Guinness Atkinson

Global Innovators Fund

Manager's Update – October 2018

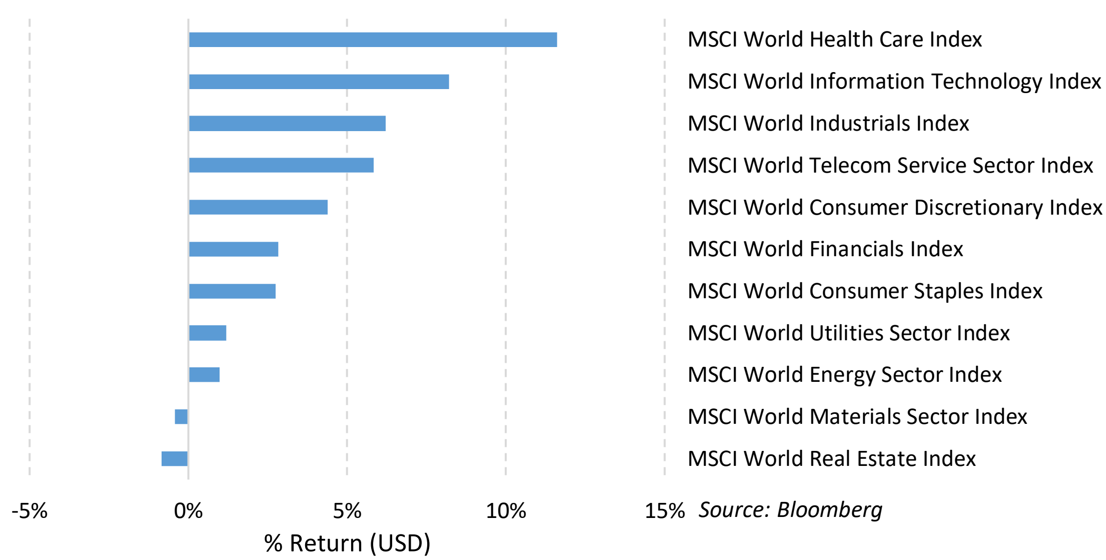
Quarter in review

The quarter began with Donald Trump following through with his tariff threats on China by imposing a 25% import tariff on US$34 billion of Chinese goods with further tariffs increasingly likely. However, this was largely shrugged off as earnings season produced strong positive results across most sectors, with 82% of the fund's constituents reporting positive surprises. Elsewhere, the UK government published their proposed terms for leaving the EU in their Chequers plan. The proposal was met with negative sentiment from the EU along with members of the conservative party as the Irish border remained a substantial sticking point.

August saw further depreciation in emerging market currencies led by the Argentinian Peso, Turkish Lira and South African Rand. On-going concerns regarding current account deficits and rising inflation, coupled with a strengthening of the US dollar, continued to put pressure on political and monetary authorities to stem the outflows. In the US, trade tariffs continued to headline as Trump imposed the second round of proposed tariffs at 25% on an additional US$16 billion of Chinese goods. Additionally, the US reached a tentative agreement with Mexico for the revamp of NAFTA. The agreement imposes stricter rules on the percentage of car components manufactured in the US and raises minimum wages for Mexican auto manufacturers to deter further relocation of business for cheaper labor.

September saw increased trade tensions with any talk of renewed discussions between the US and China setback as Trump imposed a 10% levy on a further $200 billion of Chinese goods. This took the total to US$250 billion of US imports affected. Canada reached an agreement on the revamped NAFTA, under the new name USMCA, narrowly meeting the deadline as Mexico prepares a change in presidential leadership. The FED continued its steady path of rate rises with the third hike of the year. Europe saw continued uncertainty regarding the UKs exit from the EU and fears over Italy's budget proposal which could see the budget deficit rise to 2.4% of GDP, increasing its use of debt further in breach of EU rules.

Figure 1: Sector performance in Q3 2018 (all TR in USD)

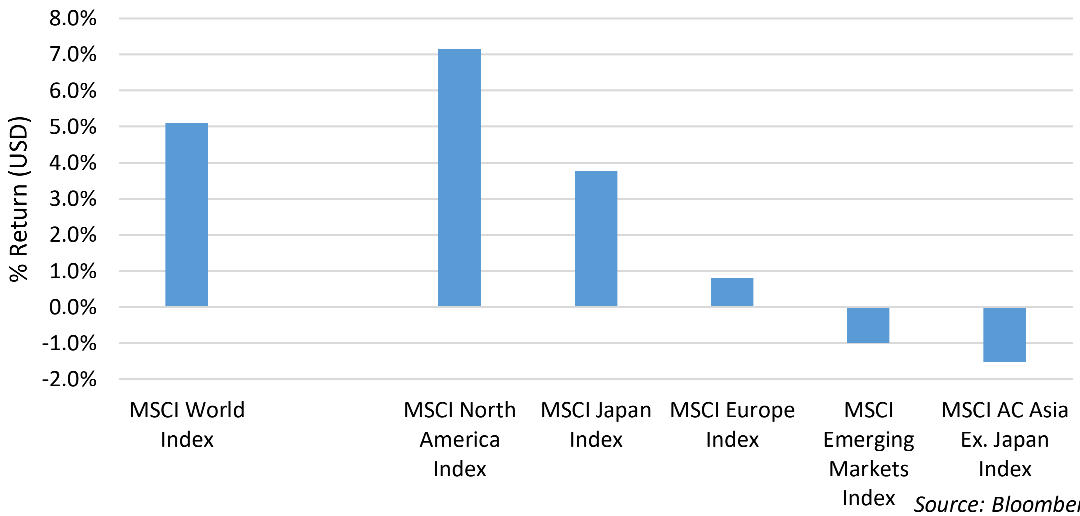


Source: Bloomberg

Figure 1 above illustrates the individual sector performance of the MSCI World Index over Q3 2018. Energy continued to gain as oil prices continued to rise. Health care and IT both performed strongly with only Materials and Real Estate reporting negative returns.

Regionally, the MSCI World performed strongly, led by North America and Japan – which has reversed loses experienced in the previous quarter (previously down 3%). As the figure highlights, Emerging Markets and Asia ex Japan continue to underperform.

Figure 2: Regional performance in Q3 2018 (all TR in USD)



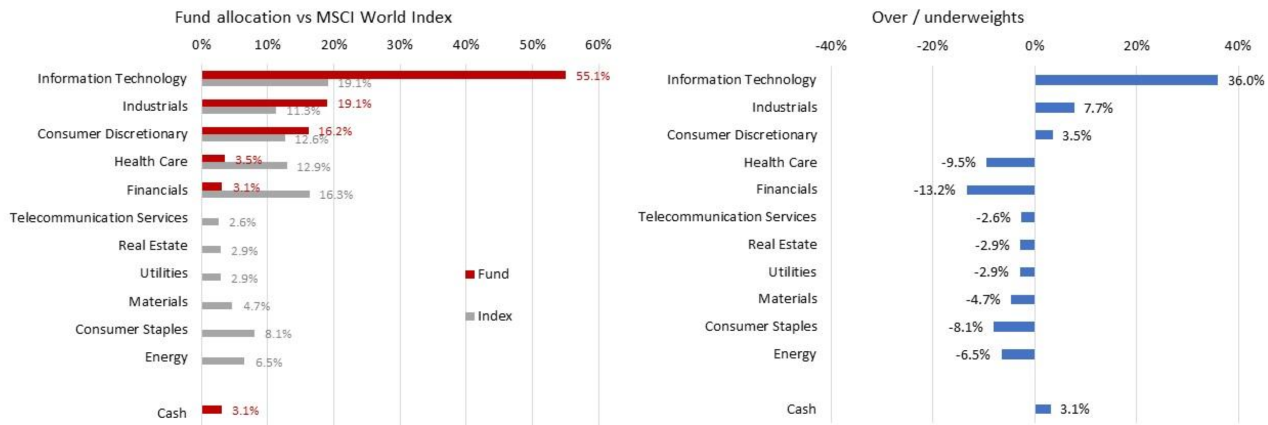
Source: Bloomberg

Performance drivers

Our overweighting of 36% to the technology sector provided a positive contribution to the portfolio. However, our stock selection was a drag, particularly within the IT and consumer discretionary sectors where strong performances from companies such as Checkpoint Software (+20.46% USD) and Nvidia (+18.69% USD) were offset by underperformers including AAC Technologies (-25.88% USD) and Continental (-23.72% USD).

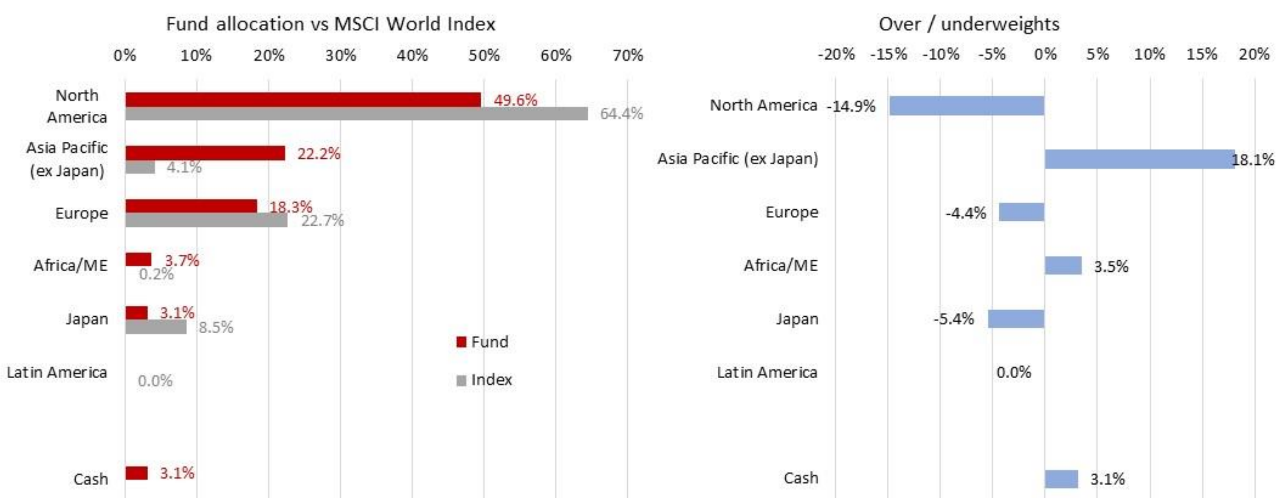
Regionally, the portfolio's overweighting to Asia Pacific ex Japan was a drag on the portfolio, with exposure to China accounting for 1.84% (USD) of the fund's underperformance. Additionally, our underweighting to the United States, coupled with stocks for which we do not own (Apple, for example), provided further negative contributions to the portfolio.

Figure 3: Sector breakdown of the fund versus MSCI World Index



Source: Guinness Atkinson Asset Management, Bloomberg (data as of 9.30.2018)

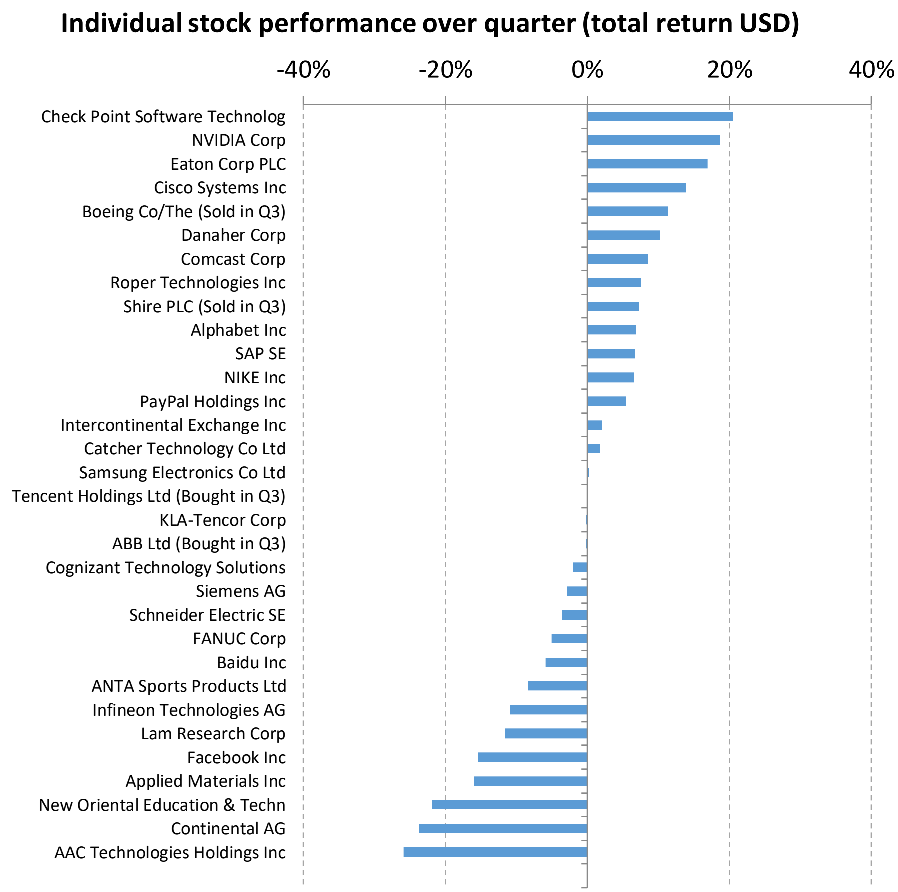
Figure 4: Geographic breakdown of the fund versus MSCI World Index



Source: Guinness Atkinson Asset Management, Bloomberg (data as of 9.30.2018)

Some of the stocks that have sold off the most in the portfolio (AAC, for example) continue to show good earnings, and revenue growth and operating margins remain robust – suggesting that sentiment played a large role in the negative returns, whether through tariff worries or negative sentiment towards the Asia/EM regions. If the upcoming earnings season suggests company fundamentals are not softening as fast as the market has priced in, then we see the potential for strong gains from these 'over-sold' stocks.

Figure 5: Individual performances of fund constituents



Source: Guinness Atkinson Asset Management, Bloomberg (data as of 9.30.2018)

Individual companies that performed well over Q3 were Checkpoint Software Technologies (+20.46% total return in USD) and Nvidia (18.69% total return in USD).

Check Point, the Israeli software provider, is a leading company in the cyber security space, providing network security, gateway solutions and endpoint solutions. The stock outperformed after strong Q2 results and increased Q3 expectations. In particular, the results indicated a turnaround in US sales growth and stronger than expected operating margins. This resulted in upgrades in analysts' recommendations including JP Morgan who raised their target price by around 20%. This was welcome news off the back of a period of underperformance beginning Q3 2017 which saw the stock drop around 18% on slowing growth prospects.

Nvidia, the semiconductor manufacturer which creates graphics processing units (GPUs) for video games and, more recently, AI related technologies, was the portfolio's second largest gainer up 19% (USD) for Q3. Nvidia shook off market worries around the steep drop in revenues associated with bitcoin mining, to post strong earnings results in August, citing a 52% increase YoY in revenues from their gaming division and an 83% increase YoY in their data center unit.

Individual companies that performed poorly over Q3 were AAC Technologies (-25.87% total return in USD) and Continental (-23.73% total return in USD).

The largest underperformer over the quarter was **AAC Technologies** which manufacture smartphones lenses and miniature components for acoustics. As a supplier of speaker components for Apple, AAC has faced slowing demand as smartphone market softens and trade tariffs imposed by the US create further headwinds. We still view AAC as a strong long-term investment, experiencing temporary headwinds.

Continental's underperformance was driven by profit warnings signalled by management in August, citing lower expected sales and increased costs. It was an indication of softening demand in the automotive sector as interest rates rise, trade tariffs increase costs and consumers change preferences to such vehicles as SUVs. Continental continues to be a quality company and we remain positive in our belief that their automotive segment, which includes tires and chassis, can benefit from the changing automotive landscape to the electric car and autonomous vehicle.

Changes to the portfolio

Over the quarter, we made two changes to the portfolio, replacing our position in Shire and Boeing for new positions in ABB and Tencent Holdings.

Shire, the biotech company who research and develop medicines for rare diseases, was bought in the fund in September 2016. We had previously owned the stock in 2013, selling after the (ultimately failed) bid for the company by AbbVie. Shire operates in a highly lucrative industry and displays strong margins as a reflection. However, having come off around 25% to lows in March 2018, Shire was subject to M&A speculation from larger rivals including Japanese firm Takeda, whose US$62 billion bid is now subject to EU regulatory approval in November. The stock gained 44% after the bid was first proposed and with additional regulatory hurdles to still to overcome, we took the opportunity to sell.

Boeing has been a very strong holding for the portfolio, returning 245% USD since purchase in 2014. One of the less obvious holdings in the Innovators Fund, Boeing was bought as we believed it driving efficiencies by drastically reducing construction time on airlines and using 3D printing for some non-critical components to drive down costs. However, the valuation of the company had increased significantly which drove our sell decision.

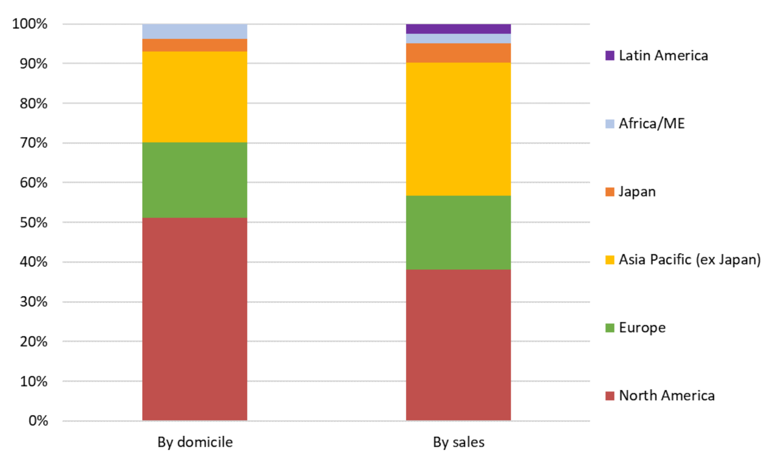
ABB is one of the leading manufacturers of industrial robots as well as providing electrification products and power generation solutions. We believe ABB is set to benefit from the increasing demand for industrial robots as companies strive to improve efficiencies through factory automation and may also benefit from proposed talks of splitting off its power grid business. After selling off around 14% from record highs in January, this presented an opportunity to buy a company offering strong growth prospects and rising returns on capital at a reasonable valuation.

Tencent, the Chinese conglomerate and largest gaming company in the world has subsidiaries including: WeChat, the social media platform which boasts over 1 billion active monthly users and offers a platform for activities ranging from payment making to ordering a taxi; JD.com, China's answer to Amazon; and Tencent Music Entertainment (TME) which has four times as many users as Spotify. However, Tencent has underperformed in 2018, selling off around 35% from highs in January. This was a result of trade tariff concerns, Chinese intervention in the gaming industry and headlines surrounding their e-commerce holding JD.com. Tencent may still not appear cheap relative to the market, however, with returns on capital around 20% and growth prospects above 20% p/a, we believe the higher valuation is warranted and Tencent is set to benefit from continuous R&D in its new and existing channels.

Portfolio characteristics

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.

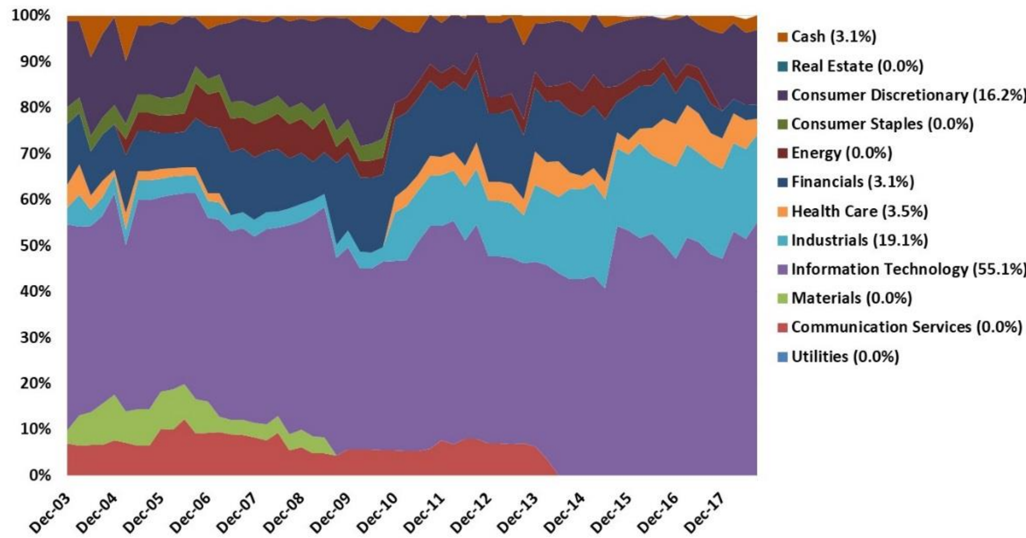
Figure 6: Geographic breakdown of the fund



Source: Guinness Atkinson Asset Management, Bloomberg (data as of 9.30.2018)

The two charts below show how the exposure of the fund has evolved since we launched the strategy back in 2003. We continue to hold no exposure to Real Estate, Energy, Materials and Utilities. Technology remains our largest exposure, split between three sub-sectors: semiconductors; software and services; and technology hardware.

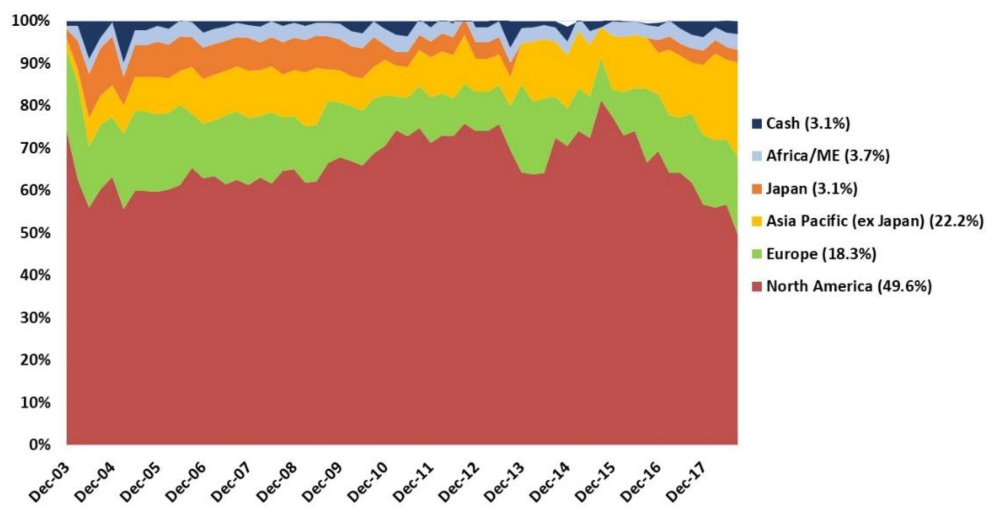
Figure 7: Portfolio sector breakdown



Source: Guinness Atkinson Asset Management, Bloomberg (9.30.2018)

Our exposure to North America continues to decrease as we currently find increasingly attractive positions in Asia, particularly in the IT sector.

Figure 8: Portfolio geographic breakdown

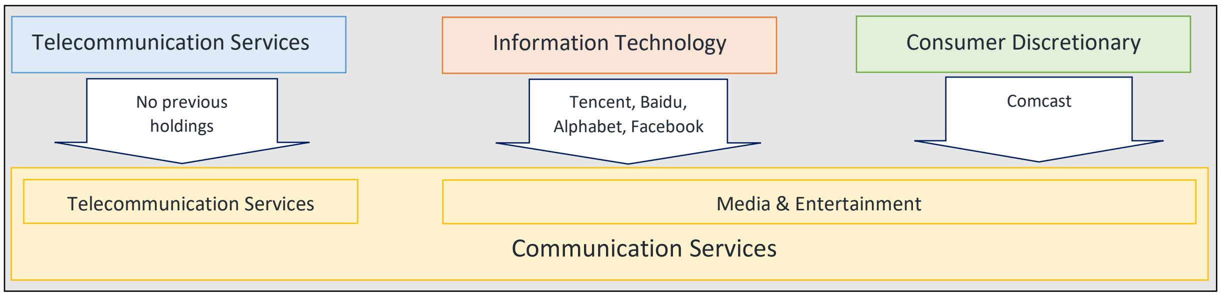


Source: Guinness Atkinson Asset Management, Bloomberg (9.30.2018)

Portfolio characteristics under new GICS reclassification:

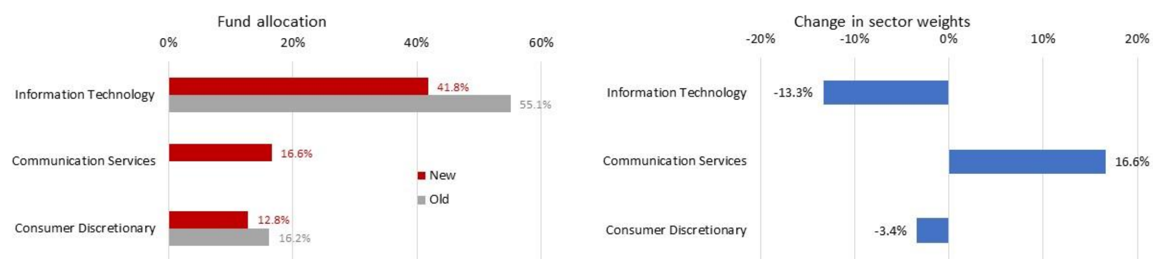
As of the September 28, MSCI and S&P implemented a reclassification of the Telecommunications sector under the new name, the Communication Services sector. The new sector going forward will encompass the old Telecommunication sector along with content providers through advertising, entertainment and social media platforms. The move groups FAANG constituents Netflix, Facebook and Alphabet under the revamped sector, greatly increasing the sector's index weighting.

The changes reclassify the following constituents of the Guinness Global Innovators Fund:



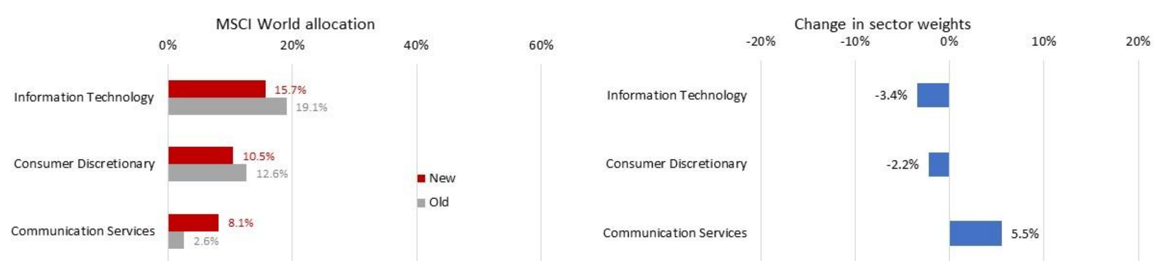
The following summarizes the changes to the fund and MSCI World sector weightings:

Figure 9: Portfolio sector weights before and after GICS reclassification of Telecommunication services



Source: Guinness Atkinson Asset Management, Bloomberg (9.30.2018)

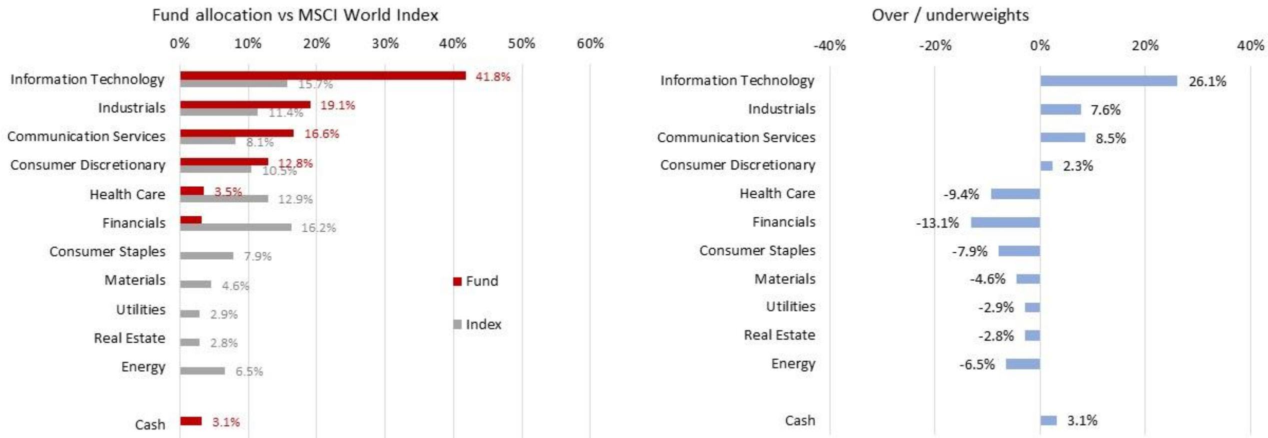
Figure 10: MSCI World sector weights before and after GICS reclassification of Telecommunication services



Source: Guinness Atkinson Asset Management, Bloomberg (9.30.2018)

The reclassification gives rise to the following new allocations against the benchmark going forward:

Figure 11: Sector breakdown after GICS reclassification of Telecommunication services



Source: Guinness Atkinson Asset Management, Bloomberg (9.30.2018)

Key fund metrics today

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

Figure 12: Portfolio metrics versus index

		Fund	**MSCI World Index**
Innovation	R&D / Sales	8%	6%
	CAPEX / Sales	6%	9%
Quality	CFROI (median 2017)	16%	9%
	Weighted average net debt / equity	-13%	64%
Growth (& valuation)	Trailing 3-year sales growth (annualised)	15%	6%
	Estimated earnings growth (2019 vs 2018)	9%	9%
	FCF yield	4.7%	4.1%
	PE (2018e)	17.0	16.5
Conviction	Number of stocks	30	1190
	Active share	94%	-

Source: Guinness Atkinson Asset Management, Credit Suisse HOLT, Bloomberg (data as of 9.30.2018)

As the table above shows, our fund displays characteristics in line with the portfolio's philosophy: increased spend on R&D; less capital intensive; substantially higher returns on capital; whilst trading a modest premium to the benchmark.

Outlook

The fund is now trading at an 3% premium to the broad market on a PE ratio basis (fund 17.0x 2018 expected earnings vs MSCI World Index 16.5x). 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 (4.7% vs 4.1%). From a long-term perspective, the portfolio invests in highly efficient companies (median CFROI 2017 16% vs 9%) whose innovative nature differentiates them from competitors and consequently, should drive demand for their products.

We thank you for your continued support.

Portfolio Managers

Matthew Page, CFA

Dr. Ian Mortimer, CFA

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Sagar Thanki

Joseph Stephens

September 2018

Guinness Atkinson
Global Innovators Fund
Manager's Update – October 2018

Performance

For the month of September, the Guinness Global Innovators Fund provided a total return of -2.69% (USD) against the MSCI World Index return of 0.59% (USD). The fund therefore underperformed the Index by 3.28%

Despite the weaker performance over Q3, the medium and long-term performance of the strategy remains very strong versus both the index and the IA Global Sector; its performance versus the sector places it in the top quartile over three, five and ten years.

as of 09.30.2018 (in USD)	YTD	1 year	3 years annualized	5 years annualized	10 years annualized	Since inception annualized
Global Innovators, Investor Class[1]	-0.09%	6.15%	16.61%	12.55%	13.13%	7.91%
Global Innovators, Institutional Class[2]	0.09%	6.41%	16.88%	12.70%	13.21%	7.95%
MSCI World Index	5.43%	11.24%	13.53%	9.28%	8.55%	5.45%

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%

[1]Investor class (IWIRX) Inception 12.15.1998 | Expense ratio* 1.24% (net); 1.33% (gross)

[2]Institutional class (GINNX) Inception 12.31.2015 | Expense ratio* 0.99% (net); 1.17% (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.

[2]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 9/30/18:

1. Cisco Systems Inc	3.60%
2. SAP SE	3.59%
3. NVIDIA Corp	3.59%
4. NIKE Inc	3.47%
5. Samsung Electronics Co Ltd	3.46%
6. Catcher Technology Co Ltd	3.43%
7. Facebook Inc	3.43%
8. PayPal Holdings Inc	3.42%
9. Roper Industries Inc	3.38%
10. Intercontinental Exchange Inc	3.37%

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

This information is authorized for use when preceded or accompanied by a prospectus for the Guinness Atkinson Global Innovators Fund. You can find a current prospectus here. You can also visit www.gafunds.com/wp-content/uploads/2012/06/prospectus.pdf.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.

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.

One cannot invest directly in an index.

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