



**GUINNESS
ATKINSON**
F U N D S

Energy brief



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April 2014

**Commentary and Review by portfolio managers
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REPORT HIGHLIGHTS

FUND NEWS

- Fund size \$70 million at end of March

OIL

- **Brent relatively flat as WTI rises over the quarter; Brent/WTI gap closes**

Brent oil maintained a relatively flat around \$110/barrel(bl) in the quarter while the West Texas Intermediate (WTI) oil price rose from \$98.4 to \$101.6, closing the Brent/WTI discount to around \$7/bl. The world oil market remains tight, inventories fell.

NATURAL GAS

- **US gas price very volatile on cold weather**

Henry Hub gas was up strongly during the quarter, reaching over \$\$6 in mid-February, ending March at \$4.37. Exceptionally cold weather boosted heating demand taking inventories to ten-year low levels.

EQUITIES

- **Energy outperforms the broad market**

The first quarter of 2014 was reasonable for global equities, with energy equities keeping pace. The MSCI World Energy Index was up by 1.9%, outperforming the S&P 500 Index by 0.1%.

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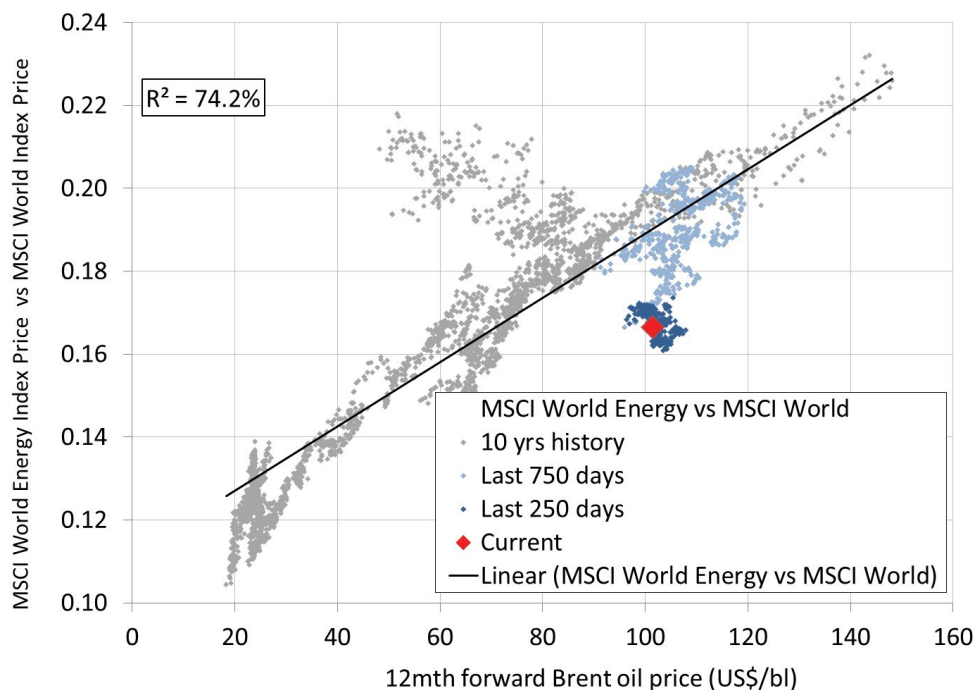
- ➔ Q1 2014 in Review
- ➔ Manager's Comments
- ➔ Performance: Guinness Atkinson Global Energy Fund
- ➔ Portfolio: Guinness Atkinson Global Energy Fund

Chart of the Month

Energy sector market-relative valuations vs. 12 month Brent oil

Over the long term, there is a 74.2% r-squared¹ correlation between the market-relative performance of energy equities and the 12 month forward Brent oil price. The analysis indicates that the energy sector should re-rate versus markets by around 20% if the current 12 month oil price of around \$100/bl is sustained. We note the recent steady improvement in long term oil prices and feel that this may be a positive indicator for future sector relative performance.

The chart below shows that the price of the MSCI World Energy Index vs. the broader markets (as represented by MSCI World Index) is highly correlated to the price of oil. The x axis represents the oil price and the y axis represents the price of the MSCI World Energy Index relative to the price of the MSCI World index. Each dot is a daily data point between May 21, 2001 and April 3, 2014. The linear line has been inserted to visually represent the average pricing trend.

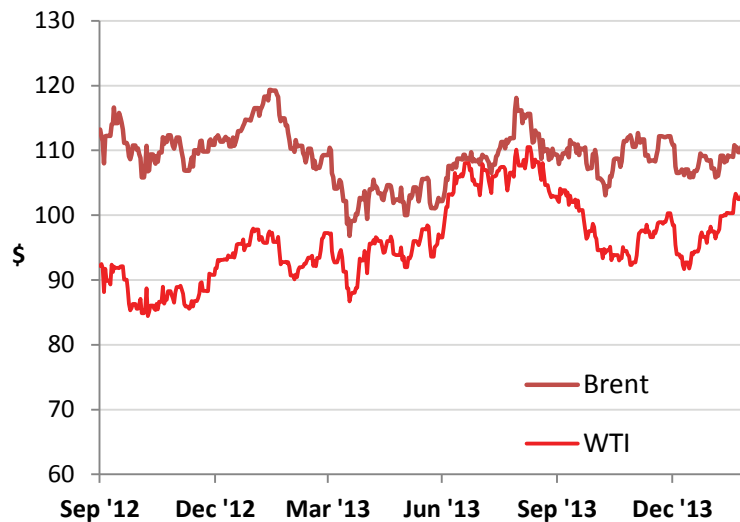


¹R-squared is a statistical measure that represents the percentage of a fund or security's movements that can be explained by movements in a benchmark index.

1. First Quarter 2014 Review

Oil market

Figure 1: Oil price (WTI and Brent \$/barrel) 18 months September 30, 2012 to March 31, 2014



Source: Bloomberg LP

The WTI oil price started January at \$98.4 and ended the quarter at \$101.6. It dipped to a low of just under \$92 in early January before recovering steadily and reaching a peak of just under \$105 in early March and then drifting off to end the month broadly unchanged. WTI has averaged \$98.6 so far in 2014, having averaged \$98.0 in 2013, \$94.1 in 2012 and \$95.0 in 2011.

The Brent oil price weakened slightly during the quarter, falling from just over \$110 at the start of January to end the month at just under \$108. The gap between the WTI and Brent benchmark oil prices therefore declined during the month from around \$12/bl to around \$7/bl. Infrastructure bottlenecks resulting from increased US onshore production around Cushing, Oklahoma, are gradually being relieved and this has resulted in the spread between WTI and Brent gradually narrowing. The WTI-Brent spread averaged \$10.7/bl during 2013, having been well over \$20/bl at times.

Factors which strengthened the WTI and Brent oil prices in Q1 2014:

- **Tightening global oil inventories**

Organization for Economic Co-Operation and Development (OECD) inventories of crude and product stocks drew sharply towards the end of 2013, and data for January 2014 (the latest data point available) showed stocks of 2,551 million barrels, a draw of 13 million barrels versus the previous month. This represents the first January draw (rather than injection) from inventories for 10 years. The overall OECD inventory level is also at its lowest since 2004.

- **Improving US oil product demand data**

Consistently stronger demand data for US crude oil products is emerging. The 4 week average 'US petroleum products supplied' data registered between 0% and 3% over the quarter, having consistently been above 4% year over year (yoy) for the last two months of 2013. The International Energy Agency (IEA) currently forecast US growth of just 0.4% in 2014, so the longer the higher growth rate sustains, the more likely it becomes that US and global oil demand will be revised higher.

- **Downward revisions of US oil supply forecasts**

A combination of weaker reported oil production growth rates for January and February as well as slightly disappointing oil production growth rate guidance for 2014 has caused a number of commentators to reduce, or consider reducing, their North American oil production growth forecasts for 2014. We note that consensus appears to be coalescing around the 700-800 thousand(k) barrels(b)/day level as opposed to the 1 million(m) b/day (or higher) level that some commentators had at the start of the year.

- **Geopolitical issues either affecting global oil supply or posing risks to global oil supply**

Geopolitical issues impacted the crude oil markets again in February. Of particular note were further disruptions in Libya, causing production from that country to fall from to 250k b/day in March (despite broad consensus expectations that production would steadily increase through the year), while sanctions negotiations in Iran appeared to be slowing again. In addition, the Ukraine crisis caused oil prices to rise, but we do not believe that the crisis will have any direct impact on global crude oil production.

Factors which weakened the WTI and Brent oil prices in Q1 2014::

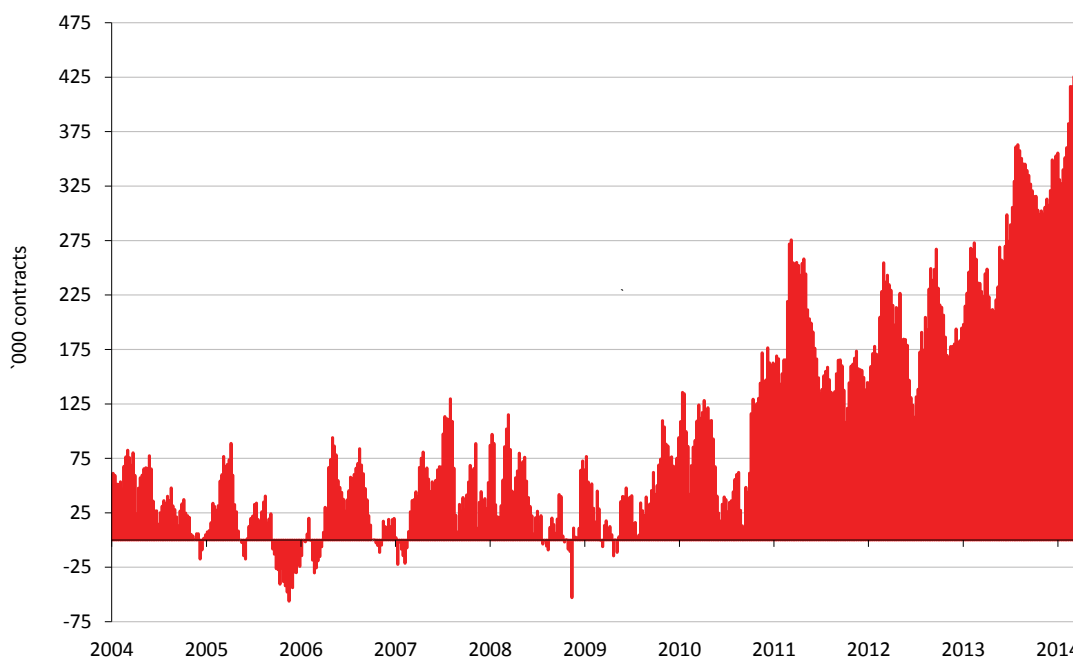
- **Stronger Iranian and Iraqi production**

Iranian oil production for March was reported at just under 2.9m b/day, a rise of nearly 0.4m b/day since May 2013. The rise has accelerated since the start of 2014, coinciding with the implementation in January of the agreement between Iran and the five permanent members of the UN Security Council over Iran's nuclear energy program. Meanwhile, Iraq's production in March was reported at around 3.3m b/day, which compares to average production in 2013 of around 3.1m b/day. At the end of March, it was announced that commercial production had started at the large West Qurna-2 field. Production from the field is initially expected to be around 120,000 b/day, rising to around 1m b/day over several years.

Speculative and investment flows

The New York Mercantile Exchange (NYMEX) net non-commercial crude oil futures open position increased in Q1 2014, ending March at 391,000 contracts long, versus 355,000 contracts long at the end of December 2013. We still regard a net long position of 391,000 contracts as high – any unwinding is likely to dampen the WTI price.

Figure 2: NYMEX Non-commercial net futures contracts: WTI January 2004 – March 2014

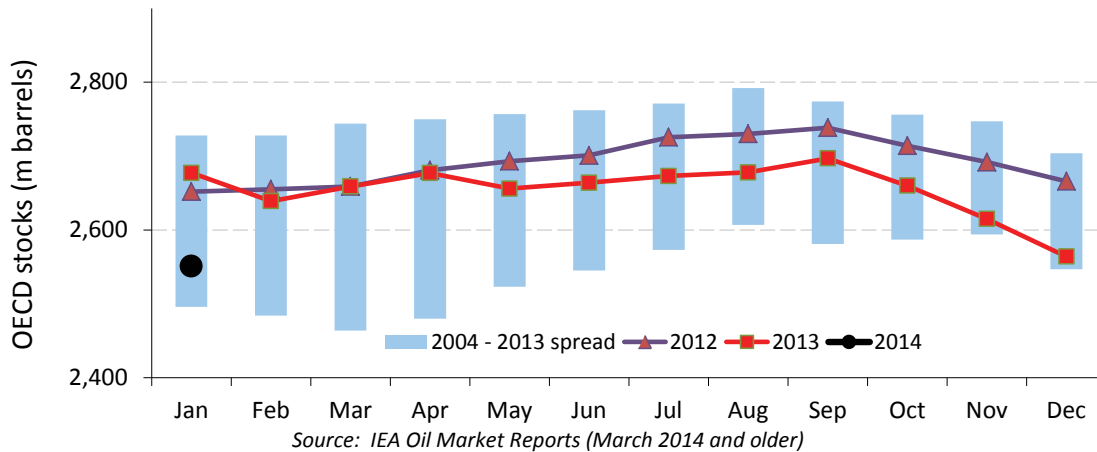


Source: Bloomberg LP/NYMEX (April 2014)

OECD Stocks

OECD total product and crude inventories were reported for January 2014 (the latest data point available) at 2,551m barrels, down 13m barrels compared to the previous month, representing the first December-January decline for 10 years (the last 10 years have seen an average injection of 40m barrels in January). Total OECD inventories now sit just above the bottom of the 10 year high-low range and well below the levels seen in 2012 and 2013. We believe that Organization of Petroleum Exporting Countries (OPEC) would like to manage supply so that OECD inventories remain comfortably within the 10 year range: a further tightening could prompt to Saudi et al to raise production.

Figure 3: OECD total product and crude inventories, monthly, 1998 to 2014

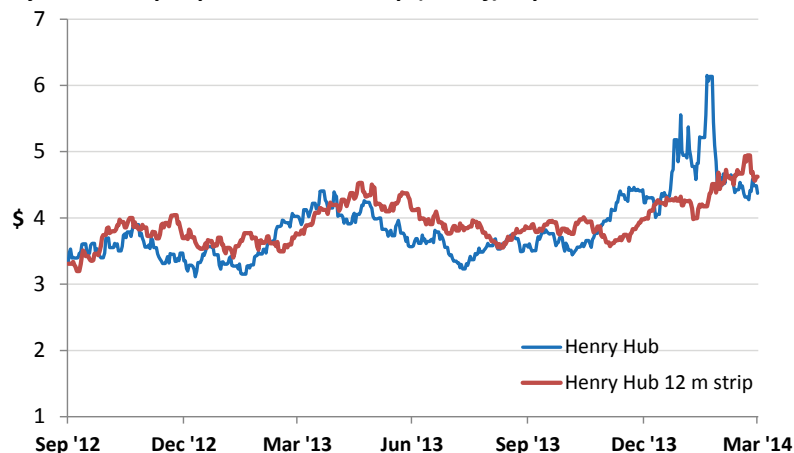


2. Natural Gas Market

The US natural gas price (Henry Hub front month) started January at \$4.20 per Mcf (1000 cubic feet) and ended the quarter up slightly at \$4.37. The price was exceptionally volatile during the month, reaching a peak of \$6.15 in mid-February as the US suffered an exceptionally cold winter and natural gas demand increased dramatically. As the winter heating period came towards an end, the natural gas price weakened back towards the \$4.50 level and ended the month at \$4.37, still sharply higher than the low of \$1.84 reached in April 2012. The price averaged \$3.73 in 2013, well above the 2012 average of \$2.75 but down on the 2010 and 2011 averages of \$4.38 and \$4.00 and significantly below the average in each of the previous 5 years (2005-2009).

The 12-month gas strip price (a simple average of settlement prices for the next 12 months' futures prices) was more stable over the quarter, starting January at \$4.20 and ending at \$4.46. The strip price averaged \$3.92 in 2013, having averaged \$3.28 in 2012, \$4.35 in 2011, \$4.86 in 2010 and \$5.25 in 2009.

Figure 4: Henry Hub Gas spot price and 12m strip (\$/Mcf) September 30, 2012 to March 31, 2014



Factors which strengthened the US gas price in Q1 2014 included:

- **Cold weather across the US**

The extremely cold US winter continued through February, resulting in sharply higher gas demand for heating. To illustrate the extreme conditions, 727 Bcf was drawn from gas in storage in February representing the largest February draw over the last 10 years and 33% higher than average. While the positive effect of cold weather on demand is only a temporary factor, the resulting tightening of gas inventories (which also sit at the lowest level for 10 years) is a useful prop for the price going into 2014.

- **Higher production levels required to refill storage**

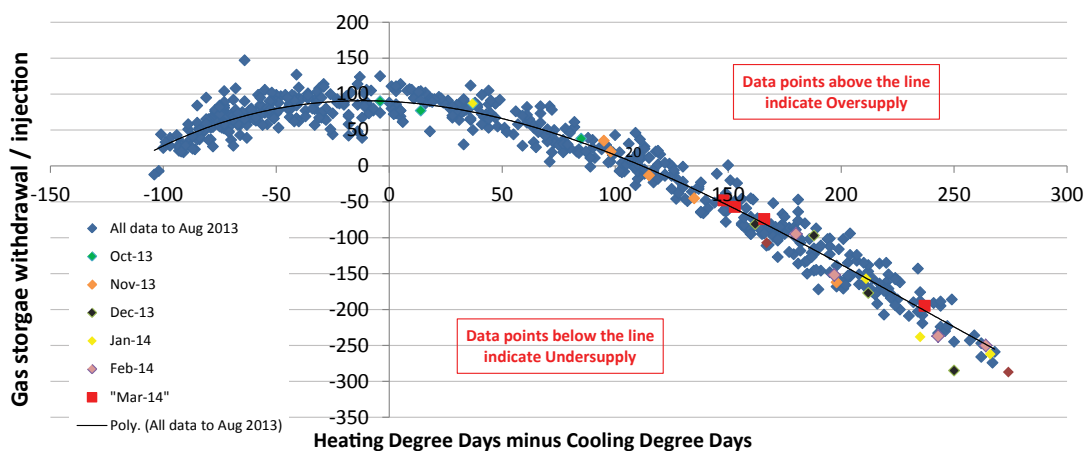
Questions remain over the natural gas industry's ability to refill natural gas storage by the start of the next winter heating season (November 1, 2014). Natural gas storage levels are circa(c.) 825 bcf as of April 1, 2014, which is the lowest level since 2003 (when storage fell to 730 bcf). In order to rebuild storage to the 5 year(yr) average level on November 1, 2014, weekly injections would need to exceed the 10 yr average weekly maximum injection levels by 2.5bcf/week. We think this sustained high level of production is unlikely to be achieved.

Factors which weakened the US gas price in Q1 2014 included:

- **Production reacting to the higher levels of price, despite wellhead 'freeze-offs'**

While demand was extremely high at times and required large withdrawals from storage, we note that US natural gas production appears to be reacting to the higher prices. Early in March 2014, the Energy Information Administration (EIA) stated that gross gas production in January 2014 for the lower 48 states was up 0.35 bcf/day (month over month) to 75.3 bcf/day, despite the cold weather negatively affecting production activities. In addition, recent industry estimates show that lower 48 gross gas production had reached peak levels again later in the quarter.

Figure 5: Weather adjusted US natural gas inventories



Source: Bloomberg (March 2014)

- **US onshore production**

The January data (latest available) from the Energy Information Agency indicated that total US natural gas production (Lower 48 States) was up, increasing by 0.35 bcf/day month-on-month, to 75.3 bcf/day. Total onshore production grew by 0.5 Bcf/day month-on-month, implying that offshore production declined slightly. Year-on-year production is up by 3.3 bcf/day (4.6%) and is driven primarily by production growth from the Marcellus.

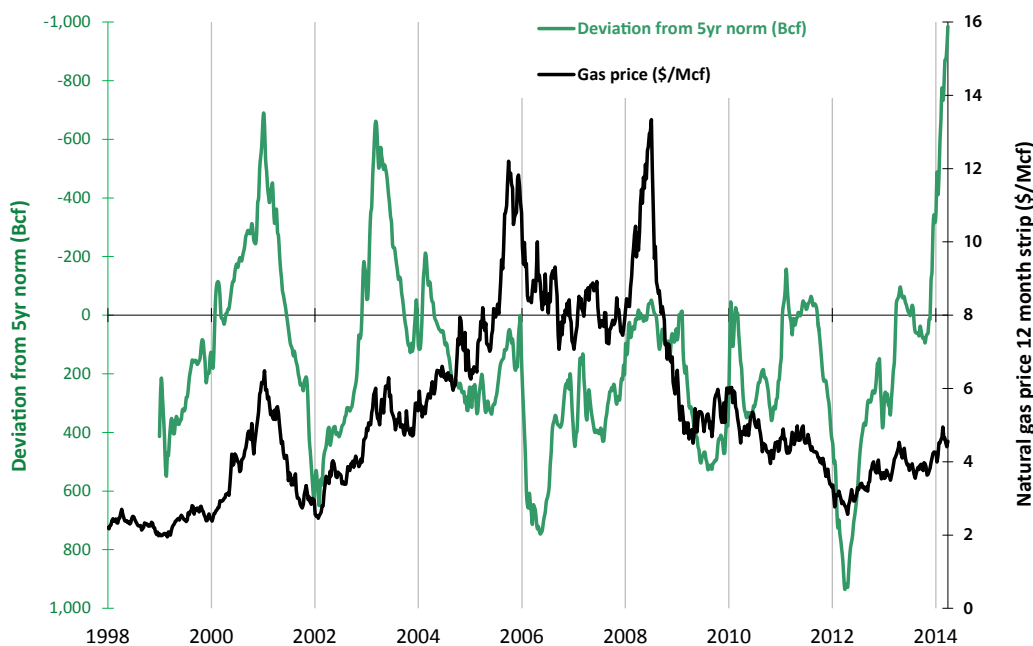
- **Two more US LNG export terminals approved**

It was announced in February that Sempra's Cameron Liquid Natural Gas (LNG) project received a full export license from the Department of Energy. Cameron, which will have 1.7 Bcf/day of capacity, is the sixth US LNG project to be fully export approved. In March, the US Department of Energy (DoE) authorized the Jordan Cove LNG scheme to export LNG to non-Free Trade Agreement countries. Jordan Cove represents the 7th US LNG project to be fully export approved, for a capacity of 0.8bcf/day. Cumulatively, the seven projects will add export capacity of 9.3 bcf/day (around 12% of the existing US gas market). So far, though, only one of the six projects (Sabine Pass) has received construction approval (which is granted separately by Federal Energy Regulatory Commission - FERC): we expect the next construction relatively soon.

Natural gas storage

Swings in the supply/demand balance for US natural gas should, in theory, show up in movements in gas storage data. The following graph shows the 12 month gas strip price (in black) against the amount of gas in storage expressed as the deviation from the 5 year storage average (in green). Swings in storage have frequently been a leading indicator to movements in the gas strip price.

Figure 6: Deviation from 5yr gas storage norm vs. gas price 12 month strip (H. Hub \$/Mcf)



The surplus of gas in the second half of 2008 and 2009, a result of oversupply during the recession, can be seen in gas storage data, with the inflection point in storage occurring in July 2008 and the storage line moving from negative (i.e. deficit) to positive (i.e. surplus) territory over this 18 month period. This coincided with the gas strip price falling from a peak of over \$13 in July to below \$5. An unusually cold 2009/10 winter boosted demand and pushed the gas storage level back into balance, only for oversupply to persist again for much of the rest of 2010. A cold 2010/11 winter followed by a hot 2011 summer tightened storage again, with storage levels staying around the 5 year average for much of this period.

The very mild 2011/12 winter (in combination with rising production) caused gas storage levels to balloon to record levels, driving prices down to their lowest levels for a decade. Since then, coal-to-gas switching and shut ins and the sharp rig count drop have worked in the other direction, seeing gas prices rising from their sub \$2 lows in April 2012 to around \$4 at the end of 2013. Most recently, gas in storage has tightened very considerably, though much of this can be attributed to an extremely cold 2013/14 winter rather than a structural tightening. We wait to see whether coal regains power generation market share as a result of the higher gas price although note that many coal fired power plants will start to be decommissioned from 2015.

We watch movements in gas storage closely as a tightening from here, weather adjusted, is likely to be a coincident indicator for the start of a sustained gas price recovery.

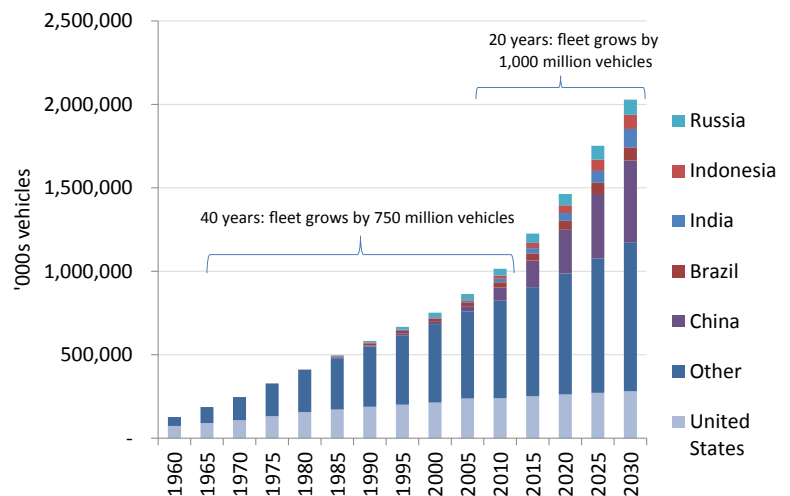
3. Manager's Comments

Our manager's comments provide a summary of what the next 12 months might hold for us as investors in, and interested observers of, the energy markets.

Crude oil

In terms of the crude oil markets, we continue to think commentators are over-focused on US shale oil production growth and the prospect of US "energy independence". The main impact is that it is good news for the US balance of payments. As regards likely impact on the oil price, it is just one supply and demand factor. Growth in US shale oil production of 5-6m b/day between 2009 and 2017 is comparable in size to the growth in the Former Soviet Union (FSU) oil production of 5m b/day from 7.3m b/day to 12.3m b/day over 8 years between 1998 and 2006, during which the oil price rose from \$10/bl to \$66/bl! Our suspicion is that commentators will soon start focusing on the fact that shale oil production growth is slowing down; as the decline rate treadmill begins to overwhelm fracking productivity gains.

As we have stated before, this 'shale revolution' in the US is a production surge just like the development of the Gulf of Mexico and North Sea and Alaska in the 1980s in response to the 1970s price hike. However, there is one huge difference: back then oil demand from the OECD economies had exploded from 1950 to 1973. They were at the end of a 25 year journey adopting the motor vehicle; impetus was fading and demand naturally then corrected as prices jumped.



Source: DoE; Guinness Atkinson Asset Management

Now, however, the picture is different. China's per capita demand for oil has not yet even reached that of the OECD at the beginning of the 1950s. We expect two decades of unrelenting oil demand growth to come while the Chinese vehicle fleet moves from 100 million now to 400 million by 2030, and India and several other developing economies follow about ten years behind. The coming world car fleet explosion helps to explain rather simply the reason why global demand for oil is in a strong upward trajectory.

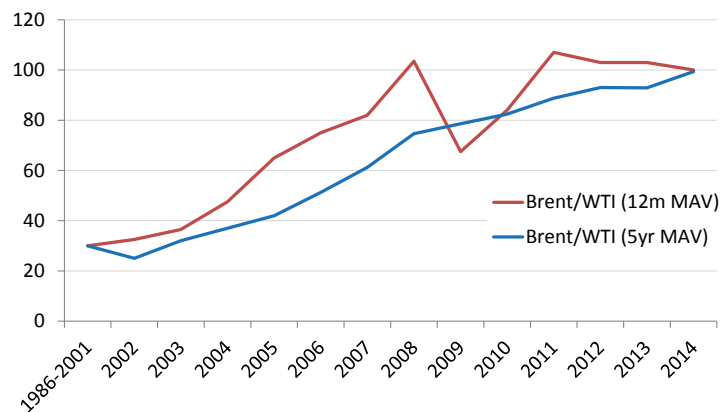
Looking ten years forward to 2024, we continue to see 10 to 13m b/day of global demand growth (emerging economies growing at 12-15m b/day, less 2m b/day of demand decline from the OECD) and muted supply growth (made up of barrels per day growth of perhaps 2-3m from the US, 1-2m from Iraq, 1m from Africa, 1.75m from Brazil, 1.25m from Canada, 1m from the Caspian, and some mature basin declines). If you doubt us, remember that Canada, for example, only grew its oil production by 1.3m b/day from 2002 to 2013 despite all the effort to develop its oil sands. Please note, we are being 1m b/day more optimistic about US shale oil than the EIA (they are predicting 2m b/day of growth from here). And we may also be too optimistic on our non-US oil growth expectations. When assessing the prospects for global supply as a whole, it is important to remember that the starting point each year is a fall of around 4.5m b/day (5% of total supply) as existing basins decline. This is quite some hurdle to overcome year after year.

For two years we have commented that Saudi, the United Arab Emirates (UAE) and Kuwait stand at center stage of the oil market and that they would manage whatever the US, China or Eurozone economies threw at them. That continues to be our view. We also see them coping with whatever Iran, Libya and Iraq throw at them in the future. So our view is much the same as last year, in that oil will trade mostly in the \$90 – \$110 range, with Brent towards the top end of this range and WTI at around a \$10 discount to Brent.

The mid-point of this range is \$100/bl, which equates to global crude oil demand spend at around 4.3% of world Gross Domestic Product (GDP). This is more or less what the world has paid on average for its oil the last 40 years. It is a level that will not bring the world economy to a grinding halt and it is a price that, from OPEC's point of view, looks fair. They will strive to achieve it; and bear in mind, Saudi's 2014 national budget will be balanced if the oil that the country exports is sold at \$102/bl. It is also likely that it will rise from here gradually at something like inflation or higher, leading to closer to \$150/bl oil prices by the end of the decade. We show our view in the context of the recent past using inflation-adjusted oil prices:

Oil price (inflation adjusted)

	1986-2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014 Est
WTI	30	33	38	49	66	75	82	104	68	84	99	94	98	95
Brent	30	32	35	46	64	75	82	103	67	84	115	112	108	105
Brent/WTI (12m MAV)	30	33	37	48	65	75	82	104	68	84	107	103	103	100
Brent/WTI (5yr MAV)	30	25	32	37	42	51	61	75	79	82	89	93	93	99



Source: Bloomberg; Guinness Atkinson Asset Management

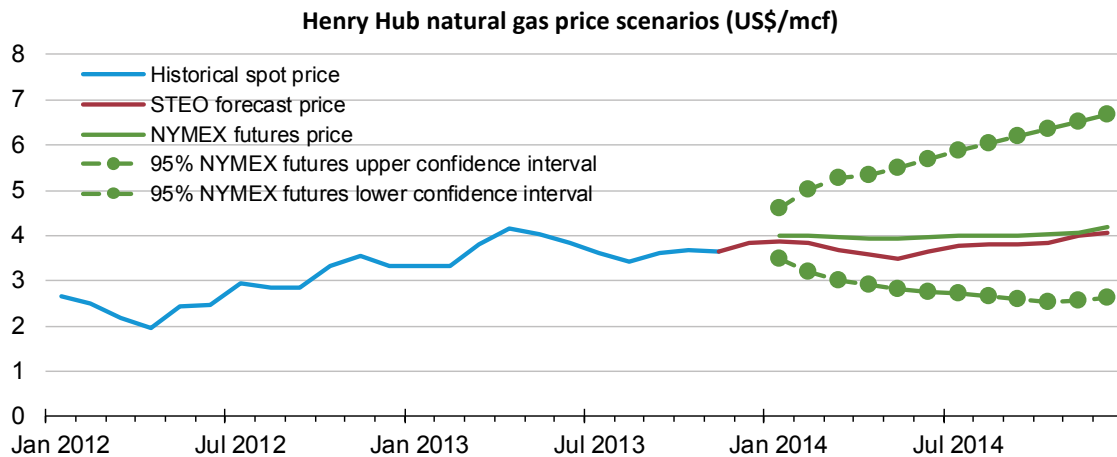
This optimistic view is influenced by the fact that we feel that the recovery in the US economy continues and that China will continue to transition to a 'consumption' growth phase of development. The European recovery may not come until 2015, but come it will.

Natural Gas

Next, we turn our attention to North American natural gas markets. We could see a usefully tighter gas market in 2014 than in 2013 if US gas demand continues to grow at c. 1.5 bcf/day per annum (p.a.), split broadly equally between electricity demand, industrial on-shoring demand and net export demand, i.e. Mexico exports up, Canada imports down.

The principal imponderable left is how much coal-to-gas switching remains to unwind. We are still cautious about this alleviation of supply tightness and can see the market balancing, rather than being short, for another year as this totally unwinds. But it does seem clear to us that in 2015, i.e. in 12-18 months, some combination of a rising gas price and rising gas drilling rig count is likely.

We have been guilty in the past of expecting a quick balance of the gas market as a result of the collapse in the natural gas drilling rig count. And we may be guilty again of over-optimism about how much the gas price will rise before the market rebalances. Nonetheless, we are increasingly comfortable with forecasting gas above \$4/mcf in 2014 and above \$5/mcf in 2015. The asymmetry in the upper and lower confidence levels in the recent EIA chart shown below is also supportive of this view.



Note: Confidence interval derived from options market information for the 5 trading days ending Dec. 5, 2013. Intervals not calculated for months with sparse trading in near-the-money options contracts.

Source: EIA

The US Department of Energy is predicting flat natural gas production in 2014. This may be slightly optimistic, but a point some commentators are failing to grasp is that given associated gas production from shale oil wells is growing at c. 2bcf/day p.a. and Marcellus shale gas production is growing at 2-3 bcf/day p.a., the implication has to be that all other US gas production is declining by around 4-5 bcf/day p.a. This is due, of course, to the effect of the dramatic decline in the ex-Marcellus gas rig count from over 900 to under 250 rigs in less than 2.5 years.

International gas demand will continue to be very robust, with emerging economies again (and particularly China) being most responsible. China's consumption of gas has grown from 2.5 bcf/day in 2000 to 15 bcf/day in 2013 (one fifth of the consumption of the US) and we expect it to exceed 40 bcf/day by 2020, on a trajectory to exceed US consumption around 2030. Global demand, now 330 bcf/day, will rise to 400 bcf/day by 2020 if the last ten years are repeated (4.1% p.a. growth in the developing world; 1.45% p.a. growth in the developed world).

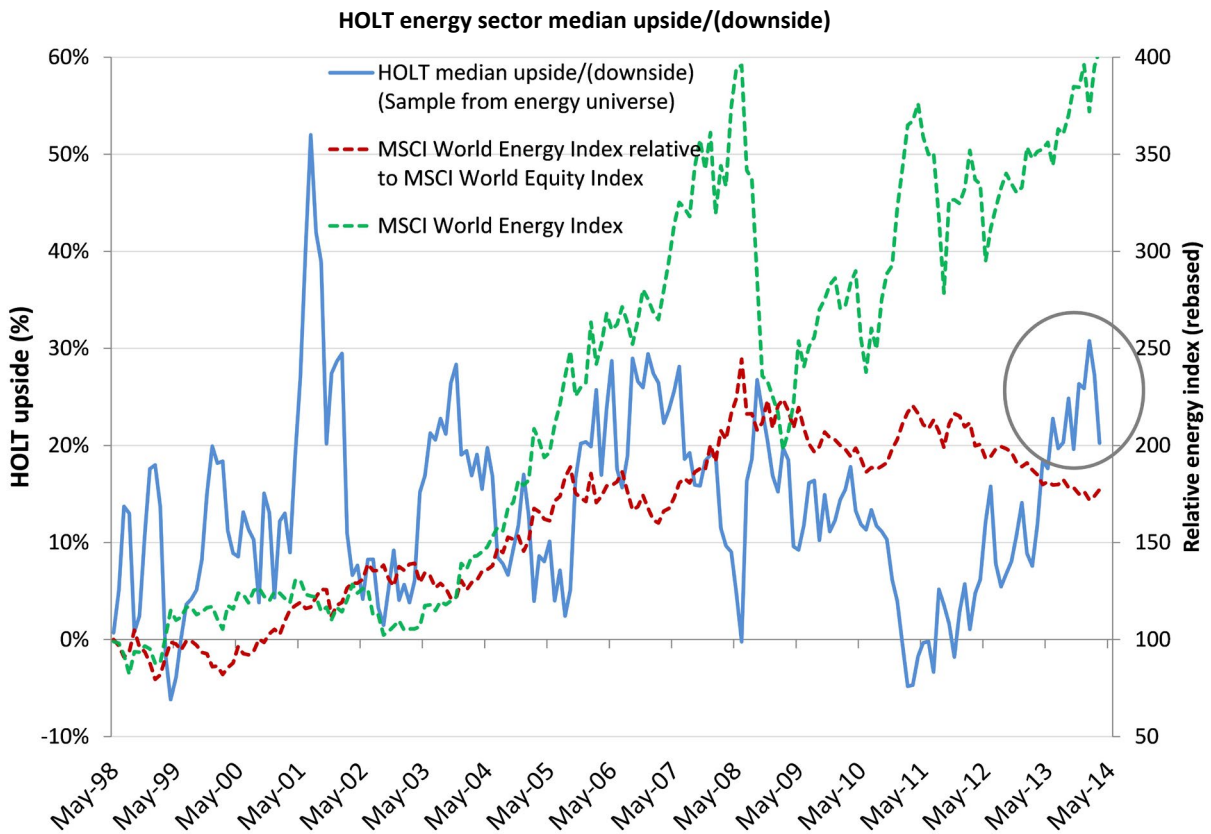
Given this demand strength backdrop, we see no reason why the global gas price will not remain firm and continue to be priced off oil in long-term supply contracts. The need for very large up-front expenditures on pipelines or LNG facilities to supply much of global demand growth is one reason why this is likely to continue. We also believe that US LNG exports, likely to be 6 bcf/day by 2020, will be easily absorbed by the growing non-OECD gas demand.

Energy equities

With regard to the bigger **commodity cycle** discussion, we see the most likely evolution as being that demand for infrastructure commodities (copper, aluminium, iron ore) may well level off and prices weaken as productive capacity is added and China moves from 'investment-led' growth to 'consumption-led' growth. Typically, however, the next stage of the cycle is that commodities that are in growing demand by consumers (such as energy and agricultural commodities) continue to remain firm and even strengthen further.

Lastly, when we look at energy equity valuations, we see that the Guinness Atkinson Global Energy Fund, based on consensus estimates, is trading on a 2014 P/E ratio of 11.8x at March 31 2014; well below the broad market's 2014 P/E ratio of 15.5x, as represented by the S&P 500. The PE discount is 24%, giving a potential upside versus the broad market of around 31% when energy PEs close the gap with the broad market; history indicates they'll close the gap when the current oil price and long-run market expectations for the oil price come together. The oil price chart above says to us that \$100 oil is around where that could happen. This represents a little bit more than tripling in the real oil price from the cheap oil 1985-2002 period.

There are other ways of thinking about value. Along with low P/E ratios we find several other metrics indicating the attractiveness of energy equities relative to the broad market; measures such as price-to-book and enterprise value to proven reserves (for the large caps). One approach we increasingly favor over the above is based on the cash flow return on investment methodology (CFROI) developed by HOLT. The chart below shows an estimate of upside for all the energy companies with a market capitalization today of over \$1 billion(bn) that have a track record in HOLT going back to 1998.



Source: CSFB HOLT; Guinness Atkinson Asset Management

As can be seen, the HOLT metric is registering that energy equities appear around 25% cheap. Historically, this has been a good entry point for investors wanting good relative and/or absolute performance. It is not foolproof, but given the sense check that energy equities are on a c.11x PE multiple referred to above, it looks like a good one to us.

Energy equities have also been one of the better inflation hedges. If we see dollar inflation of 30/50% over the next decade (that's just 2.7-4.1% pa), it will be surprising if oil and gas prices do not rise by a comparable percentage over that time frame. We would expect energy equities to perform very well in this environment.

4. Performance – Guinness Atkinson Global Energy Fund

The first quarter of 2014 was reasonable for global equities, with energy equities keeping pace. The MSCI World Energy Index was up by 1.9%, outperforming the S&P 500 Index by 0.1%. The Guinness Atkinson Global Energy fund rose by 5.4%, outperforming the energy index by 3.5% and the broad market (S&P 500 Index) by 3.6%.

The fund outperformed the MSCI World Energy Index in the period, predominantly as a result of being overweight with US onshore energy service companies and Exploration and Productions (E&Ps) and underweight with the US super majors. US land drillers in the portfolio performed particularly well (Patterson +25.5%; Unit +26.7%), benefitting from the rise the number of rigs drilling unconventionally for oil across the major shale oil basins.

Among our US E&P holdings, we saw specific strength in a number of stocks, notably Penn Virginia (+85.5%), Newfield (+27.3%) and Stone Energy (+21.3%). Elsewhere in the US, super majors ExxonMobil and Chevron underperformed the benchmark (-4.0% and -2.8% in the quarter versus the index +1.9%) and despite the fund holding a position in both stocks, we were still materially underweight compared to the index.

Aside from Exxon and Chevron, there were ten other stocks in the portfolio that delivered negative absolute performance in the quarter, a number of which are emerging market companies: Gazprom (-9.9%), OMV (-5.5%), Trina Solar (-1.6%) and Petrochina (-0.6%). Gazprom suffered due to the Russia/Ukraine political crisis that developed in March, OMV due to ongoing unrest in Libya, while Trina and PetroChina were caught up in the general sell off of Chinese equities during the quarter.

Performance as of March 31, 2014

Inception date 6/30/04	Full Year 2009	Full Year 2010	Full Year 2011	Full Year 2012	Full Year 2013	YTD	1 year (annualized)	Last 5 years (annualized)	Since Inception (annualized)
Global Energy Fund	63.27%	16.63%	-13.16%	3.45%	24.58%	5.4%	24.65%	17.83%	13.68%
MSCI World Energy Index	26.98%	12.73%	0.71%	2.54%	18.98%	1.9%	14.78%	14.26%	10.44%
S&P 500 Index	26.47%	15.06%	2.09%	15.99%	32.36%	1.8%	21.70%	21.12%	7.42%

Source: Bloomberg

Gross expense ratio: 1.35%

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 www.gafunds.com 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.

5. Portfolio – Guinness Atkinson Global Energy Fund

Buys/Sells

In February we sold our position in Conocophillips and switched into Enquest. We have held Conocophillips' stock since the launch of the Fund in 2008, over which period it has outperformed the fund by around 3% per annum, prompting us into taking profits. The purchase of Enquest represents a switch into North Sea exploration and production. We are attracted by Enquest's stage of development and expect the company to be able to grow its North Sea reserves and production significantly over the next few years, all of which we believe comes today at a reasonable valuation.

Sector Breakdown

The following table shows the asset allocation of the Fund at **March 31, 2014**.

(%)	31 Dec 2007	31 Dec 2008	31 Dec 2009	31 Dec 2010	31 Dec 2011	31 Dec 2012	31 Dec 2013	31 Mar 2014	Change YTD
Oil & Gas	103.5	96.4	96.1	93.2	98.5	98.6	95.6	94.9	-0.7
Integrated	66.2	53.7	47.2	41.2	39.6	39.1	39.6	38.6	-1.0
Exploration and production	25.8	28.7	32.0	36.9	41.5	41.6	36.8	36.0	-0.8
Drilling	8.1	5.2	8.4	6.3	6.0	7.4	6.8	7.2	0.4
Equipment and services	3.4	6.4	5.4	5.3	6.6	7.1	9.0	9.9	0.9
Refining and marketing	0.0	2.4	3.1	3.5	4.8	3.4	3.4	3.2	-0.2
Coal and consumables	2.5	2.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Solar	0.0	0.0	0.0	3.2	1.2	1.2	2.8	2.9	0.1
Construction and engineering	0.0	0.4	0.4	0.4	0.4	0.6	0.9	1.1	0.2
Cash	-6.0	0.9	3.5	3.2	-0.1	-0.4	0.7	1.1	0.4
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	0.0

Source: Guinness Atkinson Asset Management

Basis: Global Industry Classification Standard (GICS)

Guinness Atkinson Global Energy Fund Portfolio

The Fund at March 31, 2014 was on an average price to earnings ratio (PER) versus the S&P 500 Index at 1,885 as set out in the table. (Based on S&P 500 'operating' earnings per share estimates of \$56.9 for 2009, \$83.8 for 2010, \$96.4 for 2011, \$96.8 for 2012, \$107.3 for 2013 and \$121.7 for 2014). This is shown in the following table:

	2009	2010	2011	2012	2013	2014
Fund PER	17.4	11.4	11.2	12.1	12.9	11.9
S&P 500 PER	33.2	22.5	19.6	19.5	17.6	15.5
Premium (+) / Discount (-)	-48%	-49%	-43%	-38%	-27%	-23%
Average oil price (WTI \$)	\$61.9/bbl	\$79.5/bbl	\$95/bbl	\$94/bbl	\$98/bbl	\$95/bbl

Source: Standard and Poor's; Guinness Atkinson Asset Management

Portfolio Holdings

Our integrated and similar stock exposure (c.38%) is comprised of a mix of mid cap, mid/large cap and large cap stocks. Our five large caps are Exxon, BP, Chevron, Royal Dutch Shell and Total. Mid/large and mid-caps are ENI, Statoil, Hess and OMV. At March 31 2014 the median PE ratio of this group was 10.8x 2014 earnings. We have one Canadian integrated holding, Suncor. The company has significant exposure to oil sands and stands on an attractive PE of 11.2x 2014 earnings given the company's good growth prospects.

Our exploration and production holdings (c.36%) give us exposure most directly to rising oil and natural gas prices. We include in this category non-integrated oil sands companies, as this is the Global Industry Classification Standard (GICS) approach. The stock here with oil sands exposure is Canadian Natural Resources. The pure E&P stocks are all largely in the US (Newfield, Devon, Chesapeake, Carrizo, Stone, Ultra, QEP and Bill Barrett), with two more US names (Apache and Noble) which have significant international production and two (Enquest and Bankers Petroleum) which are European and North Sea focused. One of the key metrics behind a number of the E&P stocks held is low enterprise value / proven reserves. Almost all of the E&P stocks held also provide exposure to North American natural gas and include two of the industry leaders (Devon and Chesapeake). In PE terms, the group divides roughly into two: (i) Apache, Chesapeake, Devon, Newfield, Ultra, Stone and Enquest all with quite low PEs (9x – 17x 2014 earnings); and (ii) Noble, Bill Barrett, Penn Virginia, Carrizo and QEP with higher PE ratios. However, all look reasonably attractive on EV/EBITDA multiples.

We have exposure to four (pure) emerging market stocks in the main portfolio, though two are half-positions. Two are classified as integrated by the GICS (Gazprom and PetroChina) and two as E&P companies (Dragon Oil and SOCO International). Gazprom is the Russian national oil and gas company which produces approximately a quarter of the European Union gas demand and trades on 2.8x 2014 earnings. PetroChina is one of the world's largest integrated oil and gas companies and has significant growth potential and advantages as a Chinese national champion. Dragon Oil is an oil and gas E&P company focused on offshore Turkmenistan in the Caspian Sea and trades on 7.4x 2014 earnings. SOCO International is an E&P company with production in Vietnam and exploration interests across East Africa in Angola, Democratic Republic of Congo and the Republic of Congo.

We have useful exposure to oil service stocks, which comprise around 17% of the portfolio. The stocks we own are split between those which focus their activities in North America (land drillers Patterson and Unit) and those which operate in the US and internationally (Helix, Halliburton and Shawcor).

Our independent refining exposure is currently in the US in Valero, the largest of the US refiners, which is currently trading at significant discount to book and replacement value. Valero has a reasonably large presence on the US Gulf Coast and is benefitting from the rise in US exports of refined products seen in recent times.

Our alternative energy exposure is currently a single unit split equally between two companies: JA Solar and Trina Solar. Both were loss making in 2012 and 2013 due to sharp falls in solar prices during the year but are expected to return to profitability during 2014. Trina is a Chinese solar module manufacturer and JA Solar is a Chinese solar cell manufacturer. Some measure of their continued recovery potential may be indicated by their 2010 P/Es of 4.0x and 1.3x respectively.

Portfolio at March 31, 2014

Guinness Atkins on Global Energy Fund 31 March 2014													
Stock	ID_ISIN	Curr.	Country	% of NAV	2006 B'berg mean PER	2007 B'berg mean PER	2008 B'berg mean PER	2009 B'berg mean PER	2010 B'berg mean PER	2011 B'berg mean PER	2012 B'berg mean PER	2013 B'berg mean PER	2014 B'berg mean PER
Integrated Oil & Gas													
Exxon Mobil Corp	US 30231G1022	USD	US	3.08	14.91	13.4	11.5	25.1	16.3	11.6	12.4	13.2	13.0
Chevron Corp	US 1667641005	USD	US	3.25	15.2	13.5	10.4	23.2	12.8	8.8	9.6	10.7	10.8
Royal Dutch Shell PLC	GB00B03MLX29	EUR	NL	3.39	9.2	7.3	8.5	16.8	11.9	8.8	8.7	11.5	10.6
BP PLC	GB0007980591	GBP	GB	3.10	7.3	7.3	5.9	10.2	7.1	7.1	8.8	10.9	9.7
Total SA	FR0000120271	EUR	FR	3.56	8.7	8.8	7.7	13.8	10.2	9.2	8.7	9.9	9.7
ENI SpA	IT0003132476	EUR	IT	3.28	6.5	7.1	6.5	12.8	9.7	9.3	9.1	14.5	13.1
Statoil ASA	NO0010096985	NOK	NO	3.38	9.0	12.2	9.2	16.8	12.6	10.8	10.2	11.2	11.2
Hess Corp	US 42809H1077	USD	US	3.29	15.0	13.9	11.3	43.3	16.0	13.8	14.0	14.5	17.8
OMV AG	AT0000743059	EUR	AT	2.93	6.5	6.3	5.1	13.2	8.3	10.3	7.2	8.9	8.1
				29.27									
Integrated Oil & Gas - Canada													
Suncor Energy Inc	CA8672241079	CAD	CA	3.05	15.7	16.2	12.1	36.6	24.3	10.8	12.0	12.1	11.2
Canadian Natural Resources Ltd	CA1363851017	CAD	CA	3.80	29.0	20.1	13.0	17.6	17.5	18.3	26.6	18.9	13.9
				6.85									
Integrated Oil & Gas - Emerging market													
PetroChina Co Ltd	CNE 1000003W8	HKD	HK	3.32	8.5	8.3	10.7	11.3	9.1	8.9	10.3	11.8	9.3
Gazprom OAO	US 3682872078	USD	RU	2.74	nm	nm	nm	4.9	3.8	2.6	2.7	2.6	2.8
				6.06									
Oil & Gas E&P													
Apache Corp	US 0374111054	USD	US	2.93	11.3	9.6	7.4	14.9	8.9	7.0	8.7	10.2	12.2
Bill Barrett Corp	US 06846N1046	USD	US	1.07	18.1	26.4	9.4	15.1	12.7	14.5	483.0	nm	47.0
QEP Resources Inc	US 74733V1008	USD	US	1.11	nm	nm	nm	nm	21.3	18.0	23.7	21.1	25.5
Ultra Petroleum Corp	CA 9039141093	USD	US	1.40	18.8	23.6	10.1	14.9	12.1	10.5	14.6	16.8	11.2
Devon Energy Corp	US 25179M1036	USD	US	3.48	10.6	9.6	6.8	18.5	11.3	11.1	20.7	15.8	12.2
Chesapeake Energy Corp	US 1651671075	USD	US	3.05	7.1	8.0	7.2	10.3	8.7	9.1	52.8	15.6	14.0
Noble Energy Inc	US 6550441058	USD	US	3.03	37.5	26.1	20.2	42.0	34.3	27.0	31.0	23.0	21.6
Newfield Exploration Co	US 6512901082	USD	US	3.48	8.9	9.7	10.0	6.2	6.8	7.7	12.9	17.5	17.0
Stone Energy Corp	US 8616421066	USD	US	2.06	15.3	8.2	7.5	18.2	20.7	10.8	15.1	15.0	31.0
Carrizo Oil & Gas Inc	US 1445771033	USD	US	1.95	75.3	76.4	29.7	36.3	42.0	52.0	36.7	24.1	22.2
Penn Virginia Corp	US 7078821060	USD	US	0.54	9.7	9.6	6.8	nm	nm	nm	nm	nm	208.2
EnQuest PLC	GB00B635TG28	GBP	GB	1.42	nm	nm	nm	nm	21.5	24.6	7.4	8.2	8.9
Bankers Petroleum Ltd	CA0662863038	CAD	CA	1.29	nm	nm	nm	1,624.2	71.7	25.8	24.7	17.1	12.1
Trinity Exploration & Production PLC	GB00B8JG4R91	GBP	GB	0.29	nm	nm	nm	nm	nm	nm	nm	3.7	nm
Ophir Energy PLC	GB00B24CT194	GBP	GB	0.25	nm	nm	nm	nm	nm	nm	nm	nm	nm
Triangle Petroleum Corp	US 89600B2016	USD	US	0.27	nm	nm	nm	nm	nm	nm	nm	nm	14.1
Cluff Natural Resources PLC	GB00B65YKF01	GBP	GB	0.29	nm	nm	nm	nm	nm	nm	nm	nm	nm
				27.92									
Oil & Gas E&P - Emerging markets													
Dragon Oil PLC	IE 0000590798	GBP	GB	1.51	26.6	15.8	13.1	19.0	13.8	7.4	7.6	8.5	7.4
Soco International PLC	GB00B572ZV91	GBP	GB	1.49	62.6	57.5	61.9	38.5	53.1	34.3	9.5	10.1	10.8
JKX Oil & Gas PLC	GB0004697420	GBP	GB	0.78	2.1	1.6	2.1	2.2	2.4	2.9	4.0	7.5	6.4
WesternZagros Resources Ltd	CA9600081009	CAD	CA	0.27	nm	nm	nm	nm	nm	nm	nm	nm	201.5
Sino Gas & Energy Holdings Ltd	AU00000005EH2	AUD	AU	0.23	nm	nm	nm	nm	nm	nm	159.5	nm	79.8
				4.28									
Drilling													
Patterson-UTI Energy Inc	US 7034811015	USD	US	3.42	7.8	12.5	13.4	nm	46.8	14.7	17.7	26.8	23.5
Unit Corp	US 9092181091	USD	US	3.76	9.7	11.5	9.6	24.8	21.5	16.0	15.8	17.7	14.5
				7.18									
Equipment & Services													
Halliburton Co	US 4062161017	USD	US	3.38	26.9	23.2	27.1	45.0	29.3	17.6	19.8	19.0	14.9
Helix Energy Solutions Group Inc	US 42330P1075	USD	US	3.13	8.1	6.9	9.4	39.6	43.5	15.3	12.4	21.4	14.5
ShawCor Ltd	CA8204391079	CAD	CA	3.34	36.9	28.8	23.8	25.3	36.9	63.2	20.7	12.7	16.3
Shandong Molong Petroleum Machinery Co L	CNE 1000001N1	HKD	HK	0.06	7.6	5.2	3.5	9.7	3.8	5.2	nm	nm	nm
				9.92									
Solar													
Trina Solar Ltd	US 89628E1047	USD	US	1.35	nm	18.6	11.1	8.2	4.0	498.1	nm	nm	17.1
JA Solar Holdings Co Ltd	US 4660902069	USD	US	1.50	11.7	31.6	46.7	nm	1.3	nm	nm	nm	15.3
				2.86									
Oil & Gas Refining & Marketing													
Valero Energy Corp	US 91913Y1001	USD	US	3.18	6.4	6.8	9.8	nm	33.5	13.3	10.9	12.9	8.5
				3.18									
Construction & Engineering													
Kentz Corp Ltd	JE 00B28ZGP75	GBP	GB	1.08	nm	49.4	50.0	49.2	33.9	25.7	21.7	18.7	13.7
				Cash	1.41								
				Total	100								
					PER	12.1	11.7	10.6	17.4	11.4	11.2	12.1	12.9
					Med. PER	10.6	12.2	10.0	17.6	13.3	11.1	12.7	13.2
					Ex-gas PER	12.1	11.8	11.2	19.0	11.4	11.4	11.1	12.1

Research holding

The Fund's portfolio may change significantly over a short period of time; no recommendation is made for the purchase or sale of any particular stock.

Tim Guinness

Chairman & Chief Investment Officer

Will Riley & Jonathan Waghorn

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For more information on the factors affecting the global energy market read our [Global Energy Outlook](#).

Commentary for our views on Dividends, Alternative Energy and Asia markets is available on our website. Please [click here](#) to view.

The Fund's holdings, industry sector weightings and geographic weightings may change at any time due to ongoing portfolio management. References to specific investments and weightings should not be construed as a recommendation by the Fund or Guinness Atkinson Asset Management, Inc. to buy or sell the securities. Current and future portfolio holdings are subject to risk.

Mutual fund investing involves risk and loss of principal is possible. The Fund invests in foreign securities which will involve greater volatility, political, economic and currency risks and differences in accounting methods. The Fund is non-diversified meaning it concentrates its assets in fewer individual holdings than a diversified fund. Therefore, the Fund is more exposed to individual stock volatility than a diversified fund. The Fund also invests in smaller companies, which involve additional risks such as limited liquidity and greater volatility. The Fund's focus on the energy sector to the exclusion of other sectors exposes the Fund to greater market risk and potential monetary losses than if the Fund's assets were diversified among various sectors. The decline in the prices of energy (oil, gas, electricity) or alternative energy supplies would likely have a negative effect on the funds holdings.

MSCI World Energy Index is the energy sector of the MSCI World Index (an unmanaged index composed of more than 1400 stocks listed in the US, Europe, Canada, Australia, New Zealand, and the Far East) and as such can be used as a broad measurement of the performance of energy stocks.

The S&P 500 Index is a broad based unmanaged index of 500 stocks, which is widely recognized as representative of the equity market in general.

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

One cannot invest directly in an index.

Price to earnings (P/E) ratio (PER) reflects the multiple of earnings at which a stock sells and is calculated by dividing current price of the stock by the company's trailing 12 months' earnings per share.

Earnings per share (EPS) is calculated by taking the total earnings divided by the number of shares outstanding.

R-squared is a statistical measure that represents the percentage of a fund or security's movements that can be explained by movements in a benchmark index.

Price to Book is a ratio used to compare a stock's market value to its book value. It is calculated by dividing the current closing price of the stock by the latest quarter's book value per share.

Book Value is the net asset value of a company, calculated by subtracting total liabilities from total assets.

Enterprise value (EV) is defined as the market capitalization of a company plus debt minus total cash and cash equivalents.

EV/EBITDA is EV divided by "Earnings Before Interest, Taxes, Depreciation and Amortization" (EBITDA)

Cash Flow Return on Investment (CFROI) is a valuation model that assumes the stock market sets prices on cash flow, not on corporate earnings. It is determined by dividing a company's gross cash flow by its gross investment

CFROI is a proprietary metric prepared by HOLT, a division of Credit Suisse. CFROI is a registered trademark of Credit Suisse AG or its affiliates in the United States and other countries. For more information on HOLT, a corporate performance and valuation advisory service of Credit Suisse, please visit their website at https://www.credit-suisse.com/investment_banking/holt/en/index.jsp

Earnings growth is not representative of the Fund's future performance.

This information is authorized for use when preceded or accompanied by a prospectus for the Guinness Atkinson Funds. 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.