Guinness Atkinson
Dividend Builder Fund
Managers Update – December 2019

GUINNESS ATKINSON FUNDS

November in Review

The topic of the year continues to dominate headlines as we enter the final month of the decade. November – like many previous months – was heavily influenced by the US-Chinese trade tensions, and so far, President Tump has levied tariffs on $360 billion of Chinese goods. While that is more than half of China's total exports to the US, it is only about 2.5% of China's GDP and a small fraction of total world trade. So how do tariffs on this tiny slice of global output have such a seismic effect? The answer in one word: uncertainty.

The uncertainty shock dwarfs the direct impact of tariffs, and proverbially makes the "tweet mightier than the tariff":

Source: Bloomberg Economics, National Institute Global Econometric Model. As of August 31st 2019

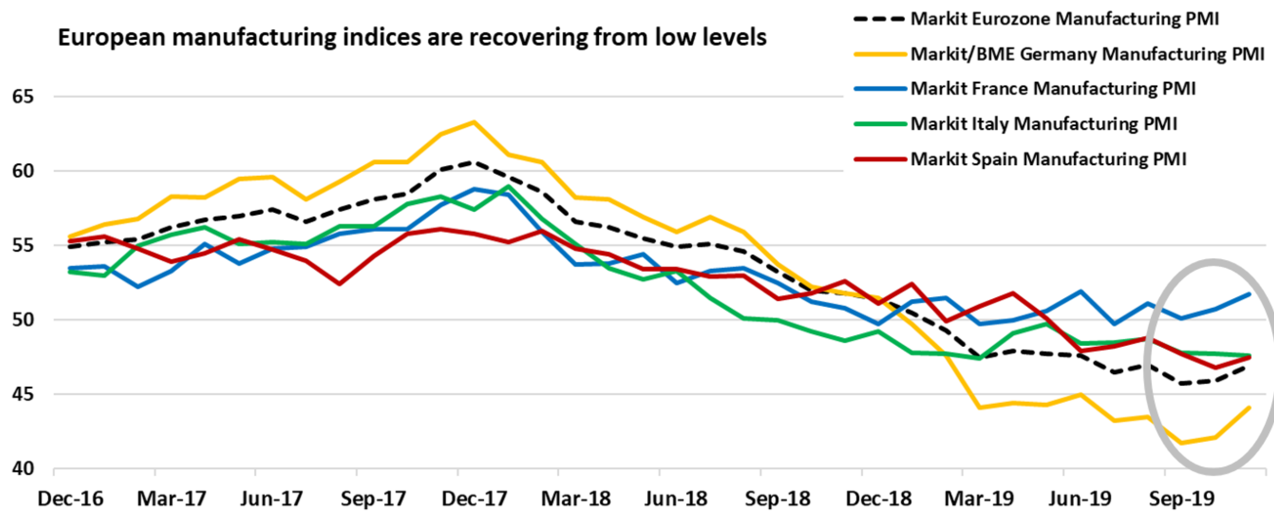
The scenario analysis above includes levies set to go into effect on December 15th 2019, and assumes Chinese retaliation of 10% tariffs on all imports from the US not covered by existing levies.
Based on this, by 2021:

- Tariffs lower global GDP by 0.3%
- Combined with contagion and the impact of uncertainty, global GDP would be 0.9% lower, compared to a no-trade-war scenario.

It is not the tariffs that that do the most damage, but the suggestion that the rules under which the global trading system have operated for decades may be meaningless.

Although President Trump likes to say that China is paying for the trade war, the biggest economic losers so far have been countries such as Germany and Japan that are highly integrated in global supply chains and dependent on global trade. Industrial production in both nations was lower in the third quarter of 2019 than a year earlier. Germany narrowly avoided recession in the third quarter and for 2020, it is expected to achieve GDP growth of only 0.4% – less than half the forecast for the Eurozone as a whole (1%).

Nonetheless, last month saw some encouraging news from the Eurozone, as the latest Markit purchasing manager indices (PMI) showed a pattern of recovery, albeit from a low base. The Fund is currently overweight in Europe and this bodes well especially for the more cyclical holdings.



Source: Markit, Bloomberg. As of November 30th 2019

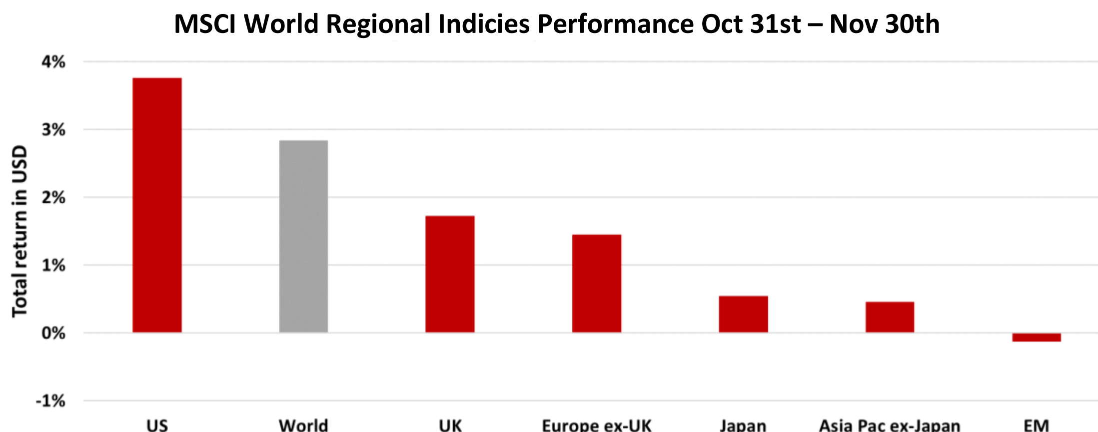
Across the Atlantic, thanks to the US consumer, the American economy remains in good health, but the manufacturing sector looks increasingly as though it is in recession. The latest estimate of third-quarter US GDP rose from an initial 1.9% to 2.1%, meaning there was an increase compared to the 2.0% annualized growth seen in quarter two. However, the manufacturing purchasing manager's index (PMI) is now at 48.1 and has been below 50 for four months in a row.

There have been two other global manufacturing slowdowns since the global financial crisis: the first in 2012, during the Eurozone crisis, and the second in 2015, amid rising concerns about emerging-market economies. So far, the current US manufacturing downturn is comparable to the one at the end of 2015, which also lasted four months and bottomed at a PMI of 48. That one ended with huge Chinese stimulus and we saw a recovery without a recession.

What is different now, however, is that the manufacturing slowdown in the US is worse than in China. For most of the last decade, the US manufacturing PMI has been higher; it has now dropped 2 points below the Chinese equivalent. Early last year, prior to the introduction of the first tariffs, the US was briefly 10 points ahead. Based on these numbers, the trade war has in fact had a large negative impact for the US manufacturers it was supposedly meant to help:

Source: ISM, China Federation of Logistics and Purchasing. As of November 30th 2019

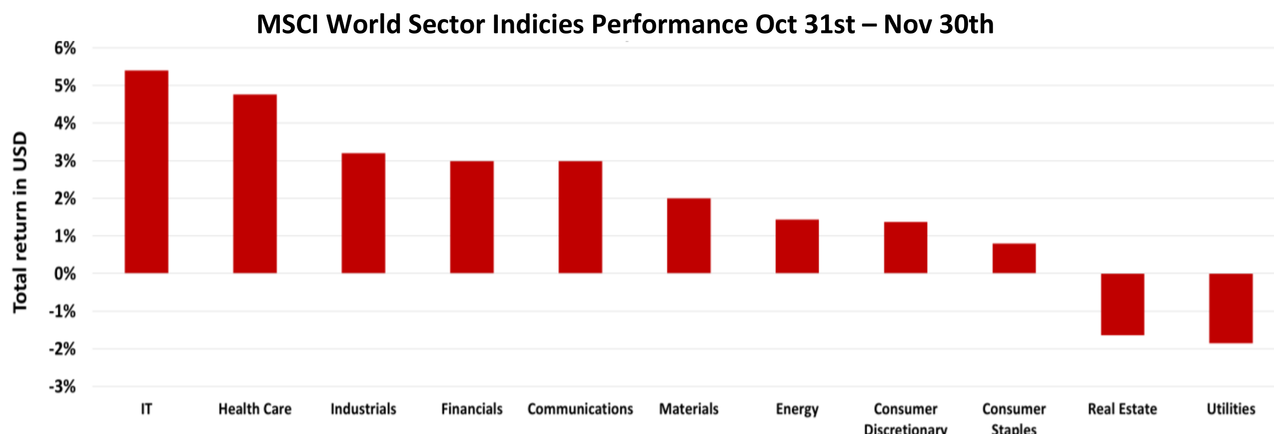
In the Fund, we are currently underweight the US and overweight China (compared to the MSCI World). This was a drag on performance in November since the US was the best performing region, whereas Asia and EM were the worst:



Source: Bloomberg, as of November 30th 2019

US equity markets were buoyed by a robust earnings season; around 80% of companies beat earnings estimates for the quarter, which is higher than the historical average. Protests in Hong Kong and the US' decision to sign the "Hong Kong Human Rights and Democracy Act" contributed to weaker performance in Asia and EM. The act, signed by President Trump, requires the US secretary of state to decide every year whether the "one country, two systems" formula that guarantees Hong Kong's independent legal system and civil liberties is intact. If determined it is not, the US could revoke special economic and commercial privileges that it extends to Hong Kong.

Additionally, further US tariffs on Chinese goods (delayed from September) are currently scheduled to increase on 15th December, unless a deal is reached or the deadline is pushed back.



Source: Bloomberg, as of November 30th 2019

In terms of sectors, Healthcare and IT were the best performers as investors were given reasons for optimism.

IT has benefited every time investors have sought growth stocks, and Healthcare benefited from strong corporate earnings releases. Revenues for the Healthcare sector grew 15% year-on-year, the best of the 11 S&P 500 sectors. Profits rose 9% and the sector produced among the biggest upside surprises on both the top and bottom lines. Healthcare companies are relatively insulated from the US-China trade conflicts and the sector has broadly benefited from increased spending related to demographic trends.

Utilities and Real Estate were the worst performing sectors and no exposure within these benefited the Fund. These sectors are amongst the most defensive and yield-sensitive, and have suffered as central banks have maintained low interest rates and investors favor growth. Consumer Staples also underperformed, a sector in which the Fund is overweight. Good stock selection offset some of the negative allocation effect, with our tobacco holdings faring best in the month.

British American Tobacco (+13.2% in USD) was the top performer in November. The company announced that it expects full-year 2019 revenue growth to hit the high end of its 3-5% guidance range and operating profit growth at the top of its 5-7% range. The world's 2nd largest tobacco manufacturer claimed that growth in cigarette sales is offsetting the slowdown in the US vaping market – a concern that has been worrying investors for the past 2 years. Further, the tobacco industry benefited from US regulators shelving plans to lower the amount of nicotine in cigarettes. This is a boost for British American Tobacco (BAT) – which has the largest market share in the US after its 2017 acquisition of Reynolds American – and it also opens the door that regulators may have some leniency in banning flavored vaping products.

Recently federal regulators responded to an outbreak of lung illnesses caused by vaping that led to thousands being injured and dozens of people dying. The Juul vaping device was singled out most often by those who had fallen ill, and this has proved detrimental to the sales growth for the relatively new competitor. However, for BAT, this has created an opportunity. BAT recently submitted to the FDA its pre-

market tobacco application (PMTA) for its Vuse e-cig. Only Philip Morris has a submitted and approved PMTA, for its IQOS device, and other makers may not be able to afford or handle the complexity of the process. If BAT can make it through the regulatory labyrinth, it may be one of only a select few allowed on the market. Currently Vuse is the third largest e-cig with around a 10% share, down sharply from the 17% share it held two years ago when it was the second biggest.

From a fundamental perspective, the company has a stellar cashflow return on investment profile, achieving above 20% for the past 20 years. Revenues and gross margin have been growing for the past 4 years and the trailing 12-month dividend yield currently stands at 6.8%. On a 1-year forward price-to-earnings basis, the company trades at an attractive valuation; at 9.3 times, this is 2-standard-deviations below its 10-year history, and nearly half the market multiple. We note that the market is worried about the long-term structural issues affecting the companies in the tobacco industry, however we believe that this has led to over-discounted valuations making them compelling holdings in the Fund.

Cisco (-4.6% in USD) was the worst performer in the month. The world-leading IT infrastructure equipment vendor has been making a transition to a balanced revenue mix of hardware and software, with a goal of deriving 50% of sales from software by 2020. Its move to software is best measured by its recurring revenue, which now accounts for around 33% of sales. Further, Cisco's new product sales have been strong – in particular its new line of programable switches, the Catalyst 9000 series, have been selling well, leading to claims by CEO Chuck Robbins that the 9000 series is the fastest-growing new product in Cisco's history.

Cisco designs and sells networking hardware – such as routers and switches that facilitate the connection to the internet – as well as the software which optimizes the data flow. Cisco commands a market leading position in almost all end-markets versus peers such as Arista, F5 Networks and Juniper.

The recent weak performance comes as a result of lower enterprise spending due to weakening global economies. Cisco may be more sensitive to macroeconomic dynamics relative to some of its networking peers due to its large exposure to small and midsize enterprise IT spending. Enterprise accounts for about two-thirds of Cisco's sales, with the remainder from telecom service providers and cloud data-center customers. Cisco's recent fiscal results showed signs of a potential slowdown, as enterprise orders fell by 5%. China softness and Brexit-related uncertainty were cited as reasons for order declines and the company therefore guided revenues lower for 2020. We view Cisco's 14x price-to-earnings valuation as modest given the good end-market growth potential and on-going shift to software offerings. The company also boasts a 3.1% trailing 12-month dividend yield with a 5-year annualized dividend growth rate of 13%.

We made no changes to the portfolio during the month

We thank you for your continued support and wish you a wonderful holiday season.

Performance

In November, the Guinness Atkinson Dividend Builder Fund produced a total return of 2.36% (TR in USD) versus the MSCI World Index return of 2.79%. The Fund therefore underperformed by 0.43%

The slight underperformance in November can be attributed to stronger markets led by growthier stocks; there was a renewal of confidence in risk assets as investors took heart from slightly better news on manufacturing, trade wars and earnings. Central banks globally have created looser financial conditions, the US and China are seemingly working on a "Phase 1" trade agreement, and economic conditions are not as bad as initially feared. Although investors still face a multitude of geopolitical risks, equity markets in November – and in 2019 generally – have continued to "climb a wall of worry".

The Fund across the year has kept pace with rising markets and has tended to outperform in times of market distress.

Standardized Performance

as of 11/30/19	YTD	1 YR	3 YR Annualized	5 YR Annualized	Since inception Annualized (3/30/12)
Dividend Builder Fund	23.00%	17.28%	13.08%	7.47%	10.20%
MSCI World NR Index	23.96%	14.53%	12.36%	7.74%	9.72%

as of 09/30/19	YTD	1 YR	3 YR Annualized	5 YR Annualized	Since inception Annualized (3/30/12)
Dividend Builder Fund	16.79%	6.64%	9.88%	7.02%	9.68%
MSCI World NR Index	17.61%	1.83%	10.21%	7.18%	9.17%

All returns over 1 year annualized. Source: Bloomberg, Guinness Atkinson Asset Management
Expense Ratio: 0.68% (net); 2.00% (gross)

30-Day SEC Yield as of 11/30/19: 2.12% (subsidized), 0.96 % (unsubsidized)

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.

The Fund's investment objectives, risks, charges and expenses must be considered carefully before investing. The statutory and summary prospectuses contain this and other important information and can be obtained by calling 800- 915-6565 or visiting www.gafunds.com. Read and consider it carefully before investing

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 11/30/2019:

1.	Broadcom Inc	3.10%
2.	United Technologies	3.06%
3.	Illinois Tool Works Inc	3.06%
4.	British American Tobacco PLC	3.05%
5.	ANTA Sports Products Ltd	3.02%
6.	Eaton Corp PLC	2.99%
7.	WPP PLC	2.98%
8.	AbbVie Inc	2.98%
9.	BlackRock Inc	2.97%
10.	Novo Nordisk A/S	2.97%

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.

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.

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.

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