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 – May 2015

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 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

Asset managers need little capital to grow. Shareholder returns can therefore be very high.

Growing global sector

Global AUM is growing faster than world equity markets, supporting revenue growth in the sector.

Low balance sheet risk

Asset managers tend to have low gearing vs other financial companies, reducing balance sheet risk.

Above average dividend yield

The sector's high free cash flow translates into higher average dividend yields than broad markets.

Performance

30.04.15

Annualised % total return from launch

Fund	15.75%
Index	10.67%
Financials Index	9.14%

	1 year	3 years	Launch
Fund	21.9	106.6	88.4
Index	18.0	54.5	55.2
Financials Index	16.4	61.5	46.0

Index	MSCI World Index
Financials Index	MSCI World Financials Index
Fund launch	31.12.10

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.

THOMSON REUTERS
LIPPER FUND AWARDS 2015
SWITZERLAND

2015: BEST FUND OVER 3 YEARS

EQUITY SECTOR BANKS & OTHER FINANCIALS

Asset managers in review

This month we review recent results from three of the companies in our portfolio: Value Partners, Jupiter and Ashmore. We explore a new development in the ETF industry, active ETFs, and consider the impact it will have on the asset management sector. We also look at Fund performance over the first quarter and the valuation of the Fund.

Value Partners

The strongest performer of late in our portfolio is Value Partners, the Hong Kong-focused asset manager, which returned 97.0% in US dollar terms in April. The Hong Kong market as a whole made great gains in April, mainly due to fund inflows from Chinese investors. Following significant gains in Chinese stock markets over the past year (much of which has been driven by bullish retail investors), flows have started to come into Hong Kong. A significant factor behind these inflows is the Hong Kong-Shanghai Stock Connect program (introduced last year), which has opened up the Hong Kong stock market to mainland Chinese investors. With its performance fee-based model, Value Partners is effectively a geared play on Hong Kong equities, and the company looks set to benefit significantly from the market's recent period of outperformance. However, in addition to the strong performance of the Hong Kong market, there are company-specific reasons for the stock rallying. The company released a strong set of full year results in late March, reporting a 60% year-on-year rise in operating profit to HK$750m, mainly due to performance fees, which more than doubled from the previous year, rising 108% to HK$659m. The company's two largest own-branded funds, the Classic Fund and High-Dividend Stocks Fund, had surpassed their high-water marks (the point from which performance fees are calculated) by 16% and 11% respectively by the end of 2014. Correspondingly, assets under management (AUM) increased 23% in the period, driven partly by inflows (73% of the increase) and partly by performance (27%).

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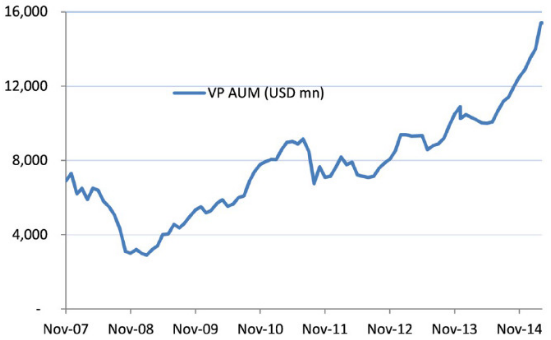
AUM has continued to increase following the end of 2014, as the following chart shows *(figures for March and April 2015 are Morgan Stanley estimates)*:

Value Partners – AUM in $m



Source: Company data, Morgan Stanley

Jupiter

Jupiter released results in April, reporting record assets under management of £34.8bn after taking in £0.9bn of net inflows in the first quarter of 2015. The company is a mid-cap asset manager that serves mainly UK investors, managing active equity products. Reviewing Jupiter's results, the FT's Lex column cautioned against extrapolating recent performance into the future, pointing out that the company faces structural headwinds in the form of passive products (a point that we explore in the section on ETFs below).

However, as well as the general strong performance of the UK stock market, there is another factor that partly explains Jupiter's recent success: that is, individual fund performance. We track the underlying performance of a large proportion of Jupiter's funds, and performance over the short, medium and long term has been good – not outstanding, but strong enough relative to peers to justify optimism towards the company's future. Although good fund performance comes and goes, we have found that it is an important factor that can ultimately determine the success of investments in individual asset managers. So we regularly monitor it for the companies in our universe.

ETFs

Do active asset managers like Jupiter face a structural threat from passive products? There has been an undeniable rise in the popularity of equity ETFs in recent years, though at 12% of total AUM in the US market, they still occupy a relatively small proportion of the fund management industry. ETFs have grown market share due to their relatively low cost, and having tax advantages over mutual funds for US investors.

So far, ETFs have generally been a vehicle for passive investing. Recently, however, there have been efforts to extend the scope of ETFs to active strategies. Providers want to offer the cost and tax benefits of the ETF vehicle to investors, while offering the opportunity to outperform benchmarks with active management.

Several firms have proposed versions of actively managed ETFs, but as yet only Eaton Vance has gained SEC approval for their scheme. The Eaton Vance product is a non-transparent ETF (NTETF), branded 'NextShares'. The company, in addition to providing its own funds under the structure, has announced that four firms plan to franchise the product, and further agreements with other firms are expected over the next few months. As well as retaining the tax benefits for US investors, the NTETF offers reduced fees versus mutual funds – Credit Suisse estimates that the product could save investors upwards of 40 basis points in fees, mainly by eliminating transfer agency and flow accommodation costs.

This type of product is currently in its infancy, but there are other providers seeking to launch active ETF products, namely: Fidelity, Precidian and T Rowe Price. The active ETF model is perceived to be a disruptive force to the asset management industry, but we think it could be a useful way for fund managers to distribute their funds, while defending their management fees. We will follow developments in the industry closely.

Ashmore

In contrast with the strong results from Value Partners and Jupiter, Ashmore reported a 4% decline in AUM in their third quarter update (their year-end is 30 June). The company, which specialises in emerging market debt, has been facing headwinds from an emerging markets sell-off in December and January, and subsequent weakening of the local market currencies against the US dollar. Emerging markets have been particularly badly affected by falling commodity prices; Russia, for example, has seen its currency weaken significantly as a result. However, more recently, markets have begun to recover, rallying sharply in the first two weeks of April.

As the Ashmore example illustrates, asset managers with a regional or sector specialisation can be particularly negatively affected by large movements in underlying markets. However, there is value in holding these companies within a diversified portfolio. We anticipate that emerging markets will again enjoy a period of outperformance, but we cannot predict when this be. As with Jupiter, however, we continue to monitor the performance of Ashmore's underlying funds closely, for signs of significant improvement or deterioration.

Fund performance (USD)

In April, equity markets performed well, and the Fund outperformed its benchmark. The Fund gained 6.4% (E share class, total return in USD), versus the MSCI World Index (the Fund's benchmark) rise of 2.4%. The MSCI World Financials Index increased by 2.7%.

Within the Fund, April's stronger performers were Value Partners, Brewin Dolphin, ARA, Ashmore and Polar Capital. Poorer performers were Coronation, NASDAQ OMX, Ameriprise, GAMCO and BlackRock.

Year-to-date, global equity markets have made solid gains, while bond markets have lagged slightly. The Fund has outperformed broad equity markets, returning 8.4% versus 4.9% for the MSCI World Index and 3.7% for the MSCI World Financials Index.

In the portfolio, the best performers year-to-date were Value Partners, Azimut, Henderson Group, Blackstone and GAM. Poorer performers were Coronation, GAMCO, River & Mercantile, Franklin Resources and Polar Capital.

The portfolio

We have rebalanced the portfolio during the first four months of 2015, but we have not made any stock switches.

Fund valuation

Valuations remain attractive in the sector, even after the good performance so far this year. The 2013, 2014 and 2015 P/E ratios for the Fund are all at a discount to the broad market, as the following table shows:

Fund PE ratios

versus the S&P 500 Index (30.04.15)

	'10	'11	'12	'13	'14	'15
Fund PE	27.1	27.4	23.0	16.7	16.3	14.4
S&P 500 PE	24.9	21.6	21.5	19.4	18.5	17.8
Premium (+)/ Discount (-)	9%	27%	7%	-14%	-12%	-19%

Source: Standard & Poor's, Guinness Asset Management. (Multiples based on S&P 500 'operating' earnings per share estimates of $83.8 for 2010, $96.4 for 2011, $96.8 for 2012, $107.3 for 2013, $113.0 for 2014 and $117.3 for 2015.)

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

May 2015

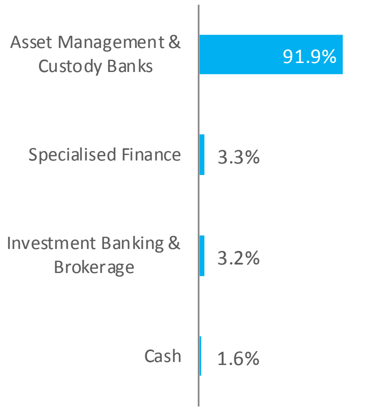
PORTFOLIO

30/04/2015

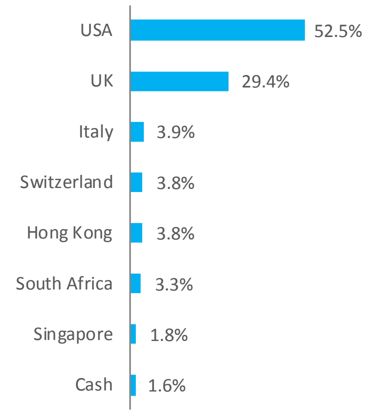
Fund top 10 holdings

Henderson Group	4.0%
Azimut Holding	3.9%
GAM Holding	3.8%
Value Partners	3.8%
AllianceBernstein	3.7%
Gamco Investors	3.5%
Jupiter Fund Management	3.5%
Och-Ziff Capital Management	3.4%
Blackstone Group	3.3%
Fortress Investment Group	3.3%
% of Fund in top 10	36.2%
Total number of stocks in Fund	30

Sector analysis



Geographic allocation



PERFORMANCE

30/04/2015

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

Guinness Global Money Managers Fund	15.75%
MSCI World Index	10.67%
MSCI World Financials Index	9.14%

Cumulative % total return (X Class, in GBP)	1 month	Year-to-date	1 year	3 years	From launch
Guinness Global Money Managers Fund	2.8	10.0	21.9	106.6	88.4
MSCI World Index	-1.1	6.3	18.0	54.5	55.2
MSCI World Financials Index	-0.8	5.0	16.4	61.5	46.0

Discrete years (X Class, in GBP)	Apr '11	Apr '12	Apr '13	Apr '14	Apr '15
Guinness Global Money Managers Fund	-	-11.6	39.2	21.7	21.9
MSCI World Index	8.5	-2.0	21.8	7.5	18.0
MSCI World Financials Index	0.1	-10.9	33.2	4.2	16.4

RISK ANALYSIS

30/04/2015

X Class, in GBP, annualised, weekly, from launch on 31.12.10, relative to the MSCI World Index	MSCI World	MSCI World Financials	Fund
Alpha	0	-3.00	1.97
Beta	1	1.16	1.25
Information ratio	0	-0.29	0.57
Maximum drawdown	-18.26	-28.87	-28.30
R squared	1	0.89	0.87
Sharpe ratio	0.58	0.36	0.69
Tracking error	0	5.83	7.33
Volatility	13.37	16.40	17.89

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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.