GUINNESS

Global Money Managers Fund

Investing in the growth potential of asset managers

3 year anniversary

January 2014

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1 Introduction

Thank you for your interest in our Global Money Managers Fund. Now with a three year track record, we felt this was a good opportunity to reflect on the attributes of the asset management sector and its performance so far, to explain how the Fund is managed and what we think the outlook is. But first, for those of you who are new to the product, we recap on what the Fund is and why we launched it.

What is the Fund?

The Guinness Global Money Managers Fund gives investors exposure to the growth potential of companies in the asset management sector. The Fund is managed for capital growth and invests in companies engaged in asset management services, in which we include wealth managers, stock exchanges, custodian and trustee services and other specialist service providers.

The Fund is a long-only equity portfolio of around 30 equally-weighted positions. 80% of the Fund is normally invested in companies with a market capitalisation over $500 million. The Fund is managed by Will Riley and Tim Guinness.

Why did we launch it?

We believe that, over the long term, asset management companies can grow their earnings faster than equity markets in general. Successful asset management businesses can grow very rapidly, particularly in rising markets. Their risk-return characteristics are especially attractive from a shareholder's point of view, since they tend to require relatively little capital to grow compared to other industries. Assets under management can be many times the capital employed to start that business. Even average companies in the sector tend to be very high return-on-capital businesses.

Another characteristic of note is that asset management companies focusing on managing equities can, in periods of rising equity markets, enjoy a rising income without adding any new customers. Because of this they effectively provide a geared exposure to rising equity markets. To compound this, a successful asset management business can grow its business very rapidly if markets are rising and if the underlying performance of its fund range is strong. To date we have had our best successes in the Fund by identifying and investing in this type of company.

Asset management is also a growing global sector: the pool of assets managed by the industry is rising faster than underlying equity markets. We view the asset management industry as one of those special industries (like, for example, luxury goods) that may well grow at a higher rate than global GDP for multiple decades.

Of course there are plenty of risks. The reverse of the above applies in times of falling equity markets and poor underlying fund performance. But, over the longer term, the combination of the positive characteristics we describe means that overall shareholder returns could be very impressive.

As a business, we like running funds in sectors that we are interested in, knowledgeable about and enjoy. We particularly like a sector if it is one which will be very rewarding if we get it right.

We believe a fund to give a diversified exposure to money management companies can play a useful role as part of a wider portfolio of funds, particularly in times of equity market buoyancy.

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arising from them can fall as well as rise.

2 Reflections on performance

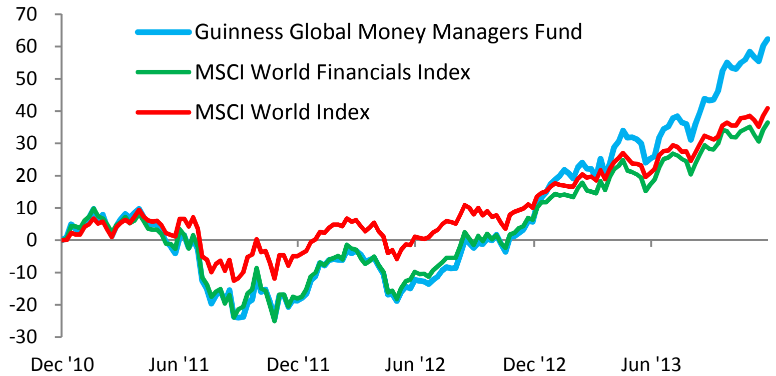
The following table and graph shows the performance of the Guinness Global Money Managers Fund versus its benchmark indices (the MSCI World Index and MSCI World Financials Index) and peers since inception (31 December 2010).

% total returns in USD	Total return				Annualised return
	2011	2012	2013	3 years	3 years
Guinness Global Money Managers	**-18.7**	**30.9**	**54.8**	**64.7**	**18.1**
MSCI World Financials	-18.1	30.1	28.0	36.4	10.9
MSCI World Index	-5.0	16.5	27.4	41.0	12.1
Offshore Financials Funds (FE)*	-17.2	22.8	23.1	25.2	7.8
IMA Global sector	-9.9	14.5	24.0	28.1	8.6
Fund position in IMA Global sector	207 /215	1 /234	3 /245	3 /215	3 /215

**Peer group of offshore financials funds as defined on Financial Express.*

Fund vs MSCI World Index and MSCI World Financials Index

Since launch (31.12.10) to 31.12.13 in USD



Source: Bloomberg LP; Guinness Asset Management

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 as well as other factors.

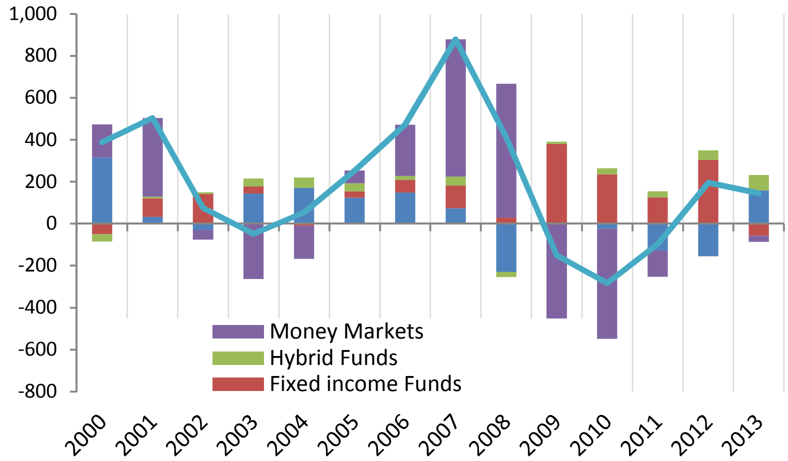
The Fund has performed since launch largely as we would have expected. In its first year it tracked general financials but underperformed the broad market (the MSCI World) as declines in equity and fixed income markets globally and poor sentiment towards financials weighed on the asset management sector. In fact, launching in 2011 was something of a baptism of fire: the weakest year for the sector and for financials relative to the broad market over the past 24 years! Since 2011, the Fund has outperformed the broad market strongly, coinciding in particular with strength in equity markets. The outperformance of the Fund over the broad market was mirrored by general financials in 2012 but less so in 2013, when particular strength in equities acted as a catalyst for asset managers to perform well.

Over the three years to December 2013, the Fund quickly shrugged off its weak first year to produce an overall return of 64.7%, compared to the MSCI World's return of 41.5%. This equates to an annualised return of 18.1%, nearly 6% ahead of the MSCI World's annualised return of 12.2%.

Generally speaking, the Fund has exhibited a higher beta than the Index since launch, which is what we would expect given the operational gearing that most of the Fund's holdings have to the market. We explain more about the longer-term performance characteristics of the sector in section 5 below.

The performance of the Fund can also be looked at in the context of net mutual fund flows over the period (we track US fund flows as the most consistent data available and think of them as a reasonable guide for global fund flows). Equities performed poorly in 2011, and correspondingly the flows out of equity funds were significant. Outflows from equity funds continued in 2012 despite better equity performance (perhaps a US-specific effect here due to the anticipation of higher capital gains tax rates). The particularly strong return of the asset management sector in 2013 coincided with positive flows into equity funds for the first time since 2007. Indeed, the flows into equity funds were the strongest since 2004. Fixed income funds saw net outflows in 2013, following two years of reasonable inflows.

Net inflows/outflows in US mutual funds 2000 - 2013

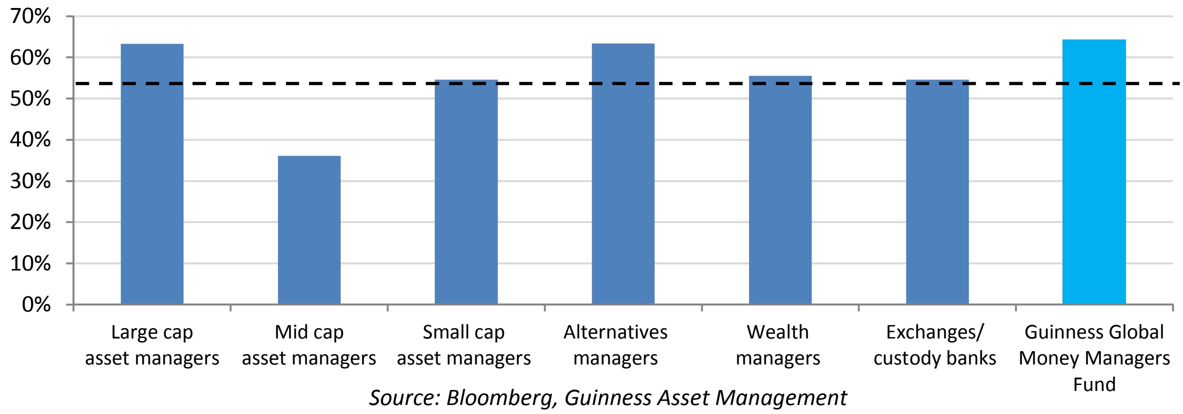


Source: ICI; Guinness Asset Management

How have the underlying sectors and stocks performed since we launched the Fund?

Looking at the asset management sector in general since the Fund launched, large cap asset managers (market capitalisation over $5bn) and alternative managers have been the best place to be invested, with the median stock in both of those subsectors up 63%.

Median stock performance (total return) by asset management subsectors (3 years to 31.12.13, in USD)



Source: Bloomberg, Guinness Asset Management

Small cap asset managers (market capitalisation over $1bn), wealth managers and stock exchanges have produced reasonable returns, with the median stock in each group returning 55%, whilst mid cap asset managers (market capitalisation $1-5bn) have been weaker, up 36%. These results tell part of the story, though in truth, the dispersion of performance within the subsectors has been quite great, particularly for mid cap asset managers.

Within the Fund, the sector that has performed best since launch has been small-cap asset managers, led by the returns of Polar Capital (+313%) and Liontrust (+217%). Large-cap ($>5bn market cap) and mid-cap managers have also performed well (Azimut +238%; Affiliated Managers Group +119%), and constitute a core part of the portfolio holdings. Hedge funds/alternative asset managers and wealth managers have performed slightly less well relatively, though on an absolute basis they have considerably outperformed the market.

Putting the size of the investee companies to one side for moment, the consistent story across the Fund's better performers is one of well-managed companies with strong underlying performance across their flagship investment strategies. In an increasingly benign environment for asset managers as the three years has

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progressed, these companies have often been able to translate their good fund performance into rapid growth in assets under management, with rising revenues, operating margins and earnings following. In the Fund, we would highlight Aberdeen Asset Management, Coronation Fund Managers, Polar Capital, Liontrust and Waddell & Reed as the best exponents of this model.

Polar Capital (3 year return: +313%)

Polar Capital has been the Fund's best performer. We bought it at the Fund's launch, since when it has produced a total return of 312.9%.

Over the past few years, Polar has scaled its business impressively, adding several new investment strategies along the way. Recent growth has been particularly impressive, with AUM expanding from $6.0bn at the end of 2012 to $13.0bn at the end of 2013. Part of the company's growth has come from rising markets but much has come from net inflows.

One of the most attractive features of the asset management industry is the ability of participants to scale their businesses using relatively small injections of capital. Polar has demonstrated this by growing operating margins along with AUM. Operating margins were 25% in 2012, up from 16% in 2011, and expected to grow further as AUM rises.

Polar's core philosophy is "to focus on investment performance over and above the gathering of assets". When this approach works, the assets tend to follow.

Waddell & Reed (3 year return: +106%)

Waddell & Reed, which the Fund has held since launch, has delivered a total return of 105.6% over the three years to end of 2013.

Though less well known in Europe, Waddell & Reed is a large, diversified, US-listed manager offering investment services to institutional clients. Despite its considerable size, the company has still grown at a significant rate, with AUM up from $80bn in 2010 to $114bn in 2013. The company's flagship fund, the Ivy Asset Strategy Fund, has been a particularly strong performer over the past three years, and has steadily attracted new assets.

As is common with many of the asset management companies in our universe, Waddell & Reed have a track record of paying steadily rising dividends; it also paid a special dividend in 2012. Looking forward, while the company's stock valuation relative to history looks slightly on the high side, we do not think it is too far stretched. The company is targeting decent rates of organic growth and operating margin improvement, and should benefit from its exposure to equity markets.

Which of the Fund's holdings have worked less well? Unsurprisingly, companies exposed to weaker sectors of the market fared poorly. Emerging market performance hampered Value Partners (-17.7%) and City of London Investment Group (-27.7%), while fixed income performance impacted negatively on AllianceBernstein (+13.2%)).

Conversely, it was the very weak performance of its own funds that hit our poorest investment in the Fund. Artio, down 80.4% over the period of ownership was, in hindsight, a striking example of a value trap. When we purchased Artio (at Fund launch), the stock looked cheap on valuation metrics (it traded on an historic 2010 P/E ratio of 8.7x at the time of purchase), but still managed to deliver very disappointing returns. In the event, the company suffered as a result of extremely poor performance from its flagship global equity strategy, as represented by the Artio Global Equity Fund. This resulted in a sharp decline in the company's assets under management, down from $53bn in 2010 to just over $14bn by the end of 2012. Company earnings fell in corresponding fashion, and in March 2013 we exited the position after the company was bid for by Aberdeen Asset Management.

What have we learned from the experience of owning Artio? Underlying investment performance is key, and it is very difficult for an asset manager to swim against the tide of prolonged poor returns. It caused us to refine our process by placing more emphasis on our analysis of asset managers' underlying funds – good performance of underlying funds is a factor that we think is often crucial to making a successful investment in the firm that manages those funds.

Overall, we are satisfied with the first three year of the Fund's life, and we think it gives a useful window into what the Fund could achieve over the long term.

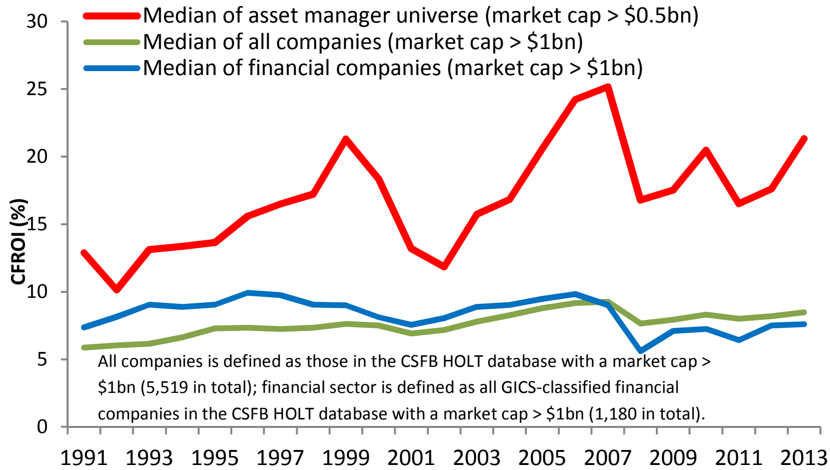
3 Key characteristics of the asset management sector

Asset managers have a number of characteristics which make them particularly interesting from a shareholder's point of view. Here we summarise some of the most important of those characteristics.

1. High returns on capital

A key attraction of the asset management industry is that successful companies can enjoy both very high rates of return on capital (not much is required) and a growth rate higher than the underlying investment returns as additional assets are raised. Overall shareholder returns can therefore be very high.

CFROI: Asset manager universe versus financial sector and all companies



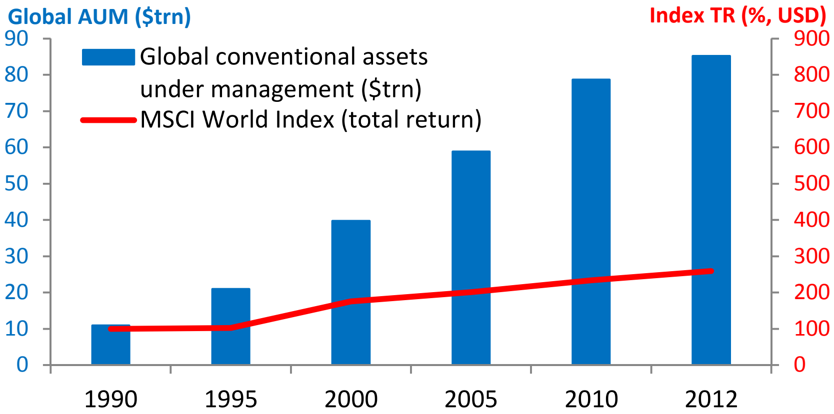
Source: CSFB HOLT; Guinness Asset Management

Our analysis shows that the median cash flow return on investment (CFROI) from 1991 – 2013 for firms in our asset managers universe over is over double that of the broad market. We calculate the median CFROI for asset managers (over $0.5bn market capitalisation) over this period at 16.7% p.a. versus 7.6% p.a. for the broad market (defined as all companies in the CSFB HOLT database).

2. Growing global sector

The value of assets under management globally has grown faster than the performance of equity markets. Since 1990, new investable companies and increasing household wealth have helped grow conventional assets under management by 700%, versus world equity returns of 150%. We expect this trend to continue. An expanding pool of assets provides an attractive environment for good asset managers to grow.

Growth of global asset under management versus market returns



Source: Bloomberg, Guinness Asset Management

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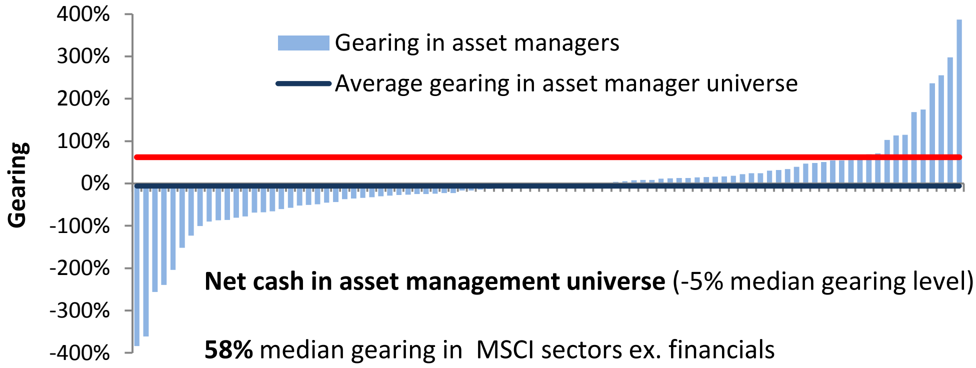
3. Financials exposure with lower balance sheet risk

For investors who are concerned about the fragility of bank balance sheets globally, we believe the asset management sector gives exposure to the attractive growth and return attributes of the financial sector with lower balance sheet risk. The average gearing of the underlying companies held in the Fund has normally been less than zero (i.e. overall net cash).

Gearing levels: asset management sector (over $0.5bn in size) versus MSCI World Index



Source: Bloomberg, Guinness Asset Management. Gearing = net debt / shareholders' equity

4. Above average dividends

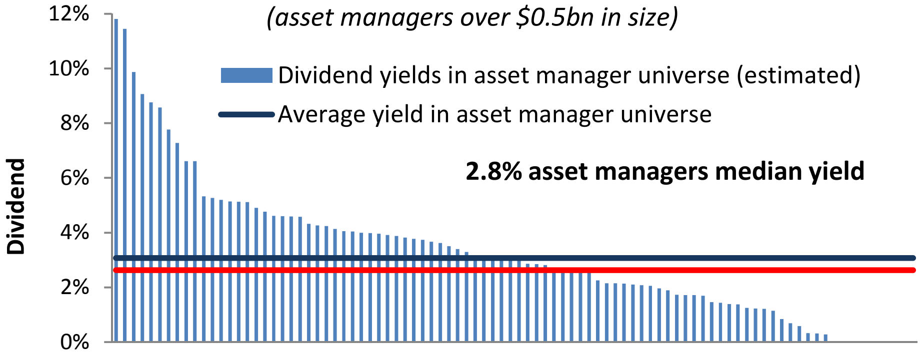
Asset management companies often deliver high free cash flow, which translates into higher dividend yields on average than the broad equity market. The gross dividend yield paid by the companies in our universe of asset managers has been consistently higher than the MSCI World Index gross yield. (You should note that Guinness Global Money Managers Fund is managed for total returns, and does not currently pay dividends).

It is important to consider not only whether a company is capable of sustaining a given dividend, but whether it may be able to increase it, particularly as the business grows in size. Looking at our portfolio, many of the companies held have achieved impressive rates of growth in their dividends over one, three and five year periods. That said, in selecting stocks for the Fund, we have been attracted both to companies that have a long history of dividend growth (e.g. Franklin; Waddell & Reed; BlackRock) and to those in turn-around situations (e.g. Liontrust; F&C) where dividends may have declined in recent years for some reason but the prospects for growing them again are now improved.

Asset managers as a group have an above average dividend yield, and many are able to grow the amount they pay out faster than the wider equity market. These attributes have contributed to the outperformance of the sector and the Fund since launch. The following chart shows the dividend yields of companies in the asset management sector versus the MSCI World Index.

Dividend yields of the asset management sector versus the MSCI World Index

(asset managers over $0.5bn in size)



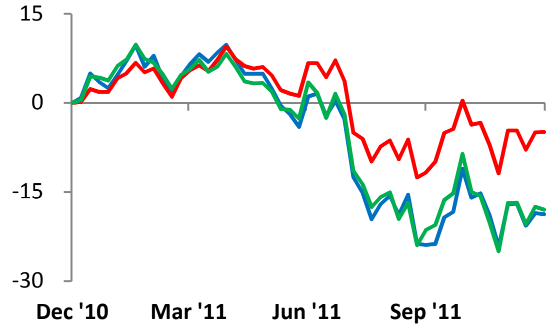
Source: Bloomberg, Guinness Asset Management

5. Higher beta

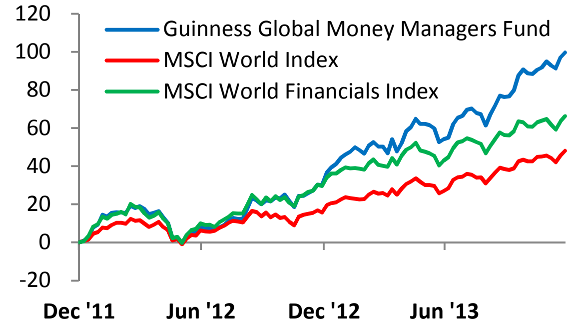
In periods of rising equity markets, asset management companies focusing on managing equities can enjoy a rising income without adding any new customers. They effectively provide a geared exposure to rising equity markets. So the sector is a means for investors to capture higher beta during periods of market strength, particularly in equities.

Fund % total return versus MSCI World Index and MSCI World Financials Index (in USD)

2011



2012-13



The Fund underperformed the market by 14% in weak market conditions in 2011.

The Fund outperformed the market by 51% in strong market conditions in 2012-13.

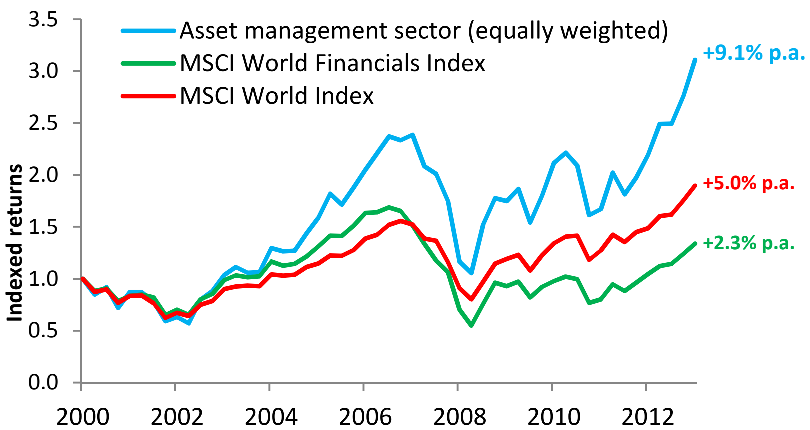
Source: Bloomberg, Guinness Asset Management. Fund A class, Bid to bid, gross return, in US dollars

4 The asset management sector – 20 years of outperformance

How have asset managers performed over the last decade?

Asset managers have performed strongly over the past decade. The following chart illustrates the performance of an equally weighted basket of 36 asset management companies (from 31.12.2000 to 31.12.2013 in USD)[1]:

Asset management sector performance 2001-2013 (in USD)



Source: Bloomberg, Guinness Asset Management

As the chart shows, the performance of asset managers comfortably beats that of both financial companies (MSCI World Financials Index, which includes banks and insurance companies as well as the asset managers)

[1] Companies selected as at end 2000. See Notes on page 16 for full detail of how the backtesting was conducted.

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and the broad market (MSCI World Index). Particularly strong performance in the 2005-07 and 2012-13 bull markets has more than compensated for the poor performance experienced during the 2008 financial crisis. The actual returns for the period shown above are as follows:

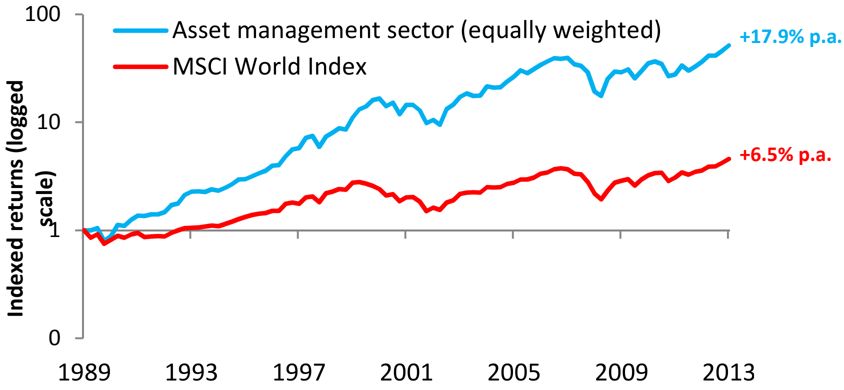
31.12.2000 – 31.12.2013 (in USD)	Asset management sector (equally weighted)	MSCI World Financials Index	MSCI World Index
Total return	210.9%	33.9%	89.6%
Annualised return	9.1%	2.3%	5.0%
Volatility (quarterly)	15.0%	12.7%	9.6%

The performance of an equally-weighted basket of asset managers is not indicative of the future performance of the Guinness Global Money Managers Fund. The value of investments and any income arising from them can fall as well as rise as a result of market and currency fluctuations.

What about the preceding decade?

Again, the performance was very good in the 1990s: asset managers vastly outpaced the broad market. The following chart shows the performance of the same group of companies from 31.12.1989 (where performance data is available) against the broad market (NB log scale):

Asset management sector performance 1990-2013 (in USD)



Source: Bloomberg, Guinness Asset Management

We acknowledge that these results since 1989 contain elements of hindsight and survivorship bias, as we are looking back at companies selected at the end of 2000. However, the results are still indicative of how the group performed in the late 1990s bull market. The actual returns for the period are as follows:

31.12.1989 – 31.12.2013 (in USD)	Asset management sector (equally weighted)	MSCI World Index
Total return	5,052.8%	356.4%
Annualised return	17.9%	6.5%
Volatility (quarterly)	13.2%	8.6%

How did asset managers perform through the 2008/09 financial crisis?

As mentioned above, asset managers experienced higher volatility than the broad market during the downturn in 2008/09. One way to consider performance during this period is to calculate the maximum drawdown suffered by the group compared with the financial sector and the broad market:

(in USD)	Asset management sector (equally weighted)	MSCI World Financials Index	MSCI World Index
Maximum drawdown	-55.8%	-67.5%	-48.4%
Drawdown period	Dec 31 2007 – Mar 31 2009	Jun 30 2007 – Mar 31 2009	Sep 30 2007 – Mar 31 2009

Asset managers experienced a maximum drawdown in 2008/09 of 55.8%, higher than the broad market (48.4%) but significantly less than the financial sector as a whole (67.5%).

However, we can also look at 'time underwater', i.e. if an investment had been made at the peak of the market in 2007, how long would it take for it to recover in value?

	Asset management sector (equally weighted)	**MSCI World Financials Index**	**MSCI World Index**
Time underwater (quarters)	21	26*	22

*(and counting)

Asset managers took 21 quarters to recover to their previous peak, slightly less than the broad market's 22 quarters, indicating that a strong rebound in the former overcame the slightly larger drawdown suffered (as illustrated in figure 1). By contrast, an investment made at the peak of the market in the MSCI World Financials Index would still be underwater.

What about other bear markets?

We can perform similar analysis for the bear market that occurred in 2001-02 following the dotcom bubble. Again, we have calculated maximum drawdown (from end of 1995 to end of 2007):

(in USD)	**Asset management sector (equally weighted)**	**MSCI World Financials Index**	**MSCI World Index**
Maximum drawdown prior to 2008	-42.9%	-34.9%	-46.2%
Drawdown period	Dec 31 2000 – Mar 31 2003	Dec 31 2000 – Sep 30 2002	Mar 31 2000 – Sep 30 2002

The drawdown for asset managers was still fairly sizeable, but this time it is slightly less than the broad market. The corresponding time underwater is as follows:

	Asset management sector (equally weighted)	**MSCI World Financials Index**	**MSCI World Index**
Time underwater (quarters)	12	13	24

Again, the asset management sector recovers quicker than the other indices.

What is the volatility like?

We can calculate beta (using quarterly return data) for the group of asset managers and the other indices over the two timeframes for which we have produced performance data, as the following table shows:

(in USD)	**Asset management sector (equally weighted)**	**MSCI World Financials Index**
Beta vs. MSCI World Index (2000-2013)	1.47	1.24
Beta vs. MSCI World Index (1990-2013)	1.35	n/a

We expect the asset managers to have a high beta, as is indeed the case over both time periods, and note that beta is higher than the corresponding value for the MSCI World Financials Index. High beta is indicative of the strong recovery by asset managers following the large drawdowns referred to above.

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Calendar year performance

The following table shows the performance for each calendar year from 1990 (total returns, in USD):

	Fund	Asset managers	MSCI World Index	Asset managers vs. broad market	MSCI World Financials Index	Asset managers vs. financial sector
1990		-11.5%	-18.7%	7.1%	n/a	n/a
1991		54.6%	16.0%	38.6%	n/a	n/a
1992		7.3%	-7.1%	14.4%	n/a	n/a
1993		55.2%	20.4%	34.8%	n/a	n/a
1994		1.7%	3.4%	-1.6%	n/a	n/a
1995		28.7%	21.4%	7.3%	n/a	n/a
1996		33.2%	14.2%	19.0%	8.4%	24.7%
1997		45.1%	16.4%	28.7%	19.5%	25.7%
1998		27.5%	25.0%	2.5%	12.9%	14.6%
1999		50.1%	25.6%	24.5%	8.8%	41.2%
2000		50.4%	-12.8%	63.2%	10.9%	39.5%
2001		-12.6%	-16.4%	3.8%	-16.4%	3.8%
2002		-27.6%	-19.5%	-8.1%	-15.8%	-11.8%
2003		63.8%	33.9%	29.9%	40.0%	23.9%
2004		24.8%	15.5%	9.3%	18.3%	6.5%
2005		22.8%	10.2%	12.7%	12.4%	10.5%
2006		28.9%	20.9%	8.1%	24.6%	4.3%
2007		16.4%	9.8%	6.7%	-7.5%	23.9%
2008		-51.2%	-40.2%	-11.0%	-53.5%	2.3%
2009		50.1%	30.9%	19.1%	32.1%	18.0%
2010		20.9%	12.5%	8.5%	5.3%	15.7%
2011	**-18.7%**	-21.0%	-4.9%	-16.1%	-18.0%	-3.0%
2012	**30.9%**	31.3%	16.7%	14.6%	30.3%	1.0%
2013	**54.8%**	41.8%	27.5%	14.3%	28.2%	13.6%

Source: Bloomberg, Guinness Asset Management

Asset managers outperformed the MSCI World Index in 20 out of 24 calendar years and the MSCI World Financials Index (which launched in 1995) in 16 out of 18 calendar years.

Conclusion

Asset managers have outperformed the broad equity market considerably since 1990. They have also outperformed since the end of 2000.

While asset managers tend to fall more in bear markets, their relatively fast recovery and strong performance in bull markets has more than compensated for this volatility.

The performance of an equally-weighted basket of asset managers is not indicative of the future performance of the Guinness Global Money Managers Fund. The value of investments and any income arising from them can fall as well as rise as a result of market and currency fluctuations.

NOTES

How did we compile these performance results?

We 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 is not a core business activity. The final list of 36 companies is as follows:

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

Source: Bloomberg, Guinness Asset Management

For each company we compiled quarterly total return data (in USD) since 1989 (where available). Using this performance data, we then calculated the overall return of a basket of the 36 companies. We used an equally weighted portfolio of stocks, and assumed that rebalancing was conducted on a quarterly basis. This series is the equally weighted asset management sector that we refer to throughout.

What is not included in the analysis?

We have not accounted for fees or transaction costs, which would lower the actual returns achieved from holding the group of companies in a fund. In particular, portfolio rebalancing (implicit in our methodology) would have incurred some transaction costs (see below). That said, we believe the performance of this basket of companies is a valid and appropriate comparison with the performance of the MSCI World Index, both of which are shown before costs.

What impact does rebalancing have on the results?

By averaging the quarterly returns of the companies in the group, we have assumed that the group is equally weighted and rebalanced quarterly. However, we can also look at the performance of the group without rebalancing. Starting with an equally weighted basket as at end 2000 and holding to the end of the period also would have produced very good total returns for the period, increasing 178.6%. This result is somewhat behind the 210.9% highlighted above, indicating that rebalancing would have had a positive impact (before transaction costs), but is not central to our results.

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arising from them can fall as well as rise.

5 Outlook for asset managers

As demonstrated above, the asset manager universe investment return of 18% p.a. over the 24 years from 1990 has been well ahead of the broad equity market. Over the same period, the US equity market (S&P 500) returned 9.4% p.a. (total return) and the capitalisation of global equity stock markets grew by 7.5% p.a., excluding dividends, from $11.5 trillion in 1989 to an estimated $65.5 trillion in 2013. The asset managers' universe return was effectively double that of equities generally, despite it being a period which contained two major stock market crashes and a banking crisis.

It was a period in which real global GDP growth and US inflation both averaged a similar 2.7% p.a., so in real terms the asset manager universe returned 14.9% p.a. versus the S&P500 at 6.5% p.a.

A key conclusion we have reached is that the factors that drove this outperformance are strong secular factors that will remain in place for a long time to come. We view the asset management industry as one of those special industries (like, for example, to luxury goods) that may well grow at a higher rate than global GDP for multiple decades.

What are the drivers that cause this strong relative growth? We believe the key factors are:

- **Growing household wealth**
  Household net financial wealth has grown and will continue to grow at a rate significantly (1.5% p.a.) above global GDP growth;
- **Redeployment of savings into bonds and equities**
  A gradual reduction of financial savings from banks deposits and their redeployment in equities and bonds (and to an extent in hedge funds and other alternatives) is occurring. Interest rates on bank deposits have declined, so increasing the proportion of household financial assets to be "managed" by asset managers; and
- **High returns on capital**
  Asset managers tend to be capital light businesses that deliver above average returns on capital. Their operating margins are high and they have a readily scalable business model.

Rising household net financial wealth

By observation, household net financial wealth has grown steadily as a ratio to GDP. The ratio has risen from 1.2x GDP for the top eight OECD countries (the "OECD 8") to 1.95x GDP over 31 years, implying a growth rate of around 1.5% p.a. more than GDP. Over the next 30 years we believe the ratio will rise to 2.5-3x GDP, increasingly supported by similar growth in the emerging world as its wealth begins to catch up and then overtake that of the OECD.

Why should the ratio of net financial wealth to GDP continue to rise? We believe this occurs principally because, as standards of living rise, saved financial wealth accumulates at a faster rate than GDP. And this in turn is because once basic needs for savings are met, then ensuring a prosperous retirement becomes a greater and greater priority.

The fundamental driver of the asset management sector – a steady rise in household financial wealth – is then affected by shorter-term drivers. One of these is the secular and cyclical bull and bear markets in financial assets. A particularly good time to own asset managers is in bull markets. And it is worth saying that one of the reasons we launched this Fund was just that: timing. When we launched the Fund at the end of 2010, we had in our minds that the range-trading equity markets we'd experienced since 2000 would, by 2016, be highly likely to be replaced by another secular bull market. By then, the Fund would have a 5 year track record and be well placed to attract assets. In the event we may have been too cautious as we may well already find ourselves on the foothills of that next secular bull market phase.

Growth in ownership of financial assets

Another driver of the sector is government policy encouraging or discouraging the ownership of financial assets. Recently we've seen ownership of financial assets grow in importance as governments realise they have to retreat from full protection of household life-cycle financial needs (for education, temporary unemployment, health to retirement etc). Households are increasingly having to rely on their own savings.

A recent OECD report noted that in all member countries (except France), the pension fund sector has been developing and pension funding is being encouraged. Policies are being implemented to facilitate wider ownership of equities and other long-term savings instruments, whether through private pension schemes, mutual funds or other tax-advantaged savings products. Examples at a macro level are reforms to increase the efficiency of stock exchanges (ranging from the "Big Bang" in London to various other reforms across many stock markets); the fostering of mutual funds in Italy and France; capital movement liberalisation; Europe-wide directives encouraging harmonisation of offering funds across the EU; and the encouragement of personal pensions (SIPPS) and ISAs in the UK.

High returns on capital

Our analysis shows that the median cash flow return on investment (CFROI) from 1991–2013 for firms in our asset managers universe over is over double that of the broad market. We calculate the median CFROI for asset managers (over $0.5bn market capitalisation) over this period at 16.7% p.a. versus 7.6% p.a. for the broad market (defined as all companies in the CSFB HOLT database).

Sector valuation

We turn now to the nearer term outlook. At 31 December 2013 the P/E ratio of our Fund was 16.9x 2013 earnings and 14.8x 2014 earnings. This sits at a slight discount to the broad market, with the S&P 500 trading on a P/E ratio of 17.1x earnings and 15.0x 2014 earnings. To us that seems fair value for the Fund in the short term and cheap in the long term: the higher growth rate in the sector ought to, if we agree with Benjamin Graham's dicta, command a P/E ratio premium. Given the strong moves in the broad market and the Fund in 2013, we believe that whether now is a good time to invest in the Fund needs to be determined by individual investors' attitudes towards equity markets generally.

For long term investors who are optimistic in the medium term but hold the view that market timing is extremely difficult there is a good case for investing now on the strength of the long term case (as delay may simply leave one on the sidelines as the sector progressively rerates upwards as equity investing sentiment and confidence returns). Alternatively, such investors could adopt an averaging approach and build up an investment over several quarters.

To summarise, we believe the outlook for strong value creation in the asset management industry over several more decades is good and there is a reasonable likelihood that investing in this industry will repay investors several fold over the long term. Even if, for example, asset managers outperform by half the rate of the last 23 years (i.e. by only 4% p.a. rather than 8% p.a.) and equities turn in a real return of 4% p.a. with inflation averaging 3% p.a., we could see a well-managed portfolio of asset manager equities growing at say 11% p.a. vs 7% p.a. over 10 years. This would give a cumulative return of 184% versus 97% for the equity market generally.

In the longer term we expect asset managers as a sector (and therefore the Fund) to outperform the broad market, due primarily to the ability of successful managers to grow their earnings more rapidly than the broad market is able.

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6 Portfolio and managers

The Fund's portfolio (31.12.13)

Stock	% of NAV	2014 P/E ratio*	Market cap. (USD m)
Large-Cap Diversified Asset Managers			
BlackRock	3.73%	17.4	53,555
Franklin Resources	3.27%	15.2	36,418
Ameriprise Financial	3.17%	14.4	22,382
Invesco Ltd	3.32%	14.7	16,118
Affiliated Managers Group	3.32%	18.9	11,463
Aberdeen Asset Management	3.53%	14.6	9,928
Raymond James Financial	3.24%	16.7	7,310
Mid-Cap Diversified Asset Managers			
Waddell & Reed Financial	3.17%	18.5	5,562
Ashmore Group	3.29%	14.4	4,700
Henderson Group	3.49%	16.2	4,245
Azimut Holding	3.35%	16.8	3,904
GAMCO Investors	3.42%	18.7	3,745
GAM Holdings	3.41%	13.2	3,366
Federated Investors	3.32%	17.2	3,012
Jupiter Fund Management	3.26%	13.9	2,918
Coronation Fund Managers	3.16%	14.0	2,666
AllianceBernstein	3.22%	12.7	1,965
Value Partners Group	1.74%	16.2	1,358
Small-Cap Diversified Asset Managers			
F&C Asset Management	3.26%	9.0	885
Polar Capital	3.26%	19.4	676
Liontrust Asset Management	3.27%	16.6	178
Hedge Fund/Private Equity/Alternatives			
Blackstone Group	3.27%	10.8	35,176
Och-Ziff Capital Management	3.32%	10.4	6,692
Fortress Investment Group	3.14%	11.1	4,187
ARA Asset Management	1.60%	17.6	1,245
Wealth Management			
Brewin Dolphin	3.27%	19.0	1,383
Rathbone Brothers	3.22%	16.3	1,236
Equity Trustees	3.31%	17.1	320
Other			
State Street Corp	3.20%	14.4	32,218
Nasdaq OMX Group	3.29%	13.3	6,670
Research Holdings			
Treasury Group	0.70%	17.5	183
Mattioli Woods	0.46%	14.5	122
City Of London Investment	0.64%	12.1	105
Charlemagne Capital	0.65%	14.5	66
Centuria Capital	0.64%	N/A	56
Cash	1.11%		
		Fund P/E: 14.8	

**Source: Bloomberg, consensus estimates*

Fund managers

Will Riley, CA, joined Guinness Asset Management in 2007 and is co-manager of the Guinness Global Money Managers Fund and the Guinness Global Energy Fund.
Prior to joining Guinness, he worked at PricewaterhouseCoopers for six years, latterly as a valuation specialist in their Valuation & Strategy Division. Will qualified as a Chartered Accountant in 2003 and has an MA in Geography from Cambridge University.

Tim Guinness, founder and CIO of Guinness Asset Management, is co-manager of the Guinness Global Money Managers Fund and the Guinness Global Energy Fund.
Tim has nearly 35 years' experience in the sector. He founded a predecessor business, Guinness Flight Global Asset Management in 1987 and was CEO or joint CEO until 1999. Investec acquired Guinness Flight in 1998. From 1999 to 2003 he was Chairman of the company as it transitioned into Investec. Tim was a founding portfolio manager of the Global Equity Fund in 1985 and began managing a Global Energy Fund in 1998. Tim has an MA in Engineering from Cambridge University and a Master's Degree in Management Science at the Sloan School M.I.T. in the USA.

Andrew Martin Smith is a special adviser to the Fund. He was Chief Executive of Hambros Fund Management when it merged with Guinness Flight in 1997. In 2000 he joined Berkshire Capital Securities, a corporate adviser to the fund industry, before joining Guinness Asset Management in 2005 as a senior adviser. He is Chairman of Parmenion Capital Management and non-executive Director of several companies including Church House Investment Management, M&G High Income and TR European Growth Trusts.

IMPORTANT INFORMATION

This report is primarily designed to inform you about the Guinness Global Money Managers Fund, including its performance. For regulatory purposes it falls within the legal definition of a financial promotion. Please therefore note the risk warnings below and the following statements: it contains facts relating to equity markets and our own interpretation. Any investment decision should take account of the subjectivity of the comments contained in the report. It is 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 content of the document should not therefore be relied upon. It should not be taken as a recommendation to buy or sell individual securities.

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 the Fund's portfolio changes daily and can be affected by changes in currencies, interest rates, general market conditions and other political, social and economic developments, as well as specific matters relating to the companies in whose securities the Fund invests. Investment in the Fund carries with it a degree of risk and investors should read the risk factors section in the prospectus before investing. Shareholders should note that all or part of the fees and expenses can be charged to the capital of the Fund, which will have the effect of lowering the capital value of your investment.

The full Fund documentation contains more complete and detailed information of risk, fees, charges and expenses that are to be borne by an investor. The documentation should be read carefully before investing. The full documentation needed to make an investment, including the Prospectus, the KIID and the Application Form are available, 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.

Documentation is also available from the website guinnessfunds.com. This document should not be distributed to Retail Clients who are resident in countries where the Fund is not registered for sale or in any other circumstances where its distribution is not authorised or is unlawful. THIS INVESTMENT IS NOT FOR SALE TO U.S. PERSONS.

The Guinness Global Money Managers 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. The Fund has been approved by the Financial Conduct Authority for sale in the UK. The Company and the Fund have been recognised in the UK by the FCA pursuant to section 264 of the FSMA. Guinness Asset Management Ltd is authorised and regulated by the Financial Conduct Authority. Telephone calls to Guinness Asset Management may be recorded.

The prospectus for Switzerland, the KIID for Switzerland, the articles of association, the annual and semi-annual reports, as well as the list of the buying and selling transactions 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, Fax: + 41 22 705 11 79, 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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Guinness Asset Management Ltd is authorised and regulated by the Financial Conduct Authority

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