GUINNESS

Global Innovators Fund

INVESTMENT PROCESS

Dr Ian Mortimer, CFA

&

Matthew Page, CFA

- **A concentrated large cap growth portfolio of 30 equally weighted stocks with a strict value discipline**
- **Managed in accordance with our intelligent investment process using innovation to identify good growth companies that can achieve persistent high returns on capital throughout the business cycle**

GUINNESS ASSET MANAGEMENT LTD

guinnessfunds.com

Guinness Global Innovators Fund

Guinness Asset Management launched a Dublin-registered UCITS version of its Global Innovators strategy in October 2014. The strategy has been run since 2003 within the SEC-registered mutual fund range of Guinness' US-based sister company (Guinness Atkinson Asset Management). Both Funds are managed by Matthew Page, CFA and Ian Mortimer, CFA, who also manage the Guinness Global Equity Income Fund.

Investing in companies with innovation in their DNA

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.

This is not a 'tech' fund – innovation is the intelligent application of ideas and is found in most industries. We believe good companies with a culture of innovation and strong capital discipline can deliver what we believe are the key factors behind superior shareholder returns:

- Higher than average return on investment
- Persistent growth over a business cycle

Importantly, these advantages don't just occur in early stage companies with disruptive products. Mature companies can build competitive strengths that will continue to drive profitable growth.

Investment philosophy

We believe that active investment management, when coupled with the discipline and intellectual integrity of a good, rigorous investment process, will deliver superior performance for investors.

We believe that inefficiencies exist in all markets as a result of:

1. The behaviour of market participants
2. The flow and types of information being open to multiple interpretations

By adopting an approach in which the key absolute and comparative characteristics of all investments are intelligently analysed and measured, we consider ourselves better able to manage and use the mass of information available.

We aim to invest in good, growth companies, and we expect the majority of Fund performance to come from capital appreciation (rather than dividend income from the companies we own). We look for these good growth companies by first trying to identify 'innovative' companies. We believe these types of companies are more likely to earn a high return on capital for longer, and thus outperform over the longer term. We recognise, however, that sentiment and hype can sometimes drive up the valuations of innovative companies, so we maintain a strict value discipline. We do not want to pay up for high levels of expected growth in the future as, on average, very high growth expectations are often not met and this can have a very detrimental effect on the company in question's valuation. We look to identify companies with profitable growth, and tend not to invest in companies who have not converted revenue growth into positive earnings.

The combination of avoiding story stocks with high valuation multiples, looking for companies with real earnings that can be analysed and compared, and having a minimum market cap of $500 million means the Fund typically trades at only a small premium to the MSCI World Index (between 5-15%) on simple price/earnings metrics.

The opportunities that we seek to identify can be fairly few and far between, and at the same time valuation anomalies can take fairly long periods of time to be realised. We therefore construct a concentrated portfolio of (typically) 30 positions where the typical holding period is 3-5 years on average.

Investment process

How do we identify innovative companies?

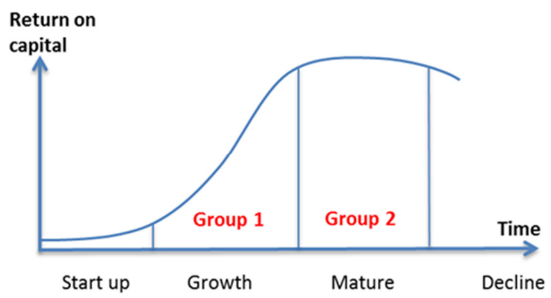
The process begins with identifying potentially innovative companies.

We approach the challenge on a number of fronts, but the first step is to recognise that any individual innovative company can be at any stage within its business lifecycle; from a start-up raising seed capital, right through to a decades-old multinational conglomerate. The process of identifying innovative companies must therefore take this fact into account and cannot simply be boiled down to a one-size-fits-all methodology.

We do believe, however, that innovative companies can broadly be split into two distinct classifications:

1. Smaller, earlier stage, more disruptive companies, or
2. More mature companies that are using innovation to continue to create profitable growth

For simplicity we classify the smaller, more disruptive companies as ***Group 1*** and the more established, seasoned companies as ***Group 2***. We do not look at 'start up companies' as they are often below our $500 million market cap cut off, or unlisted.



Defining early stage Group 1 companies can be highly subjective as by definition they may not yet have had the time to prove themselves. It is also easy to fall into the trap of confirmation bias when looking at these types of company by only recognising and giving credit to ideas and processes that you already believe in or have seen work in the past. We therefore try and seek third party acknowledgement of a company's innovative status and also look for ideas from as wide a range of sources as possible. There are several academic and business reviews that aim to identify, or quantify in some way, innovative companies. We regularly scour these publications to add to our list of Group 1 companies.

Identifying the more mature companies in Group 2 is slightly less subjective as they have a longer history of financial results to analyse and have had ample time to demonstrate their advantageous qualities. We believe that innovative companies that have successfully transitioned through the initial growth phase are much more likely to be able to earn a higher return on their investments than their non-innovative peers and that they should be able to maintain this advantage over time if they continue to remain innovative.

In order to quantify these characteristics we search through companies' reports and accounts and try to identify only those companies that have consistently earned a high return on capital for an above average period of time. This may not prove they are innovative (they might simply just have a monopolistic advantage, for example) but it does provide a consistent marker that, in our experience, frequently does identify innovation. Despite their size and maturity these companies have shown an ability to adapt and react to changing market forces. These companies create fairly steady profits, are able to continue to operate well in most economic environments, and often have strong balance sheets.

Investing in innovative companies

Before considering a company for inclusion in the portfolio, we first analyse it on two measures to place it in our innovation matrix:

1. The level of innovation (disruptive, accelerating, continuous).
2. The driver of that innovation (science or technology, product or service, business model).

Key driver of innovation	Level of innovation: Disruptive	Accelerating	Continuous
Science/ technology	Scientific breakthrough leading to new technology with significant potential impact	Rapid improvements in young technology	Small continuous advances in an established technology that will provide incremental benefits to the end user
Product/ service	A new product/service that has the potential to quickly take market share and change the dynamics of an industry	Rapid advances in adoption of product/service	Small advances in product/service or end user experience that maintains or grows market share or competitive positioning
Business model	A new revenue/cost model or the confluence of technologies that has significant impact on incumbents	Rapid adoption of business model leads to rapid growth in market share	Continuous evolution of business model to maintain competitive strength

The level of innovation is indicated by financial metrics such as valuation premium, revenue growth, and persistence of return on capital. The driver of innovation is a more qualitative analysis based on an understanding of the industries and sectors the company operates in. If we cannot easily place a company within this *innovation matrix* then it is an indication to exclude the company from the portfolio.

The aim is then to invest in the 30 'best ideas' from the innovative companies in our investible universe. Simply being identified as an innovative company is not in itself sufficient to be selected for investment. Our focus is on identifying the best value opportunities within our universe for inclusion in the portfolio.

We regularly seek to generate ideas for further due diligence by screening the universe for different combinations of factors. The screens are designed to focus our minds towards those companies that either offer exceptional value relative to their own history, attractive value with improving sentiment, or companies that have underperformed their peers.

Once we've selected candidates for further analysis from within our investment universe, we subject these companies to a thorough due diligence process. We construct models to understand how the company has evolved over the previous 15 years (if possible). Covering factors include: growth; margins; uses of cash amongst capital expenditure, acquisitions, share buybacks and repayment of debt; balance sheet evolution; drivers of return on capital; key geographic regions; valuations relative to peers and the company's own history; earnings sentiment; and dividend cover. We also seek to understand what the analyst community is forecasting for the company, and understand the drivers behind this. They will seek to form an opinion on more subjective factors surrounding industry trends and company-specific issues.

Meeting the management of companies we are analysing is not a prerequisite for investment. We prefer attractive metrics over good themes (or catalysts), as we believe informational advantage is of diminishing value. Identified themes or catalysts are often priced into the valuations of companies, with commensurate stretched expectations of growth leading to higher risk than is often perceived.

How do we construct the portfolio?

The Guinness Global Innovators Fund is a concentrated portfolio of typically 30 equally weighted stocks selected from our investible universe. This provides a number of useful attributes:

1. It reduces stock-specific risk as we cannot be overweight in a small number of favourite companies.
2. We cannot run a portfolio with a long tail of small holdings which can be a distraction and drag on performance.
3. It instills a strong sell discipline as we must typically sell a position in order to make way for a new one; this provides an additional benefit in that we must constantly assess the companies we own in the portfolio in comparison to the rest of the universe available to us.
4. We are truly index independent; we are unconcerned by the weightings of the benchmark index as we cannot adjust the fund weightings beyond the set limits defined by the equal weighting.

What does the portfolio look like?

Innovation is the intelligent application of ideas and is found in most industries. We have found that most sectors have been represented in our investment universe over the years of its existence.

The shape of our portfolio is driven by our bottom-up selection of the best value ideas from our investment universe, not by thematic or benchmark driven sector weightings. However, it is useful to look back over the history of the portfolio and its industry and geographic allocation.

Looking at its sector/industry allocation over the last ten years, its weightings to sectors have averaged as follows:

Information technology	**40%**
Consumer discretionary	**15%**
Financials	**15%**
Industrials	**10%**
Healthcare	**6%**
Energy	**6%**
Telecoms	**6%**

The Fund has also periodically held companies in the Materials and Consumer Staples sectors. The one sector in which the portfolio has had no exposure is Utilities; regulatory control generally precludes utility companies' ability to generate persistently high return on capital.

The geographic breakdown of the portfolio has remained fairly stable, as follows:

North America	**55-65%**
Europe	**15-25%**
Asia	**15-20%**

How do we identify stocks to sell?

It is often easier to find companies that look cheap and that you would like to buy rather than identify those companies you own which should be sold. We consider sell discipline as important as selecting companies for purchase, and we continuously monitor companies we own. There are four key considerations as to why we may sell a company:

1. **Quality**
   If the quality of the business deteriorates in terms of its return on capital, its balance sheet, or growth potential.
2. **Valuation**
   If the valuation anomaly we initially identified no longer exists or has diminished.
3. **Cash flow**
   If there is a change in capital budgeting approach that appears unfavourable.
4. **Conviction**
   If the original subjective reasons for purchase no longer hold true or we have a better idea.

Summary

We like to distil our investment philosophy and process into four key tenets that describe the way we invest and what are aiming for in our management of the portfolio:

	Philosophy	Process
Innovation	*Innovative companies should create more value than their peers and therefore outperform over the long term*	We focus on companies that have the ability to earn above average return on capital
Value	*Over the long term value outperforms growth* *We do not want to over-pay for future expected growth*	Sentiment and hype can drive up the valuations of some innovative companies We therefore maintain a strict value discipline
Growth	*Growth can be hard to come by and therefore warrant a premium* *High expectations of growth in the future is not attractive*	We aim to identify companies with profitable growth and avoid those companies who are 'growing at any cost'
Conviction	*To outperform, a portfolio must be significantly different from the benchmark and we want all positions to have the ability to add meaningfully to performance.*	The Fund typically has 30 equally weighted positions

Fund managers

The Fund is managed by Dr. Ian Mortimer and Matthew Page using their proprietary investment process for large cap growth portfolios.

Dr. Ian Mortimer, CFA, joined Guinness Asset Management in 2006. He co-manages Guinness Global Equity Income Fund and Guinness Global Innovators Fund.

Prior to joining Guinness, Ian completed a D.Phil. in experimental physics at Christ Church, University of Oxford, and graduated in 2006. He graduated from University College London with a First Class Honours Master's degree in Physics in 2003. Ian is a CFA charterholder.

Matthew Page, CFA, joined Guinness Asset Management in 2005. He co-manages of Guinness Global Equity Income Fund and Guinness Global Innovators Fund.

Prior to starting at Guinness, Matthew joined Goldman Sachs on the graduate scheme in 2004 working in Foreign Exchange and Fixed Income. He graduated from New College, University of Oxford with a Master's Degree in Physics. Matthew is a CFA charterholder.

Guinness Asset Management

Guinness Asset Management provides a range of long-only actively managed funds to individual and institutional investors. Founded in 2003, Guinness is independent and is wholly owned by its employees.

We believe in in-house research, intelligent screening for prioritisation of research and well-designed investment processes. We manage concentrated, high conviction portfolios, with low turnover and no benchmark constraints.

Since our establishment we have developed a variety of specialisms in global growth and dividend funds, global sector funds and Asian regional and country funds.

At heart Guinness Asset Management is a value investor.

None of our funds are benchmark-constrained, which means we can select stocks without the influence of index weightings. We believe investment managers should have a high conviction about the stocks in their portfolio. We have found this approach provides an excellent balance between the benefits of diversification and the risk of diluting investment returns.

The Guinness equity funds sit within an Irish-listed OEIC. They are managed alongside a range of mirror SEC-registered funds offered to US investors by our US sister company, Guinness Atkinson Asset Management Inc.

We also offer an Enterprise Investment Scheme (EIS service) investing in UK-based renewable energy projects and AIM-listed companies.

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. Any investment decision should take account of the subjectivity of the comments contained in the report. It 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 guinnessfunds.com, or free of charge from:-

- the Manager: Capita Financial Managers (Ireland) Limited, 2 Grand Canal Square, Grand Canal Harbour, Dublin 2, Ireland;
- 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. **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.