Guinness Atkinson
Dividend Builder Fund
Managers Update – September 2017

GUINNESS ATKINSON FUNDS

August in Review

A traditionally quieter summer period was disturbed by flying ballistic missiles, increasing geopolitical tensions, the struggles of the Trump administration, another terror attack in Europe, and Tropical Storm Harvey devastating the U.S. Gulf Coast. Despite all this, global equity markets continued upwards and onwards and the MSCI World Index grew at +2.50% (in GBP).

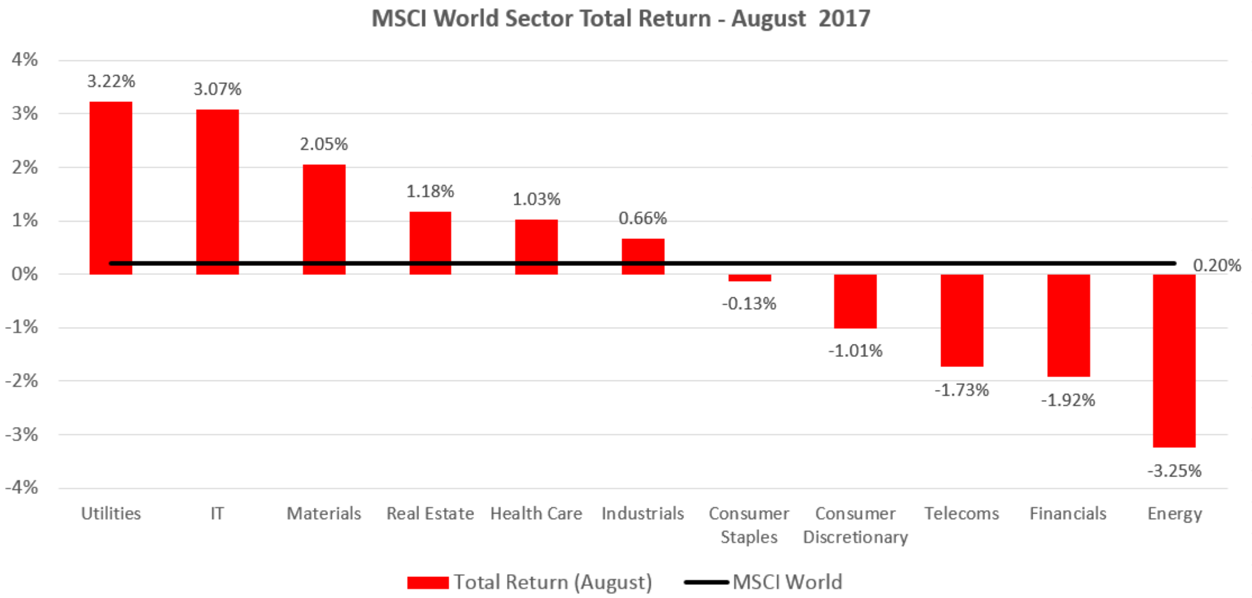
In the U.S., while equity markets started the month strong, volatility increased as events unfolded. On 17th August, the S&P 500 recorded its biggest one-day fall since May as President Trump and Kim Jong Un were "locked and loaded" in a nuclear game of chicken. This also came amidst growing domestic tension in the U.S. following the Charlottesville violence and disbanding of the Trump administration's business councils. One may be forgiven for thinking markets by now are immune to political upheavals – especially after the year that has unfolded – and this view is partially supported by the fact that the U.S. economy continued to demonstrate solid growth; second quarter GDP growth was revised up to 3.0% (the strongest advance in two years), while unemployment fell to 4.3%. It is worth noting that, perhaps surprisingly, this is despite any of the promised fiscal stimuli at the start of the year. To further disparage economic theory and the Philip's curve, CPI inflation in the U.S. disappointed by remaining below consensus at 1.7%, reducing the likelihood of a Federal Reserve rate hike in December to around 34%. Nevertheless, a hike is still possible after the FOMC used its July meeting to state that a delay in reducing the FED's balance sheet could overshoot inflation that "could be costly to reverse". The S&P 500 ended with a return of +0.3% (in USD) which is the fifth positive month in a row.

In Europe, economic momentum improved, with Eurozone GDP growing at 2.2% year-on-year, for the second quarter. This is the highest level since 2011, though there is a concern that the economic recovery and declining unemployment is not translating into a higher price level. Inflation rose to 1.5% but is still below the European Central Bank (ECB) policy target of 2%. As a result, in its July meeting, the ECB indicated that current conditions do not warrant an end to quantitative easing in the near term, and stated that the strong Euro could represent a drag on inflation. The MSCI Europe ex-UK Index was also penalized by the strong Euro and closed with a negative return of -0.4% (in EUR).

In the UK, we saw the third round of Brexit negotiations begin and the global geopolitical disturbances contributed to increased volatility. The labour market report showed a fall in the unemployment rate to 4.4% – the lowest level since 1975, and the FTSE 100 was one of the few indices in Europe with positive returns in local currency (+1.6% in GBP), partly driven by a new record low for Sterling. Nevertheless, inflation remained at 2.6% – in line with the Bank of England's target range. This gives the central bank time to delay the interest rate hike, and is widely expected in 2018.

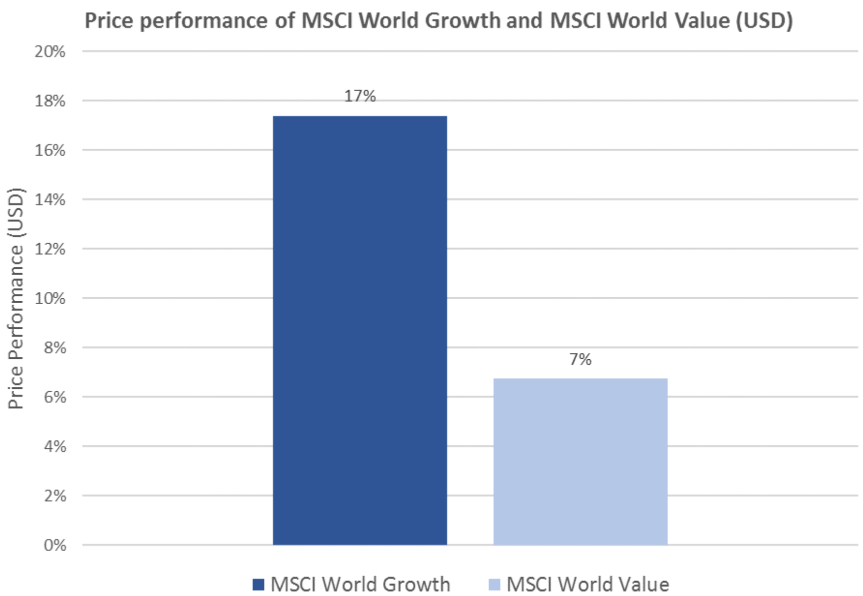
The MSCI Emerging Markets Index outperformed developed equity markets thanks to the weak U.S. dollar. Despite the risks involved, the reaction to North Korea missile launches has been largely muted, and the emerging world was boosted by positive data from China, which posted higher second-quarter GDP growth of 6.9%. This was driven by improvements in industrial production and domestic consumption, signalling strength in the underlying economy.

As seen below, in terms of sectors, energy was the worst performing in the month as much of the drilling and refining activity on the U.S. Gulf Coast came to a halt in the aftermath of Tropical Storm Harvey. Financials were also negatively impacted, particularly insurance stocks, as concerns grew that flooding from Harvey would lead to large losses. In contrast, the IT sector continued to rally, helped by investor enthusiasm ahead of the launch of Apple's new iPhone. Utilities also gained from their perceived "safehaven" status as investors fled to safety amidst geopolitical tensions. The fund's underweight positions in Utilities and IT were a drag on performance, whilst underweights in Energy and Financials were beneficial.



Source: Bloomberg. Data (in USD) from 31st July 2017 to 31st August 2017.

With regards to style, large cap stocks outperformed small and mid-caps, benefitting the portfolio, however the continuation of growth outperforming value was a drag. This has been the same story for most of the year, and as the chart below highlights, there is a 10% differential in price performance between the MSCI World Growth and MSCI World Value.



Source: Bloomberg. Data (in USD) from 31st December 2016 to 31st August 2017.

In the fund, we continue to seek attractively valued, quality companies that should stand us in good stead in our search for rising income streams and long-term capital growth. In terms of individual holdings, the strongest performer in the fund was ANTA Sports (+16.25% in USD) – one of our latest additions. ANTA Sports is based in China and has a strong cashflow return on investment over 10%, over the last 10 years. The company generates revenue through the manufacture and trading of sporting goods, including footwear, apparel and accessories. Its brand portfolio includes ANTA, ANTA KIDS, FILA, FILA KIDS and NBA, and the company is looking to new brands too, such as South Korea's Kolon. Looking at the financials, ANTA Sports has very solid margin growth alongside a surge in sales in recent years. The company is well positioned to benefit from the growing wealth in China, and improving economy, and has maintained a very strong balance sheet with a debt-to-equity ratio of less than 10%. It beat on EPS and revenue in August, reaffirming our conviction in the stock.

Novo Nordisk (+13.23% in USD) also performed well; the Danish pharmaceutical company is a leader in the global insulin market and has been a relatively recent addition to the portfolio too. August saw management raise sales guidance as the company is optimistic regarding the sales of new diabetes and obesity medicines.

The worst performing stock in August was TEVA Pharmaceuticals, which we have sold our position in. We initiated a position in 2013; the stock trading at historic low multiples and the market was overly focused on the issue of "patent cliffs" with healthcare companies in general. Over the following two years the stock price recovered significantly as the expected pessimistic scenarios did not come to fruition. Into 2016, however, the share price weakened as worries mounted regarding drug pricing in the U.S. and the company also announced a significant M&A transaction – buying the generic drug business of Allergan for around $40bn. This was exceptionally large for the company and did raise flags as to whether TEVA had overstretched and/or overpaid. In the second half of 2016, the share price continued to fall though we felt this was more sentiment-driven. However, the latest earnings release came as a shock to the market due to the severity of the announcement – significant write downs associated with the Allergan business acquisition and a large cut to the dividend, in part to preserve cash to pay down debt and protect certain covenants being breached. As a consequence of these poor results, and especially in light of the dividend cut, we were quick to sell our full position in this stock.

In line with our one-in one-out policy, we replaced TEVA with British American Tobacco. The global tobacco leader was on our radar due to its stellar cashflow returns on invested capital, and strong dividend profile. Increasing market share, sales and earnings, as well as successful integration of the mega $65.4bn acquisition of Reynolds American position the company well for future price and dividend growth. Despite a rising debt, the company has large piles of cash and interest cover. We believe that the FDA's proposal to reduce nicotine in cigarettes has been overly discounted, and coupled with a sell-off following bribery allegations, this has provided us an attractive valuation to buy a full new position. Integrating the Reynolds American deal and developing the "global drive brands" strategy is the focus for the next few years, as synergies from the acquisition are expected to be $400 million, adding 12% to Reynolds' 2016 net income. "Global drive brands" continue to boost BAT's market share at higher price points and increased investment in new-generation products will allow longer-term growth. For the portfolio, looking longer term, we believe this change reflects greater quality, better value, and rising dividend income streams.

As ever, we thank you for your continued support.

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Performance

In August, the Dividend Builder Fund produced a total return of -0.24% versus the MSCI World Index return of 0.20%. The fund therefore underperformed the index in the month by 0.43%.

as of 8.31.2017	YTD	1 YR	3 YR (ann.)	5 YR (ann.)	Since inception (3.30.2012) (ann.)
Dividend Builder Fund	12.54%	10.20%	4.33%	10.25%	9.77%
MSCI World Index	13.93%	16.88%	6.55%	11.69%	10.57%

as of 6.30.2017	1 YR	3 YR (ann.)	5 YR (ann.)	10 YR (ann.)	Since inception (3.30.2012) (ann.)
Dividend Builder Fund	14.47%	4.02%	11.07%	-	10.06%
MSCI World Index	18.89%	5.87%	12.05%	4.60%	10.39%

All returns over 1 year annualized. Source: Bloomberg, Guinness Atkinson Asset Management

Expense Ratio: 0.70% (net); 2.11% (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 https://www.gafunds.com/our-funds/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 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, 2018. 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.

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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 8/31/17

1	ANTA Sports Products Ltd	3.71%
2	Vodacom Group Ltd	3.42%
3	Danone SA	3.18%
4	Novo Nordisk A/S	3.14%
5	NEX Group PLC	3.08%
6	AbbVie Inc	3.04%
7	Microsoft Corp	3.01%
8	Schneider Electric SE	2.99%
9	Aflac Inc	2.99%
10	Unilever PLC	2.98%

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.

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

S&P 500, the abbreviation for the Standard & Poor's 500, is an American stock market index based on the market capitalizations of 500 large companies having common stock listed on the NYSE (New York Stock Exchange) or the NASDAQ (National Association of Securities Dealers Automated Quotations System). It is designed to measure the equity market performance of the U.S. stock market.

Philip's Curve is an economic empirical model showing that inflation and unemployment have a historically inverse relationship.

The MSCI Europe ex-UK Index covers approximately 85% of the free float-adjusted market capitalization across European Developed Markets excluding the UK.

The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets. The MSCI Emerging Markets Index captures representation across the following 24 emerging market country indices: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Pakistan, Peru, Philippines, Poland, Russia, Qatar, South Africa, Taiwan, Thailand, Turkey and United Arab Emirates.

The MSCI World Growth Index captures large and mid cap securities exhibiting overall growth style characteristics across 23 Developed Markets countries.

The MSCI World Value Index captures large and mid cap securities exhibiting overall value style characteristics across 23 Developed Markets countries.

Developed Markets countries include: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, the UK and the US.

Ex-dividend is a classification of trading shares when a declared dividend belongs to the seller rather than the buyer.

One cannot invest directly in an index.