GUINNESS ATKINSON FUNDS

Inflation Managed Dividends *brief*

Matthew Page, CFA

Dr. Ian Mortimer

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Commentary and Review by co-portfolio managers Dr. Ian Mortimer, CFA and Matthew Page, CFA

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Manager's Review

In our recent briefs we have been noting our caution on some of the holdings in the portfolio that had performed particularly well relative to the market, and especially those where we have seen share price rises dominated by multiple expansion rather than earnings growth. We have also noted for some time the benchmark-overweight exposure of the fund towards consumer staples, which we have slowly been reducing from a weighting of just over 30% in Q4 2012 to just under 25% as of last month.

In October we made a number of changes to the portfolio to take profits on companies that had done well and initiate new positions in companies with cheaper valuations, offering better risk return profiles and more attractive dividend yields. Up to this point we had only made three changes to companies held in the portfolio since the start of 2013 (sales of Metcash, Walmart, VF Corp and purchases of Northrop Grumman and BAE Systems in the first quarter), so our preference for low portfolio turnover remains. We expect turnover to be around 25% for the full year.

We sold five companies in October and replaced them with five new purchases. Our approach has always been to have a portfolio of thirty-five companies all equally weighted. This means any decisions we make are as much relative as absolute. That is, we may well sell a company we own if something specific (positive or negative) occurs but if we identify a company that we like that we want to include in the portfolio, then we must look through our current holdings for a candidate for sale. We don't just keep adding companies in ever smaller position size. Our bottom up approach therefore often leads us to areas of the market that have been out of favor and are trading on lower multiples and moves us away from areas of the market that have been performing well and are trading at higher multiples. Getting this timing right is the art, and an art we don't profess to have mastered, but we think a company's valuation history can often be a good indicator as to when the market has reached an overly extreme view which may represent an opportunity. At what point the valuation will revert back to the mean is uncertain, but by taking a longer term view and having holding periods of 2 to 3 years we hope to have given ourselves a reasonable timeframe.

The sales this month can be split broadly into three categories:

(i) taking profits on companies which are trading on multiples that are at historic highs

(ii) taking profits on companies which are close to or at fair value and are in sectors and regions that have also done well relatively

(iii) selling companies where our investment thesis has changed and we no longer expect the re-rating or earnings growth we had expected

In the first category were sales of Halma and Pfizer. Halma, the UK-listed industrial safety equipment company, is a position we have held since we launched the fund in March 2012. It has been one of the best performing stocks we have had in the portfolio with a total return of circa(c.) 45% since purchase. It has also provided the fund with a steadily rising dividend stream with dividend growth of around 7% per annum. The company has barely put a foot wrong with good top and bottom-line growth and consistently high returns on capital. The market has recognized this, though, and the company now trades on a P/E multiple of 22 times, which is very close to the maximum multiple it has achieved over the last ten years. Having reached such a rich valuation we found it difficult to justify to continue holding in the portfolio compared to other, cheaper opportunities and therefore sold the position.

Pfizer, the US-listed global pharmaceuticals company, is another holding we have owned since we launched the fund. Pfizer, and the global pharmaceutical companies in general, were quite unloved at that time as the market sold them down because of the expected impact of patent cliffs. When we purchased the stock it was trading on a P/E multiple of around 9 times and had a share price of $23. When we sold it the stock was trading on a multiple of 13.5 times with a share price of $29. Earnings growth for the stock was limited during the period we held the company, meaning the majority of the share price performance was due to the multiple expansion. When we think about the return we might achieve from a company, we note it can be split into three main components: (a) dividends, (b) earnings growth and (c) multiple expansion. In the case of Pfizer, we think we have captured the majority of the multiple expansion, and this, combined with the relatively low dividend yield and our cautious outlook for earnings growth, meant we sold the position.

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In the second category of sales - taking profits on companies close to or at fair value in sectors that have also done well relatively - we sold our holdings in Kraft Foods Group and Mondelez International, which represent the two companies that emerged from the re-organization of the original Kraft Foods in October 2012. Kraft Foods Group took the North American grocery business and Mondelez the global snack business, in effect, delineating the slower growth, more stable grocery side and the faster growth emerging market-focussed snack side. Both companies, however, are US-listed and sit in the consumer staples sector. The performance of both companies has been enviable, with good revenue and earnings growth combined with a good tailwind from US stock market performance generally and the US consumer staple sector specifically. With P/E multiples of 19 times for Kraft Foods Group and 21 times for Mondelez, and dividend yields of 3.7% and 1.6%, respectively, we felt it an opportune time to take profits and instead buy companies offering better upside potential that also reduced our exposure to the US and the consumer staples sector.

The final sell we made in October was that of AstraZeneca, which we have put in the bucket of sells induced by a change in investment thesis whereby we no longer expect the re-rating or earnings growth we had envisioned originally. AstraZeneca was again a company that we have owned since we launched the fund. When we first bought the stock it was trading on a P/E of less than 8 times. Since purchase the total return for the fund has been just under 25% as the P/E multiple has expanded to over 10 times today, despite a headwind of decreasing earnings over the period as a whole. Today we think the outlook has turned even more negative, and on many indicators we follow our investment thesis no longer stands up. Analyst earnings expectations are sharply lower, the free cash flow dividend cover stands at only 1.5 times, and on the latest earnings call Pascal Soriot, the CEO, indicated that the cost cutting and reorganization of the business he has been spearheading since he joined in 2012 will not improve margins as much as hoped. So, despite the company offering a high dividend yield and a lowly valuation, we think this might well reflect the true outlook for the business over the next few years. Indeed, the cash flow return on investment is expected to fall from 10.4% to c.7% in 2014, which means the company is very likely to fall out of our investible universe next year. The possibility of a dividend cut also looms, which could be a trigger for share price weakness. With all these thoughts in mind we decided to take our profit and sell the position.

Now we have covered the sells we have made, we can concentrate on the future and the purchases we have made for the portfolio. The new companies in the portfolio all share a common theme in that they all pass our initial screen of a ten year history of consistently high returns on capital, a market capitalization of greater than $1bn, and a debt/equity ratio of less than 1. They all have a good history of paying a dividend, and importantly, a dividend distribution that has been growing over time.

Four of the five purchases can be classified as quality companies that we have identified as offering good value, and one is probably better classified as 'deep value' because the market sentiment is almost universally negative.

The four companies in the 'quality at a good price' group are:

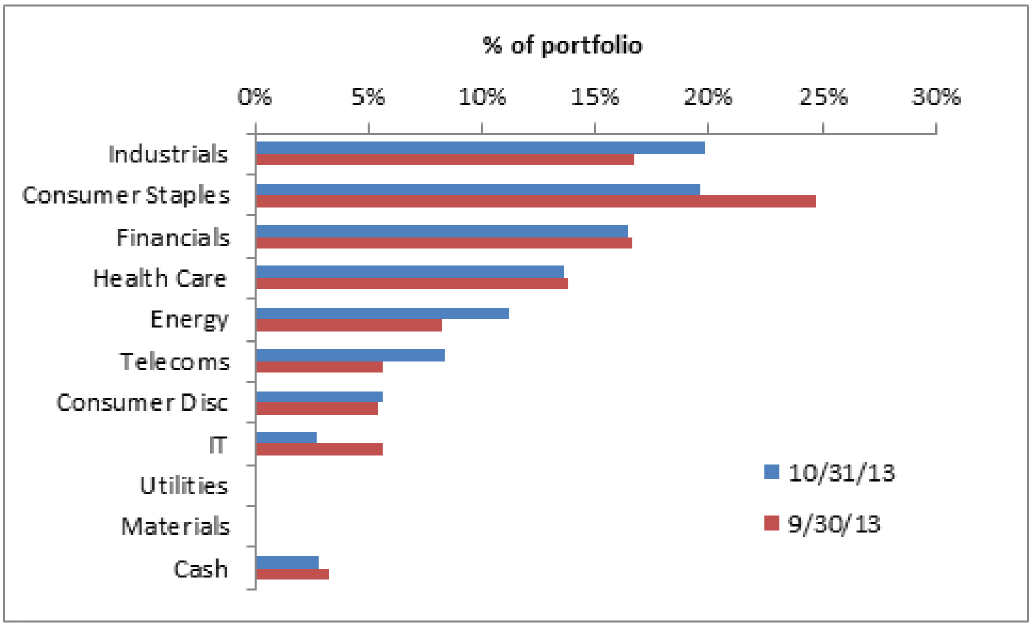
- French-listed electrical component manufacturer Schneider Electric
- Australian-listed medical diagnostics company Sonic Healthcare
- South African-listed telecoms company Vodacom
- Hong Kong-listed Chinese state oil company CNOOC

What immediately jumps out about this group is that none are listed in the UK or US (regions that have performed well relatively) and they are in the more cyclical sectors of the market (which have relatively underperformed the more defensive sectors over the last 3 years). This is not necessarily reflective of a 'top-down' view we have, but it reflects our 'bottom-up' analysis which focuses purely on valuations of individual stocks regardless of which sectors or regions they are in. They all trade on valuation multiples well below their historic highs and, importantly, offer good prospects for earnings growth. The latter is something we are increasingly focussing on in the portfolio, as we have seen the market multiple expand so much since the lows after the financial crisis.

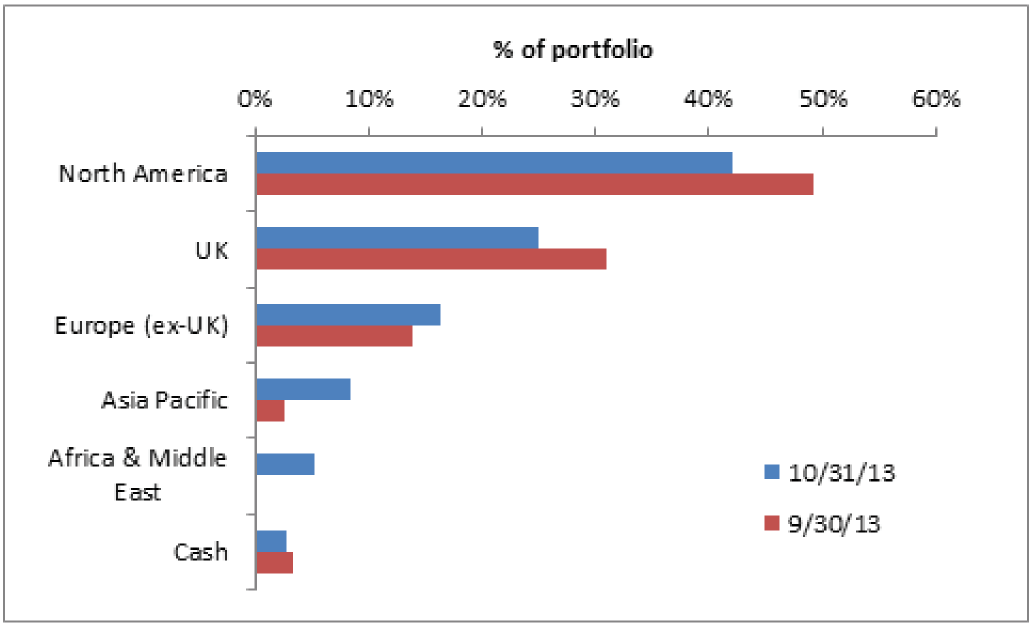
The final company we purchased was Teva Pharmaceutical, the US-listed generic drug manufacturer that is based in Israel. The company has been a consolidator of generic drug manufacturers and also generates a large portion of its revenues from a multiple sclerosis drug for which it owns the patent. Ironically, it is the threat of generic competition to this drug next year, when it comes off patent that has been a drag on the company. At just over 7 times 2014 expected earnings, however, it ranks in the bottom decile of its industry peers and almost 2 standard deviations away from its median multiple over the past 10 years. Earnings expectations have fallen over the past year, but we feel this may have bottomed and the market has oversold the stock based on overly pessimistic view. Again, we cannot pinpoint when sentiment and/or the share price may start to recover, but at such lowly valuations and with the sentiment at extreme levels already, we feel there is good upside potential over the longer term and a lot of bad news already priced in.

So, overall, we have taken profits in some US and UK-listed companies that were trading at very rich multiples and with low dividend yields and replaced them with cheaper companies based outside the US and UK with better dividend yields. We have also continued to sell down our consumer staples stocks and now have just under 20% in this sector. The charts below illustrate how to the portfolio exposure has changed since we made the changes outlined above.

Sector Distribution



Geographic Distribution



We feel the portfolio is therefore well placed and now stands at a discount to the MSCI World Index of 7% (based on 2014 P/E estimates).

Portfolio Performance

as of 09/30/13	YTD	1 YR	Since Inception (3/30/12)
Inflation Managed Dividend Fund	20.87%	22.87%	26.76%
MSCI World Index	17.90%	21.06%	23.13%

as of 10/31/13	YTD	1 YR	Since Inception (3/30/12)
Inflation Managed Dividend Fund	24.39%	26.25%	30.45%
MSCI World Index	22.55%	26.64%	27.99%

The expense ratio is 7.05% (gross), 0.68% (net)

Performance data quoted represent past performance and does not guarantee future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance of the Fund may be lower or higher than the performance quoted. For most recent month-end and quarter-end performance, visit http://www.gafunds.com/IMD_performance or call (800) 915-6566. The Fund imposes a 2% redemption fee on shares held for less than 30 days. Performance data does not reflect the redemption fee and, if deducted, the fee would reduce the performance noted.

The Advisor has contractually agreed to reduce its fees and/or pay Fund expenses (excluding Acquired Fund Fees and Expenses, interest, taxes, dividends on short positions and extraordinary expenses) in order to limit the Fund's Total Annual Operating Expenses to 0.68% through March 31, 2015.

Opinions expressed are subject to change, are not guaranteed and should not be considered investment advice.

This information is authorized for use when preceded or accompanied by a prospectus for the Guinness Atkinson Inflation Managed Dividend Fund. The prospectus contains more complete information, including investment objectives, risks, charges and expenses related to an ongoing investment in The Fund. Please read the prospectus carefully before investing.

Mutual fund investing involves risk and loss of principal is possible. Investments in foreign securities involve greater volatility, political, economic and currency risks and differences in accounting methods. These risks are greater for emerging markets countries. The Fund also invests in medium and smaller companies, which will involve additional risks such as limited liquidity and greater volatility. The Fund may invest in derivatives which involves risks different from, and in certain cases, greater than the risks presented by traditional investments.

For a list of current holdings, click here. Fund holdings and/or sector allocations are subject to change at any time and are not recommendations to buy or sell any security.

The MSCI World Index (MXWO) is a capitalization weighted index that monitors the performance of stocks from around the world.

One cannot invest directly in an index.

Earnings growth is a measure of growth in a company's net income over a specific period, often one year.

Price/Earnings (P/E multiple) reflects the multiple of earnings at which a stock or group of stocks in an index sells. It is equal to the market

Free cash flow dividend is the cash a company produces from its operations less the cost of expanding its asset base.

Standard deviation is the annual rate of return of an investment to measure the investment's volatility.

Debt/equity ratio is a measure of a company's financial leverage calculated by dividing its total liabilities by stockholders' equity.

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