Guinness Atkinson

Global Innovators Fund

Managers Update – October 2019

Performance in July:

Into July, the US was the strongest performing region after a more subdued month of trade headlines, robust economic data and the expectation of an interest rate cut when the Federal Open Market Committee (FOMC) met on July 31st. Indeed, US consumer confidence grew far more than expected, in addition to US GDP that grew 2.1% during the second quarter - a significant decline from the 3.1% seen in Q1, though above market expectations. Come the FOMC meeting, Jerome Powell announced a 25 basis point (bp) cut to interest rates – the first cut since the financial crisis – which although anticipated, saw equity markets drop on comments that this was not the start of a sequence of cuts, but rather a mid-cycle adjustment. The strong North American performance was the largest regional contributor to fund performance with stock selection generally positive arising from strong quarterly results.

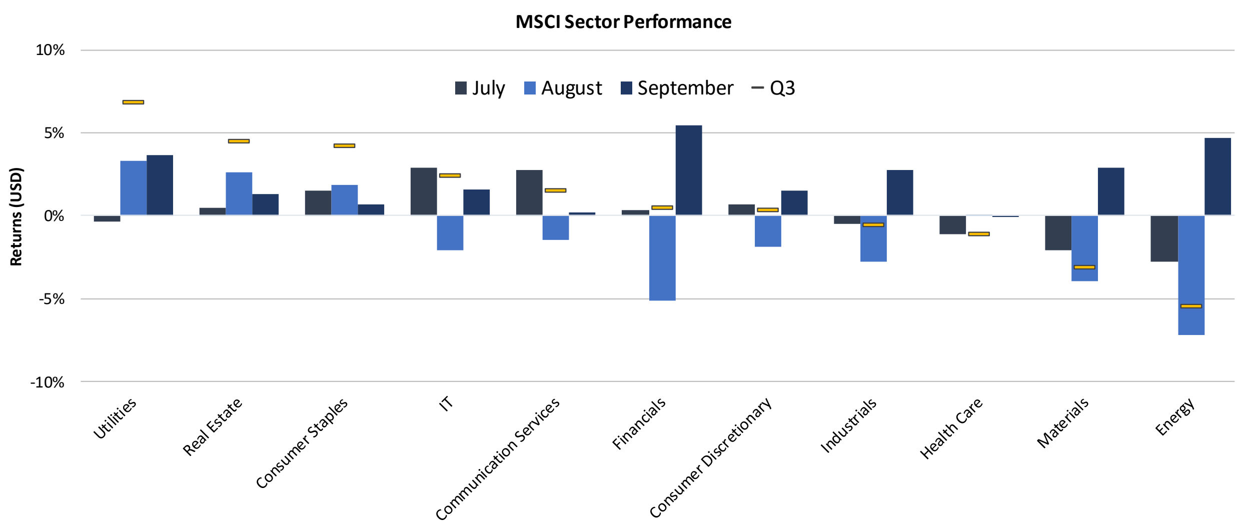

Figure 1: Sector performances in Q3 2019 (all total return in USD). Data as of September 30, 2019

July was not completely without trade headlines, as President Trump tweeted that there were "no signs" that China was buying the US agricultural goods promised after an agreement to resume negotiations was reached at the G20 summit in June. Trade talks did resume during the final week of July, however. Data published during the month showed Chinese manufacturing stabilizing as the manufacturing PMI came in at 49.9 - up from 49.4 in June and ahead of forecasts of 49.6, although still in contraction. Subsequently, Asia Pacific was the worst performing region over the month. However, despite the fund's overweight exposure relative to the MSCI World, Asia was the second largest regional contributor to fund performance, as stock selection from names such as Anta Sports (up 9.4% in USD) and New Oriental Education (up 8.0% in USD) more than outweighed the region's underperformance.

Over the month, the fund benefitted from robust quarterly results from semiconductor companies such as Lam Research, in addition to upbeat results from semiconductor names not held in the fund such as Texas Instruments and ASML. Consequently, 4 of the top 10 stock performances over the month were from semiconductor companies. The generally positive outlooks given by companies over the month helped lift the Philadelphia Semiconductor index above the previous high achieved in April.

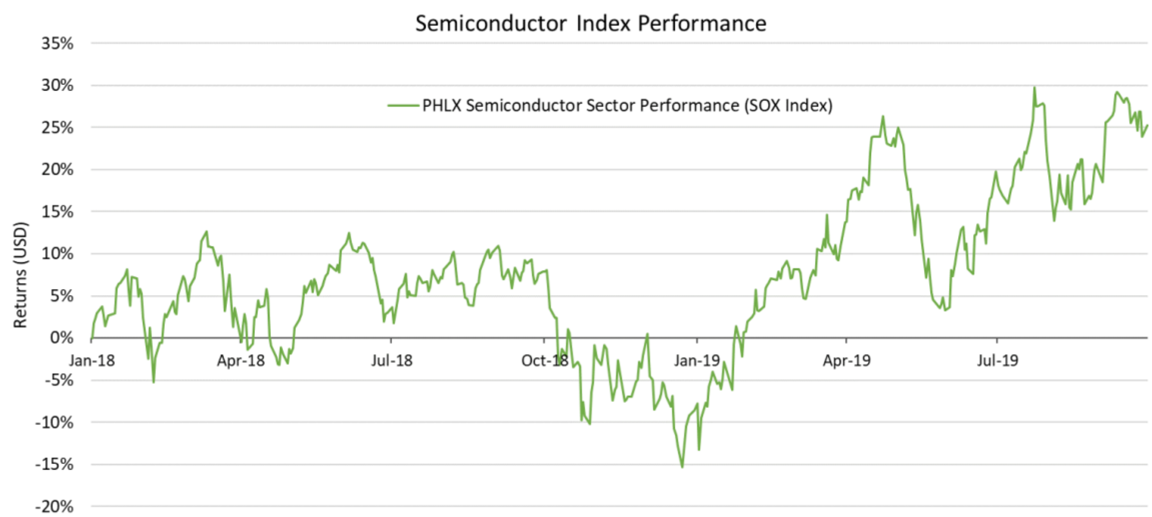

Figure 2: Bloomberg, as of September 30, 2019

<u>Performance in August:</u>

The tone was set by Trump at the beginning of the month as he enacted on his threat of further tariffs on Chinese goods forcing retaliation from the Chinese government. The US proposed a new 10% levy on the remaining $300bn of Chinese goods previously not affected by tariffs. China responded by allowing its currency, the Renminbi (RMB), to weaken sharply below what was seen as a key threshold of 7RMB to the US Dollar, followed a few weeks later by threatening to raise tariffs on $75bn of US imports which includes agricultural goods, oil and cars. The (largely expected) retaliation prompted President Trump to raise both existing and planned tariffs rates by a further 5%.

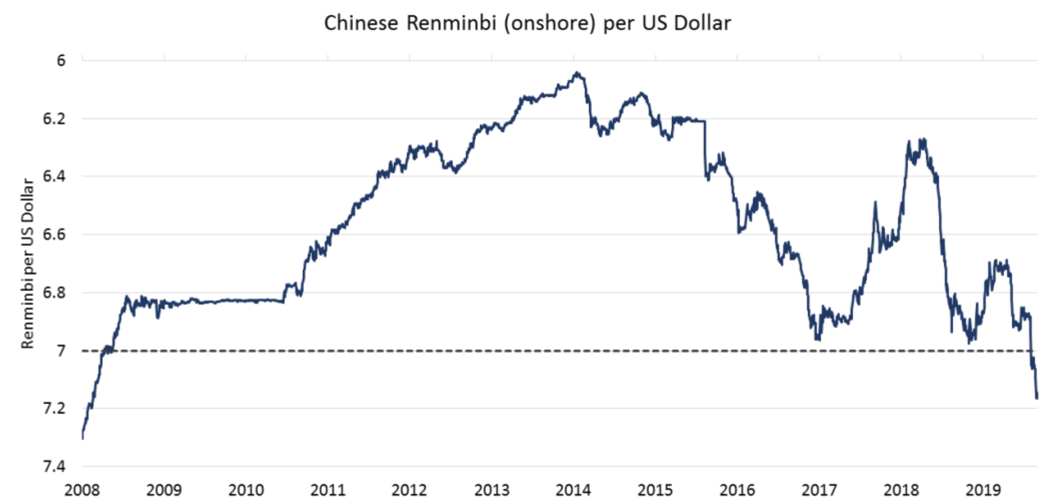

Figure 3: Bloomberg, as of August 31, 2019

President Trump did offer some reprieve, however, by delaying the planned 15% levy on consumer goods including laptops and smartphones until December in order to protect US shoppers during the Christmas period. The month ended with hopes of fresh trade talks between the US and China with Trump commenting that China had called and that they "want to make a deal".

The fund currently holds an overweight position to Asia-Pacific stocks and as such the relative underperformance by the region was a drag on the portfolio. However, this was outweighed by strong stock selection from stocks including Anta Sports (10.4% in USD) and New Oriental Education (8.7% in USD).

Minutes released from the latest US Fed meeting which resulted in the widely expected 25bp rate cut last month, indicated a clear dispersion of views amongst members as to the path they should take. Inflation numbers over the month remained below the Fed's target of 2%, whilst US consumer sentiment fell the most since 2012, potentially giving the US Fed further fuel for an addition interest rate cut. The relative strength in US markets over the month was a slight drag on fund performance due to the slight underweight position (~57% vs ~61% MSCI World), however, stock selection again outweighed this with KLA Tencor, the semiconductor equipment manufacturer, up 9.1% (in USD) and Intercontinental Exchange, which benefitted from the heightened volatility in the markets, up 6.4% (in USD) over the month.

On a sector basis, the 'flight to safety' mentality set during the month resulted in the more defensive sectors such as Utilities, Real Estate and Consumer Staples and Health Care all outperforming the general market. The fund currently holds no exposure to Utilities, Real Estate and Consumer Staples.

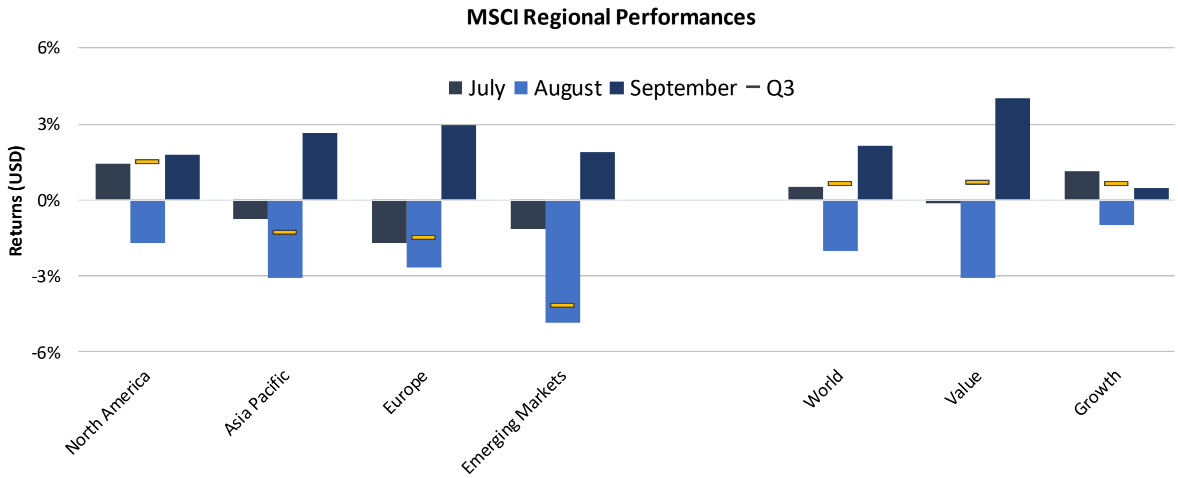

Figure 4: Regional performances in Q3 2019 (all TR in USD). Data as of September 30, 2019

Performance in September:

In the US, the FOMC cut interest rates by 25bps once more but minutes again highlighted the dispersion of committee opinions to the cut. The US showed record levels of unemployment, down at 3.5% from 3.7% previously, however, the 136,000 jobs added over the month came in below the median forecast. This, together with wage growth showing signs of slowing and poor economic data out of Europe and Asia, led to increased hopes that further interest cuts may be on the horizon.

Into Europe and only a few weeks before ECB president Mario Draghi is due to hand over the reins to Christine Lagarde, the president is facing a fierce backlash to the new ambitious monetary policy rolled out which sees the ECB cut rates further into negative territory, coupled with an open-ended bond-purchase program. Several member leaders have expressed their opposition to the new stimulus, such as Germany where Jens Weidmann, head of Germany's Bundesbank, declared that ECB's policies would hurt savers and pensioners. Economic data out of the Eurozone continued to disappoint with the manufacturing PMI falling to 46.4 – the lowest in 6 years – mainly as a result of German data whose manufacturing is at a 7-year low at 43.1 and accounts for the majority of manufacturing in the Eurozone. With the German economy shrinking 0.1% in Q2, all eyes will be on data for Q3 with Germany bordering on a technical recession. The trade dispute between the US and China did escalate over the month on reports that the US was considering restricting Chinese company listings on US exchanges – however, this was rebuffed by the treasury.

Asia, which was the best performing region over the month despite the continued volatility created from US-China trade dispute, was the largest regional contributor to fund outperformance with Catcher Technologies, the manufacturer of smartphone casings, reacting well to reports of better iPhone sales following the release of the iPhone 11. Semiconductor names continued to perform well, in addition to a strong month for Nike on better-than-expected results, particularly from China sales which grew at 22% year-over-year (YoY).

Performance over the quarter:

Over the entire quarter, the fund's exposure to US was the largest regional contributor on strong selection particularly from semiconductor names such as KLA Tencor, Lam Research and Applied Materials. Stock selection was also behind Asia Pacific's positive contribution to fund performance over the quarter, with New Oriental Education and Anta Sports continuing their strong performance in 2019.

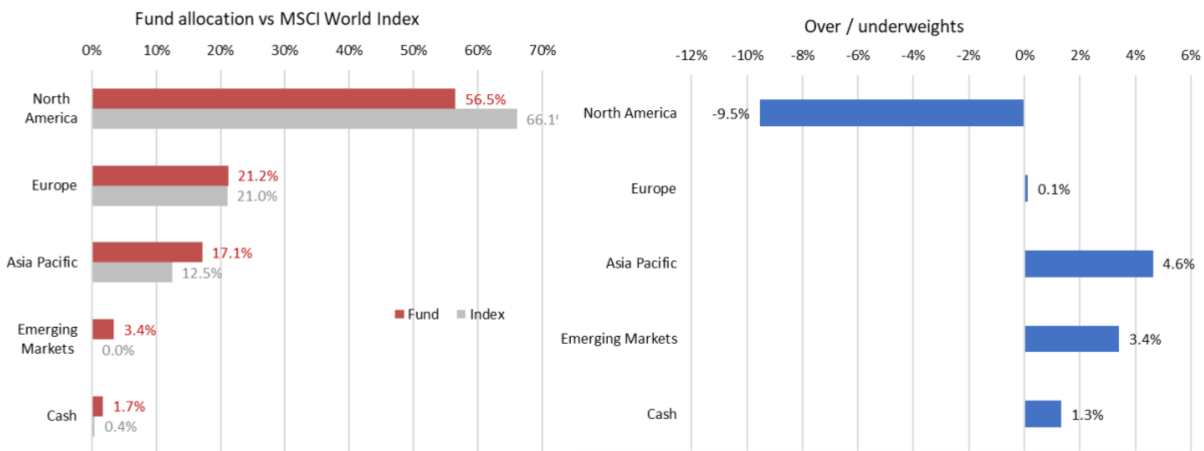

Figure 5: Geographic breakdown of the fund versus MSCI World Index. Guinness Atkinson Asset Management, Bloomberg. Data as of September 30, 2019

On a sector level, our overweight position to IT was the largest contributor to the fund's outperformance, with positive asset allocation and stock selection. The fund's exposure to consumer discretionary was also a strong contributor with our Asian names, Anta Sports, the largest domestic sportswear manufacturer in China, and New Oriental Education, the provider of online and offline tutoring services in China, the main contributors. Our exposure to Industrials, however, was a drag on portfolio performance as continued weakness in European manufacturing data led to the relative underperformance by companies such as Siemens and Schneider Electric.

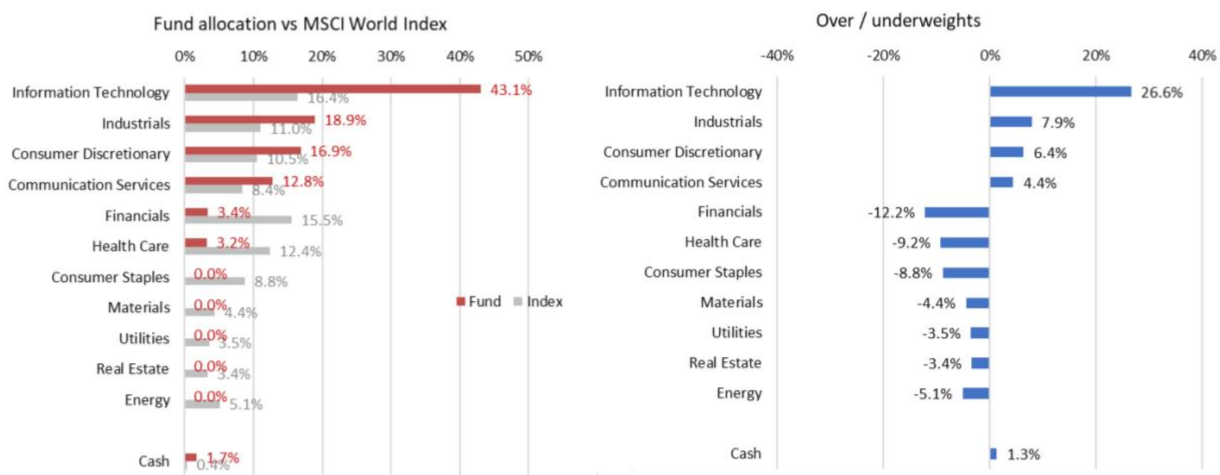

Figure 6: Sector breakdown of the fund versus MSCI World Index. Guinness Atkinson Asset Management, Bloomberg. Data as of September 30, 2019

<u>Individual stock performance over Q3 2019 (total returns USD):</u>

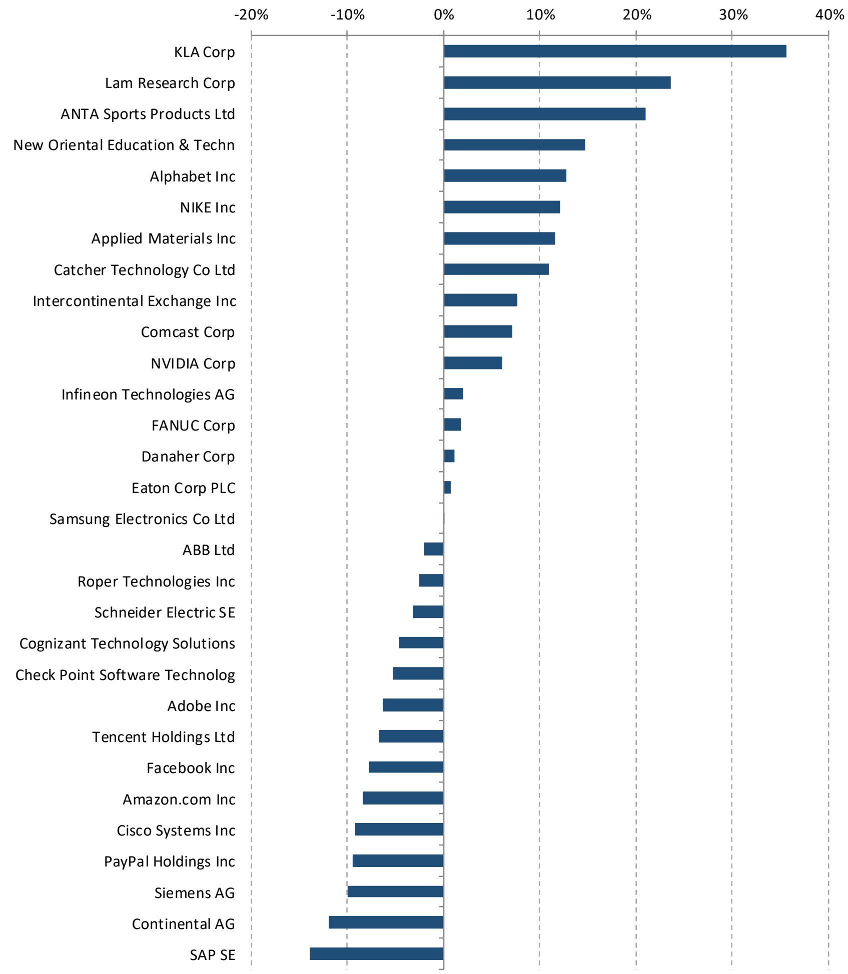

Figure 7: Individual performances of fund constituents. Guinness Atkinson Asset Management, Bloomberg. Data as of September 30, 2019

Strong performances from our semiconductor equipment manufacturers, KLA Tencor, Lam Research and Applied Materials were a product of positive earnings results from fund constituents and industry peers during the quarter. Upbeat reports from industry peers such as ASML (not held in the fund), the equipment manufacturer of photolithography systems – effectively the tracing of chip designs onto wafers using light – reported results that beat estimates and maintained their full year outlook. This was taken as a read across to our semiconductor equipment companies which manufacture different portions of the chip fabrication process – KLA Tencor specializes in process control and yield management while Lam Research and Applied Materials manufacture various equipment dealing with the deposition of material to the etching of circuit designs. Additionally, commentary from Broadcom management suggesting demand in their semiconductor business had 'bottomed out', eased fears around the apparent build-up of customer inventory. All 3 of our semiconductor equipment manufacturers trade on modest valuations, whilst forecasting strong growth and as such we continue to see good upside potential with significant long-term demand drivers from multiple sectors.

Nike, the largest sportswear manufacturer in the world, delivered strong returns (12.2% USD) over the quarter after announcing forecast-beating results. The brand has been under particular pressure after missing on last quarter's forecasts – the first time the company had missed earnings forecasts in 7 years. Additionally, having withdrawn their new line of shoes in China after one of the designers showed support for the Hong Kong protests, the 22% revenue growth experienced in the latest report was even more impressive. Nike has continued to deliver on its digital transformation and efforts to sell more products directly to consumers such as through the expansion of the Nike Direct app, which has led to lower costs and subsequently higher margins. The company maintains a dominant market position, particularly in the higher growth Asian regions and is exposed to next generation consumer trends in athletic sportswear, but we note the significantly expanded multiple the company now trades on relative to the initial purchase in 2016.

PayPal, the digital wallet company exposed to innovation themes such as FinTech and eCommerce, underperformed over the quarter producing a total return of -9.5% (in USD), The underperformance follows a weak July after the company cut its full year sales guidance due to delays in product integration and a strong US dollar. On the other hand, there was positive news as PayPal became the first foreign company to win a Chinese payments license – beating the likes of Visa and Mastercard who have been waiting for over 2 years. The deal, which is based on PayPal's 70% stake in Huofubao (GoPay), a small online payments company, allows PayPal to facilitate online and mobile payments along with issuing debit cards, pinning the western giant against the Chinese tech giants Tencent (WeChat) and Alibaba (Alipay). PayPal continues to grow well as it expands into Asian countries such as India and China and has grown its free-cash-flow over 20% annualized over 5-years, whilst maintaining good margins and a strong balance sheet.

Changes to the portfolio:

We made no changes to the portfolio over the quarter.

Portfolio characteristics

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, Consumer Staples and Utilities. Technology remains our largest exposure, split between three sub-sectors: semiconductors; software and services; and technology hardware. On a regional basis, North America continues to be the largest exposure (57%), with Europe (21%) and Asia Pacific (17%) sharing similar exposures. With no changes made over the quarter, the fund exposures remain broadly in-line with that of last quarter.

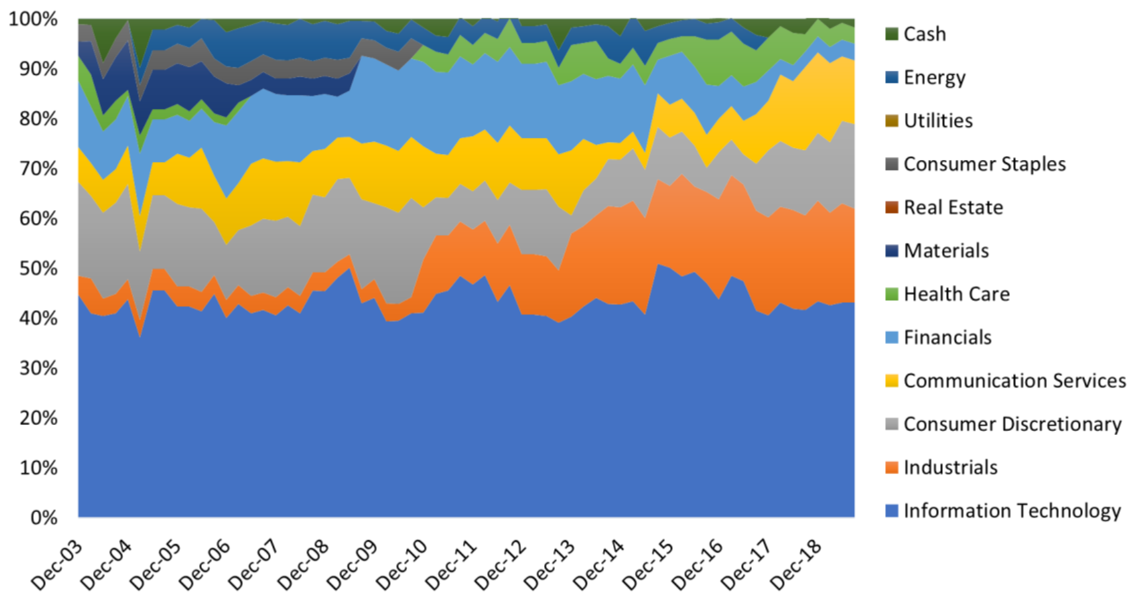

Figure 8: Portfolio sector breakdown. Guinness Atkinson Asset Management, Bloomberg. Data as of September 30, 2019

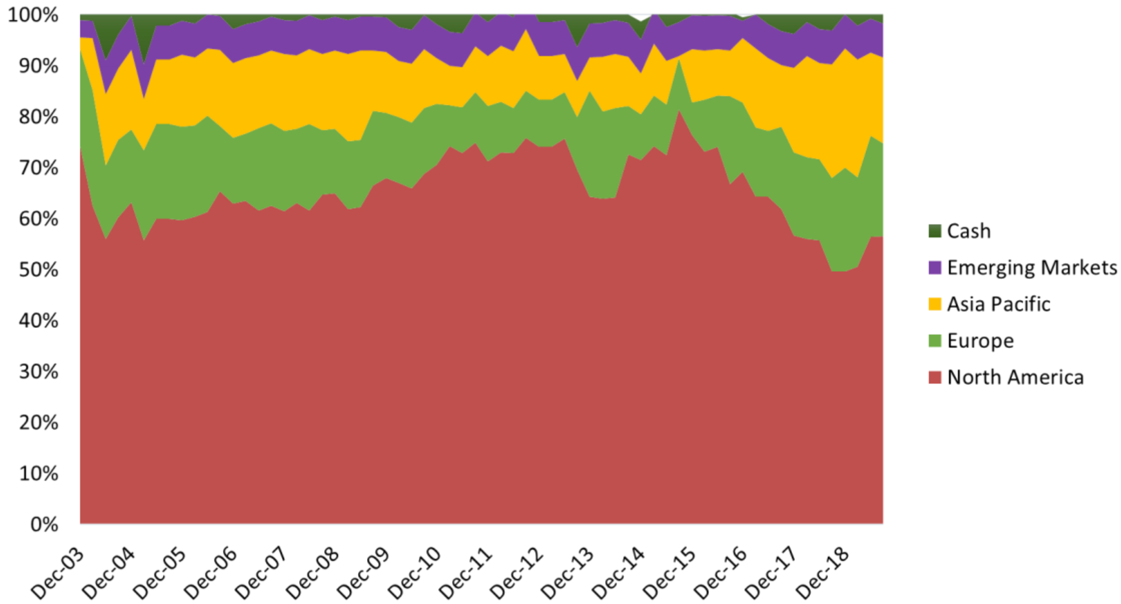

Figure 9: Portfolio geographic breakdown. Guinness Atkinson Asset Management, Bloomberg. Data as of September 30, 2019

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	5%	9%
Quality	CFROI (median 2019)	16%	8%
	Return-on-Equity	16%	12%
	Weighted average net debt / equity	2%	80%
Growth (& valuation)	Trailing 3-year sales growth (annualized)	15%	9%
	Estimated earnings growth (2020 vs 2019)	11%	9%
	Free Cash Flow (FCF) yield	5%	5%
	PE (2020e)	18.0	15.3
Conviction	Number of stocks	30	1190
	Active share	98%	-

Figure 10: Portfolio metrics versus index. Guinness Atkinson Asset Management, Credit Suisse HOLT, Bloomberg. Data as of September 30, 2019

The fund now trades at a 18% premium to the broad market on a PE ratio basis (fund 18.0x 2020 expected earnings vs MSCI World Index 15.3x), but remains in-line on a FCF yield basis. This whilst forecasting greater earnings growth from companies of a higher quality (ROE 16% vs 12%) and exposed to innovative themes driving long-term demand growth.

We thank you for your continued support.

Portfolio Managers

Matthew Page, CFA

Dr Ian Mortimer, CFA

Summary performance

For the month of September, the Guinness Atkinson Global Innovators Fund provided a total return of 2.8% (USD) against the MSCI World Index net return of 2.1% (USD). Hence the fund outperformed the benchmark by 0.7% (USD).

as of 09/30/19	YTD	1 YR	3 YR	5 YR	10 YR
Global Innovators, Investor Class[1]	23.42%	2.77%	12.23%	8.63%	12.88%
Global Innovators, Institutional Class[2]	23.64%	3.03%	12.51%	8.83%	12.99%
MSCI World Index NR	17.61%	1.83%	10.21%	7.18%	9.01%

All returns after 1 year annualized.

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, https://www.gafunds.com/our-funds/global-innovators-fund/#fund_performance or call (800) 915-6566.

[1] Investor class (IWIRX) Inception 12.15.1998 Expense ratio* 1.25% (net); 1.30% (gross)
30-Day SEC Yield as of 9/30/2019: 0.31% (subsidized) 0.15%(unsubsidized)

[2] Institutional class (GINNX) Inception 12.31.2015 Expense ratio* 1.00% (net); 1.13% (gross)
30-Day SEC Yield as of 9/30/2019: 0.58% (subsidized) 0.35% (unsubsidized)

[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 reimburse 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 0.99% for the Institutional class and 1.24% for the Investor class 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 waiver. The expense limitation agreement may be terminated by the Board of the Fund at any time without penalty upon 60 days' notice.

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's focus on the technology, internet and communications sectors are extremely competitive and subject to rapid rates of change.

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 9/30/19:

1. FANUC Corp	3.61%
2. Danaher Corp	3.57%
3. Samsung Electronics Co Ltd	3.50%
4. NIKE Inc	3.50%
5. Schneider Electric SE	3.45%
6. Siemens AG	3.44%
7. Infineon Technologies AG	3.43%
8. Eaton Corp PLC	3.41%
9. KLA-Tencor Corp	3.41%
10. Lam Research Corp	3.39%

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

This information is authorized for use when preceded or accompanied by a prospectus for the Guinness Atkinson Funds.

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

A basis point (bp) is equal to 0.01% or 1/100 of a percentage point.

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

Capital Expenditure (CAPEX) is an amount spent to acquire or upgrade productive assets (such as buildings, machinery and equipment, vehicles) in order to increase the capacity or efficiency of a company for more than one accounting period.

A cash flow return on investment (CFROI) is a valuation metric that acts as a proxy for a company's economic return.

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.

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

Price-Earnings (P/E) ratio is a valuation ratio of a company's current share price compared to its per-share earnings. Forward earnings differ from trailing earnings, which is the figure quoted more often, as they are a projection and not a fact.

ROE (return on equity) is a measure of a corporation's profitability that reveals how much profit a company generates with the money shareholders have invested and is calculated as Net Income/Shareholder's Equity.

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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