Guinness Atkinson
Global Innovators Fund
July 2018

Quarter in review

Global equity markets made a modest gain in April, bringing the year to date return for the MSCI World into positive territory (total return for the year to April was +0.05% in USD). The protectionist rhetoric that dominated headlines in March seemed to soften in April, though there were also numerous other tailwinds: broadly encouraging economic news, strong company earnings releases, elevated levels of corporate activity, continued central bank support, and lessening political risk in the Korean peninsula. Alongside expressing optimism on a trade deal with China, President Trump also hinted that the US may re-join the Trans-Pacific Partnership free-trade deal that he pulled out of shortly after taking office. Most corporate headlines in April revolved around earnings releases and M&A activity.

In May, markets advanced (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 for the S&P500 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.

June saw more volatile markets; as investors navigated rising trade tensions between the U.S. and China, Eurozone political risks, and a faltering confidence in the future growth of the EU and China. Global markets were shaken by President Trump's latest tariff threats to China. Trump threatened to put tariffs on an extra $200bn of Chinese goods, sparking fears of an escalating trade war. China and the US have both already imposed tariffs on steel, aluminum and some agricultural goods. The Eurozone suffered from weak investor confidence in June, driven by volatility in the Italian economy and fears of a trade war with the U.S. EU growth slowed to 0.4% during Q1 2018, compared with 0.7% in the previous quarter in the Eurozone. Chinese equities also saw weakness in June, which was largely attributed to China's trade war with the U.S., however China's economic growth has also been driven by domestic consumer spending. Therefore, a significant factor could be associated to the recent weakening of consumption growth in China.

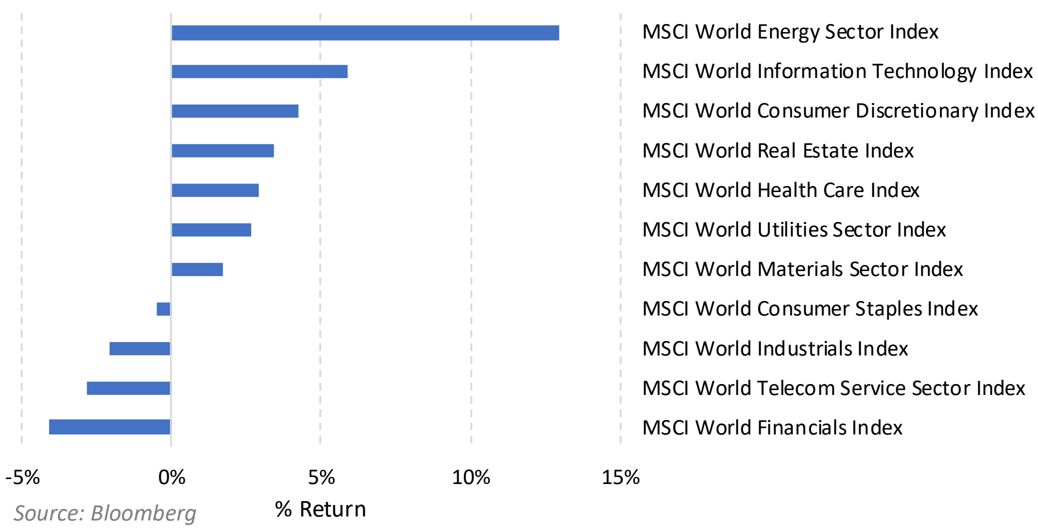

Figure 2: Sector performance in Q2 2018 (all TR in USD)

Figure 2 above illustrates the individual sector performance of the MSCI World Index over Q2 2018. The quarter saw mixed performance across the various sectors. Energy companies rallied throughout the quarter and were the best performing sector overall as oil prices continued to strengthen. The IT and Consumer Discretionary sectors also performed well and were second and third, respectively. Staples, Industrials, Telcos and Financials all posted negative returns over the quarter.

Geographically, Asia and Emerging Markets were the worst-performing regions (in USD terms), as Figure 3 below highlights, giving up some of the strong performance seen in Q1. U.S. returns were stronger and generally performance was subdued across all regions.

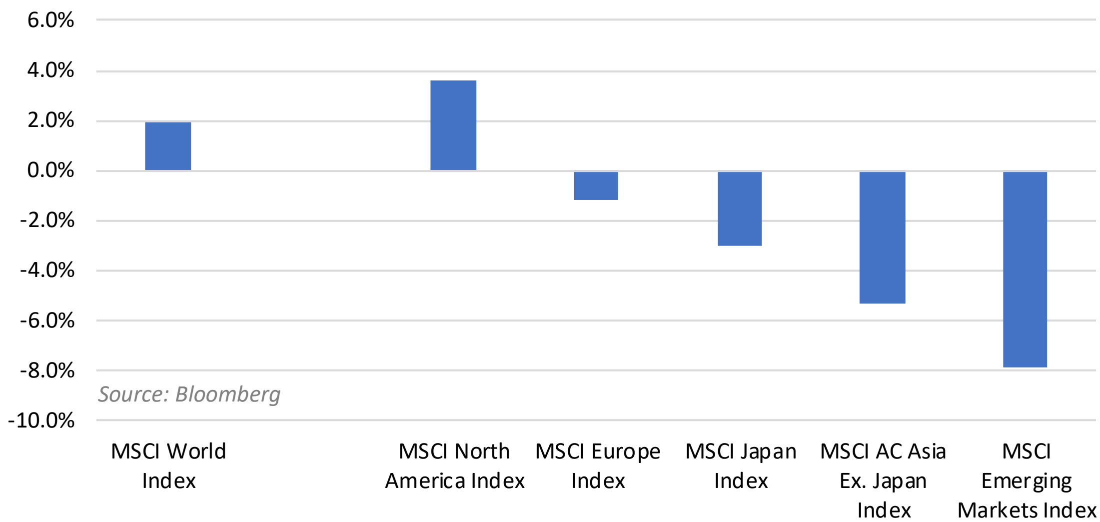

Figure 3: Regional performance in Q2 2018 (all TR in USD)

Performance drivers

Figure 4 shows the over and underweight positioning of the fund by sector at the quarter end. Our overweight relative to the benchmark in IT (c.34% overweight as of 6.30.2018) and our underweight positioning in Financials (c.15% underweight) and Consumer Staples (c.8% underweight) were positives during the quarter. The chart below shows the sector breakdown of the fund in absolute terms and relative to the benchmark.

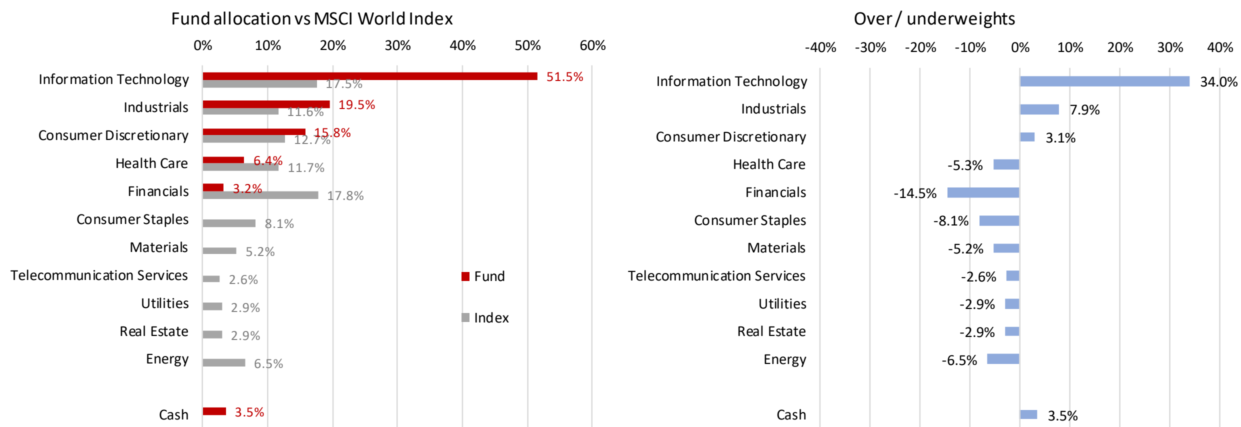

Figure 4: Sector breakdown of the fund versus MSCI World Index.

Source: Guinness Atkinson Asset Management, Bloomberg (data as of 6.30.2018)

In terms of geographic exposure, the fund is slightly underweight the US when compared to the benchmark (55% vs 62%, as measured by country of domicile). This underweight made no discernible difference to performance last quarter. Our overweight relative to the benchmark in Asia Pacific Ex. Japan (c.15% overweight as of 6.30.2018) and our underweight positioning in Europe (c.9% underweight) similarly made no material impact to performance during the quarter.

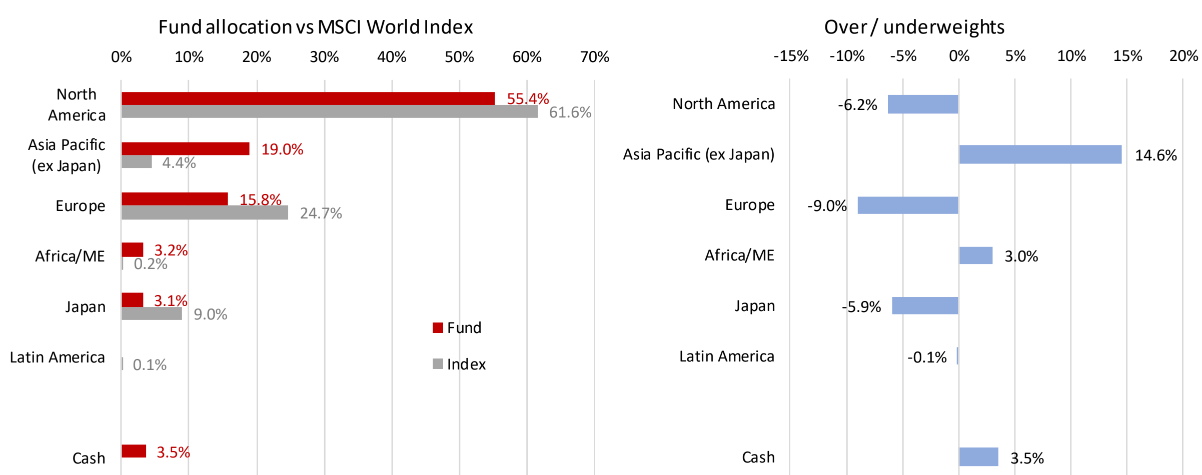

Figure 5: Geographic breakdown of the fund versus MSCI World Index.

Source: Guinness Atkinson Asset Management, Bloomberg (data as of 6.30.2018)

In a quarter where markets have seen high uncertainty there have been some winners and some losers. Overall our allocation effects have been relatively modest, but there was weakness in some of the semiconductor names and smartphone related manufacturers within IT. Semiconductors have had a volatile year as fears of a developing down cycle have conflicted with positive earnings reports from many companies within the industry. Smartphone related manufacturers were negatively affected by weaker iPhone demand in the short term, but medium to long term certain smartphone manufacturers are expected to benefit from increasing number of lenses and more complex casing construction.

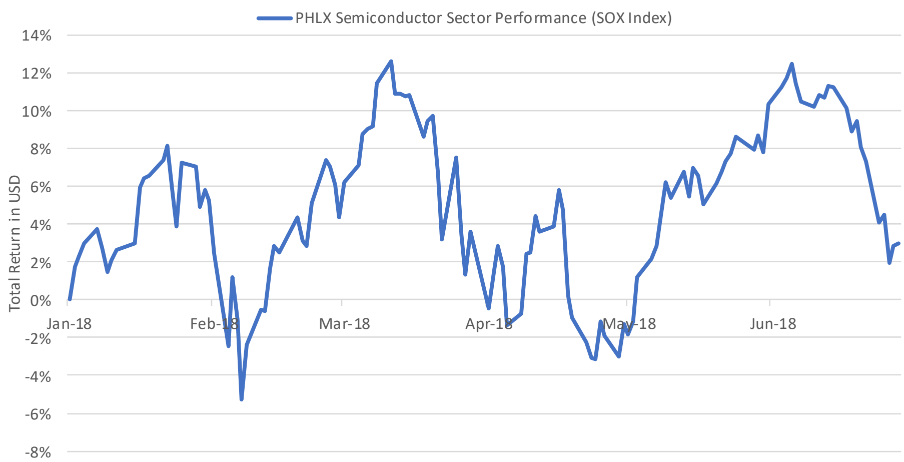

Figure 6: Philadelphia Stock Exchange Semiconductor Sector Performance.

Source: Guinness Atkinson Asset Management, Bloomberg (data as of 6.30.2018)

Individual companies that performed well over Q2 were Facebook (+21.6% total return in USD) and Nike (+20.3% total return in USD).

Facebook has recovered strongly since the storm over data use and anti-trust issues in March. Investors' fears have largely abated and have since been looking at what the future may hold for Facebook. Facebook announced it would be launching a new dating feature, causing Match Group shares to fall by more than 20% on the day of the announcement. Facebook's Instagram launched a long format video feature, which brings it into competition with YouTube. Instagram has also seen rapid user growth, which is starting to worry other platforms such as Snapchat. Fears over the impact of the general data protection regulation (GDPR) seem to be overblown as data post-GDPR suggests no observable impact for Facebook.

Nike has seen sales surge in its home market, the U.S., causing its share price to rally. Sales for the region rose for the first time in four quarters. The results signaled that Nike's new products are doing well with U.S. shoppers and beat Nike's own forecast for unchanged sales in the region. Strong growth also continued overseas, where half of the company's revenues are now generated.

Individual companies that underperformed over Q2 were Fanuc (-21.6% total return in USD) and AAC Technologies (-20.9% total return in USD).

Fanuc, the Japanese manufacturer of factory automation systems and robots, fell after the Japan Machine Tool Builders' Association reported revised May machine tool orders from China fell 9.5% y/y. They also noted Fanuc is "the leading supplier in this area". There was uncertainty about the effect of U.S. trade policy on Japanese manufacturing, adding further downward pressure to the share price. Earlier in the quarter Fanuc released its forecast for operating profit, which came in significantly under analyst estimates. Sales growth and margin expansion may be limited due to headwinds from a stronger yen and slower sales in factory automation.

AAC Technologies, a smartphone lens and acoustics manufacturer, has been caught in the selloff that has affected Apple suppliers, amid signs of softening demand for high-end smartphones and a potential lackluster 2018 iPhone cycle. The share price fall is in context of a strong rally in the sector over 2017 (AAC total return of 100% in USD, the full year). We still see good value in AAC Technologies and will use any short-term weakness to rebalance the position back to equal-weight in the portfolio.

Changes to the portfolio

We made no changes to the portfolio in the quarter. However, due to market volatility we did take the opportunity to rebalance the portfolio.

Positioning

The below chart highlights the geographic weighting of the portfolio both in terms of where the companies are domiciled and where their revenues come from – which can often be more illuminating.

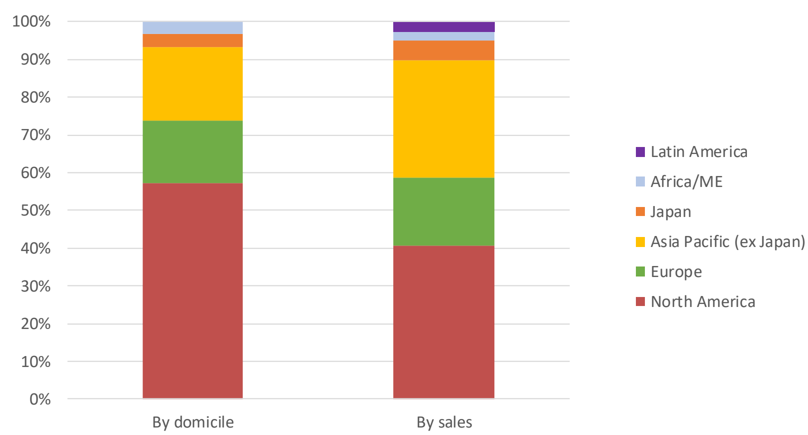

Figure 8: Geographic breakdown of the fund.

Source: Guinness Atkinson Asset Management, Bloomberg (data as of 6.30.2018)

We would note two main points: (i) the lower exposure to the US the fund has, when considered by revenues (c.41%) versus by domicile (c.57%), which arises because some companies are domiciled in the US but have large global exposure (such as Applied Materials); and (ii) the larger exposure to Asia by revenues (c.36%) than by domicile (c.23%).

In terms of sector weightings, the fund has zero weighting to Utilities, Materials, Telecoms, Consumer Staples and the newly created Real Estate sector (previously included in Financials but now counted separately by MSCI). The largest overweight positions are in Information Technology and Industrials. On the large overweight position to Information Technology it is worth noting that it is split between the three different subsectors of semiconductors (c.15% of the portfolio), software and services (c.24%), and technology hardware (c.13%).

To put this data into a historical context the two charts below show how the exposure of the fund has evolved since we launched the strategy back in 2003.

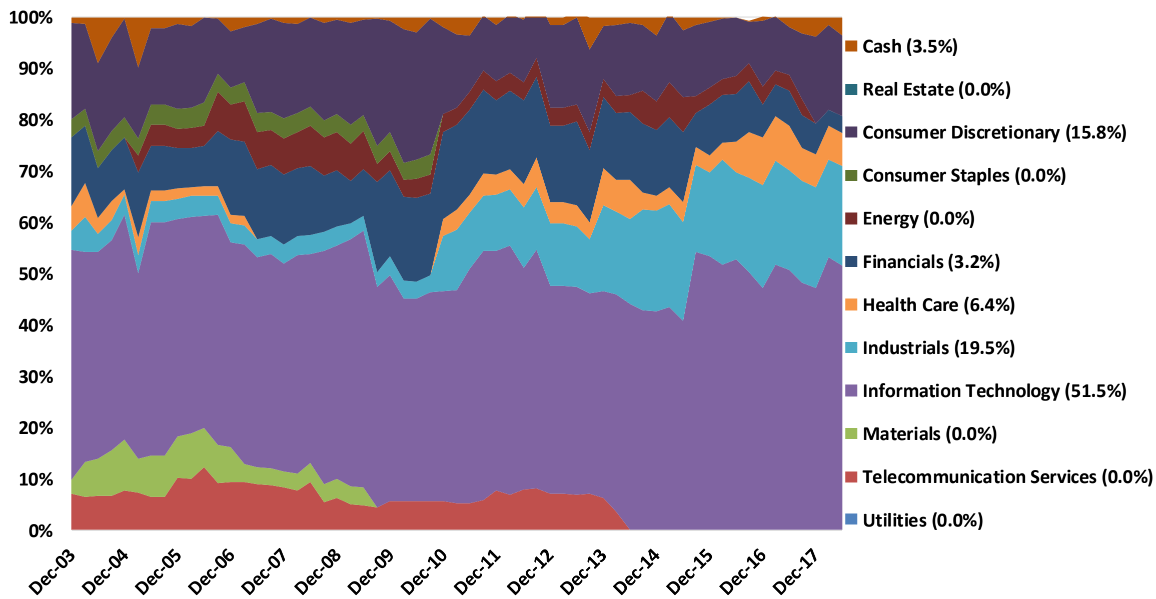

Figure 9: Portfolio sector breakdown.

Source: Guinness Atkinson Asset Management, Bloomberg (6.30.2018)

From a sector and geographic perspective, our exposure is similar to last quarter.

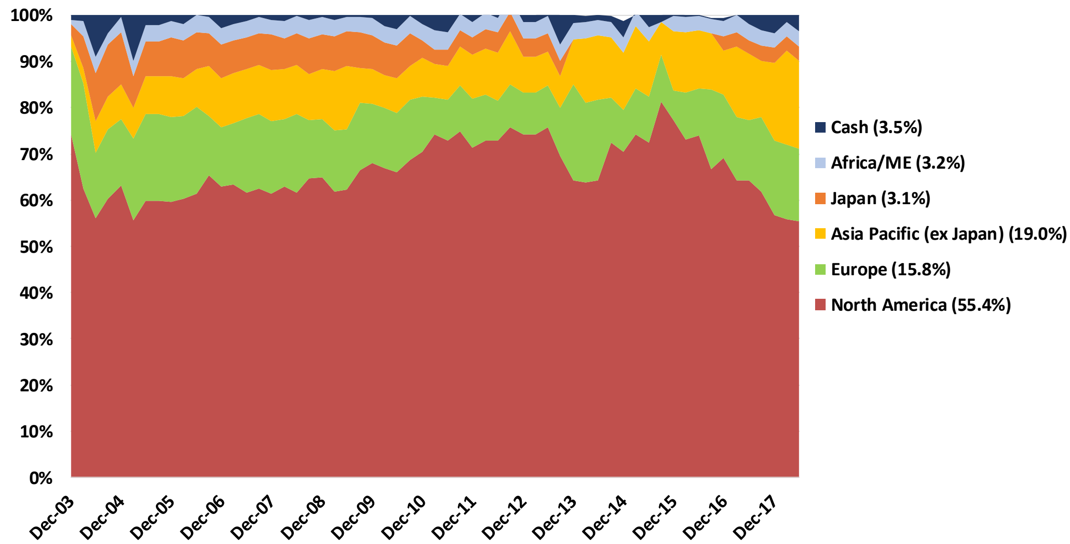

Figure 10: Portfolio geographic breakdown.

Source: Guinness Atkinson Asset Management, Bloomberg (6.30.2018)

Key fund metrics today

The four key tenets to our approach are innovation, quality, growth, and conviction.

		Fund	MSCI World Index
Innovation	R&D / Sales	8%	6%
	CAPEX / Sales	7%	9%
Quality	CFROI (2017)	17%	12%
	Weighted average net debt / equity	-10%	65%
Growth (& valuation)	Last 3-year sales growth (annualized)	14%	6%
	Estimated earnings growth (2018 vs 2017)	11%	9%
	FCF yield	4.9%	4.3%
	PE (2018e)	16.8	15.9
Conviction	Number of stocks	30	1649
	Active share	94%	-

Figure 11: Portfolio metrics versus index.

Source: Guinness Atkinson Asset Management, Credit Suisse HOLT, Bloomberg (data as of 6.30.2018)

As the table above shows, the fund still has superior characteristics to the broad market; higher spend on intellectual property, less capital intensive, far higher cash flow returns on investment, net cash, with higher growth prospects, at only a modest premium in terms of valuation based on P/E, and a valuation discount when considered in FCF yield terms.

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GUINNESS ATKINSON FUNDS

Outlook

The fund is now trading at an 5.5% premium to the broad market on a PE ratio basis (fund 16.8x 2018 expected earnings vs MSCI World Index 15.9x). The longer-term premium of the fund versus the broader market has been in the 10-20% range, and so we still believe the portfolio offers good value relative to the market today. We also note the FCF yield of the fund is higher than the benchmark (4.9% vs 4.3%). Moreover, when we look at the portfolio on an expected earnings growth basis the portfolio is expected to have higher earnings growth relative to the index (with 11% vs MSCI World Index at 9%).

We thank you for your continued support.

Portfolio Managers

Matthew Page, CFA

Dr. Ian Mortimer, CFA

Analysts

Joshua Cole, CFA

Sagar Thanki

July 2018

Performance

In June, the Guinness Atkinson Global Innovators Fund produced a total return of -2.19% (investor class) versus the MSCI World Index return of -0.01%. The fund therefore underperformed the index by 2.18%.

as of 06.30.2018 (in USD)	YTD	1 year	3 years annualized	5 years annualized	10 years annualized	Since inception annualized
Global Innovators, Investor Class[1]	0.24%	15.84%	12.86%	14.91%	11.34%	8.03%
Global Innovators, Institutional Class[2]	0.35%	16.13%	13.10%	15.06%	11.41%	8.07%
MSCI World Index	0.74%	11.71%	9.12%	10.59%	6.90%	5.89%

Investor class (IWIRX) Inception 12.15.1998 — Expense ratio* 1.24% (net); 1.33% (gross)

Institutional class (GINNX) Inception 12.31.2015 — Expense ratio* 0.99% (net); 1.17% (gross)

Investor Class 30-Day SEC Yield: Subsidized 0.20%, Unsubsidized: 0.17%

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.*

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, 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 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 06/30/18, are:

1.	NIKE Inc	4.28%
2.	PayPal Holdings Inc	3.87%
3.	Cisco Systems Inc	3.84%
4.	ANTA Sports Products Ltd	3.84%
5.	Shire PLC	3.68%
6.	Cognizant Technology Solutions Corp – A Shares	3.67%
7.	New Oriental Education & Technology Group Inc	3.57%
8.	Facebook Inc	3.55%
9.	Alphabet Inc – A Shares	3.53%
10.	The Boeing Co	3.47%

For a complete list of holdings for the Global Innovators Fund, please visit https://www.gafunds.com/our-funds/global-innovators-fund

This material must be preceded or accompanied by a current prospectus. You can find a current prospectus here.

Cash flow return on investment (CFROI) is a metric developed by Credit Suisse HOLT that seeks to calculate cash flow return on investment adjusted for inflation and on a standardized global/industry basis.

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

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

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

SEC Yield is a standard yield calculation developed by the U.S. Securities and Exchange Commission (SEC) that allows for fairer comparisons of bond funds. It is based on the most recent 30-day period covered by the fund's filings with the SEC. The yield figure reflects the dividends and interest earned during the period after the deduction of the fund's expenses.

Unsubsidized Yield represents what the yield would have been in the absence of temporary expense waivers or reimbursements.

Subsidized Yield represents the yield including temporary expense waivers and reimbursements.

Free cash flow (FCF) yield is a financial ratio that standardizes the free cash flow per share a company is expected to earn against its market value per share. The ratio is calculated by taking the free cash flow per share divided by the share price.

One cannot invest directly in an index.