Guinness Atkinson
Dividend Builder Fund
Managers Update – December 2016

We made a small number of changes to the portfolio in November. We sold our positions in Largan Precision, Li & Fung and Willis Towers Watson and replaced them with new positions in Roche, Randstad and VF.

We bought Largan Precision, a Taiwanese manufacturer of optical lens for smart phones, around this time last year and it has gone on to perform very well for the fund. The company had demonstrated impressive growth in combination with margin expansion which is a trait we always like to see. The stock price fell quite significantly over the second half of 2015, in an environment of general emerging market weakness, allowing us to find an attractive entry point towards the end of the year. Indeed we managed to purchase the company on a P/E multiple of 11x 2016 expected earnings. Given the strong share price performance we have seen this year, the P/E multiple has since expanded to 21x 2016 expected earnings which we felt was too rich. We continue to like the company and it will remain on our watchlist as a potential candidate to re-enter the portfolio if we see a similarly attractive entry point in the future.

We bought Willis Group, as it was called back in 2012 when we launched this fund. We always like insurance brokers' scalable and capital light business models. However, the company merged with Towers Watson at the beginning of this year, which lead to a change in the capital structure of the business and importantly for us a lower dividend yield. The company has performed well for us in the portfolio but with a dividend yield now of around 1.5% vs 3% when we bought it we felt there were better opportunities elsewhere.

Li & Fung was a position where we got it wrong, and decided to cut our losses and move on. We bought the company back in 2014 and we really liked the company's asset light business model as we could see how growth would translate into significant operational leverage. Growth had been weak for some time but we thought there was a reasonable chance that it would turn around. Unfortunately, that has not occurred and with the election of Donald Trump we felt the company's model of being a global outsourcing business was more vulnerable. We also came to the conclusion that there is now a real risk of a dividend cut.

In the run up to the US election there had been a meaningful sell off in the healthcare sector and we felt this provided an opportune time to purchase Roche for the portfolio. The 1 year forward P/E multiple for Roche peaked at about 20x in the middle of 2015, yet we managed to pick it up for the portfolio on a multiple of 15x which seems a very reasonable discount not only to its historic level but also relative to the market, given the company's high quality characteristics.

We also purchased VF, which we had owned when we launched the fund in 2012 but we sold in 2013 after some particularly strong performance. The company owns clothing brands such as North Face, Timberland, and Wrangler Jeans. We sold the company in 2013 as the company's dividend growth, while impressive at over 10% per year, had failed to keep up with share price performance, meaning the yield had fallen below 2%. Since then the dividend growth has remained as impressive yet the share price has been weak over the last 18 months meaning we were able to buy the company on a dividend yield of around 3%.

Finally, we added a position in the Dutch recruitment firm Randstad. We are always looking for companies that meet our quality criteria yet trade on valuations towards the lows of their historic range. Randstad certainly met these criteria after the company's share price reacted negatively to the

Brexit referendum. The market valued this high quality company on a forward P/E of 20x in the middle of 2015, yet we were able to pick it up on a forward P/E of 13x in November.

This discipline of looking for consistently high return on capital companies, at historic low valuations, is one that has served us well over the last six years. It doesn't work every time, as we saw with Li & Fung, but buying a high quality company at a historic low valuation will always be preferable to us to buying a low quality company at a "cheap" valuation.

Since September we have seen a significant sector rotation out of defensive industries such as consumer staples and utilities into cyclical industries such as industrials and commodities, and this has been accelerated by the surprise election of Donald Trump. Some have characterised this rotation as a shift from "quality" into "value". We do not see it in these terms.

Firstly, we do not see utilities as "quality" companies. They typically earn a low return on capital, with high leverage, without much opportunity for growth and consequently we have never owned one in our portfolio.

Quality for us really means three things:

1. Consistently high return on capital
2. A strong balance sheet
3. Ability to reinvest for growth at a high return on capital

We think these three elements are an incredibly powerful combination of characteristics, yet they are still insufficient for us to add a company into our portfolio. We also want to see value. It is therefore this combination of Quality characteristics and Value that we look for.

By our definition of quality we are not limited just to defensive industries such as consumer staples, healthcare and utilities. We find plenty of companies in more cyclical sectors that have generated consistently high return on capital (best of breed companies if you like), and this has been where we have found the value over the last few years. Over the last three years we have reduced our exposure to expensive quality in consumer staples and have been increasing our exposure in quality cyclicals in industrials and IT.

How this will play out in 2017 is very hard to predict. Political risk certainly appears to have increased, with various European elections next year opening up the possibility for more sharp shocks to equity markets. It remains to be seen what the long-term impact of President Trump will be on equity markets: will a domestic stimulus offset the threat of trade wars with China? Will higher bond yields drive flows out of bonds and into equities or will an unexpected shock drive bond yields lower in a search for a safe haven? What will be the impact of the "unknown unknowns" in 2017?

Ultimately, we do not attempt to predict what will happen in 2017, but we feel safe in the knowledge that a focus on our definition of quality equities may provide some downside protection during periods of fear. At the same time ensuring we buy these quality companies when their valuations are cheap should, in our opinion, allow us to participate in most of the upside when greed takes over. This approach has served us well over the last 6 years, and we believe it should provide some stability to portfolios in what could turn out to be a bumpy 2017.

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GUINNESS ATKINSON FUNDS

Performance

In November the Guinness Atkinson Dividend Builder Fund was up 0.20% vs the MSCI World Index which was up 1.50%. The fund therefore underperformed the benchmark by 1.30% over the month.

as of 11.30.2016	YTD	1 YR	3 YR (ann.)	5 YR (ann.)	10 YR (ann.)	Since inception (3.30.2012) (ann.)
Dividend Builder Fund	5.71%	2.80%	2.97%	N/A	N/A	8.39%
MSCI World Index	5.57%	3.75%	4.31%	10.52%	4.42%	8.71%

All returns over 1 year annualized. 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/GIF_performance 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.

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 11/30/16

1.	General Dynamics Corp	3.52%
2.	BAE Systems PLC	3.19%
3.	CME Group Inc	3.19%
4.	United Technologies	3.08%
5.	Illinois Tool Works Inc	3.04%
6.	Mattel Inc	3.01%
7.	Merck & Co Inc	2.99%
8.	Schneider Electric SE	2.97%
9.	Microsoft Corp	2.95%
10.	Wal-Mart Stores Inc	2.94%

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.

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)

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

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.

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