Guinness Global Innovators Fund

INVESTMENT COMMENTARY - February 2016

About the Fund

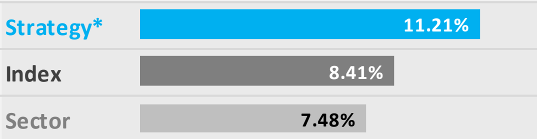
The Fund is a large cap. growth fund designed to provide exposure to companies benefiting from innovations in technology, communication, globalisation or innovative management strategies. The Fund holds a concentrated portfolio of large and medium-sized companies in any industry and in any region.

Fund size	£45m
AUM in strategy	£152m
Fund launch date	31.10.14
Strategy launch date	01.05.03
Managers	Dr. Ian Mortimer, CFA Matthew Page, CFA

Performance **31.01.15**

Cumulative %	**1 year**	**3 years**	**5 years**
Strategy*	-2.0	52.6	73.7
Index	0.5	31.8	49.7
Sector	-4.8	17.4	27.4
Position in sector	**85** /254	**7** /232	**8** /199

Annualised % total return
from strategy inception (GBP)



Strategy	Guinness Global Innovators*
Index	MSCI World Index
Sector	IA Global

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.
***Composite simulation of performance. Guinness Global Innovators Fund (UCITS) launched on 31.10.14. Performance data prior to this date is based on the actual returns of a US mutual fund managed by the same team using the same investment process as applied to the UCITS version.** Source: Financial Express, bid to bid, total return, in GBP.

Fund review

In January the Guinness Global Innovators Fund was down 3.87% (in GBP) versus the MSCI World Index down 2.31%. The Fund therefore underperformed the benchmark by 1.56%. This underperformance coincided with what was one of the worst starts to a year on record for equity markets.

In the first three weeks of the year the global benchmark MSCI World Index was down almost 7%, in sympathy with a continued fall in the oil price through the $30 mark. Compounding the selling were redemptions of liquid assets from sovereign wealth funds of oil-producing nations and increasing concerns over China – with slowing economic growth and currency fluctuations top of the agenda.

In the final week of the month markets staged a rally to finish the month off, but still well into negative territory. Once again it was the actions of central banks that sparked an increased appetite for risk assets. Having (finally) raised interest rates late in 2015 the Federal Reserve then, in many investors’ eyes, weakened their previous resolve with the release of a more dovish statement, suggesting any further rises would be data-dependent. Considering the mire markets were in at the time, this was taken to suggest that we would see less than the four rises in 2016 that were floated previously.

Mario Draghi then said the ECB would “review and possibly reconsider” monetary policy at its next meeting in March, while maintaining "there are no limits how far we are willing to deploy our policy instruments." Finally we got details from the Bank of Japan meeting that the latest effort to encourage asset purchases was to cut interest rates and move them into negative

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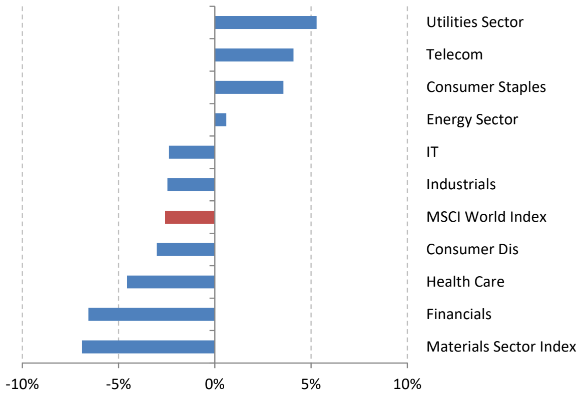
territory starting at minus 0.1 per cent, (following the lead of the ECB who initiated negative rates in June 2014, charging banks 0.3% for holding deposits).

Unsurprisingly during such market turmoil, it was the 'defensive' sectors that performed strongest (relatively). With markets uncertain about future prospects, investors tend to search for the greatest perceived safety and security. US 10 year Treasury yields fell 0.35% from 2.27% to 1.92%, while the 10 year government bonds of the UK, Germany and Japan all saw a similar decline.

In equity markets it was the utilities, telecoms, and consumer staples sectors that were most favoured in the month, with all posting positive returns greater than 3.5% and each therefore outperforming the broad market by over 6% in the month alone.

MSCI World Index: Sector performance in Jan 2016 (in GBP)



The Global Innovators Fund has historically underperformed in sharply decreasing markets, whereas it has outperformed in strongly rising markets. The underperformance this month, whilst disappointing, is therefore as we might have expected.

It is important to note, however, that the Fund is not just simply a 'high beta play' on the market. In fact at the end of December the Fund had a beta to the MSCI World Index of 1.05 (over the preceding three years).

When assessing companies for the portfolio we look for a number of characteristics, specifically a growing return-on-capital which can be quickly translated in rising economic profits or, for more mature businesses, an ability to maintain an already high return on capital. Many of the 'defensive' sectors do not have such characteristics and therefore rarely have a large weighting in the Global Innovators portfolio.

Utilities and telecoms businesses are often highly regulated, and are thus prevented from achieving above average return-on-capital. Since we started running this strategy in 2003 there has never been a utility company owned in the portfolio. Some consumer businesses can and do have excellent return-on-capital profiles, but today we own no companies in this sector either. This is because we also consider both the valuation of any company we might consider for purchase, and also why we think it can achieve good returns in the future.

In terms of 'why', we attempt to identify businesses that are doing something different, or innovative, to their peers, as we believe this provides a better ability to stave off competition and thus continue to maintain and grow economic profits. For many consumer staples businesses it's purely their brands which allows them to maintain revenues and keep their margins high. Whilst potentially very valuable, we do not consider brands themselves as an indication of innovation per se – whereas the successful creation and development of new brands might be, for example. In terms of valuation, many 'blue chip' consumer staples today are trading near or above their all-time high multiples. When compared to the potential growth these businesses may be able to achieve in the future, we see better opportunities in other parts of the market.
Our lower exposure to the 'defensive' sectors of the market can often account for a large proportion of relative performance in weak markets – as we saw this January – rather than

just simple leverage to amplify market movements.

In the month we made one change to the portfolio: we sold PTC, the application software company, and replaced it with a new holding of Siemens, the German-domiciled engineering and manufacturing company.

PTC has been a long-term and successful holding in the strategy. We initially purchased the company in late 2006 and it has provided a total return almost double that of the broad market over the period. However, as the company began its transition to a subscription-based revenue model, the strong earnings growth we have enjoyed over our holding period slowed significantly. Management expectations are for operating margins to 'trough' in 2018 as this transition develops, before expanding rapidly over subsequent years alongside good growth in revenues. We remain admirers of the company and believe management have made sensible decisions. But ultimately we felt the valuation of the business no longer gave a reasonable margin of safety to reflect the increased risks associated with the changes planned for the business. If the valuation of the company decreased significantly in the future and company results began to reflect expectations set, then we may well consider repurchasing the company for the portfolio.

Siemens is an industrial conglomerate which generates less than 30% of its revenues from the US and is diversified across multiple divisions. The company has underperformed the wider market, and its peers, for the last couple of years as it has struggled to grow its revenues, and margins have weakened alongside. More recently its exposure to the oil and gas sector has also been a drag. However, much of this pessimism was reflected in the share price. At purchase the stock traded on a PE multiple of just over 13x 2016 expected earnings and a stock price that reflected long-term free cash flow growth of less than 1%.

Management has committed to cost savings, the high dividend yield (of over 4%) is well covered, and the most recent results have begun to indicate margin improvements. Our expectation is for earnings growth in the high single digits over the longer term which, when combined with the undemanding multiple and its good history of earning a return-on-capital consistently above its cost of capital, appears good value. And especially so when compared to how the market is rewarding (and valuing) any company that can offer a reasonable growth 'story' today.

Thank you for your continued support.

Dr. Ian Mortimer & Matthew Page
Co-managers, Guinness Global Innovators Fund

February 2016

Data sources

Fund performance: *Financial Express, total return in GBP*

Stock performance: *Bloomberg*

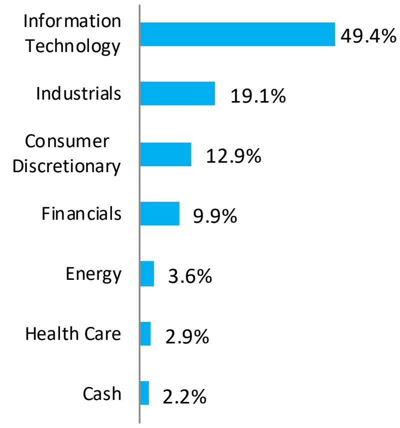
PORTFOLIO

31/01/2016

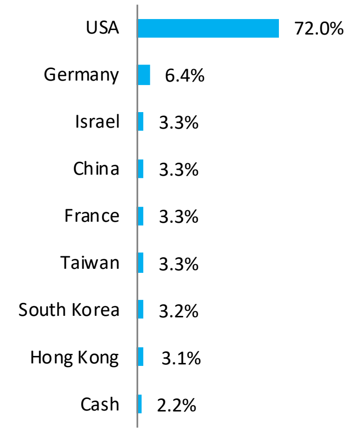
Fund top 10 holdings

Schlumberger	3.6%
Paypal	3.5%
Cognizant Tech Solutions	3.5%
Intercontinental Ex.	3.4%
Applied Materials	3.4%
H & R Block	3.4%
Alphabet	3.4%
Nvidia Corp	3.3%
Eaton	3.3%
Wisdomtree Investments	3.3%
% of Fund in top 10	34.1%
Total number of stocks in Fund	30

Sector analysis



Geographic allocation



PERFORMANCE *(composite simulation - see below)*

31/01/2016

Annualised % total return from strategy inception (GBP)

Guinness Global Innovators strategy*	11.21%
MSCI World Index	8.41%
IA Global sector average	7.48%

Discrete years % total return (GBP)	Jan '12	Jan '13	Jan '14	Jan '15	Jan '16
Guinness Global Innovators strategy*	-3.3	17.7	29.0	20.7	-2.0
MSCI World Index	-1.5	15.3	12.0	17.1	0.5
IA Global sector average	-4.1	13.1	9.5	12.6	-4.8

Cumulative % total return (GBP)	1 month	Year-to-date	1 year	3 years	5 years
Guinness Global Innovators strategy*	-3.9	-3.9	-2.0	52.6	73.7
MSCI World Index	-2.3	-2.3	0.5	31.8	49.7
IA Global sector average	-5.4	-5.4	-4.8	17.4	27.4

RISK ANALYSIS

31/01/2016

Annualised, weekly, 5 years, in GBP	Index	Sector	Strategy*
Alpha	0	-1.57	2.21
Beta	1	0.81	1.12
Information ratio	0	-0.50	0.46
Maximum drawdown	-18.26	-17.61	-25.41
R squared	1	0.80	0.87
Sharpe ratio	0.33	0.10	0.47
Tracking error	0	6.14	6.08
Volatility	13.70	12.36	16.39

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Source: Financial Express, bid to bid, total return, in GBP.

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 Guinness Global Innovators Fund. It may provide information about the Fund's portfolio, including recent activity and performance. It contains facts relating to the equity 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 Innovators 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. 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'Ile, 1204 Geneva, Switzerland.

Telephone calls may be recorded and monitored.