



**GUINNESS
ATKINSON**
FUNDS

Asia
brief



Edmund Harriss



Mark Hammonds

October 2014

**Commentary and Review by
Portfolio Manager Edmund Harriss &
Analyst Mark Hammonds**



[Subscribe to other
Guinness Atkinson
E-mail services](#)

[View Archive Briefs](#)

Asian equity markets have had mixed performance this year. After a weak start in January, markets rallied to the beginning of September. Stocks then reversed, giving up much of the year's gains. Among the markets in our investment universe, Indonesia, Philippines and Thailand have been the strongest performers this year, while South Korea, Japan and Malaysia have been the weakest. Recent weaker economic data from China and Europe has triggered increased market volatility in recent weeks, but we believe that the long-term outlook for Asia is favorable, as the region provides excellent opportunities for economic growth.

In this month's update, we review the performance of the Asia Pacific Dividend Fund in 2014, provide a re-cap of our investment process, and look at how the portfolio is positioned at the end of September.

1. Performance

Total Returns (in USD) As of 9/30/14	YTD (Actual)	1 year (Actual)	3 year (Annualized)	5 year (Annualized)	Since launch 3/31/06 (Annualized)
Fund	6.98%	2.68%	8.95%	8.42%	5.11%
MSCI AC Pacific ex Japan	2.77%	0.55%	7.53%	7.88%	8.34%
S&P 500 Index	8.33%	14.44%	19.36%	16.39%	7.33%

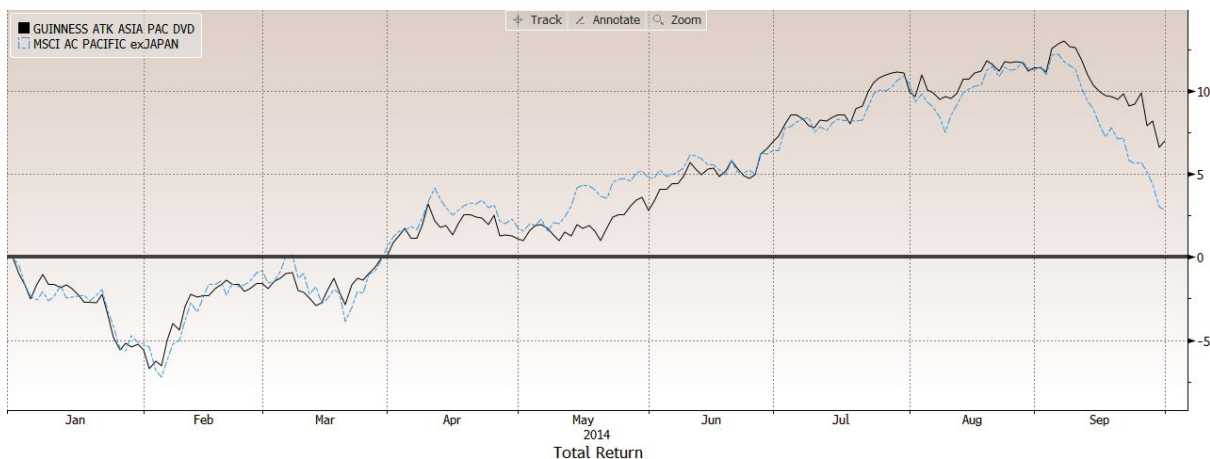
Expense Ratio: Gross 3.56%; Net 1.98%*

Source: Bloomberg

*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 1.98% through June 30, 2015. To the extent that the Advisor waives its fees and/or absorbs expenses to satisfy this cap, it may seek repayment of a portion or all of such amounts at any time within three fiscal years after the fiscal year in which such amounts were waived or absorbed, subject to the 1.98% expense cap.

Performance data quoted represents 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. Performance data current to the most recent month end may be obtained by calling 800-915-6566 and/or visiting www.gafunds.com. Current performance of the Funds may be lower or higher than the performance quoted. Total returns reflect a fee waiver in effect and in the absence of this waiver, the total returns would be lower. Performance data does not reflect the 2% redemption fee for shares held less than 30 days and if deducted the fee would reduce the performance quoted.

The fund returned 6.98% in the first nine months of 2014, following the adoption of our revised investment process at the end of 2013. The benchmark index, MSCI AC Pacific ex Japan, returned 2.77% over the same period, meaning the fund outperformed by 4.21%. Most of this outperformance came in September during a sell-off in Asian equities. The following chart shows this outperformance:



Source: Bloomberg

We seek to outperform in bear markets, due to our exposure to defensive, dividend-paying companies, which is displayed in our recent performance. Equity markets have continued to fall in October, as investors have sought safer assets, but we think the fund should be well positioned to cope with these challenging conditions.

Among the countries in our investment universe, Indonesia, Philippines and Thailand were the strongest performers this year to the end of September, returning 27.04%, 25.32% and 24.71% respectively. South Korea, Japan and Malaysia were the weakest markets, returning -4.57%, -1.46% and -0.04% respectively. (All MSCI country indices total returns, in USD terms)

2. Investment Process

As stated above, we reviewed and made changes to our investment process at the end of 2013. Our revised process seeks to identify high-quality companies with strong financial positions. From this universe of companies, we conduct further screening and in-depth research to assemble a portfolio of dividend paying companies, which we think are capable of growing their dividends over the long term.

Quality first

We have very specific criteria for companies to qualify as high-quality – we look for businesses that have generated consistently high returns on capital. High returns that exceed a company's cost of capital ensure that any growth those companies achieves can add to shareholder value. Consistent returns ensure that we identify companies with sustainable economic advantages that can persist over the business cycle.

We then eliminate companies that are excessively geared; avoiding those with overly stretched balance sheets.

Dividend payments

The other significant factor we evaluate as part of our investment process is the dividend income paid by our universe of companies. We look for stocks that pay a dividend, offer an attractive yield, and have the potential to grow the dividend over the long term.

Asian companies have historically been perceived as less attractive stocks for income investors than their Western counterparts. Also, Asian companies that do pay dividends have tended to base their dividend payments on a fixed payout ratio, meaning payments can fluctuate along with earnings and the business cycle. However, Asian companies are increasingly recognising the appeal to investors of committing to paying dividends. Dividends do still exhibit volatility – many of the companies in our universe cut their dividends in 2008-9 during the financial crisis – but they have been growing over the long term.

Our overall approach is one which we believe has the ability to generate a steadier performance than the broad market and that can outperform the broad market over time.

3. Portfolio Position

The following table shows the country weightings of the fund at the end of September 2014:

GEOGRAPHIC WEIGHT (as of 09/30/2014)	
Hong Kong	33.75%
Taiwan	17.37%
China	10.64%
Australia	10.33%
Thailand	9.10%
Singapore	8.09%
Japan	3.18%
USA	2.97%
South Korea	2.93%
Malaysia	2.81%

As the table shows, our largest country exposures were to Hong Kong (33.75%), Taiwan (17.37%), China (10.64%) and Australia (10.33%). We generally find that these markets offer a combination of: sufficient numbers of companies for inclusion in our universe, and favorable fundamental and valuation characteristics. In other markets, for example Japan, we often find that the companies which meet our criteria for inclusion do not have sufficiently attractive valuations for inclusion in the portfolio – i.e. better opportunities exist elsewhere.

The following table shows the fund's sector weightings:

TOP INDUSTRY SECTORS (as of 09/30/2014)	
Financials	30.72%
Information Technology	22.64%
Consumer Discretionary	19.19%
Telecomms	8.28%
Energy	5.89%
Health Care	5.80%
Consumer Staples	2.93%
Materials	2.88%
Industrials	2.83%

The fund's largest sector exposures are to Financials (30.72%), Information Technology (22.64%) and Consumer Discretionary (19.19%). Again we find that these categories are well-represented in our investment universe and provide attractive valuations. We note that some sectors, for example, Materials, Energy and Utilities have historically had low representation in our universe – materials and energy are highly cyclical industries, while utility companies are often heavily regulated, and may achieve lower returns.

4. Outlook

In recent weeks, financial markets have become increasingly volatile as weak economic data from China and Europe have triggered falls in both developed and emerging equity markets. The oil price has also suffered in this environment, with Brent crude falling from \$115 in June this year to around \$84 at time of writing.

However, despite short-term weakness, we think that the region offers investors excellent long-term prospects. The region has, and should continue to benefit from, favorable demographic characteristics and rising levels of personal wealth. Asian economies are increasingly switching from being driven by investment, to becoming more consumption-led – we believe this trend can result in favorable economic growth and attractive investment returns.

We think that the Guinness Atkinson Asia Pacific Dividend Fund stands to benefit from economic growth in the region, while at the same time, seeking to provide investors with a welcome source of income.

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

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. Non-diversified funds concentrate assets in fewer holdings than diversified funds. Therefore, nondiversified funds are more exposed to individual stock volatility than diversified funds. Investments in smaller companies 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. Funds concentrated in a specific sector or geographic region may be subject to more volatility than a more diversified investment. Investments focused in a single geographic region may be exposed to greater risk than investments diversified among various geographies.

Fund holdings and sector allocation are subject to change and should not be considered a recommendation to buy or sell any security.

The MSCI Ac Pacific Ex Japan Index is a free float-adjusted, capitalization-weighted index that is designed to measure equity market performance in the Pacific region. The Index is made up of the stock markets of Australia, China, Hong Kong, Indonesia, Korea, Malaysia, New Zealand, Philippines, Singapore, Taiwan and Thailand.

MSCI Indonesia/Philippines/Thailand/South Korea/Japan/Malaysia Indices are designed to track the performance of securities listed on each country's respective stock exchange.

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.

One cannot invest directly in an index.

Return on capital measures how effectively a company uses the money (borrowed or owned) invested in its operations.

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, fees and expenses related to an ongoing investment in the Funds. Please read the prospectus carefully before investing.

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

Distributed by Quasar Distributors, LLC