Guinness Atkinson
Dividend Builder eBrief
Manager's update; October 2015

In September the Fund produced a total return of -2.55% compared to the MSCI World Index return of -3.65%. The Fund therefore outperformed the Index by 1.09% over the month.

Over the third quarter as a whole the Fund produced a total return of -7.55%, versus the Index return of -8.32%. The Fund therefore outperformed by 0.77%.

Performance

As of 9/30/2015	YTD	1 yr (annualized)	3 yr (annualized)	Since Inception (3/30/12)
Dividend Builder Fund	-7.56%	-7.21%	8.62%	8.29%
MSCI World Index	-5.60%	-4.51%	9.28%	4.77%

Source: Bloomberg, Guinness Atkinson Asset Management
Gross Expense Ratio: 2.96%
Net Expense Ratio*: 0.68%

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 gafunds.com or call (800) 915-6566.

**The Advisor has contractually agreed to reimburse 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 June 30, 2016.*

It's pleasing to see that the Fund held up better relative to the broader benchmark over what has been a very difficult quarter for markets – much has been made of Q3 2015 marking the worst quarter since the European crisis in 2011.

The sell-off in late August was particularly sharp and particularly swift. Correlations between different parts of the equity market increased significantly – showing that investors were not focusing so much on fundamentals but rather reducing risk across the board. Between August 18th and August 25th the MSCI World Index decreased in value by 10.01% in just six trading days. Over the same period the Fund lost 9.09%. Markets then staged a rally into the end of August, rising just over 6% between the 26th August and the 31st August. In September the MSCI World Index fluctuated between negative 1% and 2% total return, which represented a period of relative calm after the large swings seen in August.

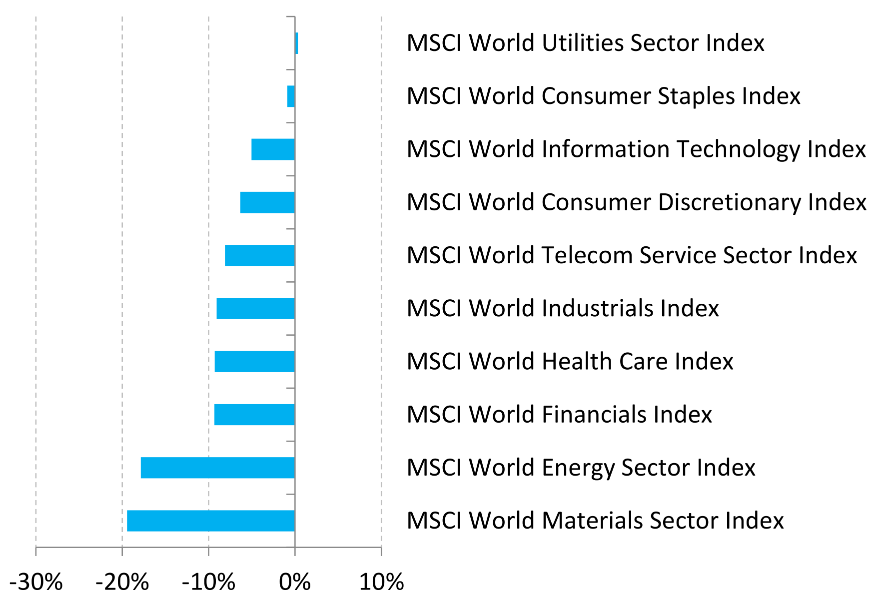
Performance drivers

In the first half of the year we saw growth stocks significantly pull ahead of value stocks (continuing the trend seen since October 2014) as investors paid up for revenue and earnings growth wherever they could find it. The 'style' of the Fund – with its strong value discipline – was therefore rather out of favor. However, as investors became rattled by China's economic slowdown and the sudden drop

in Chinese locally-listed shares through August, potential implications from the uncertainty regarding the Federal Reserve policy towards finally raising interest rates, and not least how these factors would affect corporate earnings in the future, the market became more focused once again on the factors we typically like to look for. These are: the ability of a company to continue to generate returns on capital above their cost of capital; a safe and growing dividend; and some kind of discount to the intrinsic value of the shares.

Looking at the individual performances of the ten sectors in the MSCI World Index, only two posted positive performance in the third quarter – utilities and consumer staples, both of which are seen as 'defensive' in nature.

MSCI World Index
Sector performance in Q3 2015 (in USD)



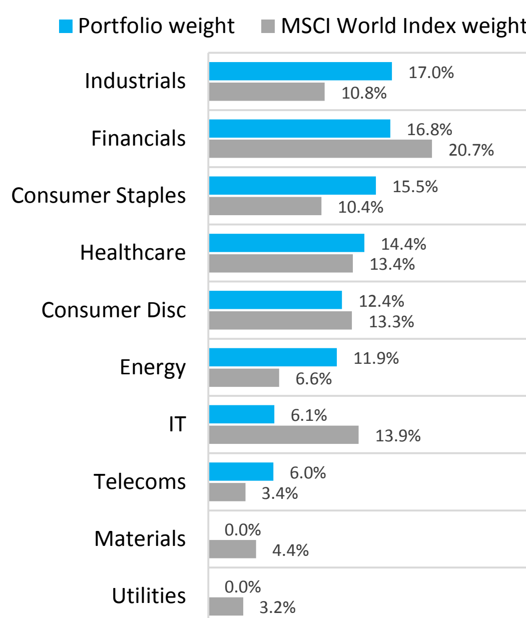
Source: Bloomberg

Materials and energy were the worst performing sectors over the quarter as demand worries shook commodities markets on the back of weaker growth prospects emanating from China.

The Fund benefitted from having no exposure to the materials sector, but also had no exposure to utilities. Both sectors account for less than 5% each of the benchmark. We have maintained our exposure to the energy sector, through rebalancing of positions in the portfolio rather than any additions. The benchmark, as it is market capitalisation weighted, has had a reduced energy weighting as the sector has declined; it now accounts for just under 7% of the Index. Of the four energy companies held in the Fund, three are integrated European supermajors (Royal Dutch Shell, ENI and Total), which actually held up better than the overall energy sector in the quarter. We continue to watch our energy holdings closely, paying particular attention to their ability to pay a sustainable dividend, but we believe today is not an opportune time to be selling at such depressed oil prices. As the majors continue to adapt to the current price environment and place greater

emphasis on investment returns rather than purely growth in production, we believe a reasonable re-rating of these companies could occur. That noted, if we were to sell two of our four holdings in this sector then the Fund would move to slightly underweight versus the benchmark, so we do not believe we have taken an excessive risk, considering our zero weight to materials alongside.

Portfolio weights vs benchmark (9.30.15)



Source: Bloomberg

We've been slowly reducing the Fund's weighting in consumer staples companies over the last few years, which had reached a peak of just under 30%. Today the Fund remains overweight to consumer staples with a weighting to the sector of 16%, versus the benchmark at just over 10%.

IT remains our largest underweight, at some 8% less than the benchmark. Generally speaking the IT sector does not have a long history of paying reasonably-sized dividends, and as such we have found few companies that meet the criteria we seek for inclusion in the Fund. That said, with the recent sell off, and the start of a trend for IT companies (and particularly those based in the US) to pay dividends alongside buybacks, we are beginning to see more opportunities in the sector. This is likely a longer-term trend, however, and not something that will change the make-up of the Fund greatly in the short term.

Healthcare, on the other hand, has a long history of divided payments and would typically be seen as a 'go to' sector for the yield-hungry investor alongside utilities and, until not so long ago, financials. The Fund is invested in both 'traditional' healthcare companies such as Johnson & Johnson, and also companies such as Teva, the Israel-based generic drug manufacturer. The Fund does not have any direct exposure to the clutch of highflying biotech stocks (e.g. Biogen) that have been the stand-out performers over the last two years but that are now struggling to maintain their elevated valuations and high market expectations as their momentum weakens.

It's worth pointing out that the Fund's sector weightings are a by-product of our wholly bottom-up investment process (and equally-weighted portfolio), rather than being driven by any thematic or top-down approach.

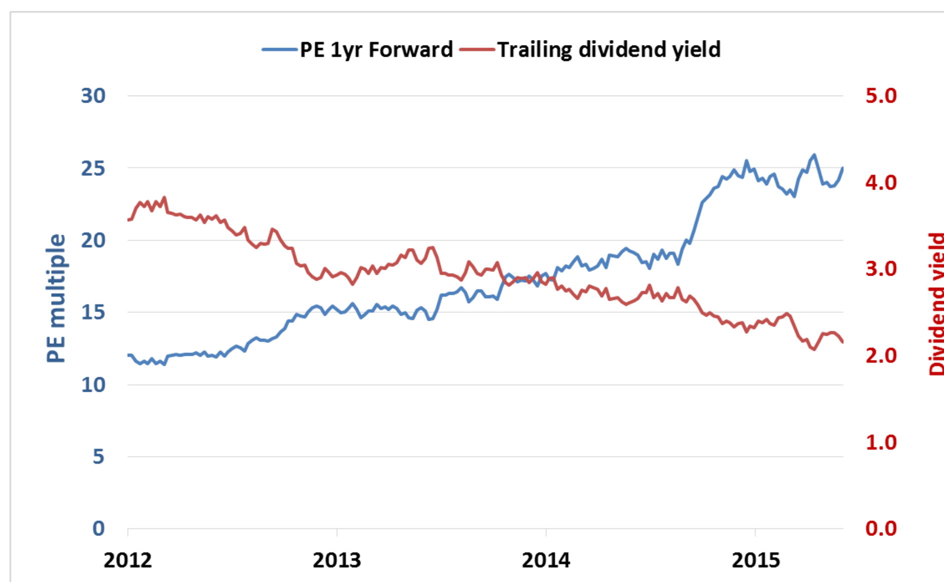
Changes in the portfolio

We made two changes to the portfolio in the quarter. We sold our positions in L-3 Communications and Reckitt Benckiser. In their place we bought new positions in Eaton and WPP. These changes have decreased our weight in consumer staples (Reckitt) and increased consumer discretionaries (WPP). Eaton and L-3 Communications are both in the industrial sector so these changes did not affect the overall allocation of the Fund.

For the new buys we identified the three things we look for in any new investment – persistence of return on capital, reasonable valuation, and a sustainable and growing dividend. In the case of WPP we anticipate that a greater proportion of our expected total return will come from earnings and dividend growth, and only a moderate return from a multiple re-rating as the company is trading only slightly below its medium-term multiple. By contrast, Eaton, an industrial power management company based in the US, has a higher dividend yield (just over 4%) but slower dividend growth, and we expect a greater re-rating in terms of its multiple as the stock is more out of favour and has been de-rated versus the broader market since the end of 2013.

We decided to exit Reckitt Benckiser on valuation and dividend yield grounds. The company, in our view, remains very well run but we began to question whether the current valuation could justify us continuing to hold the stock. We have owned Reckitt since we launched the fund in March 2012 and it has been a strong performer for the Fund; it's risen 77% (in USD), versus the Fund cumulative return of 32% over the same period. However, as the chart below shows, the majority of this total return has come from a re-rating of the multiple the stock trades on – it has risen from around 11x forward earnings to 25x today. As the dividend paid by the company has only grown by about 8% over our entire holding period (which is somewhat disappointing) the dividend yield has compressed from about 4% to 2%. The market has rewarded the company for focusing on household and personal care, costing cutting, and selling off the pharma division. We question whether the market has now baked-in excessive estimations for what the company can do from here. If we were to see the stock underperform the market in the future and move towards a more reasonable valuation, then it is certainly something we would consider owning again in the future.

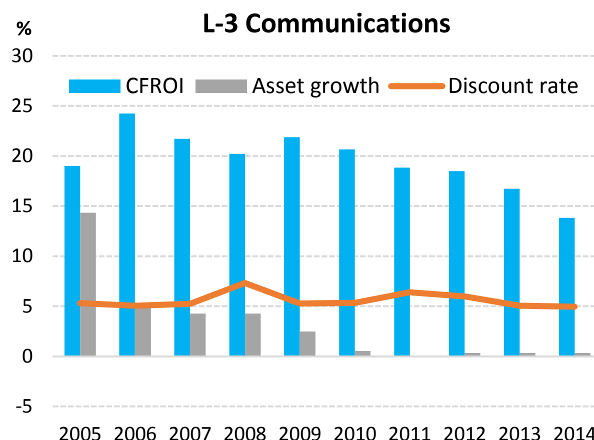
Reckitt Benckiser



from 03/30/12 to 09/30/15

We have owned L-3 Communications since fund launch also. Over that time it has risen 67%, versus the Fund's cumulative return of 32% over the same period, so we are again taking profits. L-3 has also experienced a significant re-rating, rising from approximately 9x forward earnings when we bought it to just under 16x when we sold it. This is broadly in line with other defence companies, all of which were deeply out of favour post the financial crisis as investors worried about government spending cuts. L-3 has never had a very large dividend yield – it has averaged around 2.5-3%. The dividend has grown significantly over time, however, averaging around 9% growth per annum over the (almost) five years we have held the company. It is likely this strong dividend growth has helped support and 'drag up' the share price over time.

From a valuation point of view the company appears to be trading at stretched multiples, and certainly in respect to where the company has traded historically. This has been a concern. What really drove us to sell the company, however, was the deterioration in the underlying quality of the business.



Source: Bloomberg

As the chart above shows the cash flow return on investment (CFROI) has declined quite significantly over the last year, and current expectations are for this decline to continue into the future. Sales growth has been negative for a number of years, and we have just started to see a decline in operating margins coming through. With little or no asset growth expected, it appears unlikely the company can reverse the decline in its economic profits and in the market's expectations.

Outlook

At the end of the quarter the Fund was trading on 14.5X 2015 earnings, and 13.4X 2016 earnings – a discount of 7.8% and 6.0% respectively to the broad market. We therefore see the portfolio as providing good value to our investors on these simple metrics. The correction in Q3 means that the valuation levels of some of the previously overbought parts of the market, like biotech or healthcare, have come down somewhat. But the correction was not nearly enough to make markets standout 'cheap'. We are therefore keeping a close eye on maintaining a discount for the portfolio versus the market.

We feel the Fund is well placed to continue the good performance that we seek. With heighted valuations, worries around increases in interest rates, and plenty of geopolitical uncertainty around the globe, we think our approach of focusing on the quality of the underlying companies we own and not chasing high dividend yields should stand us in good stead.

Portfolio managers

Dr. Ian Mortimer, CFA

Matthew Page, CFA

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

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.

Securities mentioned are not recommendations to buy or sell any security. Current and future portfolio holdings are subject to risk

Top 10 Holdings as of 9/30/15
1. H&R Block Inc 3.50% 2. Li & Fung Ltd 3.38% 3. Imperial Tobacco Group PLC 3.12% 4. Procter & Gamble Co/The 3.06% 5. Deutsche Boerse AG 3.05% 6. Meggitt PLC 3.02% 7. Cisco Systems Inc 3.01% 8. Johnson & Johnson 3.01% 9. Mattel Inc 3.00% 10. BAE Systems PLC 2.99%

Fund holdings and sector allocations are subject to change and are not recommendations to buy or sell any security.

Investment performance reflects fee waivers in effect. In the absence of such waivers, total returns would be reduced.

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

Diversification does not assure a profit nor protect against loss in a declining market.

Dividend yield is a financial ratio that shows how much a company pays out in dividends each year relative to its share price.

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

Earnings per share growth is calculated by taking the total earnings divided by the number of shares outstanding

Forward earnings are a company's forecasted, or estimated, earnings made by analysts or by the company itself.

Free cash flow represents the cash that a company is able to generate after laying out the money required to maintain or expand its asset base.

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

The MSCI World Utilities Index is designed to capture the large and mid cap segments in the utilities sector across 23 Developed Markets (DM) countries.

The MSCI World Consumer Staples Index is designed to capture the large and mid cap segments of consumer staples across 23 Developed Markets (DM) around the world.

The MSCI World Information Technology Index is designed to capture the large and mid cap segments of information technology across 23 Developed Markets (DM) around the world.

The MSCI World Consumer Discretionary Index is designed to capture the large and mid cap segments of consumer discretionary across 23 Developed Markets (DM) around the world.

The MSCI World Telecom Service Index is designed to capture the large and mid cap segments of telecom service across 23 Developed Markets (DM) around the world.

The MSCI World Industrials Index is designed to capture the large and mid cap segments of industrials across 23 Developed Markets (DM) around the world.

The MSCI World Healthcare Index is designed to capture the large and mid cap segments of healthcare across 23 Developed Markets (DM) around the world.

The MSCI World Financials Index is designed to capture the large and mid cap segments of financials across 23 Developed Markets (DM) around the world.

The MSCI World Energy Sector Index is designed to capture the large and mid cap segments of the energy sector across 23 Developed Markets (DM) around the world.

The MSCI World Materials Sector Index is designed to capture the large and mid cap segments of materials sector across 23 Developed Markets (DM) around the world.

One cannot invest directly in an index.

P/E Ratio reflects the multiple of earnings at which a stock sells.

Payout ratio is the percentage of net income that a company pays out as dividends to common shareholders

Return on capital is a return from an investment that is not considered income. The return of capital is when some or all of the money an investor has in an investment is paid back to him or her, thus decreasing the value of the investment

Return on investment or ROI, is the most common profitability ratio. There are several ways to determine ROI, but the most frequently used method is to divide net profit by total assets.

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

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