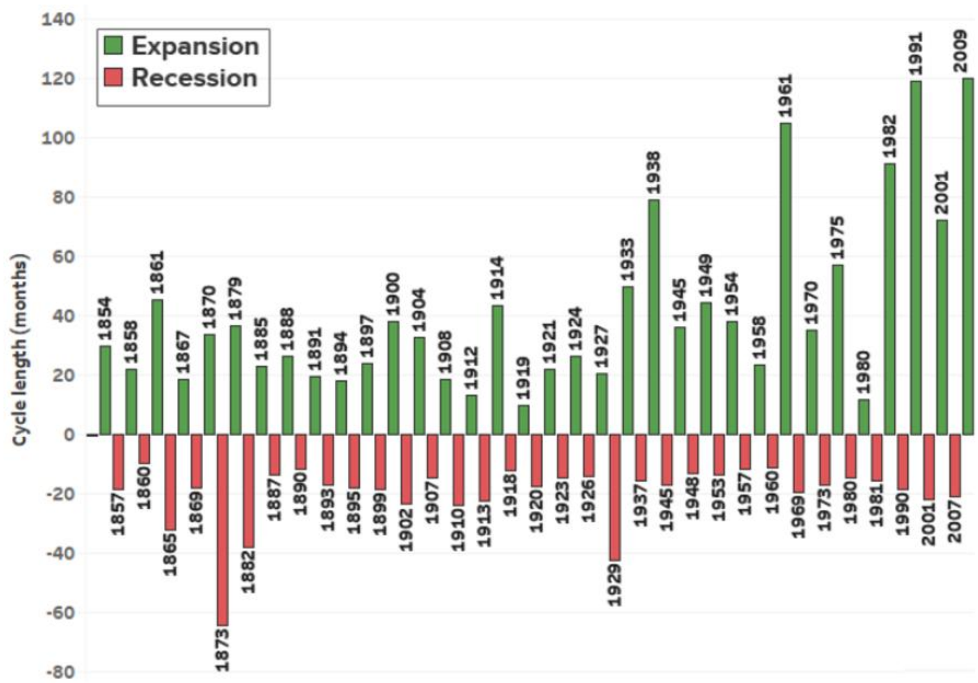
Guinness Atkinson
Dividend Builder Fund
Managers Update – July 2019

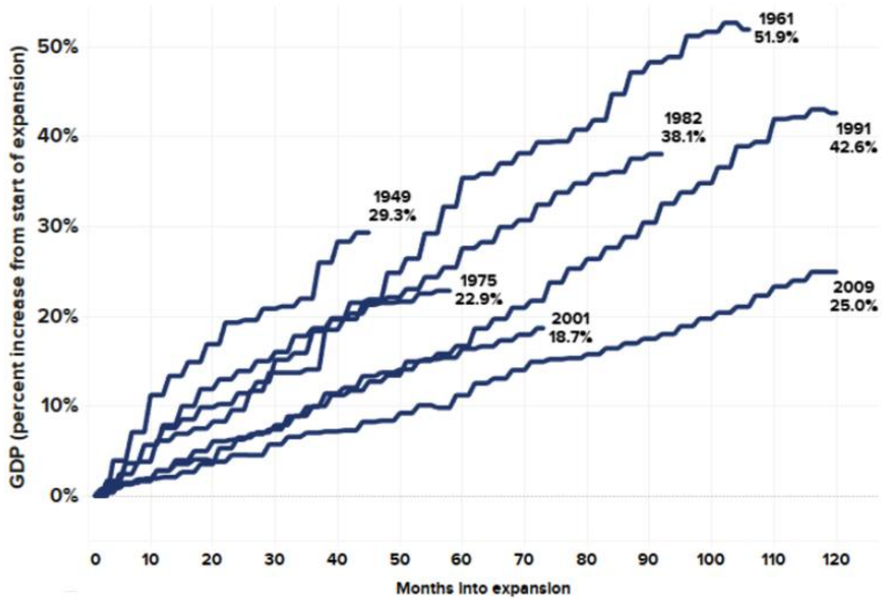
Quarter Review

The US economic expansion and recovery from the Great Recession officially made history on 1st July as the second quarter of 2019 closed: the 10-year, 121-month expansion that started in June 2009 is now the longest ever. The previous record was set during the 120-month expansion from March 1991 to March 2001 and ended with the infamous dotcom bubble burst.



Source: National Bureau of Economic Research. Year indicates start of cycle

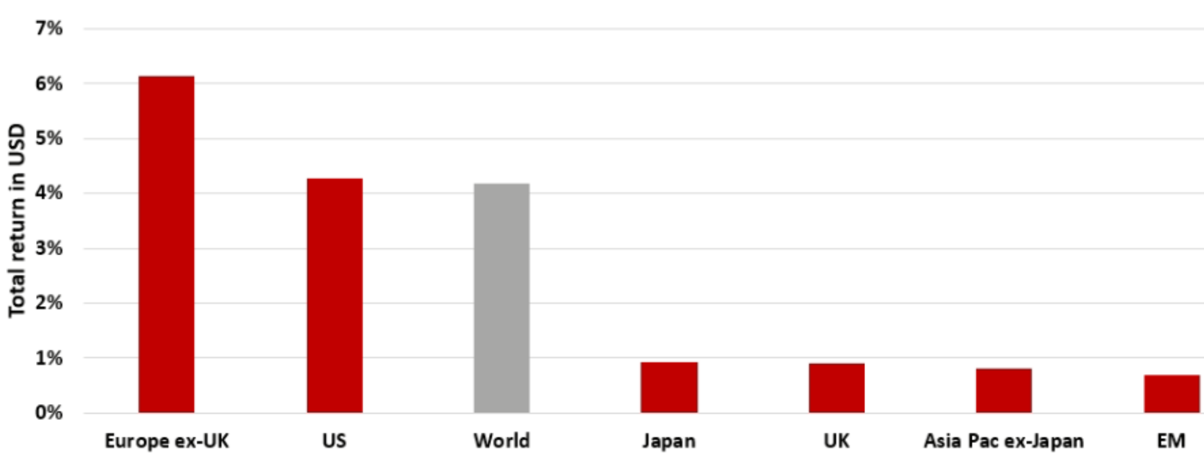
While the current expansion is a record breaker in terms of longevity, it has been one of the slowest in terms of growth magnitude. US GDP has grown 25% cumulatively since the start of the expansion, which is lower than others on record:



Source: St Louis Federal Reserve. Year indicates start of cycle

As all eyes are on just how long the current expansion can keep going, there have recently been mixed signals from the US market about the likelihood of a recession on the horizon. On one hand, the S&P 500 Index has soared to new highs. On the other, trade tensions sparked a panic in the bond market, triggering a yield-curve inversion – seen as a sign that a recession may be pending. Though these tensions somewhat eased at the end of June with President Trump indefinitely suspending Mexican tariffs and engaging in further talks with Chinese President, Xi Jinping, no long-term solutions have yet been established and hence the 'trade war' cloud continues to overhang.

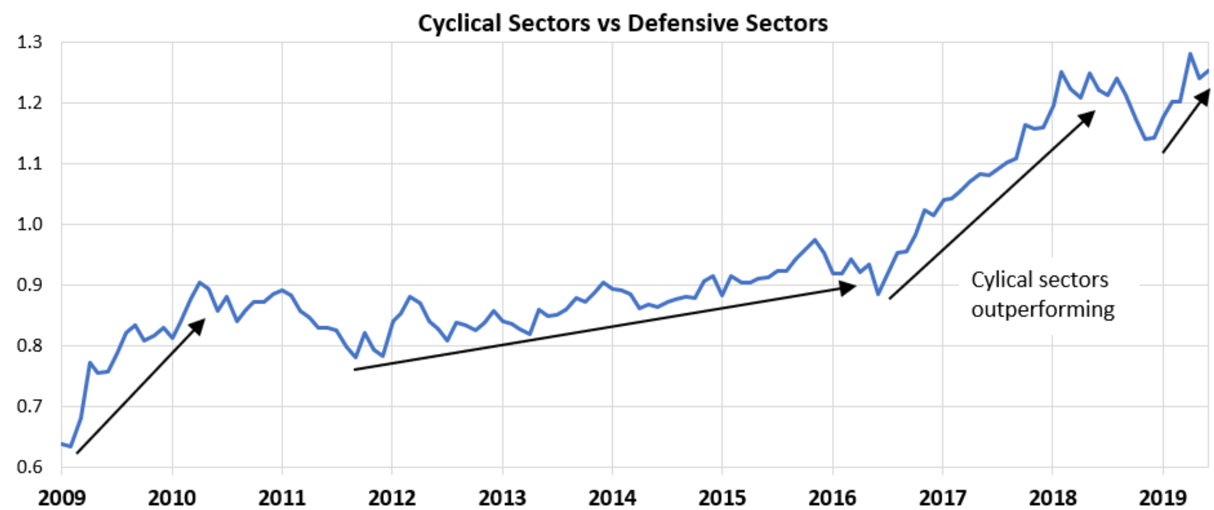
MSCI World regional indices performance: March 31st 2019 – June 30th 2019



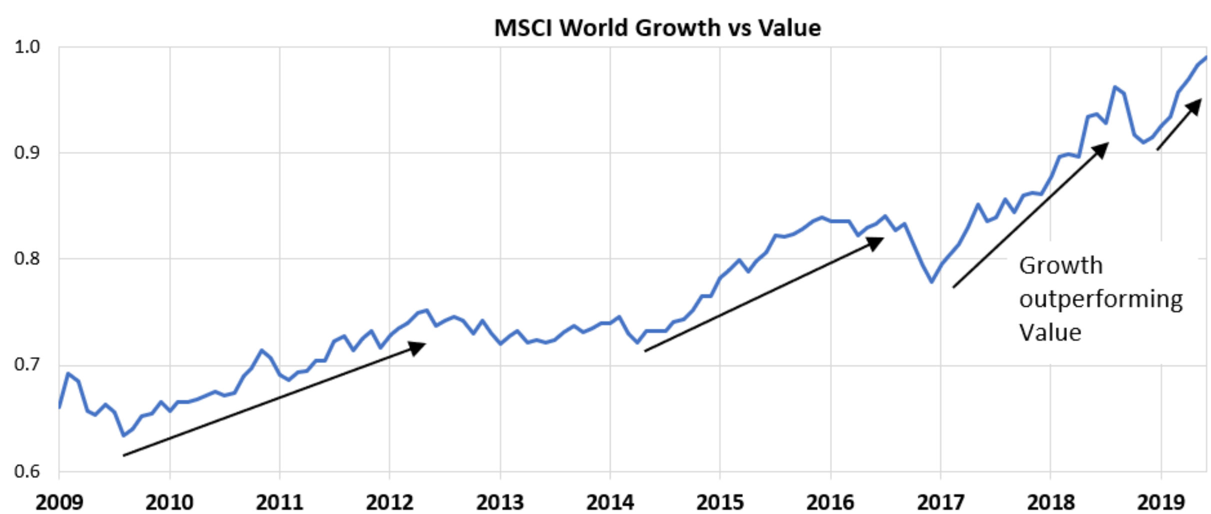
Source: Bloomberg. As of June 30th 2019

Nonetheless, all regions posted positive gains over the last quarter with Europe ex UK and the US leading, as investors were cheered by the dovish rhetoric from both the Federal Reserve and European Central Bank (ECB). Fed chair Jerome Powell's comment that "an ounce of prevention is worth a pound of cure", led to the market forecasting 0.5% worth of rate cuts by the end of 2019. This was followed by ECB chair, Mario Draghi, stating monetary policy would be loosened unless the economy improves, suggesting that interest rates could well fall into negative territory.

Low interest rates (vs history) for the past decade have resulted in a sustained outperformance of cyclical sectors and growth stocks, and the last quarter was no different:



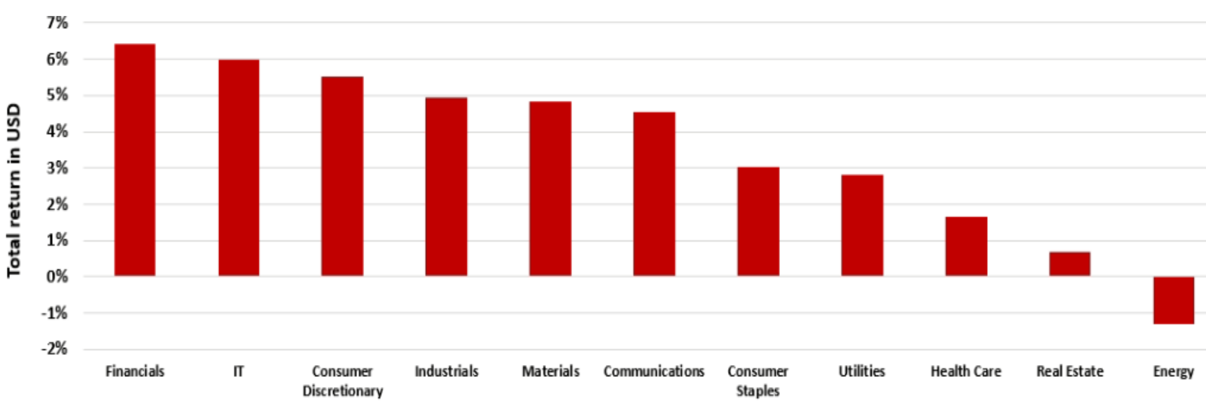
MSCI USA Cyclicals Index / MSCI USA Defensives Index
Source: Bloomberg. As of June 30th 2019



MSCI World Growth Index / MSCI World Value Index
Source: Bloomberg. As of 30th June 2019

Although the Fund's broad position has helped it outperform when markets are weaker (i.e. also when we tend to see a value bias and have typically outperformed in defensive sectors), our stringent focus on investing in higher quality businesses – ones that have persistently had higher returns on capital throughout all periods in a business cycle – has led to us keep up with strong markets and outperform in moments of weaker markets.

MSCI World sector indices performance: March 31st 2019 – June 30th 2019



Source: Bloomberg. As of June 30th 2019

Last quarter, Financials were the strongest performing over the quarter. The sector saw its biggest one-month gain in April 2019 since November 2016 – the time when Donald Trump's election win spurred hope for deregulation, tax reform and expectations that economic stimulus plans would stoke inflation and drive up interest rates. This time round, the rally in Bank stocks specifically came after a solid first-quarter earnings season. This was a drag on Fund performance since we have zero exposure to Banks in the Fund; the financial crisis and the Euro crisis tend to screen out such stocks from our investment universe since they do not meet our criteria of persistently high cashflow returns on investment.

The IT sector also continued to perform well in the quarter, powered by Microsoft, who became the largest publicly traded company in the world by market capitalization, and the third company to achieve a US$1tn valuation, alongside Apple and Amazon. The jump in Microsoft's share price followed better-than-expected sales and earnings in the first three months of this year as businesses continued to sign up to its expanding cloud services suite. Azure cloud services, used to store and run customers' applications in Microsoft's data centres, 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 have been doing – as cloud-based applications and infrastructure products gain scale.

Over the course of quarter, the Fund avoided significant exposure to the poorer performing sectors: we hold no positions within the Real Estate and Utilities sectors, with only one stock in the Energy sector. Nonetheless, our overweighting to Consumer Staples and Healthcare proved to be a drag on performance.

Healthcare was a poor performer as it faces headwinds from ongoing concerns over changes to drug pricing legislation. As drug pricing comes under increased scrutiny in the US and is given increased attention ahead of the 2020 Presidential Election, we decided to lower the Fund's exposure in the sector.

We made one changes to the portfolio in the quarter, whereby replacing our position in Merck with Blackrock.

This reduced our Healthcare exposure and increased our Financials exposure.

Merck, the global healthcare company saw poor performance starting 2019, and this comes after a very strong 2018, which saw Merck's lung cancer drug, Keytruda, win a string of clinical trials, placing it in the top spot for treating lung cancer.

Other best-selling drugs in the Pharmaceutical segment include type 2 diabetes drug Januvia, which brings in about $4 billion in revenues annually. Other products earning more than $2 billion include diabetes drug Janumet, HPV vaccine Gardasil, and cholesterol medication Zetia. Meanwhile, $1 billion top sellers include cholesterol medication Vytorin, skin antibiotic treatment Cubicin, HIV therapy Isentress, inflammatory treatment Remicade, cancer drug Keytruda, and chickenpox vaccine ProQuad.

Our decision to take profits and sell our holding comes after considering Merck's peak valuation and weakening balance sheet profile. At sale, on a price-to-earnings basis, the stock traded at 1.5 standard deviations above its 10-year average and the company has also been accumulating higher levels of debt. Total debt to equity stood at 93% and cashflow returns on invested capital dipped below 10%, thus removing Merck from our quality-driven investment universe.

As part of our one-in-one-out process, we bought a position in **Blackrock.** The world's largest asset manager operates globally and has $6.5 trillion in assets under management. The company stands out in its respective industry due to its strong brand loyalty and focus on institutional investors. The firm's moat, due to its breadth as the largest manager globally by AUM (assets under management), proprietary Aladdin software, and dominating iShares division, is very strong.

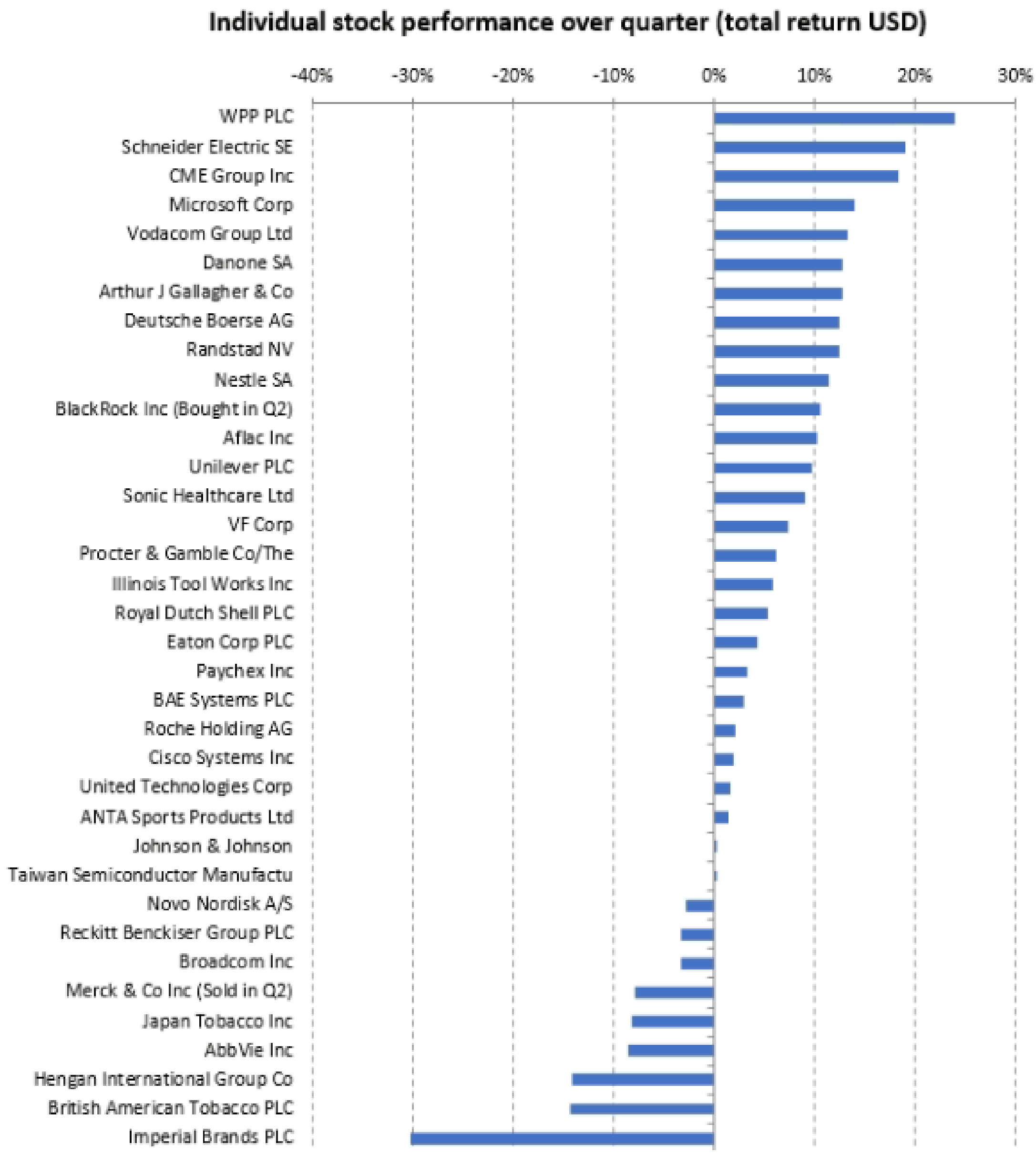
Global wealth growth, along with ever rising interest in ETFs, act as the backbone for Blackrock's success. Through its iShares offering, Blackrock is the ultimate ETF leader with assets totaling nearly $1T in AUM. Vanguard is second with $610bn and it falls to $471bn for the third position (State Street). The company earns nearly 50% of its base fees on equity products, though it has historically had a strong fixed income offering.

Blackrock has been especially profitable due to it focuses on institutional investors who are willing to pay higher fees in order to get the liquidity they require. Actively managed and iShares funds tend to have larger asset bases and trade frequently in the open market, making it easier for big financial institutions to make large orders without worry of disrupting Funds' trading operations.

Though profit margins have come under pressure in the short-term as passive investments have grown faster and are priced lower compared to actively managed funds, Blackrock has invested in alternative technologies to expand its capabilities. One of these investments include its Aladdin platform. Shortened down from "Asset Liability and Debt and Derivative Investment Network", the operating system for investment managers combines sophisticated risk analytics with comprehensive portfolio management, including trading and operations tools on a single platform.

BlackRock's push to diversify its revenue sources is a positive and lowers stock price's beta to the wider market. Asset managers have performed poorly in recent times due to fee pressures, strains on profit margins, and looming worries about the late-cycle stage of the economy. This has meant they have collectively sold off; we believe this has meant Blackrock has become cheaper than its true valuation and so provides us an attractive entry point into a stock with a solid stream of dividends and good potential for growth. The company has also boosted its dividend, with year-on-year growth (2018 vs 2017) greater than 20%.

Stock Selection



WPP was the best performing stock in the fund over the quarter (+23.9% in USD).

After a difficult 2018, WPP's new strategies seem to focus on merging advertising networks and selling lower growth parts of the business to become more streamlined overall. Strong performance in the quarter comes after WPP announced it would be selling 60% of Kantar –its market research unit – to Bain Capital. Valued whole at $4 billion, this was seen by the market as a move that will help WPP manage leverage and pursue M&A (merger and acquisitions) to accelerate the shift towards becoming a more technology-centric company. The mergers of Wunderman with Thompson, and VML with Y&R, is further evidence of WPP's efforts to become more streamlined as part of its 3-year cost cutting plan and profitability plan.

Further, the return on capital profile has been high and stable, operating margins are around 20%, the company has historically had positive sales growth every year since 2002 (including 2009), the dividend is well covered, and the balance sheet is strong. The company's shares traded on a 1-year forward price-to-earnings multiple of 8.2x at the start of the quarter – almost 2 standard deviations below its 10-year average – and the current dividend yield is close to 6.2%. Management is implementing extensive restructuring plans to achieve better profitability and growth, and the market seems to be warming to this.

Schneider Electric also performed well (+19.3% in USD). The global market leader in low and medium voltage, and critical power solutions, benefited from exposure to several growth trends including big data, the internet of things and energy efficiency. Specific products include data center software and cooling services, electrical surge protection, electric vehicle charging, building management and lighting control, sensors, motion control and robotics. FY 2018 sales underscored the attractive nature of Schneider Electric's end markets with sales rising by 7% on an organic basis, with the €20bn sales Energy Management division growing +7% and the €6bn Industrial Automation division growing +8%. Sales in Asia Pacific rose 10%, with notable strength in China and medium voltage. Higher margin service sales grew 9% and still only account for 12% of total sales, which means that the company has plenty of runway for growth and margin expansion amid ongoing trends towards outsourcing and remote monitoring and maintenance. Other measures that suggest that Schneider's moat continues to widen included a 20% rise in digital related sales and a three-fold increase in connected customers since 2015. Management highlighted ongoing potential to increase cross selling between low and medium voltage businesses lines and secure power; while the Aveva industrial software merger is running ahead of expectations in terms of synergies. The full year dividend was increased by 7% and was also accompanied by a new €1.5bn - €2bn (Euros) share buyback.

CME Group was another top performer (+18.4% in USD). After underperforming in the first quarter, the second one was much stronger and coincided with a return of higher volatility, rising from global political instability, and the company also reported quarterly earnings per share (EPS) above market expectations. Longer term, the exchange seems well positioned to integrate its November 2018 NEX Group acquisition and offer clients a more holistic solution given its futures, options and data products. The NEX deal should also support CME's international expansion plans, as 50% of NEX's revenue is generated outside of the US. Data and analytics are a key focus area for the company in 2019, with an outlook to expand recurring revenue. CME also appears particularly well-placed to benefit from increased interest-rate hedging around FED rate hikes and rising U.S. oil exports thanks to its dominant

FED Funds and WTI futures contracts. The company has largely opted to pursue an organic growth strategy, and this has meant low debt-to-equity at 10% with returns on capital increasing every year for the last five.

Imperial Brands (-30.2% in USD) **and British American Tobacco** (-14.4% in USD) were the worst performers in the quarter.

Imperial Brands, the traditional tobacco company which has been developing its alternative e-cigarette business, reported results during the quarter that missed expectations after slower than forecasted e-cigarette sales, particularly in the US where the FDA has been increasing its scrutiny on the fast-developing industry. Imperial Brands has been divesting non-core assets including its premium cigar business, while investing in the fast-growing alternative tobacco industry as the company looks to offset falling demand for its traditional tobacco products. The company continues to trade at a significant discount to its peers, while offering the 12th largest dividend among UK companies which has been growing at an average of 10% per year for the last 5 years.

British American Tobacco (BATS) also performed poorly. The largest tobacco company in the world differs from its competitors in that it is a truly global operation – rather than operating within geographic confines. This was enhanced with the acquisition of Reynolds American in 2017 which gave BATS greater scale in the US market. The company has been battling increased proposed regulation in the US as well as industry pessimism. Longer term, BATS is hugely cash-generative, has a stellar return on capital profile, an impressive dividend yield of 6.3%, and a price-to-earnings ratio 2-standard-deviations below its 10-year average.

Outlook

The four key tenets to our approach are: quality, value, dividend, and conviction. We follow these metrics at the portfolio level to make sure we are providing what we say we will. Based on the measures, holistically, the high-conviction fund has companies which are on average better quality at better value verses the index.

We are pleased to report that the portfolio continues to deliver on all four of these measures relative to the benchmark MSCI World Index.

		Fund	MSCI World Index
Quality	Average 10 year Cashflow Return on Investment	17%	8%
	Weighted average net debt / equity	28%	98%
Value	PE (2019e)	15.5	16.3
	FCF Yield (LTM)	6.2%	5.4%
Dividend	Dividend Yield (LTM)	2.5%	2.4%
	Weighted average payout ratio	66%	70%
Conviction	Number of stocks	35	1650
	Active share	91%	-

Portfolio metrics versus index. As of June 30th 2019
Source: Guinness Atkinson Asset Management, Credit Suisse HOLT, Bloomberg

The fund at the end of the quarter was trading on 15.5x 2019 expected price to earnings; a discount of 5% to the broad market. Additionally, on a free cashflow basis, the fund trades at a 15% discount to the market.

With more sensitive markets and many uncertainties, any risks should be considered in the context that global equities now trade below their 10-year average price-to-earnings multiple, and our Fund is at a discount to the market despite holding higher quality companies. Our perpetual approach of focusing on the quality of the underlying companies we own should stand us in good stead in our search for rising income streams and long-term capital growth.

We thank you for your continued support.

Performance

In June, the Guinness Atkinson Dividend Builder Fund produced a total return of 5.23% (TR in USD), compared to the MSCI World Net Return Index return of 6.59%. The fund therefore underperformed the Index by 1.36%.

Standardized Performance

as of 06/30/19	YTD	1 YR	3 YR Annualized	5 YR Annualized	Since inception Annualized (3/30/12)
Dividend Builder Fund	14.99%	10.47%	10.87%	6.03%	9.80%
MSCI World NR Index	16.98%	6.35%	11.79%	6.61%	9.44%

June 30, 2019 30-Day SEC Yield: 2.88% (Subsidized), 1.57 % (Unsubsidized)

All returns over 1 year annualized. Source: Bloomberg, Guinness Atkinson Asset Management
Expense Ratio: 0.68% (net); 2.00% (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 reimburse 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, 2020. To the extent that the Advisor absorbs expenses to satisfy this cap, it may recoup a portion or all of such amounts absorbed at any time within three fiscal years after the fiscal year in which such amounts were absorbed, subject to the expense cap in place at the time recoupment is sought, which cannot exceed the expense cap at the time of the waiver. The expense limitation agreement may be terminated by the Board of the Fund at any time without penalty upon 60 days' notice.

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 Funds.

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 6/30/2019:

1.	Broadcom Inc	2.97%
2.	WPP PLC	2.91%
3.	Schneider Electric SE	2.89%
4.	BAE Systems PLC	2.89%
5.	HengAn International Group Co Ltd	2.87%
6.	Arthur J Gallagher & Co	2.87%
7.	Eaton Corp PLC	2.86%
8.	Novo Nordisk A/S	2.86%
9.	United Technologies	2.85%
10.	Aflac Inc	2.83%

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.

The 30-Day SEC Yield represents net investment income earned by the Fund over the 30-Day period, expressed as an annual percentage rate based on the Fund's share price at the end of the 30-Day period. The 30-Day unsubsidized SEC Yield does not reflect any fee waivers/reimbursements/limits in effect.

Standard Deviation is a statistical measure of the volatility of the fund's returns. In general, the higher the standard deviation, the greater the volatility of the return.

Active share measures the extent of active management in a portfolio compared to the corresponding benchmark listed.

Debt-to-equity is calculated by dividing a company's total liabilities by its shareholder equity. A high debt/equity ratio is often associated with high risk.

Dividend yield is calculated by annualizing the last quarterly dividend paid and dividing it by the current share price.

Earnings per share (EPS) is the portion of a company's profit allocated to each outstanding share of common stock.

Forward price/earnings (P/E) differ from trailing earnings, which is the figure quoted more often, as they are a projection and not a fact. Price-to-earnings ratio (P/E) is an equity valuation multiple. It is defined as market price per share divided by annual earnings per share.

Free cash flow (FCF) yield represents the cash a company generates after cash outflows to support operations and maintain its capital assets.

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

One cannot invest directly in an index.