Guinness Global Innovators Fund

INVESTMENT COMMENTARY - April 2016

About the Fund

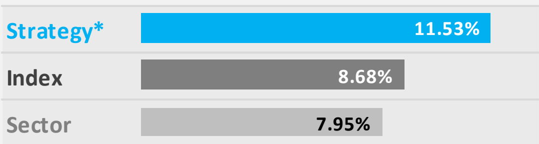
The Fund is a large cap. growth fund designed to provide exposure to companies benefiting from innovations in technology, communication, globalisation or innovative management strategies. The Fund holds a concentrated portfolio of large and medium-sized companies in any industry and in any region.

Fund size	£51m
AUM in strategy	£163m
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	46.9	84.2
Index	-0.3	28.8	52.9
Sector	-3.4	19.3	33.8
Position in sector	**102** /248	**8** /226	**7** /192

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 the first quarter of 2016 the Guinness Global Innovators Fund produced a total return of 1.56% (in GBP) vs the MSCI World Index 2.17%. The Fund therefore underperformed the index by 0.62% over the first quarter.

It was a particularly volatile quarter for global equities which ultimately ended up rewarding defensive sectors to which we had little exposure in the portfolio. The Utilities and Telcos Sectors led the way while Financials lagged. We saw particularly strong performance from our Industrials holdings in Eaton and Schneider Electric as we saw early signs of improving industrial production and the oil price bounced from its lows. Our IT exposure was also a positive contributor to performance with our holdings in semiconductors leading the group.

We saw a significant decline in sovereign bond yields with the yield on the 10 Year US treasury declining by 50bps to 1.77% as the Fed slowed their projected rise in interest rates and further stimulus was discussed in Europe. The USD weakened against most currencies with one exception being Sterling.

Economic data coming out of the US was generally positive with core inflation rising closer to the Fed's 2% target and US unemployment continuing its decline to go below 5%. However, corporate earnings growth expectations have declined quite rapidly for 2016.

It was also interesting to note the change in relative performance of Growth vs Value over the quarter. In a world where growth is in short supply companies that can grow revenues rapidly were well rewarded through 2015 with little regard to their market valuation. Value outperformed Growth by 0.9% over the quarter which is a modest but significant reversal in the trend we have observed over the prior 18 months. It is a particularly stark trend in the IT sector which we discussed in some detail in our March update. However, it is not just limited to the IT sector. We have also seen declines in the Biotech sector with the NASDAQ Biotech Index down 22.9% (USD) over the quarter.

Ever since we have been managing this portfolio we have been consistently cautious about companies that trade on the most expensive multiples. This time last year our monthly update was titled "Would you pay $180 for a burger?" It was a discussion of the extreme valuations that can occur in stocks where there is a very strong narrative that one might describe as hype. We looked at the valuation of restaurant chain Shake Shack.

"Restaurants that have scale can be extremely cash-generative businesses. Working capital is often negative and therefore a source of funding to grow the business. This is due to the purchasing power they maintain with their suppliers and the fact their customers pay them immediately. These highly cash-generative businesses could command a premium valuation if you believe that this cash generation is sustainable.

However, the valuation the market is willing to pay for Shake Shack is extremely high. The market capitalisation at the end of March was $1.8 billion. Over the last three years the company has generated an operating income that has averaged less than $5 million, and the consensus of seven Wall Street analysts is that it will not be higher than this in 2015 or 2016. If we are generous and assume that the company's operating profit is equal to their net income (i.e. they don't pay any tax and there are no other exceptional items), this implies a current and forward looking P/E multiple of at least 360x.

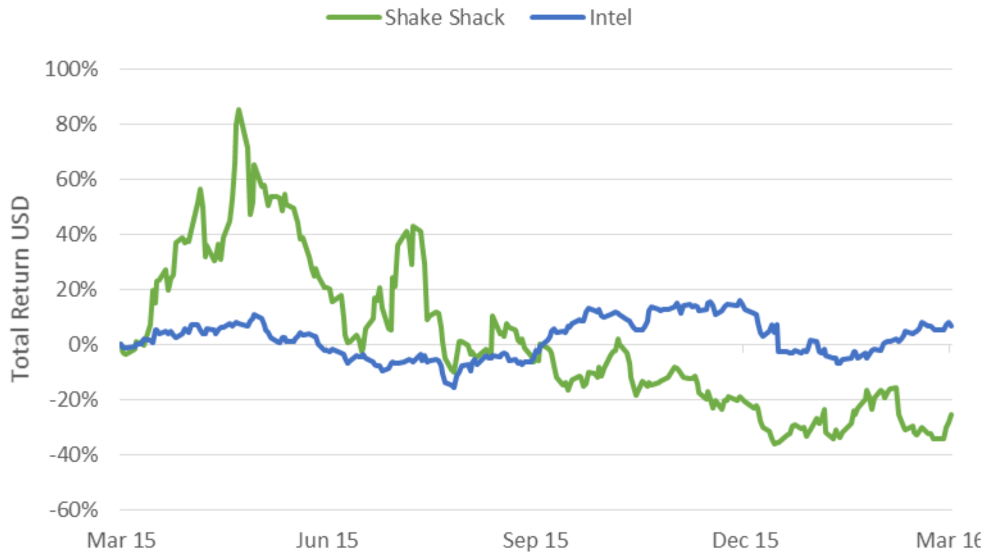
To bring this valuation alive an alternative way to think about it is to consider the share price per burger sold. The company generated revenue of nearly $120 million last year. If we assume that two-thirds of their revenue came from burgers and on average they cost $8 each, then that suggests they sold 10 million burgers in 2014. With a market cap of $1.8 billion that implied the market is willing to pay $180 per burger sold in 2014.

The idea of paying $180 per burger sold for Shake Shack shares makes our stomachs turn.

Clearly the market is not looking backwards but is licking its lips about the future. However, to get anything close to considering the current share price as reasonable, the growth assumptions have to be heroic, and would need to be executed perfectly. There is no doubt in our minds that sentiment towards this company is excessively positive.

We prefer cash multiples to burger multiples, and one of our stocks that performed worst last quarter was that perpetual innovator Intel, which generated $20 billion of cash last year and you can buy for 7.5x cashflow."

For a couple of months after we wrote this piece Shake Shack's share price continued to soar. Twelve months on, however, Shake Shack's share price is down 25%, while Intel is up 7% and the MSCI World Index is down 2.8%.



Source: Bloomberg

Despite Shake Shack growing their revenues 62% in 2015 to $190m, the company is not making a profit and instead lost $9 million.

Amazon led the way in the growth model of "Get big fast". Tumblr, YouTube, and Whatsapp also spring to mind as businesses that sought growth first and looked for viable business models further down the line. The companies that are successful in this approach tend to be the exceptions, rather than the rule, although they tend to be very well-known. It is tempting to extrapolate from the fact that these companies "got big fast" by laying down a strategy that companies should follow in order to become a valuable and successful company.

There are numerous companies that have attempted to grow too quickly and have not been successful – perhaps a company that has been on an aggressive buying spree, maybe over-paying for companies or not managing to integrate these new businesses. Growth can often be very capital intensive; not just in terms of spending on plant, property and equipment, but also the requirement for working capital can be significant for a growing business. We are not interested in identifying companies that are growing for growth's sake. We want to find businesses that can grow profitably, at a manageable rate that translates into positive cashflow. These companies are often not as dramatic or eye-catching but in our view make for a more attractive portfolio.

With this in mind we made one change to the portfolio in the quarter, selling our holding in PTC and replacing it with Siemens.

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 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 company. If its valuation decreases significantly in the future and company results begin 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 the business's good history of earning a return-on-capital consistently above its cost of capital, appears to be good value – especially so when compared to how the market is rewarding (and valuing) any company that can offer a reasonable growth 'story' today.

The overall effect on the portfolio was to reduce our exposure to the IT Sector and the US and increase our exposure to Europe and the Industrial sector.

Thank you for your continued support.

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

April 2016

Data sources

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

Stock performance: *Bloomberg*

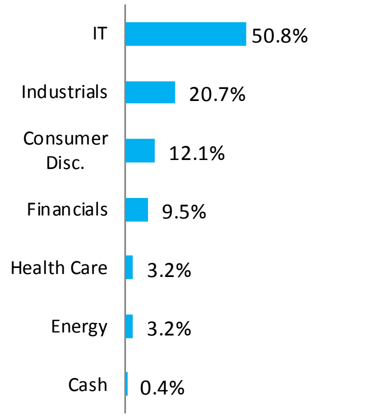
PORTFOLIO

31/03/2016

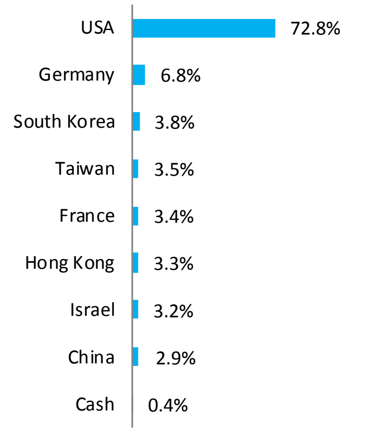
Fund top 10 holdings

Verifone Systems	3.8%
Samsung Electronics GDR	3.8%
Eaton	3.6%
Applied Materials	3.5%
Siemens	3.5%
Nvidia Corp	3.5%
Taiwan Semiconductor ADS	3.5%
Oracle Corp	3.5%
Cognizant Tech Solutions	3.5%
Intel Corp	3.5%
% of Fund in top 10	35.6%
Total number of stocks in Fund	30

Sector analysis



Geographic allocation



PERFORMANCE *(composite simulation - see below)*

31/03/2016

Annualised % total return from strategy inception (GBP)

Guinness Global Innovators strategy*	11.53%
MSCI World Index	8.68%
IA Global sector average	7.95%

Discrete years % total return (GBP)	Mar '12	Mar '13	Mar '14	Mar '15	Mar '16
Guinness Global Innovators strategy*	4.7	19.8	21.5	23.4	-2.0
MSCI World Index	0.9	17.7	8.5	19.1	-0.3
IA Global sector average	-2.2	14.6	7.1	15.3	-3.4

Cumulative % total return (GBP)	1 month	Year-to-date	1 year	3 years	5 years
Guinness Global Innovators strategy*	2.7	1.6	-2.0	46.9	84.2
MSCI World Index	3.5	2.2	-0.3	28.8	52.9
IA Global sector average	3.2	1.2	-3.4	19.3	33.8

RISK ANALYSIS

31/03/2016

Annualised, weekly, 5 years, in GBP	Index	Sector	Strategy*
Alpha	0	-1.02	3.10
Beta	1	0.81	1.12
Information ratio	0	-0.41	0.63
Maximum drawdown	-18.26	-17.61	-22.64
R squared	1	0.79	0.88
Sharpe ratio	0.38	0.19	0.56
Tracking error	0	6.41	6.05
Volatility	13.98	12.73	16.67

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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.

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