Guinness Atkinson
Global Innovators Fund
Managers Update – March 2018

GUINNESS ATKINSON FUNDS

February in Review

After more than a year of equity markets trending higher, volatility returned abruptly in February. Global equity markets fell back over the month, giving up almost all the gains made in January. The MSCI World Index is back at 0% year-to-date (total return, USD), having been up as much as 7% at the end of January. Despite the return of market volatility, underlying economic and corporate data continues to indicate robust economic growth conditions.

The sell-off began in late January with a stronger than expected wage growth figure in the US, which suggested a pick-up in inflation could be on the horizon and the possibility that interest rates may increase faster than anticipated. This caused uncertainty and worry surrounding the impact higher interest rates would have on both the broader economy and on equity valuations.

The strong global macro data may have played a role in preventing a more sizable market correction. The Eurozone's real GDP was up 2.7% (YoY, Q4 2017), with broad based growth across the region and the Purchasing Managers' Index (PMI) remained at elevated levels. The US also posted a healthy real GDP annualized growth rate of 2.5% (QoQ, Q4 2017), in line with market expectation.

In the US, the inflation reading for January came out higher than expected, with CPI rising 2.1% from a year early, exceeding forecasts of 1.9% and adding to signs of an inflation pickup. The Head of the Federal Reserve, Jerome Powell, indicated there may be 4, not 3 rate rises in 2018 in his testimony to Congress.

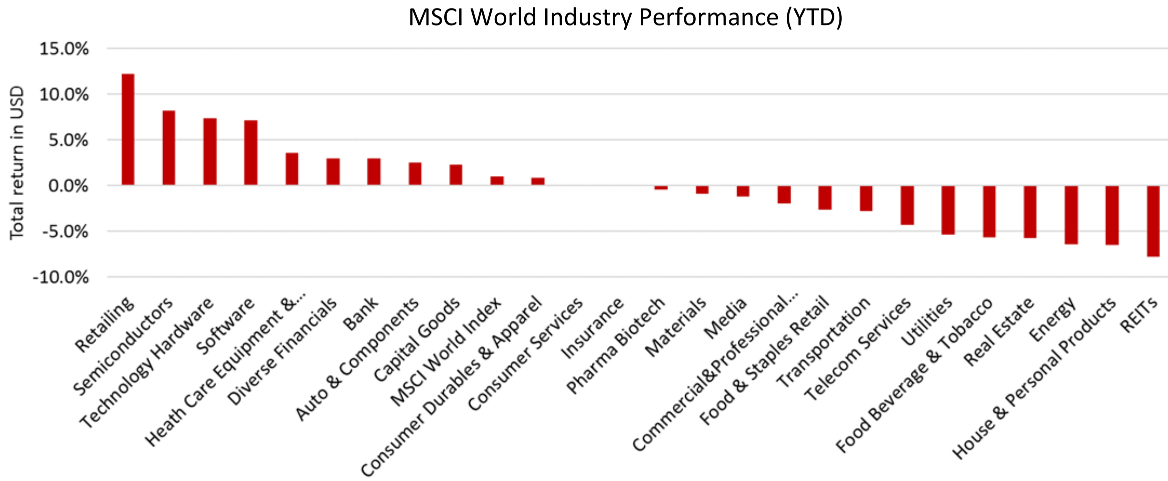
Asia underperformed during February's global correction. Despite this, the region's good fundamentals remain intact and Chinese growth was stronger than expected, at 6.8% year on year, for the fourth quarter.

Europe was not immune from the global equity market sell-off with all sectors falling in the month. The technology sector outperformed the broader market – as the prospect of rising debt costs would relatively favor the strong cash positions of many technology firms, in Europe and Globally, and we saw continued strong earnings reports from companies in the sector. Macroeconomic fundamentals remain strong, with unemployment continuing to trend downwards in Eurozone countries, supporting consumption and domestic demand. With the beginning signs of wage and price growth there is an expectation of a pick-up in inflation. This has yet to come through in the Eurozone headline and core (excluding food and energy) inflation figures, however.

Market Movements

In February, all major markets fell in the sell-off, with the MSCI World down 4.1% (total return, USD) over the month. The S&P 500 ended the month 3.7% lower, the FTSE 100 was down 6.1% and the Euro STOXX fell 6.2%. MSCI Asia-Pacific ex Japan and MSCI EM fell 4.7% and 4.6% respectively (all in total return, USD).

Overall, when we consider the year-to-date, the IT sector continues to be the best performing sector globally along with consumer discretionary. But on industry basis Retailing is top – with Semiconductors, Technology and Hardware, and Software taking 2nd, 3rd, and 4th positions. Within Retailing, Amazon and Netflix account for more than 90% of contribution to total return for that industry, which arguably could be reclassified as tech sector stocks.



Source: Bloomberg (From 12/29/2017 to 2/28/2018)

The Global Innovators overweight position in Information Technology contributed the most to performance over the month. The underweight positions to Energy, Consumer Staples, Materials, Real Estate, Telcos and Utilities all contributed positively to performance over the month.

Despite the fund being oriented towards growth, the fund performed very well during very weak markets. In the market sell off (Jan. 26th to Feb. 8th) the fund was down 9.5%, versus the benchmark down 9.0% over the same period – a pleasing result considering the fund has a beta of 1.1 versus the benchmark (monthly returns over 5 years). In the subsequent recovery (Feb. 8th to the end of the month) the fund then outperformed significantly, rising 6.7% versus the market up 3.8%.

We believe the fund’s focus on identifying quality growth companies, and particularly those trading at reasonable valuations, has helped the fund during the recent market gyrations. The companies we own have strong balance sheets, and often large cash piles, which has meant these companies have avoided the market worries regarding potentially higher interest rates in the future. And our focus on high return on capital and asset-light business models mean they have a better chance of continuing to grow into the future.

Portfolio update

Individual stock performance in the month followed, in general, the market movements described above.

Key stock movements are highlighted below.

AAC Technologies

AAC Technologies (+19.1% total return in USD), a smartphone lens and acoustics manufacturer, continues to see strong revenue growth from its new camera lenses and higher-priced speakers. This should help the company meet its 25% revenue growth target for 2018. However, it should be noted that sluggish global smartphone shipments, which fell 8.5% in Q4 2017 (source: IDC) could be a headwind but AAC's expertise in mass producing glass-plastic hybrid lenses which are three times the price of their plastic counterparts on average, means this could be offset by expectations of higher margins.

COMCAST

Comcast (-14.9% total return in USD), the US media and television broadcasting services company, made a $31bn proposal for Sky, a UK satellite-TV provider. This offer represents a 16% premium to 21st Century Fox's planned takeover of the company. This is part of Comcast's plan to use Sky as a launch pad to expand its European presence. Market sentiment over the proposal was negative over doubts regarding growth prospects and the business models of legacy satellite players, in a market with rising competitive threats.

We made one change to the portfolio in February. We bought Baidu and sold WisdomTree.

WISDOMTREE®

WisdomTree an ETF provider, sold off due to weaker Q4 2017 earnings, which were reported in early February amid weaker markets. Their business suffered outflows in Europe and inflows slowed in its Canadian operations. WisdomTree has been struggling to capture market share from larger passive rivals in the U.S. market. This has contributed to a decreasing CFROI and lowered growth expectations.

Baidu百度

Baidu, a Chinese based search engine internet company has been strengthening its core online marketing business using AI and big-data technology to enhance its search, news feed and video products. Their margins are expected to improve with the sale of non-core business and focus on investment in core products. They plan to spin-off and list iQiyi, their live streaming platform, in the US this year. It is expected that Baidu will remain iQiyi's controlling shareholder. In the recent period of market uncertainty, the share price dropped almost 20% and far more than the market, which provided us a favorable entry point to a company with a strong balance sheet, good level of CFROI at a reasonable valuation, and with potential to grow its revenue and earnings.

The overall effect on the portfolio was to reduce our exposure to the U.S. and the Financial sector, and increase our exposure to Asia and IT. The fund remains at just around a 50% allocation to the IT sector.

Outlook

As we reflect on February, there is more uncertainty in the market, however underlying economic and corporate data continues to indicate robust economic growth conditions. Our investment process has never been one in which we try and position the portfolio based on our macro view or to try and capture any short-term trends.

Instead, we will continue to try to focus on looking for companies that show an ability to avoid the competitive threat of their peers, that have healthy balance sheets, that are earning returns on capital above their cost capital and growing their economic profit, and that can reinvest their cash flows in profitable projects that can grow their business sustainably in the future. The fact that the portfolio, as a whole, remains at only a slight premium with the broad market on a PE basis despite the companies we hold, we believe, having superior fundamentals is at least some demonstration that there still exists good opportunities in the market today. Given this reasonable valuation, we are pleased to see an expected earnings growth of the portfolio in 2018 of 12%, approximately 25% higher than the MSCI World Index.

Thank you for your continued support.

Portfolio Managers
Dr Ian Mortimer, CFA
Matthew Page, CFA

Analysts
Joshua Cole
Sagar Thanki

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Performance

In February, the Guinness Atkinson Global Innovators Fund produced a total return of -2.49% (TR in USD), compared to the MSCI World Index return of -4.09%. The fund therefore outperformed the Index by 1.60%.

as of 02/28/18	YTD	1 YR	3 YR Annualized	5 YR Annualized	10 YR Annualized	Since inception annualized (12/15/98)
Global Innovators, Investor Class[1]	2.80%	30.96%	12.31%	17.47%	10.88%	8.32%
Global Innovators, Institutional Class[2]	2.84%	31.30%	12.52%	17.59%	10.94%	8.35%
MSCI World Index	0.99%	18.02%	8.82%	11.44%	6.37%	6.01%

as of 12/31/17	YTD	1 YR	3 YR Annualized	5 YR Annualized	10 YR Annualized	Since inception annualized (12/15/98)
Global Innovators, Investor Class[1]	34.75%	34.75%	12.68%	18.53%	9.29%	8.24%
Global Innovators, Institutional Class[2]	35.07%	35.07%	12.87%	18.65%	9.35%	8.27%
MSCI World Index	23.10%	23.10%	9.91%	12.30%	5.68%	6.00%

Investor class (IWIRX) Inception 12.15.1998 Expense ratio* 1.24% (net); 1.35% (gross)

Institutional class (GINNX) Inception 12.31.2015 Expense ratio* 0.99% (net); 1.38% (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/global-innovators-fund/#fund_performance or call (800) 915-6566.

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Performance data shown for Global Innovators, Institutional Class (GINNX), prior to its launch date on 12/31/15, uses performance data from the Global Innovators, Investor Class (IWIRX).

*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 .99% for the Institutional class and 1.24%for the Investor class 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 waived or absorbed, subject to the 0.99% for the Institutional class and 1.24% for the Investor class expense cap.

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 for Global Innovators Fund, as of 2/28/18, are:

1. Cisco Systems Inc	3.95%
2. Cognizant Technology Solutions Corp – A Shares	3.77%
3. The Boeing Co Ltd	3.69%
4. PayPal Holdings Inc	3.64%
5. NIKE Inc	3.55%
6. ANTA Sports Products Ltd	3.55%
7. Catcher Technology Co Ltd	3.51%
8. Baidu Inc	3.44%
9. Alphabet Inc – A Shares	3.41%
10. New Oriental Education & Technology Group Inc	3.41%

Click **here** for list of holdings for the Global Innovators Fund.

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

Please read the prospectus carefully before investing.

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

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)

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 FTSE 100 Index is a stock index of the 100 companies listed on the London Stock Exchange with the highest market capitalization.

One cannot invest directly in an index.

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