

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 – October 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

30.09.15

Annualised % total return from launch

Fund	9.60%
Index	7.54%
Financials Index	6.14%

	1 year	3 years	Launch
Fund	-0.8	63.4	54.6
Index	1.6	36.5	41.3
Financials Index	0.7	40.6	32.7

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.



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2015: BEST FUND OVER 3 YEARS

EQUITY SECTOR BANKS & OTHER FINANCIALS

Asset management sector

In this month's review, we review the asset management sector and our Fund performance over the third quarter of 2015, and over the year to-date.

Performance

The Global Money Managers Fund (class X, in GBP) in the three months to 30th September 2015 produced a total return of -14.0%. This compares to the MSCI World Index return of -4.7% and the MSCI World Financials Index return of -5.7%.

The performance of the Fund was slightly behind the wider asset management sector, both of them underperforming the broad equity market and global financials.

The weakest subsectors in the quarter were large cap. diversified asset managers and alternative managers. Amongst the large caps, Aberdeen (-29%) and Value Partners (-40%) suffered from the sharp falls in Asian stock markets over the summer, whilst Waddell & Reed (-26%) and Franklin Resources (-24%) reported continued net outflows from core products in their fund range. The weakest alternatives manager in the portfolio, Och-Ziff (-28%), has seen poor short-term performance from its key fund, the "Master Fund", which accounts for around 60% of its AuM.

Generally, the strongest subsectors across the money management universe were stock exchanges and smaller capitalisation asset managers. In the portfolio, Nasdaq (+10%) stood out as one of only two positive performers, the other being River & Mercantile (+6%). Nasdaq has successfully grown its four main divisions in 2015, maintaining a high proportion of revenues from recurring activities as opposed to

transaction-linked activities. The company’s high return-on-capital has allowed it to continue its programme of share buybacks and increasing its dividend, both of which have been well received by shareholders. Despite the strong performance of the stock, Nasdaq has a free cash flow yield today of 7%, providing strong support for further returns to shareholders. River & Mercantile released full year results at the end of the quarter which demonstrated that the company has grown its EPS and AuM by 12% and 22% since the prior year. R&M also announced a significant rise in dividend, up more than six-fold versus 2014.

Where does the sector’s under-performance leave valuations?

At this point last year, the current (i.e. 2014) P/E ratio for the Fund was 14.0x, a 16% discount to the S&P500 which traded on 16.5x. Today the current (i.e. 2015) P/E ratio has fallen to 11.7x, a 32% discount to the S&P500 which trades on a 2015 P/E ratio of 17.3x.

Fund P/E ratios

versus the S&P 500 Index (30.09.15)

	'10	'11	'12	'13	'14	'15
Fund P/E	20.8	21.5	17.8	13.1	12.5	11.7
S&P 500 P/E	22.9	19.9	19.8	17.9	17.0	17.3
Premium (+)/ Discount (-)	-9%	8%	-10%	-27%	-26%	-32%

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 \$115.5 for 2015.)

A current (2015) year P/E ratio of 11.7x also places the Fund at its cheapest valuation since the end of 2011.

Fund P/E (FY) ratio



Valuations in the sector this year have generally fallen at a significantly faster pace than declines in assets under management or EPS. Whilst high operational leverage in the sector implies that earnings will fall faster than assets under management in periods of market decline, current valuations indicate strong scepticism about the prospects for near-term earnings. In other words, the asset management sector is already pricing in a further decline in broad equities. Even so, those investors who share this scepticism about the broader equity market may wish to wait on the sidelines; whilst for those who think the market risk is exaggerated, the four year low in valuations in the asset management sector offers an attractive entry point.

Dividend yield

The portfolio typically trades on a higher dividend yield than the broad equity market, owing to the low capital requirements of asset management businesses and consequent high free cash flow. That said, the excess dividend yield offered by the portfolio has expanded this year, coincident with its underperformance. The current dividend yield for the portfolio is now 4.0%, which compares to the S&P 500 yield of 2.3% and MSCI World yield of 2.7% (see graph overleaf). *(Investors should note that the Fund is managed for total return and accumulates all dividends earned in the portfolio; dividend income is not paid out to investors.)*

How sustainable are the dividends being paid by the companies held in the portfolio? The average payout ratio is around 49%, so not particularly

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stretched, with just over half of companies held having a payout ratio of less than 50%, and just four companies with payout ratios of close to 100%. The payout ratio for the portfolio is a little higher than the S&P 500 (which has a payout ratio of 38%), but again this is unsurprising given that a lower proportion of earnings typically need to be retained by asset management companies versus other sectors.

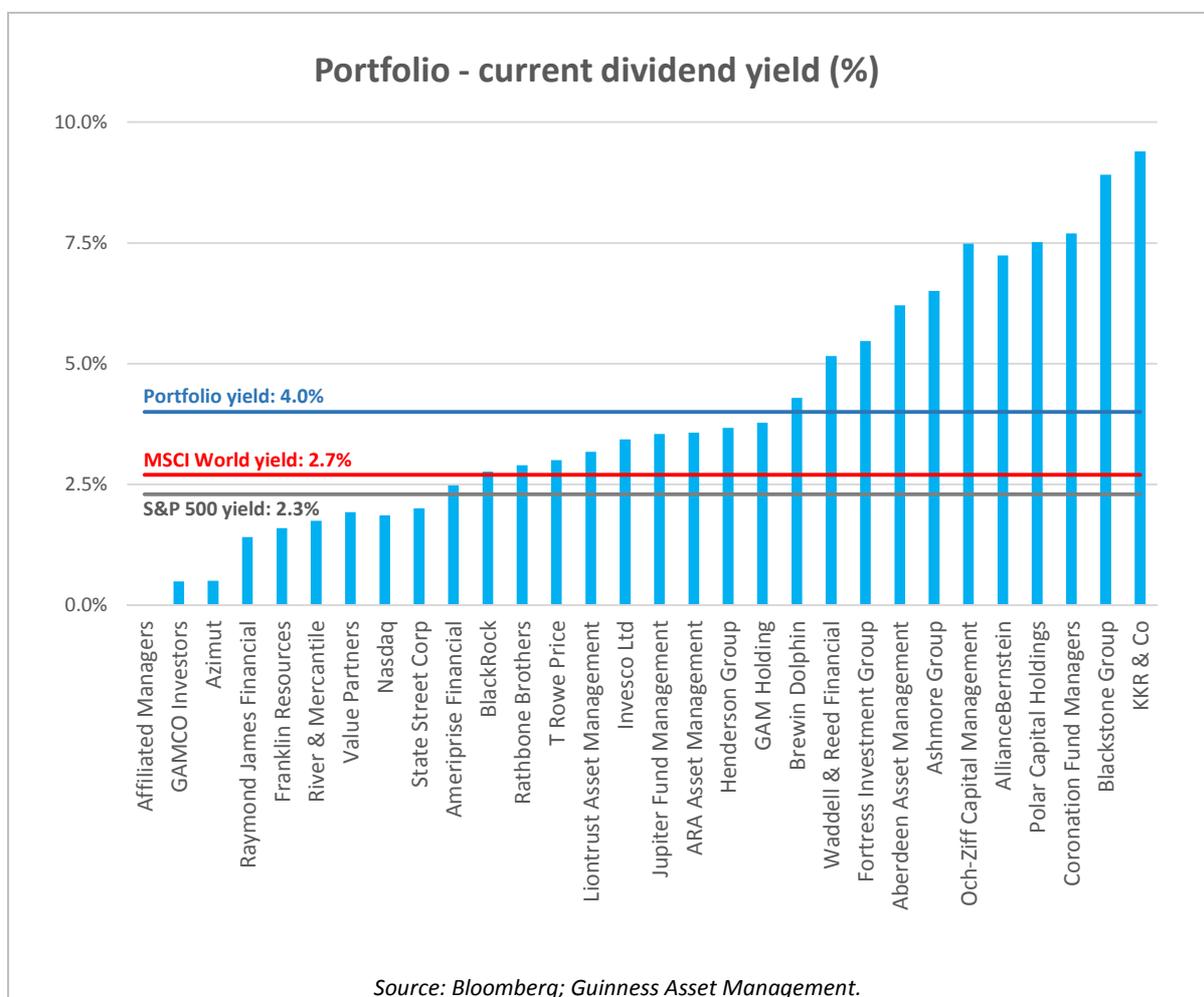
As ever, we look to identify asset management companies with strong franchises that are likely to attract assets and grow their earnings more rapidly than their peers.

Will Riley, Tim Guinness & Mark Hammonds

October 2015

The portfolio

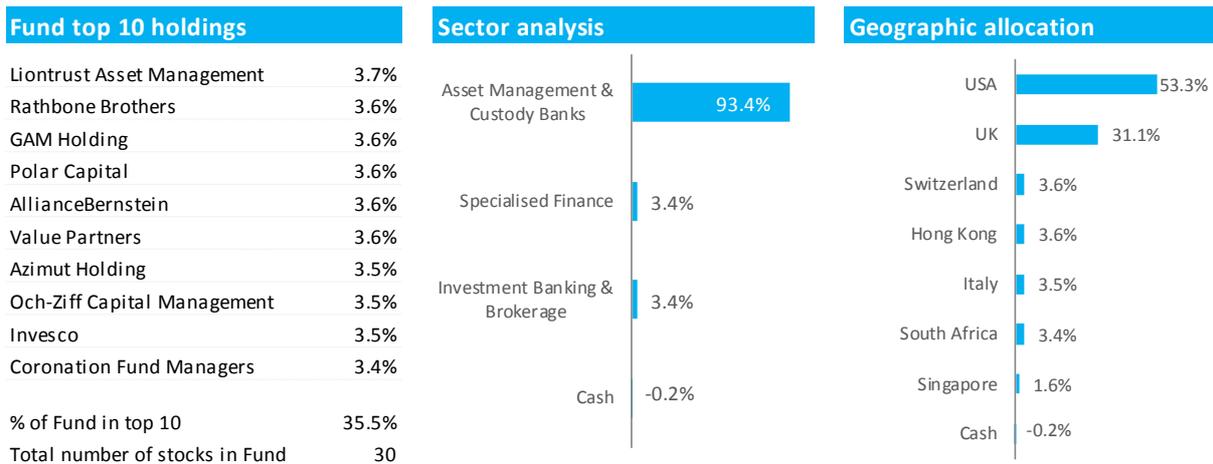
We have rebalanced the portfolio during the third quarter of 2015, but we have not made any stock switches.



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PORTFOLIO

30/09/2015



PERFORMANCE

30/09/2015

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

Guinness Global Money Managers Fund	9.60%
MSCI World Index	7.54%
MSCI World Financials Index	6.14%

Cumulative % total return (X Class, in GBP)	1 month	Year-to-date	1 year	3 years	From launch
Guinness Global Money Managers Fund	-4.7	-9.8	-0.8	63.4	54.6
MSCI World Index	-2.2	-3.3	1.6	36.5	41.3
MSCI World Financials Index	-2.5	-4.6	0.7	40.6	32.7

Discrete years (X Class, in GBP)	Sep '11	Sep '12	Sep '13	Sep '14	Sep '15
Guinness Global Money Managers Fund	-	23.5	46.3	12.6	-0.8
MSCI World Index	-3.2	17.3	19.9	12.1	1.6
MSCI World Financials Index	-16.3	20.0	27.7	9.4	0.7

RISK ANALYSIS

30/09/2015

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	-2.14	0.63
Beta	1	1.14	1.24
Information ratio	0	-0.25	0.27
Maximum drawdown	-18.26	-28.87	-28.30
R squared	1	0.89	0.87
Sharpe ratio	0.30	0.16	0.34
Tracking error	0	5.69	7.25
Volatility	13.33	16.16	17.80

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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.**

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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. 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'Île, 1204 Geneva, Switzerland.

Telephone calls may be recorded and monitored.

GUINNESS

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