Guinness Global Innovators Fund

INVESTMENT COMMENTARY - April 2015

About the Fund

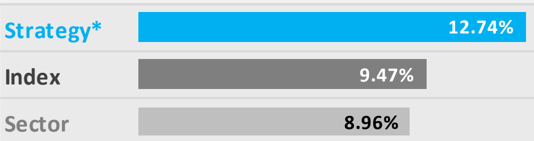
The Fund is a large cap. growth fund designed to provide exposure to companies benefiting from innovations in technology, communication, globalisation or innovative management strategies. The Fund holds a concentrated portfolio of large and medium-sized companies in any industry and in any region.

Fund size	£31m
AUM in strategy	£171m
Fund launch date	31.10.14
Strategy launch date	01.05.03
Managers	Dr. Ian Mortimer, CFA Matthew Page, CFA

Performance **31.03.15**

Cumulative %	1 year	3 years	5 years
Strategy*	23.4	79.4	102.5
Index	19.1	52.0	64.6
Sector	15.3	41.5	49.1
Position in sector	**21** /263	**6** /238	**6** /203

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.

Monthly update

In March the Guinness Global Innovators Fund produced a total return of 1.32% (GBP). Over the first quarter the Fund was up 5.89%. This compares to the MSCI World Index return of 7.57%. The Fund therefore underperformed the benchmark by 1.68%.

The last time our Global Innovators strategy underperformed its benchmark over a quarter was in Q3 of 2012. Until the first quarter of this year we have had nine consecutive quarters of outperformance, so arguably we were overdue a quarter where we underperformed.

Our positions in the Industrial sector were a positive contributor to performance, with Boeing and Roper performing particularly well. Our positions in the IT sector were a mixed bag, with our Asian names in Lenovo, Samsung Electronics and Taiwan Semiconductor Manufacturing all performing well, while our US names such as Intel and Applied Materials underperformed. We had no stock specific issues.

What was noticeable over the quarter was the divergence between the MSCI World Growth and MSCI World Value indices. The market chased high growth companies over the quarter, irrespective of valuation, with the Biotech sector continuing to run higher. Whilst we look to invest in innovative growth companies, our value bias has generally steered us away from the Biotech sector – with the exception of our holding in Gilead.

We are not necessarily looking to invest in the most innovative companies with the most exciting story, or those that might be the most disruptive. We are looking for the most attractive investments. We believe that

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innovative companies that are purchased at good valuations will provide better returns than the most innovative companies at any valuation.

Innovative companies can be an extremely exciting group of companies to watch. We can all think of innovative companies that have grown from an idea or invention to become a successful global brand. If we try a bit harder we can probably also remember quite a few companies which were surrounded with great optimism and excitement but that eventually flopped.

However, it's the successful companies we tend to remember. The history that surrounds some of these companies has in some cases become almost mythical.

We all love the story of a company being started by a leftfield inventor tinkering in his garage. We remember the story of Apple not as that of two former Atari and Hewlett-Packard employees launching a product, but two likeable mavericks inventing a dream.

The human preference for this kind of creation story has meant that some great companies like Google have perpetuated a "garage" creation story. In reality the founders of Google began working on their search engine in 1996 while at Stanford. Having secured investment they then moved into a garage in 1998 for just a few months. In 2006 Google bought the garage to secure this creation story!

Most entrepreneurs are smart, experienced people, with smart ideas, who surround themselves with more smart people. Those that are going to be successful will also need a bit of luck.

A list of recent and upcoming IPOs can be a good source from which we can identify innovative companies. Not every company that has recently become publicly traded is innovative, of course, but some of them will be. Some of these companies will be seeking a public listing in order to raise the necessary capital to invest, to further develop their innovative product, service or business model. It can make sense for a company to go public if they have made a major breakthrough and require capital to scale up their business.

We should also not forget there are other reasons why a company may want to list publicly, most obviously if it is motivated by private equity investors looking to exit their investment in the company.

The IPO often coincides with when an innovative company is at its most hyped-up, and therefore only available at a lofty valuation. PR campaigns are stepped up and growth expectations can rise to levels which are statistically unlikely ever to be met, and unlikely to make you a reasonable return if you do invest.

The IPO of Shake Shack in January this year is a case in point. The company describes itself as "a modern day 'roadside' burger stand". It has the restaurant chain equivalent of the tech company garage origin story in the form of a "street food" stand in Madison Square Park. However, the reality is the chain was founded by serial restaurant entrepreneur Danny Meyer, CEO of Union Square Hospitality Group (USHG).

Its innovation manifests itself in the company's business model, which allows them to charge a premium price for a low cost product, tapping into the "fast casual" restaurant trend. The company is well established in the US and is now investing to expand globally to monetise the successful formula they have devised.

There are two main reasons why we would not invest in this company today. One reason is structural and the other is temporal.

First, restaurant chains are somewhat dependent on fashion and trends. The odds of creating a restaurant chain that can maintain its competitive advantage over multiple cycles is low. Shake Shack may beat the odds, but on the other hand how can the brand continue to maintain its supposed scarcity premium and expand rapidly.

The second reason is the valuation. 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 7.5 x cashflow.

Even when investing in innovative growth companies it is worth remembering the sage words of Benjamin Graham:

"The risk of paying too high a price for good quality stocks – while a real one – is not the chief hazard… Observation over many years has taught us that the chief losses to investors come from the purchase of low quality securities at times of favourable business conditions." Benjamin Graham

Thank you for your continued support.

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

March 2015

Introductory offer share class

The 0.25% AMC introductory offer share class remains open for this Fund. Having raised £30 million so far there is an additional £20 million available in the share class to early investors in the Fund. Our Guinness Global Equity Income Fund has now reached £100 million, and the 0.25% offer share class for that Fund will close at the end of April 2015.

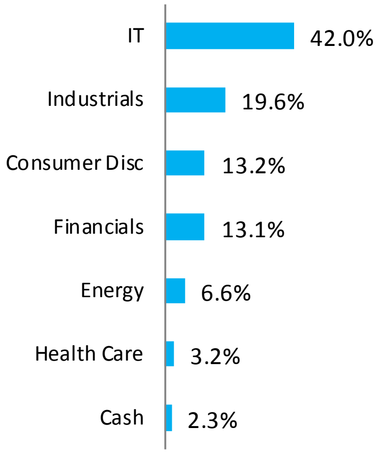
PORTFOLIO

31/03/2015

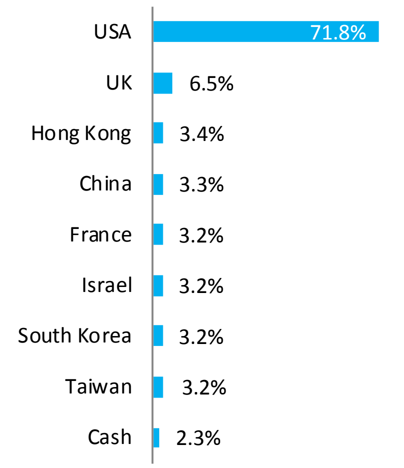
Fund top 10 holdings

Gannett	3.4%
Li & Fung	3.4%
Schlumberger	3.4%
PTC	3.3%
Roper Industries Inc	3.3%
Intel Corp	3.3%
TD Ameritrade	3.3%
Qualcomm	3.3%
Intercontinental Ex.	3.3%
Lenovo	3.3%
% of Fund in top 10	33.4%
Total number of stocks	30

Sector analysis



Geographic allocation



PERFORMANCE

31/03/2015

Annualised % total return from strategy inception (GBP)

Guinness Global Innovators strategy*	12.74%
MSCI World Index	9.47%
IA Global sector average	8.96%

Discrete years % total return (GBP)	Mar '11	Mar '12	Mar '13	Mar '14	Mar '15
Guinness Global Innovators strategy*	7.8	4.7	19.8	21.5	23.4
MSCI World Index	7.4	0.9	17.7	8.5	19.1
IA Global sector average	7.7	-2.2	14.6	7.1	15.3

Cumulative % total return (GBP)	1 month	Year-to-date	1 year	3 years	5 years
Guinness Global Innovators strategy*	1.3	5.9	23.4	79.4	102.5
MSCI World Index	2.5	7.5	19.1	52.0	64.6
IA Global sector average	2.9	7.7	15.3	41.5	49.1

RISK ANALYSIS

31/03/2015

Annualised, weekly, 5 years, in GBP	Index	Sector	Strategy*
Alpha	0	-0.33	3.78
Beta	1	0.83	1.09
Information ratio	0	-0.33	0.65
Maximum drawdown	-18.26	-17.61	-25.41
R squared	1	0.79	0.84
Sharpe ratio	0.50	0.36	0.71
Tracking error	0	6.28	6.64
Volatility	13.85	12.82	16.40

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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. 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'Ile, 1204 Geneva, Switzerland.

Telephone calls may be recorded and monitored.