808	4,700	20,672	38,515	18,079	19,171
Money market funds	-35,249	-25,192	2,263	-32,408	-35,882	-26,346	29,359	14,201	-4,734	37,827
Total flows	-14,657	24,394	41,248	-45,689	-32,453	-13,995	57,189	64,118	18,258	54,372

(Data as of 5 December 2014. Source: EPFR/Goldman Sachs)

The inflows into equity funds that we saw last year have slowed, and turned negative during the fourth quarter following market turbulence. We will monitor this figure closely to see whether the 'October wobble' has had a lasting negative impact on investor sentiment.

Fund performance

In October, equity markets continued to slide, dipping sharply, before recovering by the end of the month. The Fund outperformed the broad market, returning 2.17% (E share class, total return in USD) versus 0.67% for the MSCI World Index, the Fund's benchmark. The MSCI World Financials Index increased by 1.58%.

In November, equity markets continued to perform well, and again the Fund outperformed its benchmark. The Fund gained 3.00%, versus the MSCI World Index up 2.08%, and the MSCI World Financials Index up 1.43%.

Within the Fund, October's stronger performers were GAMCO, Polar Capital, Fortress Investment Group, Aberdeen and Centuria Capital. Poorer performers were Charlemagne, Azimut, Waddell & Reed, ARA and Blackstone.

November's stronger performers were Liontrust, Coronation, Blackstone, Och-Ziff and BlackRock. Poorer performers were Brewin Dolphin, Rathbone, Ashmore, Azimut and Charlemagne.

The portfolio

In October, we initiated a position in KKR, as described above. We sold our holding in Federated Investors, after the stock had performed well this year. We observed that the company's fund performance was not especially strong, and that its valuation was not particularly attractive.

We topped up our holding in Value Partners to take the stock from a half position to a full position. Value Partners is highly geared to emerging markets, partly because it charges performance fees on most of its funds. As such, we think it is well placed to benefit from a recovery in Asian markets.

We also sold our positions in Centuria Capital, Treasury Group, Mattioli Woods and City of London Investment Group (all research holdings in the portfolio) in order to reinvest the capital in our core holdings.

We made no changes to the portfolio in November.

Fund valuation

Following the market sell-off in recent months, valuations have moderated somewhat. While the 2013 PE for the Fund has risen from 15.2x at 30 September 2013 to 15.7x at 30 November 2014, it is still at a discount to the market, as the table below shows.

The table shows the Fund's PE ratios versus the S&P 500 Index on 30 November 2014:

	'09	'10	'11	'12	'13	'14
Fund PE	28.5	25.2	26.0	21.9	15.7	15.1
S&P 500 PE	36.4	24.7	21.4	21.4	19.3	17.6
Premium (+)/ Discount (-)	-22%	2%	21%	3%	-18%	-14%

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 $117.5 for 2014.)

Overall, we are optimistic that the companies in our Fund will continue to benefit from increasing assets under management, following strong performance of equity markets over the long term.

Will Riley, Tim Guinness & Mark Hammonds

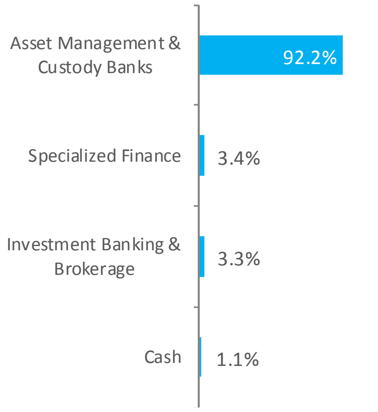
December 2014

PORTFOLIO (30/11/2014)

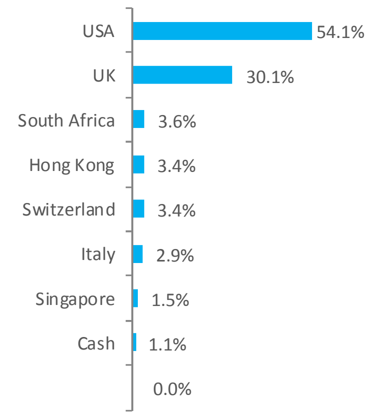
Fund top 10 holdings

Gamco Investors	3.9%
Liontrust Asset Management	3.8%
Fortress Investment Group	3.7%
River & Mercantile	3.6%
Blackrock	3.6%
Coronation Fund Managers	3.6%
Ameriprise Financial	3.6%
Henderson Group	3.5%
T Rowe Price	3.4%
NASDAQ OMX	3.4%
% of Fund in top 10	36.0%
Total number of stocks in Fund	31

Sector analysis



Geographic allocation



PERFORMANCE

Cumulative % total return (X Class, in GBP)

30/11/2014	1 month	Year-to-date	1 year	3 years	From launch
Guinness Global Money Managers Fund	5.2	9.0	11.9	106.2	69.8
MSCI World Index	4.2	12.8	13.9	57.1	47.8
MSCI World Financials Index	3.6	10.7	11.0	73.5	40.5

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

	30/11/2014
Guinness Global Money Managers Fund	14.46%
MSCI World Index	10.48%
MSCI World Financials Index	9.06%

Risk analysis (X Class, in GBP)

Annualised, weekly, from launch on 31.12.10, relative to the MSCI World Index	MSCI World	MSCI World Financials	Fund (30/11/2014)
Alpha	0	-2.78	1.41
Beta	1	1.18	1.25
Information ratio	0	-0.23	0.46
Maximum drawdown	-18.26	-28.87	-28.30
R squared	1	0.90	0.87
Sharpe ratio	0.51	0.32	0.59
Tracking error	0	5.91	7.43
Volatility	13.46	16.77	18.09

Discrete years (C Class, in GBP)

12 months to month end:	Nov '10	Nov '11	Nov '12	Nov '13	Nov '14
Guinness Global Money Managers Fund	-	-	19.0	52.4	11.1
MSCI World Index	11.7	0.5	11.5	23.7	13.9
MSCI World Financials Index	-0.0	-12.16	21.9	28.3	11.0

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.**

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.

Telephone calls may be recorded and monitored.