Guinness Atkinson
Dividend Builder Fund
Managers Update – November 2016

October in review

Markets once again were focussed on potential Fed rate rises, but as expected no decision was made to increase rates in November in light of the upcoming US election. However, broadly positive economic indicators released in the month - notably US Manufacturers Purchasing Manager's Index ('PMI') and US consumer spending – combined with a notable tick up in inflation expectations were perceived as presaging a further rate rise in December.

These new data points regarding interest rates and inflation expectations were quickly amalgamated into bonds prices with sovereign yields moving sharply higher over the month. These yield increases were potentially accelerated by the fact the market has started to question the efficacy of quantitative easing, a potential switch to fiscal policy in the future, and the fact yields had reached historic and potentially unsustainable lows.

Better than expected quarterly results from US banks combined with increased expectations of higher rates helped the financials sector to post the strongest performance in the month (MSCI World Financials up 2.3%). We have continued to have a zero weighting to the banks and all our exposure to this sector is through diversified financials such as exchanges and the insurance sector.

Emerging markets continued their outperformance versus developed markets, but were somewhat mixed with Taiwan leading the group on the back of strong quarterly results from companies in the technology sector. Oil prices as measured by the West Texas Intermediate (WTI) broke $50 per barrel in October as investors looked towards various Organization of Petroleum Exporting Countries (OPEC) discussions and meetings that held the prospect of the cartel (alongside Russia, potentially) agreeing to limit production increases.

Post-election update

In terms of performance we have been pleased that the fund has again navigated a period of market uncertainty relatively unscathed.

Considering the week after the election result (close November 8th to close November 14th) the reaction of markets to a Trump presidency was swift and in many cases an abrupt turn-around from prevailing sentiment. Most notable was the rally in healthcare stocks that had been under considerable pressure from the prospect of drug price reform under a Clinton-led administration. The fund benefitted from this change in sentiment with approximately 13% of the fund allocated to the healthcare sector.

On a wider scale the greatest impact was felt through a strengthening dollar and the prospect for trade restrictions and/or tariffs for imports to the United States. Emerging market equities that had been performing well in 2016 sold off as markets reacted to the prospect of weaker EM currencies more generally – the Mexican Peso being the most obvious example. Ironically this makes labour costs in Mexico dramatically more competitive for a US company outsourcing such work, so the penalties needed to curb this may have to be especially harsh. The funds direct EM exposure (to companies domiciled in these regions) is relatively small; Vodacom in South Africa, and Largan Precision in Taiwan. The sell-off in emerging markets did not therefore have a large drag on the portfolio. More broadly, however, the fund has exposure to these regions through the potential revenue streams of the businesses we invest in; for example, Unilever and Procter & Gamble.

US small caps performed very strongly as they are more domestically focussed and have a greater leverage in terms of earnings growth to the proposed corporation tax cuts. The fund does not typically invest in small cap companies, and we have been leery of US mid-cap leverage and stretched valuations for a while, so the fund did not benefit from this small cap rally.

Banks also performed strongly post-election as a steepening yield curve provided a route to greater profitability as did the prospect of a lighter regulatory burden. The fund continues to hold no banks so did not benefit from this. The wider financials sector also performed well, and all five companies we held in the fund in this sector posted positive performance, on average up just under 7% (in USD). The fund is approximately market weight in this sector at around 16%.

Larger US companies with a less domestically-focussed revenue base were held back as the headwind of a stronger dollar could weigh on their overseas earnings. This was somewhat abated, however, by the prospect for a 'tax holiday' for cash held outside of the US - which is typically more relevant to larger companies such as Apple (not held in the portfolio) or Cisco (held) or Microsoft (held). Interestingly the information technology sector as a whole underperformed post-election as investors worried about potential staffing issues due to stricter immigration vetting and Trump's generally negative rhetoric towards some of the larger tech businesses, with Amazon the prime (excuse the pun) candidate.

Energy and materials companies were broadly flat over the period, with energy appearing to get a small benefit from the potential for lower regulation. However, this appeared to be offset by the prevailing low oil price which is being driven in the most part by oversupply (rather than being demand-led) – a situation that would not necessarily be helped by increased exploration and production in the US. The fund continues to hold no companies in the materials sector and a benchmark weight (approximately 6%) in energy through our holdings in Royal Dutch Shell and Total.

Bond yields jumped higher and the yield curve steepened on the prospect of heightened inflation expectations on the back of the planned infrastructure spending plan from a Trump administration. The so-called 'bond proxies' such as utilities, telcos, and consumer staples therefore sold off quite dramatically. Our zero weighting to utilities (the worst performing sector over the period) and underweight to telcos therefore aided overall fund performance. We were not immune to the 'bond proxy' sell-off, however, with our holdings in the consumer staples sector making up just under 19% of the portfolio, an approximately 9% overweight, albeit down from a 30% weight three years ago.

The sector which benefitted the fund most was industrials, where we have built up an approximately 18% position, representing an overweight versus the benchmark of just over 6%. We have noted for some time that this section of the market appeared to offer good value, and particularly relative to its history, and that there were many companies committed to progressive dividend policies. The market rewarded these businesses post-election on the back of the large infrastructure plans and the potential for increased defence spending (a large part of the industrials sector) both in the US and Europe – as North Atlantic Treaty Organization (NATO) allies are 'forced' to meet their 2% of Gross Domestic Product (GDP) spending targets. In the fund companies such as BAE Systems, General Dynamics, United Technologies, and Eaton Corp all benefited.

So overall we might sum up the good performance of the fund in the week after the election as being due to not being overly focussed on the 'classic' high dividend parts of the market, having a reasonable exposure to more economically sensitive parts of the market, and gaining more of our emerging market exposure through diversified global businesses. And that we did not manage to provide stellar performance as some of the best performing companies were in industries we do not look at such as banks, or with markets caps we do not consider.

Changes to portfolio

In October we made no changes to the portfolio. Through November we have made three changes to the portfolio; two of which we might classify as 'business as usual' and one we might classify as 'opportunistic', in the sense that the market movements post the US election caused us to act by providing both a change in sentiment and advantageous price movements.

We will be able to discuss these changes in more detail in the December update, but you can be assured the new positions all adhere to the three tenets we always apply; persistently high return on capital businesses, at reasonable valuations, with decent and growing dividends.

Outlook

On the day of the election result we wrote;

"Over the last 6 years we have seen numerous events that have caused shockwaves through equity markets: from the European sovereign debt crisis, the rise of ISIS, slowing growth in China, the oil price collapse, Russia's invasion of the Ukraine, the "Taper tantrum", etc. Much of Trump's social policy is extremely divisive, his lack of experience of holding elected office should be a concern, and his maverick attitude increases uncertainty. However, we think the emergence of a new US president that wants to provide a shot in the arm to the US economy through fiscal stimulus could well turn out to be a fairly benign, if not positive outcome for equities overall."

We do not know if the short term trends we have witnessed over the last week or so since the world woke up to President-elect Trump will continue or whether results in European elections, for example, might cause the market to move in a different direction. What we do know is that the quality businesses we try and invest in have shown considerable resilience through a multitude of issues we have seen over the past six years since we launched the fund. That our moderate and growing dividend yield target has shielded us somewhat from the spectre of sharply rising rates or inflation. And that our value discipline has to a large extent prevented us chasing trends for too long. Our aim, as ever, during periods of market turmoil is to remember to stick to these principals and not get too caught up in trying to predict the future.

We thank you for your continued support.

Guinness Atkinson
Dividend Builder Fund
Managers Update – November 2016

Performance

In the month of October the fund was down 3.55% versus the benchmark MSCI World Index down 1.91%. The fund therefore underperformed the index by 1.64% over the month.

Looking at the year-to-date to the end of October the fund is up 5.50% versus the MSCI World Index up 4.05%. The fund is therefore ahead of the index by 1.45% for the year.

as of 10.31.2016	YTD	1 YR	3 YR (ann.)	Since inception (3.30.2012) (ann.)
Dividend Builder Fund	5.50%	2.80%	3.69%	8.50%
MSCI World Index	4.05%	1.79%	4.43%	8.52%

as of 9.30.2016	YTD	1 YR	3 YR (ann.)	Since inception (3.30.2012) (ann.)
Dividend Builder Fund	9.38%	14.05%	5.95%	9.55%
MSCI World Index	6.06%	12.01%	6.46%	9.16%

All returns over 1 year annualized, except YTD which is actual. Source: Bloomberg, Guinness Atkinson Asset Management Expense Ratio: 0.68% (net); 1.77% (gross)

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. 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/our-funds/dividend-builder-fund/ *or call (800) 915-6566. Total returns reflect a fee waiver in effect and in the absence of this waiver, the total returns would be lower.* 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 June 30, 2017. 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 waives or absorbed, subject to the 0.68% expense cap.

Guinness Atkinson
Dividend Builder Fund
Managers Update – November 2016

GUINNESS ATKINSON FUNDS

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 Dividend Builder 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. The Fund's strategy of investing in dividend-paying stocks involves the risk that such stocks may fall out of favor with investors and could reduce or eliminate the payment of dividends in the future or the anticipated acceleration of dividends could not occur. The Fund invests in foreign securities which will involve greater volatility and political, economic and currency risks and differences in accounting methods. This risk is greater in emerging markets. Medium- and small-capitalization companies tend to have limited liquidity and greater price volatility than large-capitalization companies.

Top Fund Holdings as of 10/31/16

1.General Dynamics Corp	3.00%
2.Mattel Inc	2.98%
3.Schneider Electric SE	2.97%
4.Willis Towers Watson	2.91%
5.Coca-Cola Co/The - ADR	2.91%
6.Microsoft Corp	2.90%
7.United Technologies	2.89%
8.Wal-Mart Stores Inc	2.89%
9.TOTAL SA	2.88%
10.Procter & Gamble Co/The	2.86%

Current and future fund holdings and sector allocations are subject to change and risk, and are not recommendations to buy or sell any security.

Growth stocks typically are more volatile than value stocks; however, value stocks have a lower expected growth rate in earnings and sales.

Dividend yield is calculated by annualizing the last quarterly dividend paid and dividing it by the current share price.

Manufacturers Purchang Managers' Index is based on five factors: new orders, inventory levels, production, supplier deliveries and employment levels. It is meant to be a measure of the health of the manufacturing sector.

MSCI World Financials Index is a market cap weighted index that captures large and mid cap representation across 23 Developed Market countries.

MSCI World Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed countries.

One cannot invest directly in an index.

Guinness Atkinson

Dividend Builder Fund

Managers Update – November 2016

Distributed by Foreside Fund Services, LLC.