Guinness Atkinson
Dividend Builder Fund
Managers Update – August 2018

July in Review

Global equity markets, like the weather in the northern hemisphere, showed no signs of cooling in July, as investors put aside concerns over global trade tariffs and instead focused on positive economic news releases and a strong start to the second-quarter earnings season. U.S. equities climbed to their highest levels since the market sell-off in February; disappointing results from some technology companies dampened the market's momentum, but a de-escalation of trade tensions between the U.S. and Europe helped investors regain optimism.

Trade Tariffs

On July 6th, under Section 301 of the Trade Act of 1974, the White House imposed a 25% import tariff on US$34 billion of Chinese goods, although it notably excluded major consumer goods such as televisions and smartphones. China retaliated with an equal tariff on U.S. goods; then the U.S. threatened a 25% levy on another $16 billion of Chinese goods, possibly increasing to an additional 10% on $200 billion worth of Chinese goods.

Because the U.S. exports only about $130 billion to China, Chinese officials would be forced to retaliate with higher tariff rates or non-tariff measures (e.g. investment restrictions, sales of U.S. assets or currency devaluation) if they are to continue to respond in kind. Since April, the Chinese yuan has depreciated against the dollar by roughly 9%, making U.S. goods less competitive and, to some extent, offsetting the impact of the tariffs on both the U.S. and Chinese economy.

Larger Chinese enterprises should be able to withstand the impact of the tariffs by negotiating with their U.S. customers, relocating production to outside China, or leveraging the complex global supply chain to change how their internal costs are charged among subsidiaries. However, smaller companies in China with significant revenue exposure to tariffed exports are likely to suffer, particularly given that they are already struggling with rising wages, social insurance contributions and tighter environmental protection laws. According to Chinese customs data, private companies, most of which are small and medium-sized, generate about 45% of China's exports. If tariffs were to have a large adverse effect on these companies, it could well lead to more onshore loan defaults.

Outside China, Asian countries reliant on domestic demand to fuel growth are better positioned to weather the current trade frictions. Open economies such as South Korea, Taiwan and Singapore, which have substantial export exposure to both China and the U.S., are more likely to suffer. In 2017, the share of total exports to the U.S. and China was 42.3% for Taiwan, 29.4% for South Korea and 23.1% for Singapore.

Earnings Season

Over two-thirds of S&P 500 companies had reported second quarter results by the end of July. According to Bloomberg, 86% of those companies beat analyst earnings expectations and 73% beat on revenues. All sectors, except for Real Estate, reported earnings growth greater than 10%. (The Fund has never held a position within the Real Estate sector). Looking deeper within the earnings releases, “tariffs” were a hot topic this quarter with over 45% of companies mentioning the term on their calls. However, most companies’ mentions indicated that they have seen little or no impact on their businesses so far.

Another major focus of this earnings season has been the mixed news coming from the FAANGS. The Financial Times wrote on August 1st: “The FAANGs are dead; long live the FAANGs”. This came after a month in which Facebook suffered the biggest one-day loss of market value in U.S. history, dropping almost US$120bn. Twitter followed Facebook in delivering disappointing results (and a fall in user numbers) and Intel said a new key chip technology would not be available until late next year. Shares in Netflix also fell when its quarterly earnings revealed disappointing viewer growth. The tech sector performed much weaker in July, compared with the last few months; Facebook, Amazon, Apple, Netflix and Google have dominated market performance so far this year, seeming to promise relentless growth based on society’s digital revolution. It’s worth noting that without the inclusion of technology stocks and Amazon, which is classified as a retailer within the Consumer Discretionary sector, that the S&P 500 Index would be negative year-to-date – it is currently up 6.47% (in USD) in 2018 till the end of July.

Within the portfolio, 20 companies reported earnings in July, with 15 showing positive surprises:

Company	Date of announcement	Period	Estimated earnings (Local currency)	Actual earnings (Local currency)	Surprise
VF Corp	20-Jul	Q1 19	0.33	0.43	30.70%
Roche Holding AG	26-Jul	S1 2018	9.03	9.84	9.00%
Aflac Inc	26-Jul	Q2 2018	0.99	1.07	8.10%
United Technologies Corp	24-Jul	Q2 2018	1.85	1.97	6.30%
Microsoft Corp	19-Jul	Q4 2018	1.08	1.13	4.90%
Eaton Corp PLC	31-Jul	Q2 2018	1.33	1.39	4.80%
Procter & Gamble Co/The	31-Jul	Q4 2018	0.90	0.94	0.044
Merck & Co Inc	27-Jul	Q2 2018	1.03	1.06	2.80%
Unilever PLC	19-Jul	S1 2018	1.19	1.22	2.30%
Johnson & Johnson	17-Jul	Q2 2018	2.07	2.10	1.40%
CME Group Inc	26-Jul	Q2 2018	1.72	1.74	1.20%
AbbVie Inc	27-Jul	Q2 2018	1.98	2.00	1.20%
Danone SA	27-Jul	S1 2018	1.75	1.76	0.30%
Taiwan Semiconductor Manufacturing	18-Jul	Q2 2018	2.78	2.79	0.10%
British American Tobacco PLC	26-Jul	S1 2018	1.37	1.37	0.10%
Illinois Tool Works Inc	23-Jul	Q2 2018	1.97	1.97	-0.10%
Reckitt Benckiser Group PLC	27-Jul	S1 2018	1.40	1.40	-0.20%
Deutsche Boerse AG	25-Jul	Q2 2018	1.43	1.42	-0.40%
Arthur J Gallagher & Co	26-Jul	Q2 2018	0.63	0.62	-1.40%
Schneider Electric SE	26-Jul	S1 2018	2.01	1.93	-3.80%

Source: Bloomberg

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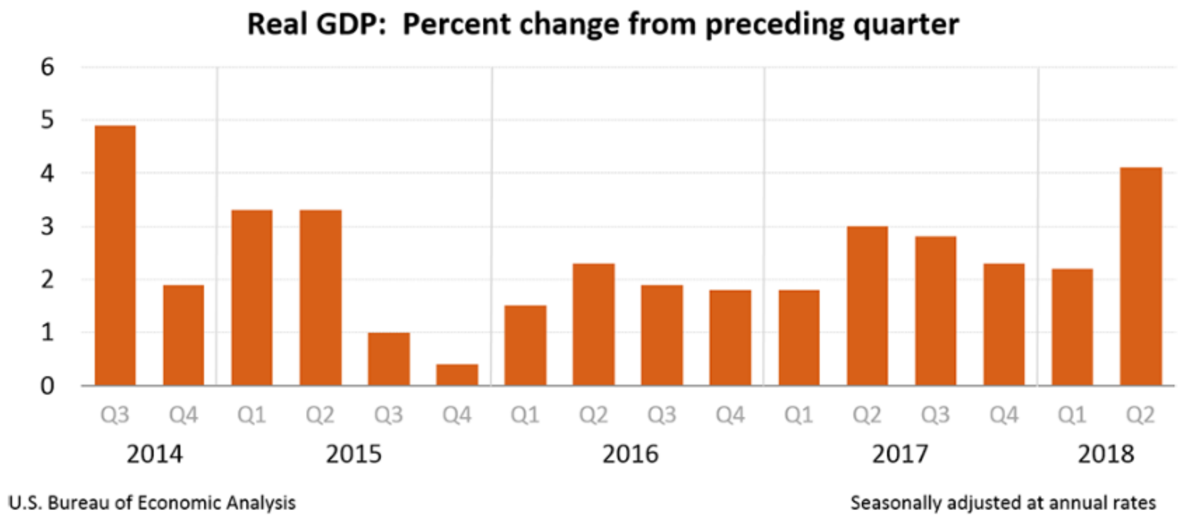
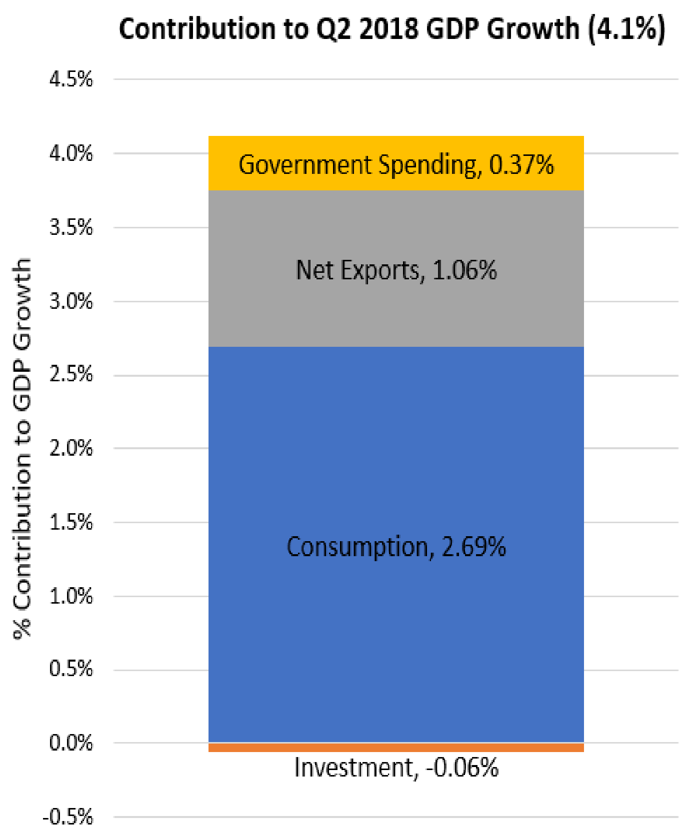
Economics

The first release of U.S. GDP shows that the economy expanded at an annual rate of 4.1% in the second quarter of 2018 (Q2 2018 vs Q2 2017). While this was lower than the consensus of 4.4%, it represented the highest pace of growth in four years.



Looking deeper into the components of GDP gives some insights into the sources of that growth:



Source: U.S. Bureau of Economic Analysis.
Seasonally adjusted at annual rates

- The largest component of GDP is consumer spending, which represents nearly 70% of the U.S. economy; it rose 4.0% for the second quarter, up from 0.5% for the first quarter.

- Business investment, accounting for 18% of GDP, was up 5.4% in the second quarter, compared to an increase of 8.0% in the first quarter. This reflects not only the initial benefit from the tax cuts, but also the strength in the Energy and Technology sectors this year. This led to a negative contribution to quarter on quarter GDP growth.

- Government spending (17% of GDP) grew 2.1% in Q2 versus 1.5% in Q1 2018.

- Net exports (which constitutes -5% of GDP since the U.S. imports more than it exports) had a positive contribution to GDP growth in the second quarter. This was because exports surged 9.3% versus Q1 2018, whereas imports grew by only 0.5%. This was primarily due to energy-related exports, but also the acceleration in soybean exports in advance of the retaliatory tariffs put in effect by China.

In Europe, equity markets advanced as earnings releases proved to be reasonably strong and trade tensions eased after an agreement was reached between the EU and the U.S. to work together to reduce tariffs related to non-auto industrial goods. In macroeconomic news, Mario Draghi reiterated his positive view on the state of the eurozone economy, however made no changes to the European Central Bank (ECB) policy or forward guidance. In fact, he supported market expectations for interest rates to remain the same until late 2019, and also made clear that the ECB would not be rushed into early rate hikes by accusations of currency manipulation.

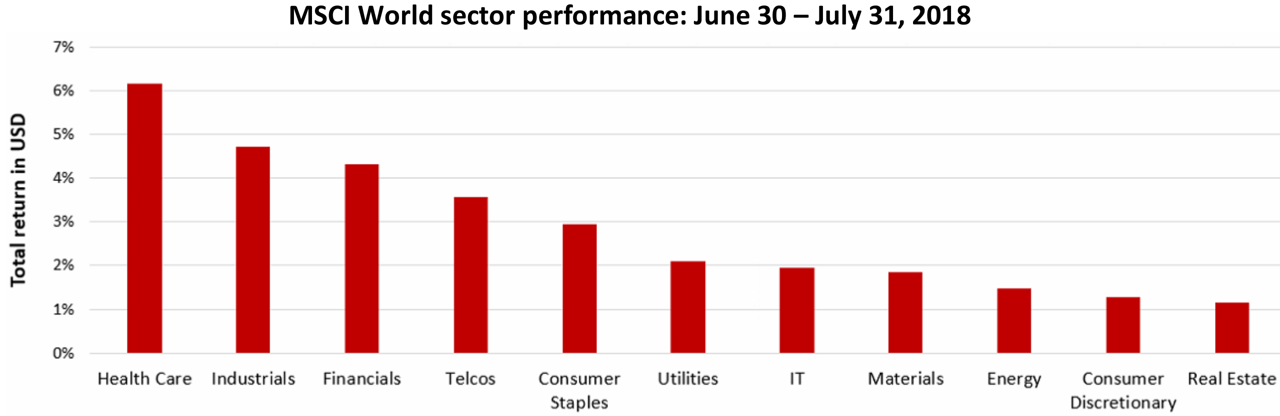
UK equity markets rose during July, a month dominated by Brexit headlines, mixed economic data and continued sterling weakness. July saw the publication of the Government's Chequers plan, which resulted in the resignation of committed 'Brexiteers' David Davis (Secretary of State for Exiting the EU) and Boris

Johnson (Foreign Secretary). This pushed sterling weaker on fears that Prime Minister, Theresa May, could face a leadership challenge.

China's economic activity data remained soft over the month which points to a negative impact from continuous deleveraging efforts. Second quarter GDP slowed to 6.7% year-on-year, and alongside the trade tensions, lead to a weaker Chinese yuan. This made it the worst performing currency against the dollar in July.

Market Update

MSCI World sector performance: June 30 – July 31, 2018



Source: Bloomberg. As of July 31, 2018

Healthcare, Industrials and Financials were the standout sectors in July, though all sectors registered positive gains. Technology led early in the month, but selling pressure later increased as several large tech companies reported underwhelming results. This in fact led to value-biased stocks outperforming growth, with a broad rotation into more traditionally defensive sectors – this benefitted the portfolio considering it is overweight Healthcare and Consumer Staples.

Portfolio Update

We made one change to the portfolio in July. We bought a new position in Broadcom and sold our holdings of CA Technologies.

Broadcom announced that it would buy CA Technologies for US$18.9bn, the chipmaker's first major takeover since it was blocked by President Trump from pursuing a bid for rival Qualcomm earlier this year. Broadcom manufactures digital and analog semiconductors, and serves four primary markets: wired infrastructure, wireless communications, enterprise storage, and industrial & others. With a history of successfully integrating acquisitions, Broadcom has been able to grow revenues and gross profits every year consistently. At time of purchase, the stock was trading on a 1-year forward price-to-earnings ratio of 10.6, which is significantly cheaper compared both to history and versus the market. We found this particularly attractive given the strong growth profile of Broadcom and the semiconductor industry in general. The recent sell-off points to market pessimism regarding the CA acquisition, since CA's legacy software assets are seen as highly tangential to Broadcom's core business.

For the transaction to be deemed successful in the future, Broadcom will need to quickly divest pieces it deems non-core while integrating elements that are synergistic. Substantial SG&A cuts are likely: CA's SG&A intensity last quarter was 36% of sales, while Broadcom operates at below 6%. While the full gap can't be bridged given the industries each company operates in, it can be narrowed. Broadcom has a history of dramatically improving operating and gross margins through scale and cost-cuts of its target companies.

CA was the best performer in the fund over July (+23.4% in USD), due to the takeover bid from Broadcom, and this presented a good profit-taking opportunity. We initiated a position in CA at the end of 2015 and it has since returned 63% (in USD). The software manufacturer provides tools for managing networks, databases, applications, storage, security, and other systems. Primarily serving large enterprises, its applications work across both mainframes and cloud computing environments. Revenues and gross profit have been falling in recent years mainly due to a lack of organic growth and a decrease in software subscriptions. Cashflows returns on investment have also been gradually falling year-on-year, and although acquisitions have added to inorganic sales growth, they have also added to net debt. The bid from Broadcom led to a 18% rise in CA's share price and this provided an attractive sell opportunity.

The second-best performing stock in July was **Vodacom** (+19.6% 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 6.4%. Capital expenditure has been directed to better the company's network, which has reached 78% 4G population coverage and 99% 3G population coverage. Its sell-off at the end of last quarter points to new regulation which prohibits service providers from 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. The market was initially overly pessimistic, and this is reflected by the strong rebound seen over July.

The weakest performer in the fund was **Hengan International** (-7.5% 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, where 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 weak performance comes due to increasing pulp prices – to which the company is significantly exposed – and also a concern over competition from the likes of Proctor and Gamble and Kimberly Clark, as well as Japan's Unicharm and Kao.

Thank you for your continued support.

Performance

In July, the Guinness Atkinson Dividend Builder Fund produced a total return of 4.77% (in USD) versus the MSCI World Index return of 3.15% (in USD). The fund therefore outperformed the index by 1.62% in the month.

Year-to-date, the fund has produced a total return of 4.54% (in USD) versus the MSCI World Index return of 3.92% (in USD). The fund has therefore outperformed the index by 0.62%.

Outperformance in the month came largely from good stock selection, particularly within IT, Telecoms and Consumer Staples. Our overweight positions in Healthcare, Industrials and Staples also proved beneficial, with these sectors performing well over July. We continue to hold no positions in Real Estate, Materials and Utilities and this benefitted the fund's performance too.

Towards the end of the month, we have seen value outperform growth quite significantly. This is in stark contrast to most of the year so far and was triggered by disappointing results from some of the large-cap technology names.

Source: Bloomberg, Guinness Atkinson Asset Management

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GUINNESS ATKINSON FUNDS

Performance

as of 07/31/18	YTD	1 YR	3 YR	5 YR	10 YR	Since inception (3/30/12)
Dividend Builder Fund	4.54%	12.45%	8.67%	8.39%	N/A	10.36%
MSCI World Index	3.92%	12.50%	9.59%	10.13%	N/A	10.99%

as of 06/30/18	YTD	1 YR	3 YR	5 YR	10 YR	Since inception (3/30/12)
Dividend Builder Fund	-0.22%	7.78%	7.63%	8.48%	N/A	9.69%
MSCI World Index	0.74%	11.71%	9.12%	10.59%	N/A	10.60%

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.

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.

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.

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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 7/31/18:

1. NEX Group PLC	4.19%
2. VF Corp	3.83%
3. Microsoft Corp	3.76%
4. Cisco Systems Inc	3.09%
5. CME Group Inc	3.09%
6. Arthur J Gallagher & Co	3.07%
7. Deutsche Boerse AG	3.07%
8. ANTA Sports Products Ltd	2.97%
9. Aflac Inc	2.96%
10. Broadcom Inc	2.94%

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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