



Guinness Alternative Energy Fund

A pureplay approach to a long-term investment theme

GUINNESS

ASSET MANAGEMENT LTD

www.guinnessfunds.com



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Guinness Alternative Energy Fund

Our successful experience of investing in conventional energy since 1998 has directly driven our approach to investing in alternative energy.

First movers in alternative energy

We identified alternative energy as a compelling investment theme in 2005 and launched the [Guinness Atkinson Alternative Energy Fund](#) in the US in 2006. This was the first no-load US mutual fund to be launched in the alternative energy sector.

The [Guinness Alternative Energy Fund](#) was then launched in December 2007 and is structured for investors outside the US. Both funds are invested in the same way.

Over the last four years we have seen rapid developments in the industry.

Global government support for the sector has swelled as concerns surrounding energy security and climate change have become more acute. At the same time the costs of wind and solar have fallen to the point where they are cost competitive with conventional electricity generation in an increasing number of locations.

We have seen the Chinese wind industry emerge from a standing start in 2006 to become the largest world market for wind turbines in 2009. And now China is starting to look seriously at solar.

The oil price has risen from an average of \$66 per barrel in 2006 to \$79 in the first three months of 2010, with a peak price of \$146 per barrel in 2008. Demand for energy is increasing and given the rising costs of exploration and production of oil, we expect the price of oil to continue to go up over the long-term.

This combination of rising energy prices, decreasing alternative energy costs and broad government support is driving the high growth of the alternative energy industry.

Experienced energy investors

Our successful experience of investing in conventional energy since 1998 has directly driven our approach to investing in alternative energy.

Tim Guinness (CEO and CIO of Guinness Asset Management) took over a small global energy fund in 1998, recognising that energy was an attractive long-term investment theme. In 1998 the oil price averaged \$14 and OPEC were beginning to act in a more concerted manner.

His track record of investing in conventional energy has returned 17.4% on an annualised basis, with total returns since 1998 of 555.8%¹.

The Guinness team have been investing in energy since 1998 and alternative energy since 2006

With a strong conviction on the outlook for long term energy prices, Guinness recognised the opportunity to manage a separate, complimentary alternative energy fund.

Building on our experience of investing in conventional energy the Guinness Alternative Energy Fund uses the same investment process and portfolio structure as the Guinness Global Energy Fund.

Insights from our conventional energy research affect our views on alternative energy and vice versa.

1. Composite historic performance is of the Investec GSF Global Energy Fund to 29.02.08; the Guinness Atkinson Global Energy Fund 29.02.08 to 31.03.08; and the Guinness Global Energy Fund 01.04.08 to 30.09.10 (all NAV to NAV, gross income reinvested, in US dollars. Data source: Bloomberg LLP; calculations Guinness Asset Management Ltd. Past performance should not be taken as a reliable indicator of future performance.

Investment Case

We are now at an important point for the growth of the alternative energy industry. Costs are competitive and falling, fossil fuel prices look likely to continue to rise, and the industry has broad global government support.

A long-term investment theme

The long-term case for investing in alternative energy is striking.

Over the next 20 years the world population is expected to increase by 1.5 billion people¹. This 23% population rise is eclipsed by the projected 34% increase in world energy demand².

This raises the question: how can the world meet this rising demand for energy?

Fossil fuels such as oil, coal and gas are finite resources and while we will not run out of these fuels in the near future we are using up our cheap and easily extractable reserves. Consequently oil exploration and production costs are likely to continue to increase.

The combination of a 34% increase in world energy demand and higher extraction costs is likely to lead to higher fossil fuel prices.

As energy prices have risen over the last 10 years, demand for alternative energy has increased. As the scale of the alternative energy industry has increased costs have been driven down.

In the last ten years wind has become cost competitive with conventional forms of electricity generation. Solar costs have fallen dramatically over the last ten years and are now close to being cost competitive without the need for economic incentives.

Governments around the world from the US to China are providing support for the growth of the alternative energy industry. Not only will a shift to alternative energy help to reduce energy costs in the long run, but it can also address the issues of energy security and climate change.

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Alternative energy is becoming mainstream.

A new growth phase

Much of the focus over the last 10 years has been on improving technologies and lowering costs which has required government support and economic incentives. The next growth phase will see the scale of the sector increase to the point where unsubsidised economics become the main driver of growth and investor returns.

Aggressive targets are now being set by governments for 2020 and beyond, which will support those technologies that are most competitive today. The growth needed in alternative energy to meet these targets is high as the alternative energy is still small in the context of the world energy industry. As an example, Wind accounts for 159GW³ of a total world generation capacity of 4800GW⁴. Solar only accounts for 22GW⁵ which is approximately where the wind industry was in 2001.

In order to meet these targets we are likely to see a continuation of the 26%⁶ per year historic growth rate of the wind industry and an acceleration of the 37%⁷ per year historic growth rate of the solar industry.

Hydropower, biomass and geothermal are all cost competitive today but are limited in potential scale today by specific factors such as the finite number of suitable sites for hydropower dams. Higher energy prices will expand the number of viable development opportunities and better profitability for existing operators.

We envisage an evolving portfolio of different energy technologies being deployed globally, slowly weaning us away from the costs and issues associated with fossil fuels.

Put simply, oil is finite and running out. Yet demand for energy is rising. We have to find alternatives that will be affordable and secure.

Sources: 1. UN Population Division. 2. IEA. 3. World Wind Energy Association. 4. IEA World Energy Outlook 2009. 5. EPIA. 6. World Wind Energy Association. 7. EPIA

Fund Strategy and Approach

A high conviction approach to a long-term global growth trend.

High conviction

The fund is an equally weighted portfolio with our 30 best ideas. Our 30 best ideas reflect both our macro outlook on each of the alternative energy sectors combined with a value based approach to bottom up stock analysis.

As a consequence our risk management process is fundamentally linked to our portfolio construction and stock specific risk is structurally constrained.

At the same time we do not have a long tail of small positions which can have little effect on portfolio performance and dilute investment ideas.

This approach has been successfully tried and tested since 1998 in the Global Energy Fund.

Intelligent screening

We make use of a proprietary screening method to efficiently identify stocks that merit detailed analysis.

We screen stocks for value, returns on capital, earnings revisions and stock price momentum. This provides a list of stocks to analyse further. Detailed due diligence then forms a basis for investment decisions.

We regularly meet the management of companies in the sector, attend industry conferences and make company site visits.

Global

We take a global approach to investing in alternative energy. Although many of the technologies have been developed in Europe, alternative energy is now a global industry both in terms of manufacturing and demand.

An important trend in alternative energy over the next few years will be the shift of manufacturing from the West to Asia in order to lower manufacturing costs.

China is emerging as a significant base for the manufacture of alternative energy components and is the largest market for wind turbines. It is also likely to become a significant source of demand for solar.

We benefit from a team of experienced Asia fund managers with a 15 year track record whose expertise we can leverage in analysing this trend and specific Asian stocks.

Pureplay

The Guinness Alternative Energy Fund is a pureplay alternative energy fund. We do not invest in any companies involved in fossil fuels or nuclear power. We only invest in non-fossil fuel generation and efficiency technologies.

For a company to be eligible for investment in the fund at least half of the business will need to be in alternative energy or efficiency.

We believe this transparent approach should provide the best returns over the long-term as it gives undiluted exposure to the growth of the alternative energy industry.

The pureplay approach provides investors the opportunity to diversify their energy exposure as we believe the correlation between alternative energy returns and the oil price will weaken.

Fund Analysis

As at 31.12.10

19% of the portfolio is invested in Asia

Top 10 holdings %

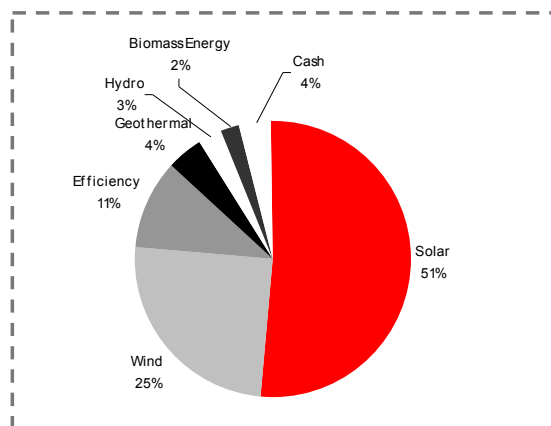
| | |
|-------------------------------|-----|
| Waterfurnace Renewable Energy | 3.9 |
| Hansen Transmissions | 3.6 |
| Ormat Technologies | 3.5 |
| Iberdrola Renovables | 3.5 |
| Suntech Power | 3.5 |
| LSB Industries | 3.4 |
| STR Holdings | 3.4 |
| EDP Renovaveis | 3.4 |
| Renesola | 3.4 |
| Gamesa | 3.4 |

Portfolio breakdown

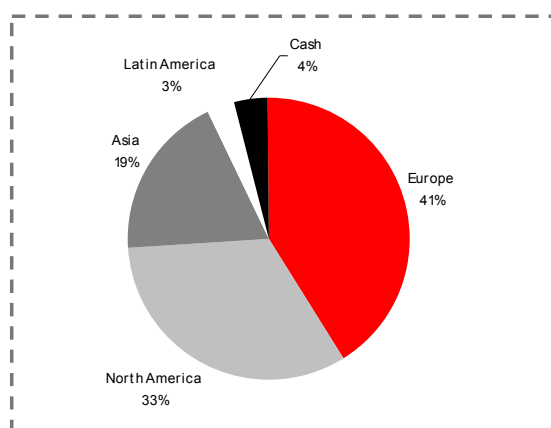
As of 31.12.10 the portfolio was invested 51% in solar and 25% in wind. This weighting reflects both our macro views on the sectors and our bottom up value based stock analysis. We see solar stocks as offering good value at the current time given the potential growth of the industry.

In terms of geographical breakdown the portfolio is most heavily weighted in companies domiciled in Europe. However, over recent years we have increased our exposure to Asian companies as Asia emerges as a manufacturing hub for the industry.

Sector breakdown



Geographical breakdown



Past performance

| Data at 31.12.10 | YTD | 1 year | Annualised since launch | Calendar 2010 | Calendar 2009 | Calendar 2008 |
|--|--------|--------|-------------------------|---------------|---------------|---------------|
| Guinness Alternative Energy Fund, Class B | -21.5% | -21.5% | -27.8% | -21.5% | 38.6% | -67.4% |
| Wilderhill Clean Energy Index (TR) | -4.8% | -4.8% | -26.4% | -4.8% | 29.8% | -69.9% |
| Wilderhill New Energy Global Innovation Index (TR) | -13.7% | -13.7% | -20.5% | -13.7% | 41.2% | -60.5% |

Past performance should not be taken as a reliable indicator of future performance. Performance stated above is in US dollars; returns in other currencies may be higher or lower as a results of currency fluctuations.

The Fund was launched on 19.12.07 and therefore no longer-term performance data are available.

Source: Bloomberg, bid to bid, (inclusive of all annual management fees but excluding any initial charge or redemption fee), gross income reinvested, annualised where period longer than 1 year. Performance would be lower if initial charge and/or redemption fee were included.

Fund Facts

Edward Guinness Co-manager



Edward Guinness joined Guinness Asset Management in 2006. From 2003 to 2005 he was employed by Tiedemann Investment Group in New York as a merger arbitrage analyst. From 1998 to 2002 he worked at HSBC Investment Bank in Corporate Finance. Edward has a Masters in Engineering and Management Studies from Cambridge University

Matthew Page, CFA Co-manager



Matthew Page joined Guinness Asset Management in 2005. Prior to this he was employed by Goldman Sachs as an analyst. Matthew has a Masters in Physics from Oxford University

Key reasons to invest

- Alternative energy is a long-term investment theme entering a new growth phase
- High conviction - the fund is an equally weighted portfolio with our 30 best ideas, a balance between returns and risk control
- Energy expertise - eleven years of experience of investing in conventional energy
- Our pureplay approach provides undiluted exposure to the growth of the sector
- Global approach benefiting from Asia expertise

Important considerations when investing

The value of this investment and any income generated by it, may fall as well as rise as a result of the market and currency fluctuations and an investor may not get back the amount they invest.

Before investing you should review the full fund documentation which contains more complete and detailed information of the risks, fees, charges and expenses that are to be borne by an investor.

| How to invest | |
|---|---|
| Direct Investments | Fund Platforms |
| Full documentation, including the application form is available from our website www.guinnessfunds.com | The fund is available on a number of fund platforms including: For Retail Customers: Hargreaves Lansdown, Funds Direct For IFAs/Intermediaries: Ascentric Nucleus Transact |

Key facts

| | |
|----------------------------|----------------|
| Launch Date | 19.12.07 |
| Strategy size | \$ 40 million |
| Fund size | \$ 3.8 million |
| Typical number of holdings | 30-40 |

Contact Us

Contact Details

Tel: +44 (0) 20 7222 5703
Phone calls may be recorded

Email: info@guinnessfunds.com

For more information visit our website:
www.guinnessfunds.com

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The Guinness Alternative Energy 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 Irish Financial Services Regulatory Authority. The Fund has been approved by the Financial Services Authority for sale in the UK. The Company and the Fund have been recognised in the UK by the FSA pursuant to section 264 of the FSMA. Guinness Asset Management Ltd is authorised and regulated by the Financial Services Authority.

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