

Guinness Global Innovators Fund

INVESTMENT COMMENTARY - June 2015

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	£34m
AUM in strategy	£174m
Fund launch date	31.10.14
Strategy launch date	01.05.03

Managers Dr. Ian Mortimer, CFA
Matthew Page, CFA

Performance 31.05.15

Cumulative %	1 year	3 years	5 years
Strategy*	19.0	92.3	108.0
Index	16.2	61.9	74.2
Sector	14.1	53.1	58.4
Position in sector	49 /262	7 /236	7 /206

Annualised % total return from strategy inception (GBP)

Strategy*	12.50%
Index	9.32%
Sector	8.89%

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

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*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.

Monthly update

The Global Innovators Fund produced a total return in May of 1.91%, versus the MSCI World Index return of 0.84%. The Fund therefore outperformed the benchmark by 1.07%.

The global health care sector had another strong month, with our only position in the sector, Gilead, being the best performing holding in the portfolio. We also saw strong performance from some of our US IT names: PTC, Intel and eBay.

Developed markets outperformed emerging markets, while the US outperformed Europe, coinciding with dollar strength against most currencies.

With concerns about deflation in the Eurozone abating, we saw bonds sell off over the month, along with underperformance from bond-like high dividend-yielding equity sectors to which we have very little exposure: Energy, MLPs, Telecoms, REITS and Materials.

With regard to our portfolio, one of the most interesting announcements in May was Danaher's acquisition of Pall. Danaher is a company we have held in our Global Innovators strategy since October 2010.

The company is an industrial conglomerate that most people have never heard of as it is not a brand per se. Danaher as we know it today really took form in the late 1980s when the company acquired Jacob's Vehicle Systems, with the aim of applying the principles of Kaizen, or continuous improvement, to the company's inefficient process for manufacturing brakes for trucks.

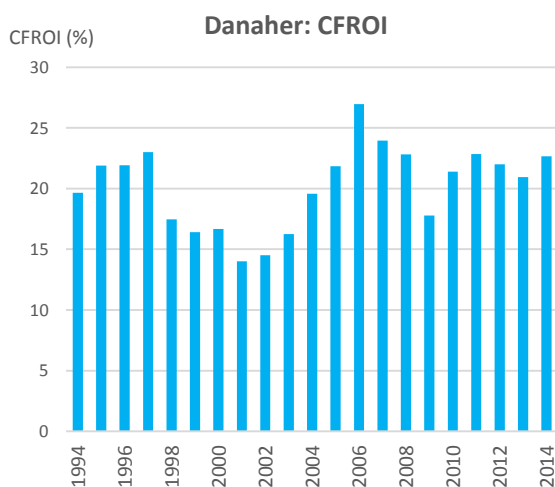
What started out as a focus on identifying technological and process innovations to improve manufacturing throughput and

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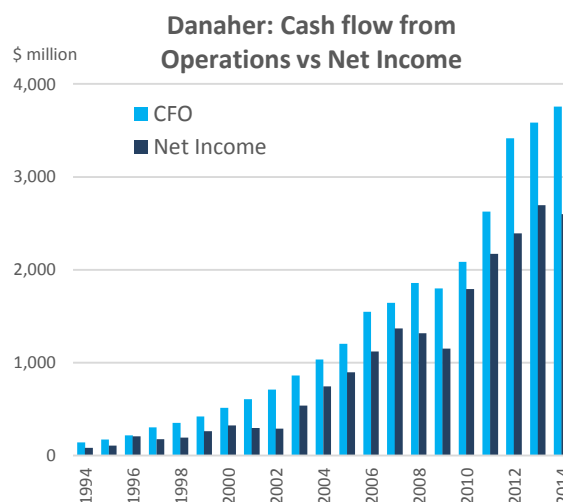
efficiency, has evolved to form an effective corporate growth strategy. Danaher calls this corporate growth strategy the Danaher Business System (DBS), which, for a piece of corporate-speak, is admirably simple and direct.

Whilst the Danaher Business System is in part a disciplined process to grow organically existing business lines, it also encompasses the discipline at the heart of their acquisition strategy. Good acquisition discipline has been a key part of Danaher's success.

Indeed, what initially attracted us to Danaher was the long history of successful execution of this growth strategy as manifested in its return on capital. The company has consistently generated a high return on capital for the last 20 years, with recessionary and low-growth periods having had only a modest effect on the underlying business.



With the exception of 2009 the company has grown its cash flow every year for the last 20 years. The company has also been very effective at converting earnings into cash, with cash flow being greater than earnings for each of the last 20 years. Given the company has been highly acquisitive this is particularly impressive.

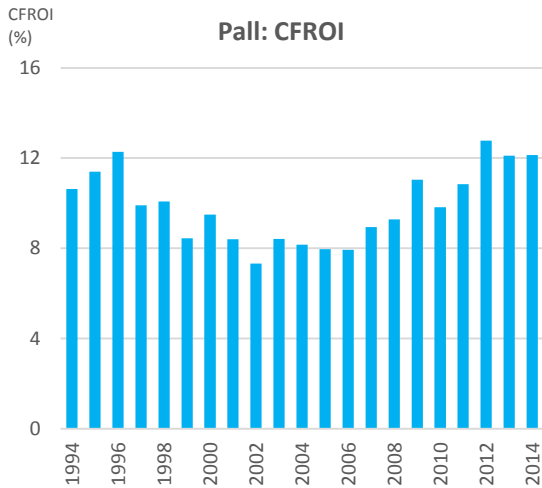


Generally speaking Danaher's criteria for potential acquisitions are companies with high return on capital, with a niche product/service, that have a 5%+ annual growth rate and a market of at least \$1 billion of sales. Management also need to believe they could improve the margins of the business.

The company has generally made two kinds of acquisitions. First, larger acquisitions that have given them a foothold in a new industry, and second, smaller bolt-on acquisitions into existing segments. The Pall acquisition sits firmly in the first category, and is in fact the largest acquisition in Danaher's history at nearly \$14 billion.

Pall appears to fit Danaher's acquisition criteria well. The company is a specialist in filtration, separation and purification technologies which has high barriers to entry. Danaher believe Pall's offerings have an addressable market of around \$20 billion. 75% of the company's revenues are recurring in the form of consumables and services and are fairly evenly balanced between North America, Europe and Asia-Pacific. Pall's return on capital has improved over the last five years but is somewhat lower than Danaher's. Danaher's management believe there are around \$300 million of synergies available by reducing cost, which combined with greater opportunity for revenue growth should all help to drive higher return on capital for Pall within the Danaher business.

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The part of the company that Danaher’s management are most excited about is the BioPharma business, which they believe will grow well in excess of 5% per year and is on a secular rather than cyclical growth path. Innovation in the pharmaceutical industry is shifting away from developing drugs that are essentially chemical compounds towards living biologic drugs. Pall’s key edge is that they provide the technology that maintains the high levels of purity required to produce biologic drugs that traditional pharma did not require.

However, the valuation that Danaher is paying for Pall does not look particularly cheap, which does give us pause for thought. Danaher is paying 30x expected earnings for 2016. Management feel comfortable with this given the growth trajectory of the BioPharma business, and admit that this acquisition will make a significant impact to earnings in the three to five year time frame rather than in the near term. Given Danaher’s consistent track record of successfully integrating smaller innovative businesses and maintaining high return on capital, we feel inclined to give them the benefit of the doubt.

Danaher is a good example of a company that isn’t trying primarily to disrupt its way to success through the invention of new products. It’s innovative in the way that it has developed a system of being able consistently to identify profitable low-volatility growth opportunities in new and growing markets, and convert that into cash. Successful inventions that turn into disruptive technologies or products are great, but most inventions fail. Innovative companies that are good investments is what we seek, and sometimes that means looking for more subtle kinds of innovation.

“Invention is the conversion of cash into ideas. Innovation is the conversion of ideas into cash.”

That’s certainly Danaher’s approach and long may it continue.

Thank you for your continued support.

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

June 2015

Danaher & Pall data sourced from Credit Suisse Holt & Bloomberg

Introductory offer share class

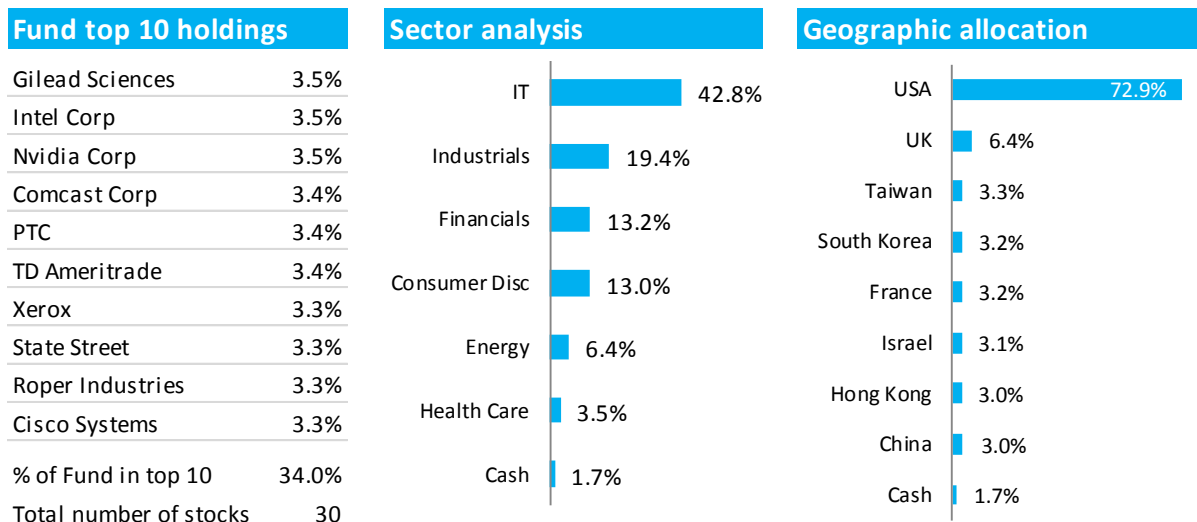
The 0.25% AMC introductory offer share class remains open for this Fund. Having raised £34 million so far there is an additional £16 million available in the share class to early investors in the Fund. Our Guinness Global Equity Income Fund has now passed £100 million, and the 0.25% offer share class for that Fund closed at the end of April 2015.

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Guinness Global Innovators Fund

PORTFOLIO

31/05/2015



PERFORMANCE

31/05/2015

Annualised % total return from strategy inception (GBP)

Guinness Global Innovators strategy*	12.50%
MSCI World Index	9.32%
IA Global sector average	8.89%

Discrete years % total return (GBP)

	May '11	May '12	May '13	May '14	May '15
Guinness Global Innovators strategy*	9.6	-1.4	36.8	18.2	19.0
MSCI World Index	13.1	-4.8	29.7	7.4	16.2
IA Global sector average	12.9	-8.4	27.8	5.0	14.1

Cumulative % total return (GBP)

	1 month	Year- to-date	1 year	3 years	5 years
Guinness Global Innovators strategy*	1.9	5.4	19.0	92.3	108.0
MSCI World Index	1.1	7.4	16.2	61.9	74.2
IA Global sector average	1.4	8.4	14.1	53.1	58.4

RISK ANALYSIS

31/05/2015

Annualised, weekly, 5 years, in GBP	Index	Sector	Strategy*
Alpha	0	-0.17	3.44
Beta	1	0.82	1.09
Information ratio	0	-0.37	0.66
Maximum drawdown	-18.26	-17.61	-25.41
R squared	1	0.80	0.85
Sharpe ratio	0.64	0.49	0.83
Tracking error	0	6.13	6.46
Volatility	13.62	12.51	16.20

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

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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. 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'Île, 1204 Geneva, Switzerland.

Telephone calls may be recorded and monitored.

GUINNESS

ASSET MANAGEMENT LTD

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