Guinness Atkinson
Global Innovators Fund eBrief
Manager's update

GUINNESS ATKINSON FUNDS

A review of 2014

2014 marked another good year for the Guinness Atkinson Global Innovators Fund, despite the various headwinds seen in markets throughout the period. Our approach of looking for innovative, growing businesses helped us to identify a group of companies for the portfolio that managed to take advantage of the pockets of positive economic environments that were available, and our value discipline once again helped us avoid some of the companies 'priced to perfection' that stumbled in the year.

The approach of the Fund is not to provide access to the *most* innovative companies in the world but rather to look at companies using the 'prism' of innovation to highlight those we think might be winners in the future - and then, only buy them if they are offering reasonable value compared to those future expectations. We are firm believers that innovative companies can outperform in the future and that a value discipline to stock selection can add meaningfully to that performance.

We are pleased to report more and more investors are coming round to our way of thinking, and the Fund has grown from a size of $50mn at the start of 2014 to $156mn today. We would like to take this opportunity to welcome any new investors to the Fund and to state our appreciation for your confidence in us.

1. Performance

Global equity markets were positive despite a poor start to the year; the MSCI World Index had a total return of 5.64% over the year. The Guinness Atkinson Global Innovators Fund had a total return of 12.55% over the same period, thereby outperforming the MSCI World Index by 6.91%.

This result is particularly pleasing considering the fund was up 45.92% in 2013 compared to the index which was up 'only' 27.49%.

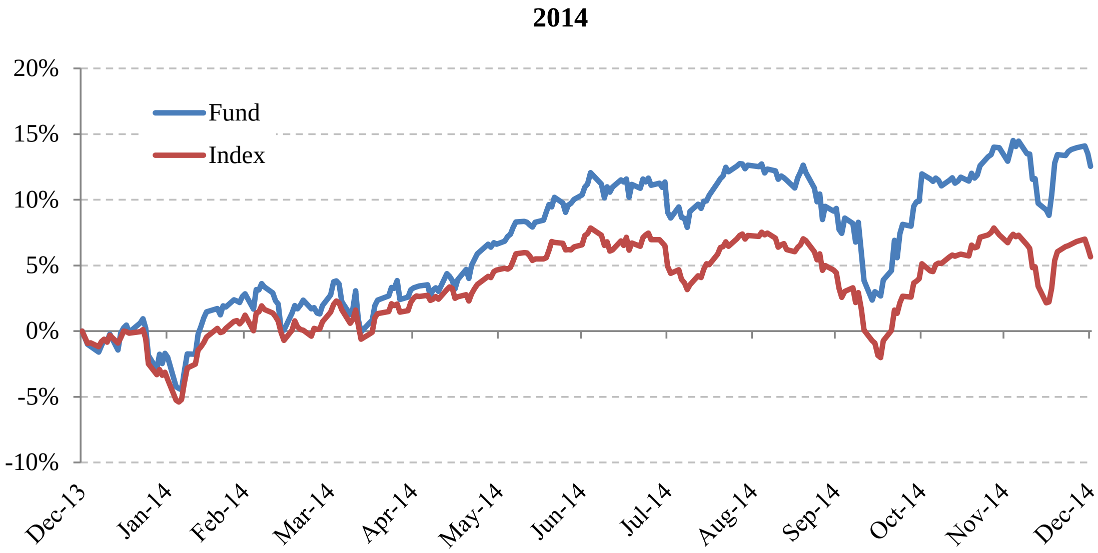
Performance

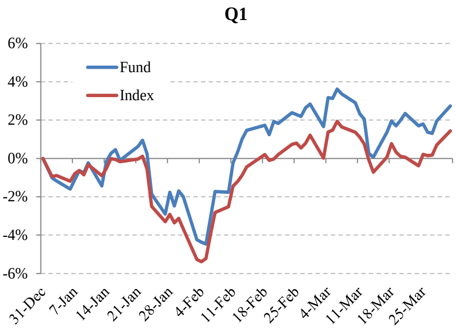
as of 12/31/14	1 YR (annualized)	3 YR (annualized)	5 YR (annualized)	10 YR (annualized)	Since inception annualized (12/15/98)
Global Innovators Fund	12.55%	25.16%	16.49%	10.58%	7.43%
MSCI World Index	5.64%	16.26%	10.94%	6.76%	5.38%

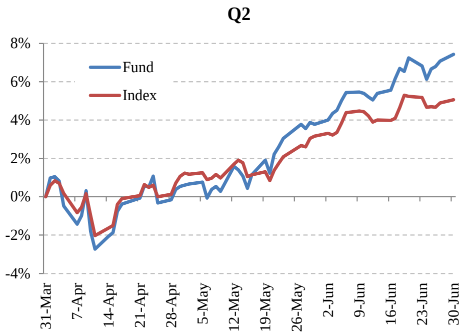
Source: Bloomberg, Guinness Atkinson Asset Management
Expense Ratio: 1.47%

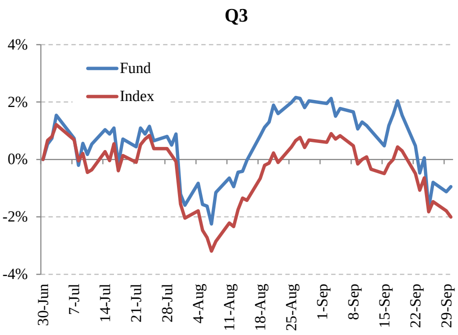
Performance data quoted represent past performance and does not guarantee future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance of the Fund may be lower or higher than the performance quoted. For most recent month-end and quarter-end performance, visit http://www.gafunds.com/GIF_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.

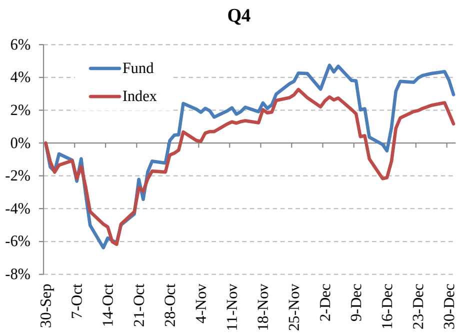
If we look at how the total return of the Fund developed over the year, we can see that it was not all plain sailing. 2014, much like 2012, was characterized by quite significant moves to the downside and subsequent recoveries. The charts below show the cumulative performance of the fund over the entire year and also quarterly snapshots of cumulative performance to highlight how different the overall market performed over the year.











Source: Bloomberg, Guinness Atkinson Asset Management
Index = MSCI World Index

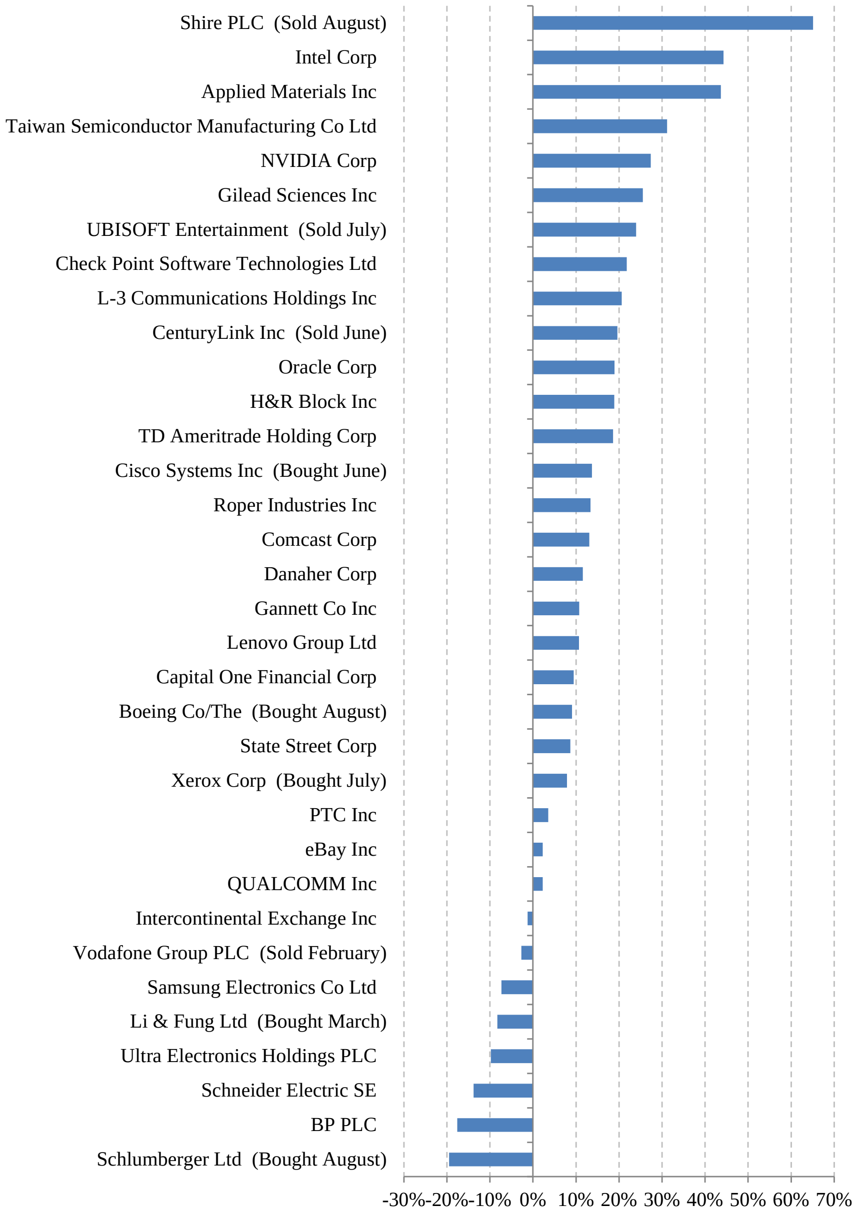
These charts illustrates the hypothetical performance the Fund throughout 2014. It assumes reinvestment of dividends and capital gains, but does not reflect the effect of any applicable sales charge or redemption fees. These charts does not imply any future performance.

Pleasingly, the fund outperformed in every quarter of the year, whether the market was up or down. This is not something we would necessarily expect (and certainly something we could never promise to achieve in the future). The fund is orientated towards growth, rather than value, and so typically we would expect the fund to underperform in sharply down markets and outperform in rising markets. Analyzing the underlying company data we can see this was broadly true, but good stock selection helped 'boost' the performance of the fund in periods where the market was down. For example, in Q3 our holding in Gilead Sciences was up almost 30% despite the market falling 2%. Similarly, our holdings in Intel, eBay, and Lenovo all had total returns in double figures over the same period.

As we stated in the introduction, we apply a value discipline to looking for growth stocks – this helps us in our attempt to avoid paying too much for expected (but unproven) future growth and getting caught up in the hype surrounding the 'next big thing'. We believe this is particularly beneficial when markets turn sour, as it is exactly these types of companies that get hit the hardest.

2. Attribution and asset allocation

The performance of each individual company held in the fund throughout the year is shown in the table on pg.4. Where a company was held intra-year the purchase or sale date is highlighted in brackets.

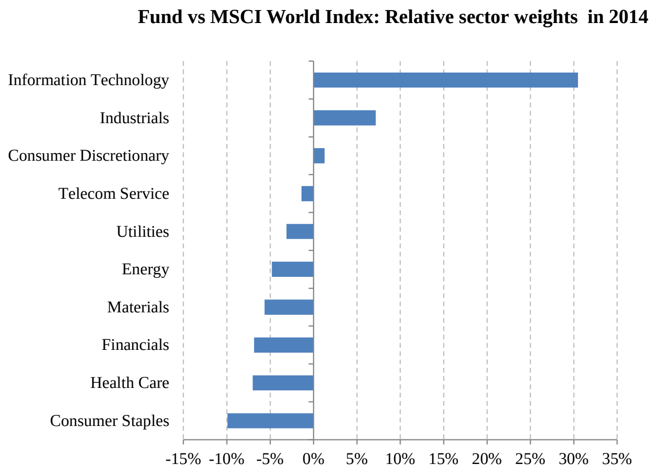


Source: Bloomberg, Guinness Atkinson Asset Management

Looking at the chart on pg. 3, there have been some standout individual performances in the year. On the positive side, Shire, Intel, and Applied Materials were all up over 40% in the year. You can also see that the sales made throughout the year were those companies that had performed particularly strongly. We also sold long term holding Vodafone following the Verizon deal, and the good performance Vodafone had on the back of that deal from mid-2013.

On the negative side, the worst performing companies held in the portfolio came from those stocks in more cyclical sectors (like energy, industrials, and consumer discretionary), as worries surrounding the prospects for global growth came to the front of investors' minds near the end of the year.

When we look at the average weighting of the fund over the year versus the benchmark you can see that the Fund has had some significant differences.

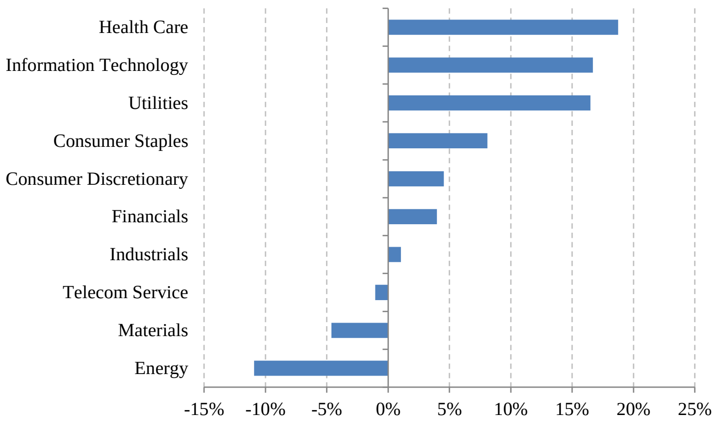


Source: Bloomberg, Guinness Atkinson Asset Management

These differences come about in three ways; (i) the 'natural' biases our process of looking of innovative companies has towards the technology sector and away from regulated industries like telecoms or utilities, (ii) our bottom-up approach to stock selection in which we look for good companies at cheap valuations regardless of which sector they are in, and (iii) the fund is equally-weighted which means we do not blindly follow the weightings in the benchmark.

If we look at how the different sectors in the MSCI World have performed over 2014 we can see there has been a very wide dispersion. The best performing sector was healthcare (up 18.7%) versus the worst performing sector energy (down 10.9%).

MSCI World Index: Sector performance in 2014



Source: Bloomberg, Guinness Atkinson Asset Management

Information technology as a sector performed well, up almost 17%. Our large weighting to information technology therefore provided a useful tailwind to the overall performance of the Fund. Headwinds were our underweight versus the top-performing healthcare sector and a lack of exposure to utilities and consumer staples. Again, good stock selection (both in terms of selling currently held positions and purchasing new stocks at the right time) meant we outperformed against the benchmark despite these headwinds.

3. Buys and sells

We are firm believers in the benefits of a 'buy and hold' strategy. Trading markets is a difficult and often perilous exercise that can create substantial fees which merely drag on the overall fund total return. The holding period for an average company in the portfolio has been between 3 and 5 years, although we do not discount selling a company earlier if the valuation happens to move dramatically (for example when a company is bid for by a competitor, as we saw for our holding in the Shire, the UK pharma company). The table below shows all the buys and sells we have made in the fund over the last five years.

	Buys	Sells
2010	Best Buy, Danaher, Gilead, Roper	amazon.com, Costco, Microsoft, Sony
2011	intel	Netflix, citigroup, AIG, Garmin
2012	H&R Block	infospace
2013	Ultra Electronics, Ubisoft, Gannett, lenovo, Qualcomm, Schneider Electric, Shire	Best Buy, Blucora, Nokia, Honda, RIM, Toyota
2014	Cisco, Li & Fung Limited, Boeing, Schlumberger, xerox	CenturyLink, vodafone, Ubisoft, Shire

Source: Guinness Atkinson Asset Management

In 2014 we made nine changes to the portfolio, comprised of four sells and five buys.

In the first quarter we sold our holdings in Vodafone and Verizon, following the latter's acquisition of the stake of Verizon Wireless it did not already own. In their place we purchased a new position in Li & Fung, a Hong Kong-listed global outsourcing company whose share price had been weakened by the selloff in emerging markets at the start of the year. We noted that over 60% of its revenues came from the US and over 20% from Europe, however, so it had potentially been dragged down indiscriminately rather than anything necessarily specific to the company itself.

In the second quarter we made only one change to the portfolio; we sold our holding in CenturyLink and replaced it with a holding in Cisco, the information technology company. Cisco is the type of mature, incrementally innovative company we like to invest in. It has a long history of high and persistent return on capital, which demonstrates to us its ability to defend its market share and prevent itself from becoming a 'company in decline'. At purchase the company was also trading on PE multiples less than 12 times which was at a decent discount to the broad market and its history and so provided a good entry point for purchase.

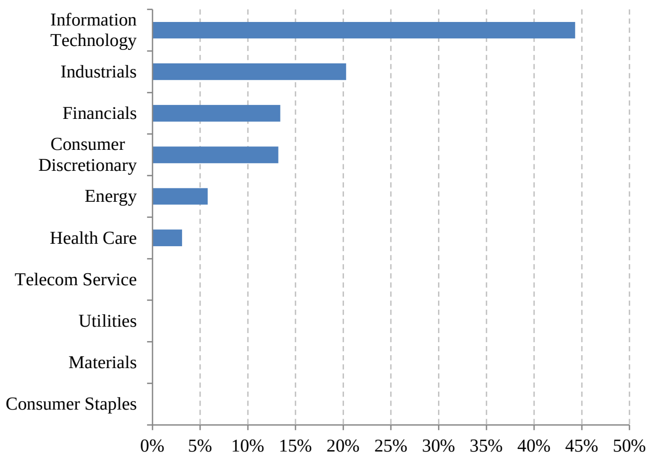
In the third quarter we made a number of changes to the portfolio; we sold our holdings in Ubisoft and Shire, and bought new positions in Xerox, Boeing, and Schlumberger. Ubisoft and Shire were holdings we had owned for a relatively short period of time for the fund, at less than one year apiece. We bought Ubisoft after a period of very weak performance in the share price and the subsequent rebound occurred much faster than we might have expected, meaning the valuation rerated to such an extent we felt compelled to take profits and look for a better idea. Shire was the subject of a bid for the entire company from Abbvie. With the stock up just over 90% over our holding period (October 2013 to July 2014) and an increase in the potential offer not seemingly likely, we decided to sell. Like Cisco, Xerox and Boeing represent the type of more mature companies which are incrementally innovative in the way they do business. Both were trading at reasonable valuations and also have long histories of high return on capital. Schlumberger is also a large capitalization company but has potentially better chances for growth, and as such, we were happy to pay a slightly higher valuation multiple.

We made no changes to the portfolio in the final quarter of the year.

4. What the portfolio looks like today and some thoughts on the future

After the buys and sells we have made throughout the year the fund allocation today is shown in the table below.

Fund vs MSCI World Index: Relative sector weights in 2014



Source: Guinness Atkinson Asset Management

The information technology sector remains our biggest weighting in the portfolio but it is worth noting that this comprises more of the large cap 'blue chip' companies in the sector, like Xerox, Cisco, Intel, etc., rather than the companies that have recently come to market with extremely high valuations, like Facebook and Twitter. It is not to say we have particularly strong views on the outlook for the latter, but today we are not willing to pay such high premiums for expected future results. If the valuations of these types of company come back to more normal levels, then they could certainly fit into the portfolio. Only time will tell if this materializes, however, and for what reasons market sentiment might turn against them.

We have a zero weighting to all of the utilities, materials, consumer staples, and telecoms sectors today. Typically, we find almost no innovative utilities and materials companies, so this weighting should come as no surprise. We also see relatively few truly innovative consumer staples or telecoms companies, and we do not currently see terrific value in those companies that we do consider innovative within those sectors. This may change over the coming year, so you might see these weightings increase slightly.

The Fund at the end of the year was trading on 15.7X 2014 earnings, and 14.8X 2015 earnings; a discount to the MSCI World Index equivalent multiples of 11.0% and 4.3%. We therefore see the portfolio as providing reasonably good value to our investors on these simple metrics, which is particularly pleasing in light of the strong performance of the Fund over the last year.

We do not like to forecast the future very much, as it is mostly a futile exercise (just see how well the professional economists do each year), and we do not think we have a particular edge in this regard either. We prefer to focus on valuations and making sure the companies we hold in the portfolio have a reasonable margin of safety to protect from falling markets. Based on the simple metrics outlined above for the portfolio as a whole we believe the Fund has the potential to continue its good performance into the future.

We would like to thank you for your continued support and look forward to updating you with progress over 2015.

Portfolio managers
Dr. Ian Mortimer, CFA
Matthew Page, CFA

Top 10 Holdings of Guinness Atkinson Global Innovators Fund as of 12/31/14:

1. Oracle Corp	3.50%
2. Applied Materials Inc	3.38%
3. H&R Block Inc	3.36%
4. Cisco Systems Inc	3.33%
5. Samsung Electronics Co Ltd - GDR	3.31%
6. QUALCOMM Inc	3.28%
7. Comcast Corp - A Shares	3.27%
8. Danaher Corp	3.27%
9. L-3 Communications Holdings Inc	3.27%
10. Check Point Software Technologies	3.26%

Price to Earnings Ratio (P/E) is A valuation ratio of a company's current share price compared to its per-share earnings. Calculated as: Market Value per Share / Earnings per Share (EPS)

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