Guinness
Alternative Energy Fund

A pureplay portfolio of alternative energy companies

The Fund is managed for capital growth and invests in companies in the solar, wind, hydro, geothermal, biofuels, biomass and energy efficiency sectors.

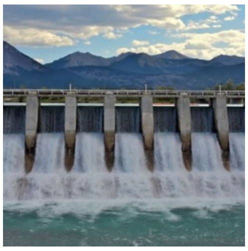
Alternative energy – the investment proposition

The cost of alternative energy is falling, and conventional energy is facing growing challenges. The investment case for alternative energy is strengthening.

Dwindling supplies of easily extractable fossil fuels are pushing prices up, and their extraction processes present ever higher environmental challenges. Concerns about long-term energy security are rising, and geopolitical factors are increasing anxiety. The environmental impact of conventional energy remains at the top of the global political agenda. These factors are intensified by the continuing growth in demand for energy: world energy consumption is set to increase 56% by 2040.

Key drivers

- Higher energy prices driven by population growth, developing world industrialisation and diminishing fossil fuel supplies
- Falling costs of alternative energy assets as the technology improves
- Energy security concerns
- Climate change and environmental issues



Conversely, the cost of alternative energy is falling. The world needs reliable, sustainable and cheap energy sources. We believe the current alternative energy technologies – increasingly attractive in economic terms – offer a viable solution; demand is set for considerable growth for years to come. Alternative energy stands to be an important long-term investment theme.

GUINNESS FUNDS

Performance and portfolio review

The headline performance of the Guinness Alternative Energy Fund in 2013 was strong. The Fund was up 70.8% for the calendar year, which made it the best performing fund amongst its peers, and ahead of the industry indices. This performance placed it 1st in the IMA Global Sector (out of 245 funds) and it would also have been 1st in the IMA Specialist Sector (out of 206 funds) where a number of peer funds also feature.

We note that the sector had underperformed the broad markets from 2008 to 2012 and that this 2013 performance does not nearly return the Fund to pre-2008 levels. However, we believe that it is an indication that the sector is turning the corner and demonstrates the high return potential that there is in this sector (albeit with high risks).

> **"Performance in 2013 was strong. But there's still a long way to go to get back to the levels seen before its underperformance from 2008 to 2012. The sector is just turning the corner, and 2013 demonstrates its potential for high returns."**

The three main parts of the portfolio that drove the strong 2013 performance were:

1) Chinese solar manufacturers;
2) European wind turbine manufacturers; and
3) Chinese renewables utilities.

Chinese solar manufacturer recovery

The Chinese solar manufacturers returned from the dead. The price of solar modules has plateaued as a result of strong demand growth for solar and intervention by the EU to provide a floor price at which the Chinese can sell modules in Europe. Many of the manufacturers had been trading at valuations that implied that they would not survive, whereas now these companies are returning to profitability, and visibility on their potential growth and profitability is increasing. Furthermore many of them have moved into developing projects themselves so are able to capture higher margins on sales.

Wind turbine manufacturer recovery

The European wind turbine manufacturers benefited from improving order books, particularly from the US and developing markets, and pricing for wind turbines stayed relatively firm over the year. Importantly the companies also started to reap the benefits of their cost restructuring. The companies have been positioning themselves for a lower growth market and are therefore operating in a much leaner way, which should position them well for any growth in market share they can achieve and any growth in the market overall.

Chinese renewable utility benefiting from low costs and grid improvements

The Chinese renewables utilities have benefited from China's continued push to support the renewables industry. First, the low price of wind turbines from Chinese manufacturers provides high returns on new installations. Second, existing installations are benefiting from grid improvements, so they can sell nearly all the electricity they produce. Third, they have access to debt for new projects from state-owned banks.

The weakest performing stocks in the portfolio were the Fund's only biofuels holding, which suffered as ethanol prices fell, and a lithium mining company. Both of these companies are ramping up production, and delays have put pressure on their balance sheets and stock prices.

The value of investments and any income they produce can fall as well as rise as a result of market and currency fluctuations. Past performance should not be taken as an indicator of future performance.

Outlook

While the outlook for alternative energy remains challenging, with government budgets still under pressure, price weakness in US natural gas and project financing still challenging, it is the potential for these challenges to be overcome or to dissipate that provides us with cause for optimism for the Fund.

Solar cost has fallen by over 75%, spurring demand growth

The area that we are most excited about for 2014 and beyond is solar. The best-in-class cost of solar installations has fallen to about $1.30/Watt (from about $6.00/Watt in 2008). This means that solar is now competitive without subsidies in an increasing number of countries, particularly more emerging economies with structural electricity deficits and high electricity prices from use of diesel plants. Even in Germany and the UK a consumer can earn 10%+ returns on an installation based on the avoided cost of electricity from the grid.

Solar growth in 2014 across multiple markets

The industry is also much less reliant on any one country compared to its previous over-reliance on Spain, Italy and Germany. Key countries now include China, Japan, the US, India and South Korea, and we are beginning to see strong pipelines of demand in the Middle East. This spread in countries with active solar markets means that the risk of overall demand and pricing falling as a result of subsidy changes in any one market is much lower. This has been further helped by the EU imposition of a floor for prices of Chinese modules, which has made the EU a far less competitive market from a price perspective, to the benefit of the manufacturers. A number of analysts are forecasting growth of the market to 40-50GW, and we believe these estimates are likely to be revised upwards. This means that the industry is in less of a state of oversupply. In fact we think that the potential growth in demand from the current low price of modules is likely to lead to a plateau in pricing for a number of years. Solar companies are now competing against retail electricity costs for the first time; this provides extra support to solar module prices and is likely to be the catalyst for a shift in the way solar is perceived. It is no longer expensive.

Wind growth from developing markets

For the wind industry, we see potential upside to global demand from developing markets. Europe and China do not offer major growth opportunities, although we would expect installations to continue at around current levels. The US is hard to predict, although past experience would lead to expectations that, after a good year in 2014, there may be a fall in 2015 as supporting legislation is allowed to lapse at the end of 2014. However, an early extension would allow maintenance of installations. With wind costs now able to deliver electricity at 5c/kWh (or less in some geographies), we see the main wind industry growth coming from developing economies, where the electricity cost is again the more important driver. We see specific opportunities in a recovery in valuations for the large cap European renewables utilities held in the portfolio and even more potential from the smaller cap utilities who are bringing assets into production at a faster rate as a result of their stage of maturity.

Other investment areas in the portfolio

Other holdings are in more stock-specific opportunities in hydro, geothermal, efficiency and biofuels companies. These range from growth companies to turnaround situations to larger cap undervalued companies.

Pureplay strategy: higher risk for higher potential returns

As one of the only funds that is investing in alternative energy as a pureplay strategy, we are well placed to capture the returns from the growth of an industry that is only now beginning to recover from 2008.

Fund Manager

The Fund is managed by Edward Guinness. Edward joined Guinness Asset Management in January 2006. Prior to joining Guinness, he worked from 2002 as a merger arbitrage analyst for the Arbitrage Associates Fund at the Tiedemann Investment Group in New York. In 1998 he joined HSBC Investment Bank, where he worked in the Corporate Finance Department in the Energy & Utilities Team and in the Telecoms & Technology Team. Edward graduated from the University of Cambridge with a Master's degree in Engineering and Management Studies. Edward is also a fund manager in the Guinness EIS Team.

Performance (28/02/2014)

Cumulative & annualised performance (USD, %)

B class (AMC: 1.5%)	Year-to-date	1 year	3 years	5 years	From launch
Alternative Energy Fund	10.8	66.4	-14.3	30.7	-64.5
Clean Energy Index	14.4	68.8	-28.3	19.7	-70.8
New Energy Index	14.1	61.4	0.7	54.7	-48.2
Alternative Energy Fund (annualised)		66.4	-5.0	5.5	-15.4
Clean Energy Index (annualised)		68.8	-10.5	3.7	-18.0
New Energy Index (annualised)		61.4	0.2	9.1	-10.1

Calendar year performance (USD, %)

B class (AMC: 1.5%)	2009	2010	2011	2012	2013
Alternative Energy Fund	38.7	-21.5	-41.9	-13.2	70.8
Clean Energy Index	29.8	-4.8	-50.5	-17.4	58.5
New Energy Index	41.1	-13.7	-38.9	-4.1	55.7

Discrete year performance to month end (USD, %)

B Class (AMC: 1.5%)	Feb-10	Feb-11	Feb-12	Feb-13	Feb-14
Alternative Energy Fund	45.2	5.0	-41.4	-12.2	66.4
Clean Energy Index	44.8	15.3	-46.1	-21.2	68.8
New Energy Index	47.4	4.3	-32.8	-7.2	61.4

The value of investments and any income they produce can fall as well as rise as a result of market and currency fluctuations. Past performance should not be taken as an indicator of future performance.

Source: Bloomberg, total return. Fund launch: 19.12.2007. Indices are Wilderhill Clean Energy Index and Wilderhill New Energy Innovation Index. Share classes are available in USD, GBP and EUR. Full details are available on our website.

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This report is primarily designed to inform you about recent developments in the alternative energy markets invested in by the Guinness Alternative Energy Fund. It may also provide information about the Fund's portfolio, including recent activity and performance. It contains 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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Risk The Guinness Alternative Energy Fund is an equity fund. Investors should be willing and able to assume the risks of equity investing. The Fund invests only in companies involved in the alternative energy sector; it is therefore susceptible to the performance of that one sector, and can be volatile. 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, 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, 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.
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