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Guinness Alternative Energy Fund

A pureplay approach to a long-term investment theme

March 2012 Manager's Update

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Disclosure

This report is primarily designed to inform investors or potential investors about recent developments in the alternative energy markets invested in by the Guinness Alternative Energy Fund. It also provides information about the Fund portfolio, including recent activity and performance. As such for regulatory purposes it falls within the definition of a financial promotion (Financial Services and Markets Act 2000 Article 4(1)) and we wish to draw your attention to the risk warnings on the last page of this document and the following statements:

This document sets out both facts relating to the alternative energy market and our own interpretation. Any investment decision should take account of the subjectivity of the comments contained in the report.

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Matthew Page, CFA



Edward Guinness

The Guinness Alternative Energy Fund has had an encouraging start to 2012. However, the wider economic outlook remains fragile with question marks over Chinese growth and concerns remain about the spreading of the European debt crisis.

In the solar sector, following a strong fourth quarter, the German market has supported higher levels of demand than expected for the seasonally weak first quarter and there are signs the Chinese demand will be stronger than expected. The US has imposed an import tariff on Chinese panels but at a lower level than feared—more on that below. 2012 feels like it will be a difficult year for polysilicon producers but that we might see some improving profitability further down the solar value chain.

The wind industry remains in the doldrums for manufacturers. Potential upside for manufacturers may stem from emerging market growth, accelerating installations of offshore windfarms and any increase in the US natural gas price. The more attractive opportunities are the owners of windfarms who are profitable or near profitable who have the capital to take advantage of the lower turbine prices.

Thoughts on the imposition of import tariffs by the US on Chinese solar manufacturers

The US has recently announced countervailing duties on imports of solar cells and modules by Chinese firms as a result of “illegal subsidies”. While we have doubts about the validity of the ruling in

such a subsidy driven industry, the tariffs have now been imposed at levels of 3.61% with lower rates for Suntech Power of 2.9% and a higher rate of 4.73% for Trina Solar.

These levels were considerably lower than feared by the industry, and do not make the US market inaccessible for the Chinese solar manufacturers.

However, we are still waiting to see what will happen later in the year relating to an accusation that the Chinese companies have been dumping in the US. We have no insight into what the outcome of the legal process will be but note that it seems absurd that companies who are selling modules at lower prices in their home country than in the US will now be found guilty of dumping. However, there is a reasonable chance that an additional tariff will be imposed.

We think that import tariffs will not have the desired effect of increasing the competitiveness of US manufacturers. Chinese manufacturers will simply shift their manufacturing to other low cost manufacturing countries to avoid the tariffs and in any case we expect that higher module costs will simply translate into lower installation volumes in the US. There is also the high likelihood of retaliatory tariffs being imposed by China.

The likely lower level of installations will create headwinds for solar installers in the US who are trying to grow the market. Costs of installation in the US are today higher than for almost all international markets other than Japan.

The tariff is a negative for the Chinese solar manufacturers (notwithstanding the low tariff levels), but we expect that many of them will find ways to avoid the tariff either by using tolling arrangements with non Chinese (eg Taiwanese) manufacturers and setting up module manufacturing outside China. A number of

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Chinese companies already have manufacturing in the US (eg Suntech in Arizona).

The US only accounted for about 7% of the global market share of PV installations, and although this is forecast to grow to over 14% by 2016 by the Solar Energy Industries Association, the US is not yet a critical part of the world market. In 2011 969 MW of cells and 1,219 MW of modules were produced in the US which makes up a reasonably high percentage of the total US installations of 1,855 MW. The market has thus been a relatively small one for Chinese solar installers to date in the context of a global market of c.27GW.

The two most important US solar manufacturers are First Solar and Sunpower. Their absence from the petitions against the Chinese solar companies has been marked, but it is hardly surprising given that to compete both companies have built significant manufacturing facilities in Asia. First Solar carry out the majority of their manufacturing in Malaysia and Sunpower has invested heavily in the Philippines. Both are likely beneficiaries of the tariffs. The Fund holds Sunpower.

By far the most important aspect of the introduction of tariffs is the potential for a trade war. If China were to retaliate within the solar industry, the US is particularly vulnerable in its polysilicon production. The US produced 40,658 metric tonnes of polysilicon in 2011 of which enough were exported to China that the US was a net exporter of solar products despite Chinese sales of modules to the US. A tariff on polysilicon would be highly damaging for US businesses as an increase in manufacturing capacity has made the polysilicon business highly competitive in 2012 and the US companies do not have a particular cost advantage over their international rivals.

From a high level perspective, we think that any tariffs imposed are very short sighted and display a

lack of understanding of the industry. It is cheaper to manufacture in China and therefore it is to be expected that an industry that is highly commoditised is likely to see a manufacturing shift to China. The manufacturing of commoditised goods in China is not necessarily prejudicial to US interests.

As an example, Apple is a great American company that creates jobs in, pays US taxes and is deemed a US champion. However we note that Apple's manufacturing is outsourced to lower cost manufacturing countries like China. The US component is system design and sales and marketing. Apple do not manufacture in the US because they can achieve a high quality product considerably cheaper in Asia.

It is our view that the US needs to be part of the global drive towards competitive unsubsidised solar and the best way for the US to participate and win is to drive down the total installed cost of solar and to be one of the leading consumers of solar electricity (at low costs). This can be done without propping up unprofitable commoditised manufacturing businesses in the US with protectionist tariffs. Our recommended approach would be to support installation businesses who are delivering improvements to the installation process which accounts for the majority of the cost and by developing new solar technologies that can benefit from the manufacturing cost and capacity in China.

We wait with bated breath for the ruling in the anti-dumping case which should come in the middle of 2012 and hope that the Department of Commerce does not handicap the US solar industry too much.

The Fund is not exposed to pureplay polysilicon manufacturers or US installers, but has high exposure to Chinese manufacturers of solar technology.

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Performance

The Guinness Alternative Energy Fund was up 2.2% in February. For the year to date the fund is up 12.3% which is in line with peer fund performance.

Better performers in February were Ormat, China Suntien, LDK Solar, China Longyuan and Itron. Poor performers were STR Holdings, Gamesa, SMA Solar Technology, Yingli Green Energy and EDP Renovaveis.

Total returns as at 29 February 2012 (in US dollars)

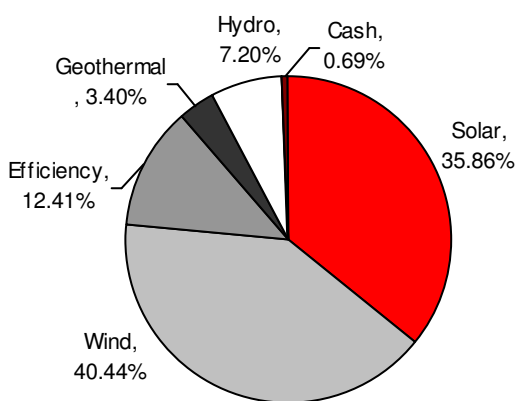
Past performance should not be taken as an indicator of future performance. Performance stated below is in US dollars; returns in other currencies may be higher or lower as a result of currency fluctuations.

Returns to 29.2.2012	YTD	1 year	3 year annualised	5 year annualised	10 year annualised
Fund (B Shares)	+12.3%	-41.4%	-3.7%	n/a	n/a
Wilderhill Clean Energy Index	+12.7%	-46.0%	-3.4%	-20.8%	-8.7%
Wilderhill New Energy Innovation	+13.6%	-33.6%	+0.7%	-13.9%	+2.5%

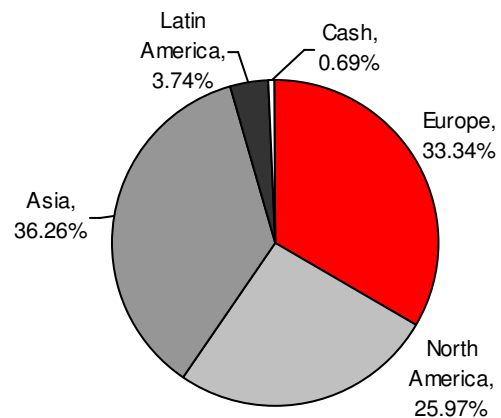
Calendar year returns	2007	2008	2009	2010	2011
Fund (B shares)	n/a	-67.4%	+38.7%	-21.5%	-41.9%
Wilderhill Clean Energy Index	+58.9%	-69.9%	+29.8%	-4.8%	-50.5%
Wilderhill New Energy Innovation	+59.4%	-60.5%	+41.2%	-13.7%	-39.6%

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

Sector breakdown



Geographic breakdown



* The WilderHill Clean Energy Index is a modified equal dollar weighted index comprised of publicly traded companies whose businesses' stand to benefit substantially from societal transition toward the use of cleaner energy and conservation.

** The WilderHill New Energy Global Innovation Index is a modified dollar weighted index of publicly traded companies active in renewable and low-carbon energy, and which stand to benefit from responses to climate change and energy

Important Information & Risk Factors

The Guinness Alternative Energy Fund is an equity fund. Investors should be willing and able to assume the risks of equity investing. The value of the Fund's portfolio changes daily and can be affected by changes in currencies, interest rates, general market conditions and other political, social and economic developments, as well as specific matters relating to the companies in whose securities the fund invests. Investments in the fund carries with it a degree of risk and investors should read the risk factors section in the prospectus before investing.

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 is not an invitation to make an investment nor does it constitute an offer for sale

The full Fund documentation contains more complete and detailed information of risk, fees, charges and expenses that are to be borne by an investor. The documentation should be read carefully before investing. The full documentation needed to make an investment, including the Prospectus, the Simplified Prospectus and the Application Form are available, free of charge, from the Manager: Capita Financial Managers (Ireland) Limited, Montague House, Adelaide Road, Dublin 2 Ireland or the Promoter and Investment Manager: Guinness Asset Management Ltd, 14 Queen Anne's Gate, London SW1H 9AA. **Documentation is also available from the website www.guinnessfunds.com.** This document should not be distributed to Retail Clients who are resident in countries where the Fund is not regis-

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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 Central Bank of Ireland. 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.

The prospectus for Switzerland, the simplified prospectus for Switzerland, the articles of association, the annual and semi-annual reports, as well as the list of the buying and selling transactions 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, Fax: + 41 22 705 11 79, www.carnegie-fund-services.ch. The paying agent is Banque Cantonale de Genève, 17 Quai de l'Île, 1204 Geneva, Switzerland

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.

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