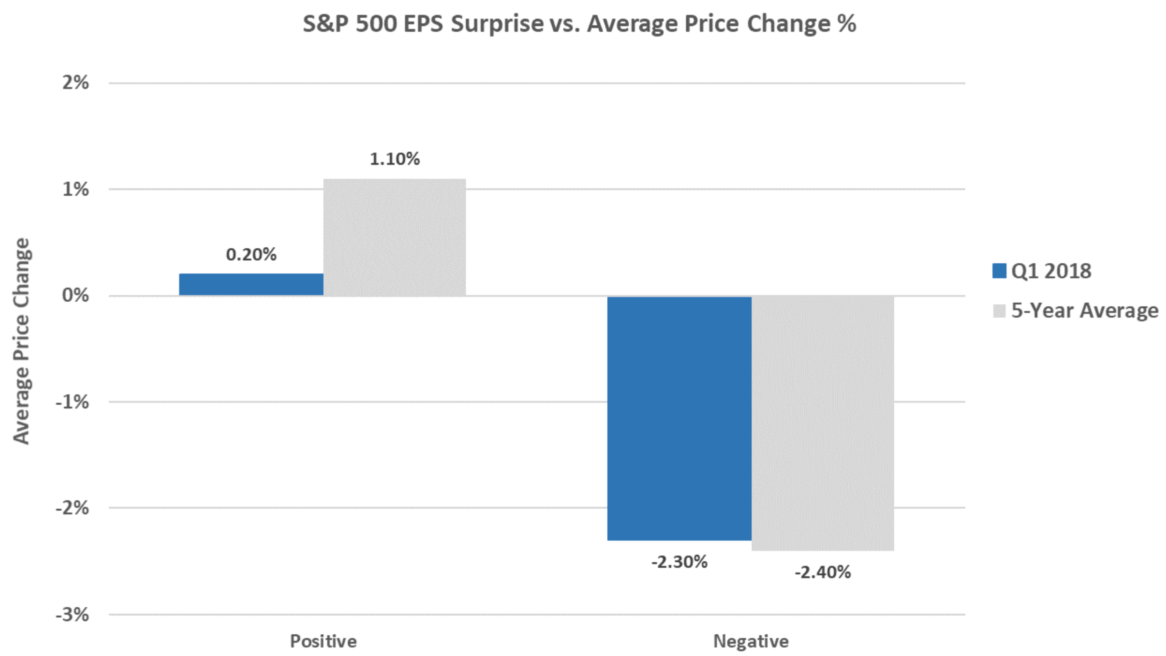
Guinness Atkinson
Dividend Builder Fund
Managers Update – June 2018

May in Review

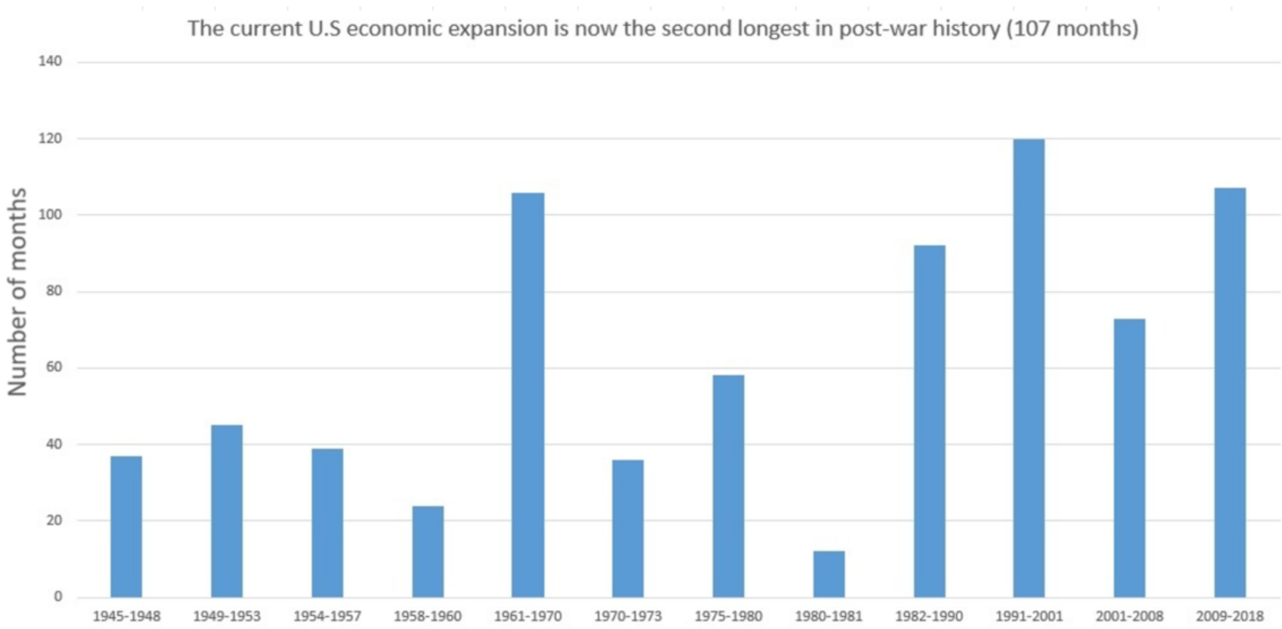
Global equity markets advanced in May (MSCI World +0.7% in USD) despite increasing trade tensions and geopolitical instability. The prospect of a snap Italian election and mixed signals from the Trump administration on talks with North Korea overshadowed strong first-quarter corporate earnings, which showed 24% year on year growth and far exceeded analyst expectations. Close to 80% of companies in the S&P 500 Index reported better earnings per share than expected, and US companies appear well on track to meet the 20% earnings growth expectations for the current calendar year. Looking to next year, it is unclear to what extent rising wage growth and interest costs will eat into corporate margins, though analysts expect 10% earnings growth.

Interestingly, companies that have missed earnings estimates continue to get punished by the market, whereas those who positively surprised are seeing less reward than in the past:



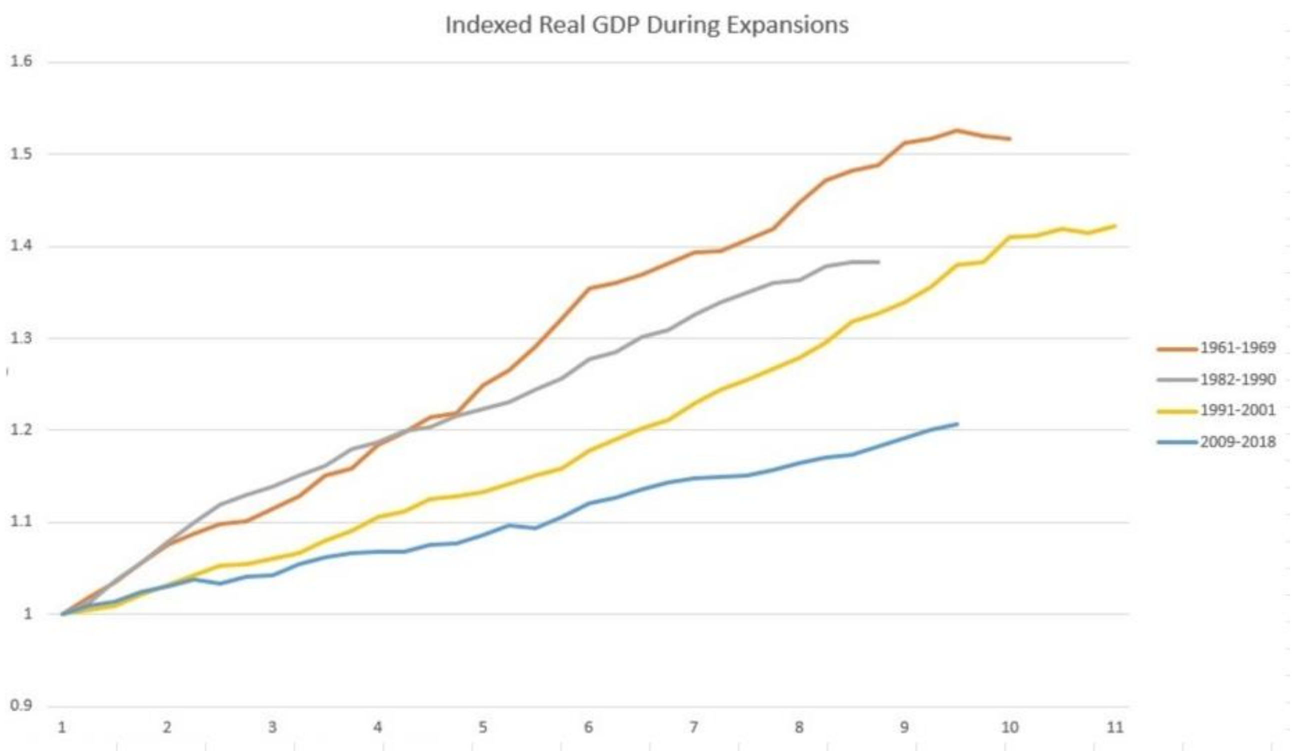
Source: Bloomberg. As of May 31, 2018.

Much of this is due to uncertainty over where in the cycle the current economy is positioned. According to the National Bureau of Economic Research (NBER), the current economic expansion is now 107 months old – making it the second longest in the past 100 years – and well above the average of 58 months. Most economists agree that expansions don't die of old age, but that the odds of fatal missteps increase the older they get.



Source: Bloomberg. As of May 31, 2018

Additionally, the current expansion has not shown the robust magnitude that its age suggests. As shown in the chart below, real US GDP growth in the current expansion lags the other three longest expansions quite significantly. As of the first quarter of 2018, real GDP has expanded by 21% since 2009; this is far lower than the 36% compound growth seen between 1991-2001.



Source: Bloomberg. As of May 31, 2018

May revealed that for the first quarter of 2018, US GDP growth was marginally revised down from 2.3% to 2.2%. This is a slower growth rate versus Q4 2017, when the US economy grew at 2.9%. The deceleration was driven by a slowdown in consumer spending, which expanded at 1% in Q1 2018 compared to 4% in the last quarter of 2017. Nonetheless, broader indicators suggest the US economy remains on a firm footing so far in 2018, and the data is not expected to deter the Federal Reserve (FED) from raising interest rates by another 0.25% in June.

European data was more mixed. Eurozone unemployment fell to 8.5% in April, from 8.6% in March; higher oil prices helped lift headline consumer price inflation to 1.9%, from 1.2% in the previous month, and consumer confidence remains close to a 17-year high. However, corporate sentiment was affected by global trade concerns and higher oil prices, and the manufacturing PMI for May declined for a fifth consecutive month from a peak of 60.6 in December. Nevertheless, the recent level of 55.5 still corresponds to more than 2% growth.

On the political front, events in Italy and Spain produced high volatility in financial markets towards the end of May. In Italy, the Five Star Movement and the League – both populist parties – appeared close to forming a coalition government before President Sergio Mattarella blocked the appointment of a Eurosceptic finance minister proposed by the two parties. Concerns rose given the intended policies of lower taxes for individuals and corporations, which would lead to higher government debt (already around 130% of GDP) and likely risk violation of the EU's Stability and Growth Pact. Although the formation of a coalition government did eventually get approved by the President, consisting of a less Eurosceptic finance minister, investors are cautious of the fractious economic backdrop in Italy. Meanwhile in Spain, the socialist opposition party PSOE filed a motion for a vote of no-confidence against Prime Minister Rajoy, eventually ousting him and replacing him with PSOE-leader Sanchez at the helm of a new government. Eurozone equities ended May in the red with the MSCI Europe ex UK Index returning -1.5% (in EUR).

UK equity markets continued their positive run over May as a whole, despite a sell off towards month end on concerns over contagion from the political situation in Italy. The market's positive returns were driven by a spike in the price of Brent crude oil, which climbed to around US$80 per barrel during the month – its highest level in three years. Performance was also supported by Sterling's continued weakness against the US dollar, which bolstered the returns of the market's many international constituents. The Bank of England's Monetary Policy Committee (MPC) voted 7-2 to keep the central bank base rate at 0.5%, citing weaker than expected domestic growth for first quarter 2018 (+0.1%).

Most Asian and Emerging Market equity markets ended the month lower, as sentiment was dampened by concerns surrounding the US-North Korea summit and US-China trade negotiations. The month saw examples of the unpredictability of the Trump administration, as it first cancelled, then looked to re-instate, the President's proposed meeting with Kim Jong-un of North Korea (although he did manage to meet Kim Kardashian instead) and it also decided after all to impose tariffs on the imports of aluminum and steel from the EU, Canada and Mexico who responded with their own tariffs. Alongside withdrawing from the Iran nuclear deal, geopolitical concerns heightened and unsettled markets overall. A stronger US dollar also undermined sentiment towards emerging equity markets during May.

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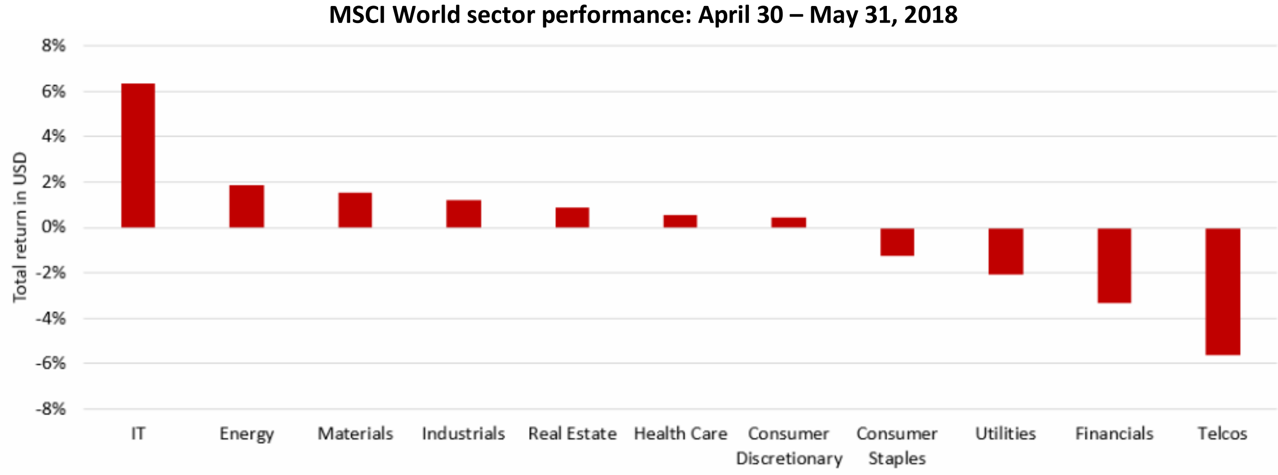
Market Update



Source: Bloomberg. As of May 31, 2018

The strongest sector in May was Technology, driven by strong corporate earnings releases. Out of the three industry groups which make up the IT sector, Semiconductors (+9.5%, all total returns in USD) led both Technology Hardware and Equipment (+6.1%), and Software and Services (+5.6%). The Guinness Atkinson Dividend Builder fund's under-exposure to the sector was a drag on performance.

Energy was the second best performing sector in May, to which the fund is also underweight. Energy stocks have continued to benefit from higher oil prices – which pushed through $80 USD a barrel for the first time in 3.5 years – as well as supply constraints. Production cuts by OPEC (Organization of Petroleum Exporting Countries) and Russia over the past 16 months initiated the crude oil price rally, and this has been aided by the US's refusal to recertify the nuclear accord with Iran. This prohibits Iran selling oil to US entities, further restricting global supply. Furthermore, the political crisis in Venezuela has worsened, reducing oil production even further.

Telecoms was the worst performing sector this month. Although there is rising demand for wireless services, competition in the sector is also intensifying. The Telecoms sector has the highest debt-to-equity ratio of any non-financial sector, declining net profit margins and rising expenses creating further tailwinds for the industry. The European Union agreed a major regulatory overhaul of the Telecom sector, which while supported by politicians and consumer groups, was not supported by the region's top carriers, who complained that the Electronic Communications Code is an added burden and will not spur the necessary spending on networks. The Guinness Atkinson Dividend Builder fund currently holds one company in the sector, Vodacom, which was the worst performing stock in the month.

Financials underperforming in the month was driven particularly by European bank weakness, stemming from the political uncertainty in Italy. Bond yields also came down in the month, with the US 10y decreasing from 3.2% to a 2.9% yield; this caused many US banks to sell-off too. The Guinness Atkinson Dividend Builder fund has no exposure to banks in the portfolio and this was a positive last month, when compared to the MSCI World Index benchmark.

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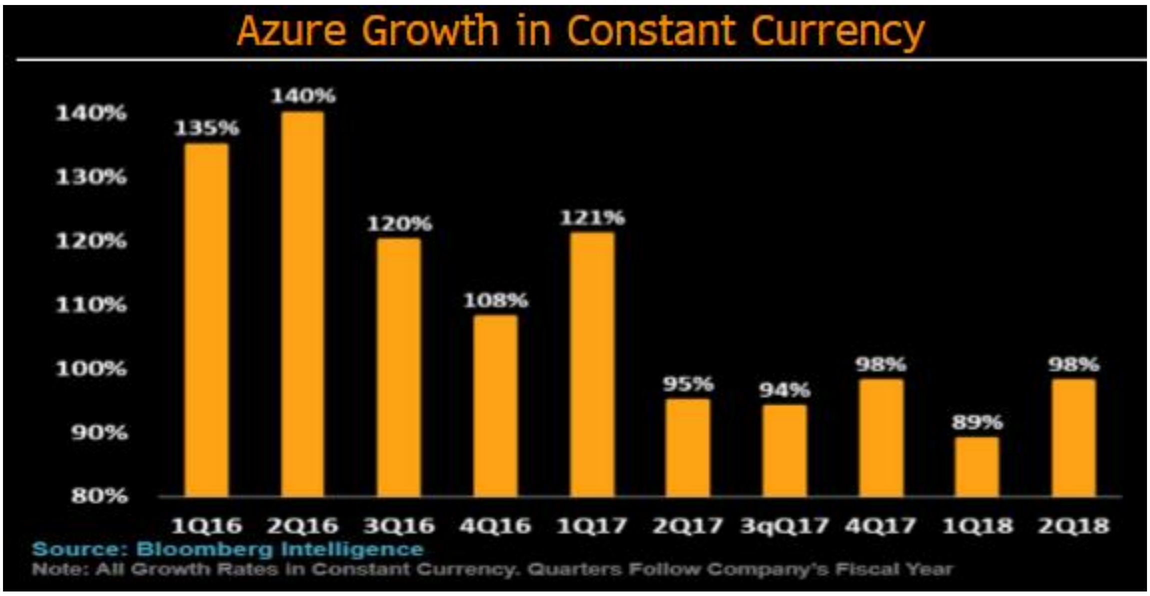
Portfolio Update

In terms of individual holdings in April, the strongest performer in the fund was **Hengan International** (+8.9% in USD). The company is one of the largest producers of sanitary napkins, diapers and tissue paper in China. Historically the company has captured significant market share in established distribution channels (maternity stores, hypermarkets) and more recently it is seeing growth from online exposure. Management has built up an e-commerce team to take advantage of the channel shift in China, whereby consumers are increasingly purchasing everyday items online. Alongside this there are new brand launches and a revitalized "Amoeba" sales strategy to maintain its offline market share. Growing revenues, high and stable margins, year-on-year earnings growth and a well-covered, high dividend are some of the highlights making this a compelling stock. Its recent strong performance comes after it became the largest shareholder (36.5%) in Finnpulp, a new Finnish company preparing a 1.4 billion Euro pulp mill in central Finland.

Microsoft (+6.2% in USD) also performed very well; it was the software maker's cloud transformation that has seen buoyant demand. Azure cloud services, used to store and run customers' applications in Microsoft's data centers, is number two in the cloud sector behind Amazon Web Services, though the market is growing fast enough to lift both companies' revenue. Windows and Office subscribers are likely to give Microsoft an edge, as corporate users shift newer workloads to the cloud for greater agility. Margins should also continue to improve – as they did in the last quarter – as cloud-based applications and infrastructure products gain scale. Azure is the company's main revenue growth driver:



We have held a position in Microsoft since the launch of the fund in 2010.

The worst performing stock in May was **Vodacom** (-9.3% in USD). The South African company provides a cellular telephone network with operations also in Tanzania, Mozambique, Lesotho and the Democratic Republic of Congo. The company has been able to take advantage of its large market share (~60% in South Africa) and expand its active subscriber base by 13% over the year, to 73.6 million. Initiatives to cut the cost of mobile data increased smartphone penetration and led to both customer growth and increased mobile usage. Gross margins have remarkably been increasing year on year for a decade, and the company has been able to generate a consistent cashflow return on investment of above 14.6% for the past 18 years. The group has a strong balance sheet and attractive dividend yield of 5.1%. Capital expenditure has been directed to better the company's network, which has reached 78% 4G population coverage and 99% 3G population coverage. It's recent sell-off points to new regulation which prohibits service providers instilling out-of-bundle charges on mobile phone contracts and ensures that customers must be notified when their internet data is running low. Vodacom CEO, Shameel Joosub, claimed that average revenue per user declined 4% in the past year "as a result of higher roll over of unused data bundles as we continue to migrate customers to 'more value' contracts, with 43.4% of the base now signed up for these contracts". This highlights the importance of the regulation, though it is likely a one-off event that the company has been preparing for.

We made no changes to the portfolio in May.

Thank you for your continued support.

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GUINNESS ATKINSON FUNDS

Performance

In May, the Guinness Atkinson Dividend Builder Fund produced a total return of -0.44% (in USD) versus the MSCI World Index return of 0.69% (in USD). The fund therefore underperformed the index by 1.93% in the month.

Year-to-date, the fund has produced a total return of 0.67% (in USD) versus the MSCI World Index return of 0.75% (in USD). The fund has underperformed the index by 0.09%.

Underperformance in the month came largely from our underweight positions in IT and Energy. A revitalized IT sector – versus the previous month – was the best performing sector in May, while the Energy sector continued its upward trend with help from oil supply concerns. Being overweight in Consumer Staples also dragged on performance in the month as this sector lagged. As we have seen so far in 2018, the prospect of higher interest rates; the impact of a rising Dollar on the global nature of businesses in the sector; and individual industry issues weighed on performance.

In general, dividend-paying stocks were generally weaker over the month – highlighted by the fact that the MSCI High Dividend Yield Index underperformed the MSCI World Index by 1.81% (in USD). However, the upside in the month came from good stock selection, in fact from within the IT and Consumer Staples sectors, and we give further detail on a few of these stocks towards the end of this commentary.

Standardized Performance

as of 05/31/18	YTD	1 YR	3 YR	5 YR	10 YR	Since inception (3/30/12)
Dividend Builder Fund	0.67%	9.63%	6.91%	8.47%	N/A	9.98%
MSCI World Index	0.75%	12.20%	8.28%	10.05%	N/A	10.75%

as of 03/31/18	YTD	1 YR	3 YR	5 YR	10 YR	Since inception (3/30/12)
Dividend Builder Fund	1.00%	15.66%	8.02%	9.56%	N/A	10.34%
MSCI World Index	-1.21%	14.14%	8.59%	10.33%	N/A	10.71%

All returns over 1 year annualized. Source: Bloomberg, Guinness Atkinson Asset Management
Expense Ratio: 0.68% (net); 2.06% (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.

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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, 2019. 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 5/31/18:

1.	NEX Group PLC	4.40%
2.	Microsoft Corp	3.61%
3.	VF Corp	3.48%
4.	ANTA Sports Products Ltd	3.47%
5.	CME Group Inc	3.26%
6.	Cisco Systems Inc	3.22%
7.	Deutsche Boerse AG	3.21%
8.	Aflac Inc	2.96%
9.	Arthur J Gallagher & Co	2.94%
10.	Royal Dutch Shell PLC – A Shares	2.93%

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.

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.

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