Guinness Atkinson

Asia Pacific Dividend Builder Fund

Managers Monthly Update – January 2017

GUINNESS ATKINSON FUNDS

Markets and performance

This was a testing year for the fund which ended the year up 8.81% in US dollar terms versus the benchmark MSCI AC Pacific ex Japan Index which rose 7.80%, and one on which we can look back with some pride. Moreover, the way we have gone about it, the types of business in which we invest and the valuation anomaly we look to capture has delivered 'good' returns based on businesses in which we have confidence.

QUARTERLY PERFORMANCE THROUGH 12/31/2016

Fund Inception Date	1 Year	3 Years	5 Years	10 Years	Inception	Expense Ratio
Asia Pacific Dividend Builder Fund 03/31/2006	8.81%	4.21%	6.48%	3.87%	4.57%	1.10% (net) 3.87% (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 Funds may be lower or higher than the performance quoted. For most recent month-end and quarter-end performance visit *https://www.gafunds.com/our-funds/asia-pacific-dividend-builder-fund/#fund_performance* or call (800) 915-6566. Total returns reflect a fee waiver in effect and in the absence of this waiver, the total returns which reflect fee waivers 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 Advisor has contractually agreed to waive fees through June 30, 2017.**

The fund did well defensively in the weakness in the early part of 2016 and captured the rally in June. In the second half however, the fund had to contend with the strong recovery in energy and materials prices to which it has low exposure, a falling Korean Won amidst Korea's domestic troubles and with rising interest rate expectations that hurt the REIT positions in the last quarter. Nevertheless, having underperformed for four of the five months from July to November, through what was by any stretch a difficult period, the fund outperformed in December in falling markets.

The Guinness Atkinson Asia Pacific Dividend Builder Fund fell 0.59% in December versus a decline of 1.37% for the MSCI AC Pacific ex Japan index.

This period also included three significant macro events. First, at the end of September OPEC agreed an outline for cutting oil production, a reversal of its strategy begun in 2014. Second, the expected course of the US Presidential election was turned on its head with the election of Donald Trump accompanied by a substantial change in economic policy. Third, an issue in Korea surrounding allegations of influence peddling ballooned into a full blown political scandal that resulted in a vote to impeach the President.

December was a month of relative tranquillity for Asian markets. After the shock US election result in November, and the resulting fall-out on the region, this came as somewhat of a relief. While Asia fell towards the end of December, US and global equity markets continued their post-election rally.

US markets have been quick to discount a more expansionary policy by the incoming administration. With higher domestic growth expected as a result, US stock prices have risen. Since higher inflation is also expected, bond yields are up in anticipation of rising interest rates, which in turn has caused the dollar to strengthen against most currencies, Asian currencies included. Whether this rally in equity markets is capable of being sustained is questionable. We address the election result further in our Outlook section below.

Thai stocks continued their rally in December after bouncing back from the initial drop on the news of King Bhumibol Adulyadej's death in October. Fears of political instability in Thailand have subsided as it has become clear that the succession will take place without further disruption. Our four Thai stocks were the best performers in the portfolio in December.

In contrast with Thailand, the political scandal in Korea has unsettled financial markets. The ongoing saga of allegations of wrongdoing against President Park — which culminated in mass organised demonstrations and plummeting approval ratings — was brought to a head on 9 December, when the South Korean National Assembly voted to impeach Park, suspending her from office. One of our Korean holdings, KT&G, was among the portfolio's worst performing stocks in December, falling 3.81% in local currency terms, but 6.12% in US dollar terms.

Commodity prices continued their strength at the end of the year, led by oil after the decision by OPEC on 30 November to cut production. In October and November energy, financials and materials were the best performing sectors where the portfolio is underweight. (Because the fund invests in companies that have achieved comparatively stable returns on capital over time, we tend to have relatively low exposure to energy and materials companies.) The fund underperformed in these two months even though overall market conditions were weak, conditions in which in more normal times we would expect to outperform. We were pleased to see this was short-lived, with market behaviour stabilising in December and the fund outperforming.

We believe one of the key differentiators of the fund from its peers is that the selection and performance of the portfolio, while it will definitely be affected, is not dependent upon macro conditions. We do not seek to benefit from or defend against specific macro events but instead our focus is very much on individual quality stocks. Our assessment of the macroeconomic backdrop affects our evaluation of a stock's expected future returns, but it is the companies themselves that take centre stage.

Portfolio

We made no changes to the portfolio in December.

Outlook

We see three potential consequences for Asia of the US election result: changes in trade policies, its effect on the US domestic economy and interest rates, and the potential for changes in Asia-focussed diplomatic relations. (The last of these factors seems to have taken a back seat recently in comparison to current diplomatic relations between the US and Russia.)

The potential negative impact of more restrictive trade policies on Asia was the one of the main factors behind the sell-off in Asian equities, both preceding and immediately after the election. Our technology manufacturing stocks, including those in Taiwan, were among those that fell most heavily. Despite this period of weak performance, technology was one of the best performing sectors for 2016 as a whole. Yet again, this underlines the importance of selecting individual stocks for the long term over making short-term thematic bets, in our opinion.

We see it as unlikely that Trump will be able to impose tariffs on Asian countries to anything like the degree which he has suggested. Moreover, the appetite among US consumers to pay more for consumer electronics is simply not there. There is the potential for changes in tax treatment of overseas expenditure by US companies, but current policies appear to be at an early stage. Meanwhile the long-term shifts of globalisation (see below) march on.

The Trump administration's domestic policies are expected to be inflationary, which should secure or even accelerate interest rate rises by the US Federal Reserve. This is supposedly bad news for emerging markets including Asia, although as we wrote last month most countries in the Pacific region have little to fear from rate rises, having trade surpluses, low foreign debt exposure, well-capitalised banks and low inflation.

The manner in which many of the next administration's domestic policies have been proposed, although high-profile, makes it difficult to judge how far and how quickly they will be enacted. The tone of the next round of US earnings reports will be instructive of whether corporate management is looking ahead with confidence of higher government spending and deregulation or caution around a higher dollar, rising interest rates, and rising stakes in trade policy. Not all of these are bad from an Asian perspective; a stronger dollar, if a result of a stronger US economy, is a good thing; greater restrictions on trade quite the opposite. US markets appear to be enjoying the relative certainty now that the election itself is over, although what this says about the factors above is impossible to say.

We see the case for investing in Asia remains unchanged:

- A quarter of the world's quality companies are in Asia. Of the 1,900 companies globally that meet our criteria for quality, 500 of them are located in Asia.
- Valuations are attractive. Asian equities trade at a substantial discount to global equities. At the end of December, the MSCI AC Pacific ex Japan Index traded on a 14.1x price earnings ratio, compared with the MSCI World Index on 18.1x. The fund trades at a further discount – at the end of the year the fund was on a p/e ratio of 11.4x.
- Asia has historically provided a good source of diversified income. We target companies with moderate yields that are capable of growing their dividend over the long term. Companies in the portfolio have on average grown their dividends at 9.3% per annum over the past five years.
- We believe Asia economies are generating robust, sustainable growth. While a demographic tailwind has played a part in the region's success, the development of a regional manufacturing hub has helped countries to move up the value-chain by producing increasingly sophisticated goods. We see this clearly in China, but elsewhere in Asia too – Thailand's exports are becoming an increasingly important part of the supply chain. The long-term trends of globalization seem unlikely to be halted any time soon.

2017 will doubtless bring uncertainties and surprises, as every year does. This is why we aim to build a portfolio of attractively valued companies that have demonstrated an ability to deliver high returns on capital for eight years in a row. We think this is the best thing to own at the start of a new one – and, indeed, at any time. Edmund Harriss (portfolio manager)

Mark Hammonds & Sharukh Malik (analysts)

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The Fund's investment objectives, risks, charges and expenses must be considered carefully before investing. The statutory and summary prospectus contains this and other important information about the investment company, and it may be obtained by calling 800-915-6566 or visiting gafunds.com. Read it carefully before investing.

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. Non-diversified funds concentrate assets in fewer holdings than diversified funds. Therefore, non-diversified funds are more exposed to individual stock volatility than diversified funds. Investments in debt securities typically decrease in value when interest rates rise, which can be greater for longer-term debt securities. Investments in derivatives involve risks different from, and in certain cases, greater than the risks presented by traditional investments. Investments in smaller companies involve additional risks such as limited liquidity and greater volatility. 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. Investments focused on the energy sector may be exposed to greater risk than an investments diversified among various sectors.

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

Past performance is not indicative of future results.

Top Fund Holdings as of 12/31/16

1	LPN Development PCL /Foreign - NVDR	3.16%
2	Relo Holdings Inc	3.02%
3	Hanon Systems	2.93%
4	China Construction Bank Corp - H Shares	2.91%
5	AAC Technologies Holdings Inc	2.88%
6	PTT PCL /Foreign	2.87%
7	Industrial & Commercial Bank of China Ltd - H Shares	2.83%
8	CNY Minsheng Banking - H Shares	2.81%
9	Yangzijiang Shipbuilding Holdings Ltd	2.80%
10	Henderson Group PLC	2.80%

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

The price/earnings ratio (often shortened to the P/E ratio or the PER) is the ratio of a company's stock price to the company's earnings per share. The ratio is used in valuing companies.

The MSCI AC (All Country) Asia ex Japan Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of Asia, excluding Japan. The MSCI AC Asia ex Japan Index consists of the following 10 developed and emerging market country indexes:

China, Hong Kong, India, Indonesia, Korea, Malaysia, Philippines, Singapore, Taiwan, and Thailand. The MSCI World Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed markets. The MSCI World Index consists of the following 23 developed market country indexes: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, the United Kingdom, and the United States.

One cannot invest directly in an index.

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