Guinness Atkinson
Dividend Builder Fund
Managers Update – January 2020

Review of 2019

January 2010. Barack Obama was one year into his US presidency, Instagram had not been invented, the word Brexit had never been uttered, and the Guinness Atkinson Dividend Builder Fund was 2 years from being launched (on March 30th 2012).

When the US narrowly averted an economic meltdown at the end of the last decade, few anticipated that the following one would feature a historic rally for global equities, and in particular US stocks. The S&P 500 Index has returned 13.5% (CAGR in USD) per year from 2010 to 2019, easily outpacing the other regions, and also its own long-term annual return of roughly 9% (calculated since 1880, source: Robert Shiller).

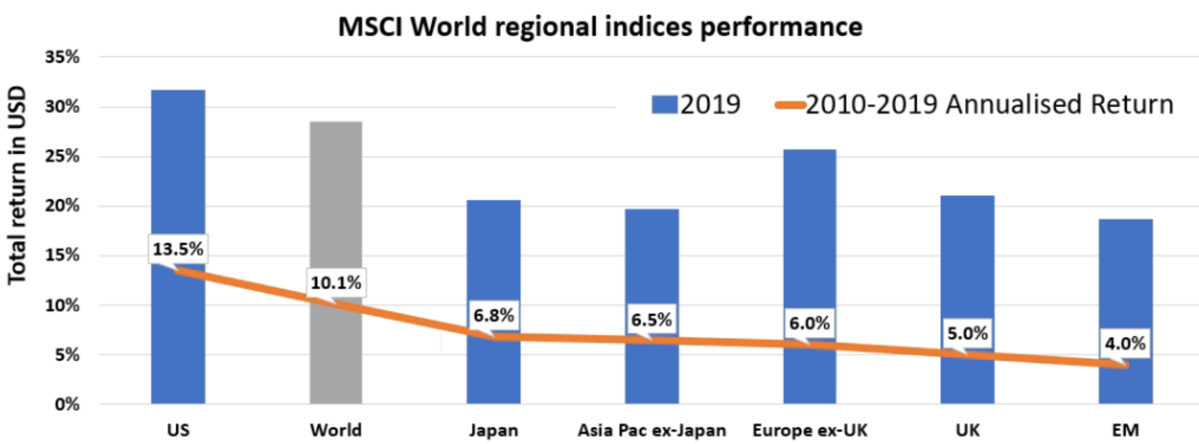


Figure 1 – Regional Performance (TR in USD). As of December 31st 2019. Source: Bloomberg

The US "bull market" is now the longest ever (130 months), and the last decade produced the fifth highest returns since 1880. Only the 1920s, 1950s, 1980s and 1990s produced higher returns. Figure 1 also indicates that regional performance in 2019 broadly followed the decade's trend. The only exception perhaps being Europe, where 2019 fared better than previous years (due to central bank support and a lessening of populist rhetoric. The annualized return over 10 years is also dragged lower by the 2011 European Sovereign Crisis).

Interestingly, of the S&P 500's 13.5% annual return since 2010, 2.2% came from dividends, 8.8% from earnings growth and 2.5% from the change in the market's valuation, as measured by the 12-month trailing price-to-earnings ratio. In other words, the vast majority of the gains can be attributed to strong earnings growth:

US Stock Market – Breakdown of the Decades

	Dividend Return (%)	Earnings Growth (%)	Change in P/E (%)	Annualized Return (%)
1880s	5.1	-2.3	3.2	6.0
1890s	4.3	4.8	-3.4	5.7
1900s	4.8	4.7	0.8	10.3
1910s	5.9	2.0	-3.4	4.5
1920s	6.3	5.6	3.3	15.2
1930s	5.3	-5.7	0.3	0.0
1940s	5.3	9.9	-6.4	8.9
1950s	6.0	3.9	9.3	19.3
1960s	3.3	5.5	-1.0	7.8
1970s	3.4	9.9	-7.5	5.8
1980s	5.2	4.4	7.7	17.3
1990s	3.4	7.7	6.9	18.0
2000s	1.7	0.6	-3.0	-0.7
2010s	2.2	8.8	2.5	13.5

Figure 2 – Source: Robert Shiller. Bloomberg. As of December 31st 2019

The dramatic global rally from the rubble of the 2008 financial crisis has raised fierce debate about what fuelled the resurgence and, perhaps more importantly, whether it can continue. One popular theory is that the Federal Reserve (FED) has boosted the market by unleashing a mountain of cheap money through low interest rates and quantitative easing. Another theory is that corporate earnings were boosted by a handful of fast-growing companies, such as the FAANGs (Facebook, Apple, Amazon, Netflix, Google), and by a wave of share buybacks, all of which lifted the market. The implication is that as long as the FED keeps supporting the economy with loose monetary policy, the party can continue. This was the overarching consensus amongst commentators for 2019 too, though contrary to much of the decade, the slowing earnings growth in the US particularly highlighted that most of the contribution to the S&P 500's stellar 2019 return came from a higher valuation. Stocks had de-rated sharply coming into the year as the tech sell-off drove markets significantly lower in Q4 2018, but the previous high was recaptured by mid-year with further acceleration into the year end.

US Stock Market – 2019 Breakdown

	Dividend Return (%)	Earnings Growth (%)	Change in P/E (%)	Annualized Return (%)
2019	2.1	1.9	27.5	31.5

Figure 3 – Source: Bloomberg. As of December 31st 2019

The US market led the other regions in 2019 (figure 1) and was carried by three FED rate cuts in the year. Though all regions closed the year with a stellar return, Asia and EM were relatively the worst performing regions – weighed down by trade tensions between the US and China – and the UK market also underperformed due to persistent Brexit uncertainty throughout the year.

Nonetheless, come December, there was some reprieve and clarity for investors heading into the new year:

- Boris Johnson won a decisive victory over Jeremy Corbyn's Labour Party in the general election on December 12th, clearing the way for the Tory leader to take Britain out of the EU at the end of January 2020. What shape, exactly, Brexit will take is still to be defined, with December 2020 set as a preliminary deadline for negotiations. At this point, it looks possible that the UK may exit the EU's single market (which allows for the free movement of goods and services among the different countries in the EU), but remain in or align with the customs union (which establishes a common system of tariffs and import quotas for trading with non-members).

  For now, currency traders are cheering the end to the Brexit deadlock. The Pound jumped by the most against the Dollar since 2017, as speculators bet that Johnson's parliamentary majority would bring an end to the gridlock that held back investment and contributed to an economic slowdown. If the Pound continues to strengthen then it could weigh on shares of the large, dollar-earning multinational companies that dominate the FTSE 100 Index.

- The day after the UK election, it was announced that the US and China had agreed on "Phase 1" of a trade deal

  - China has promised to ease pressure on US companies in terms of technology transfer, which should be positive for the US technology sector, if it comes to fruition.
  - The withdrawal of tariffs that were threatened to be imposed on December 15th 2019 also benefit US tech companies (laptops and cell phones would have been subject to those tariffs) as well as some US retailers (who would have had price increases on imported goods from China that they sell, from personal care products to clothing to household goods).
  - The agriculture and manufacturing industries should also benefit if China does in fact purchase additional goods, as is currently part of the Phase 1 deal.
  - The partial rollback of the September tariffs (from 15% to 7.5%) are also part of the current deal. That should benefit US retailers, given those tariffs were focused on consumer goods.

Though both developments could well be derailed, the somewhat increased certainty is a positive for business investment going into 2020. Saying that, every year brings with it many unknown-unknowns and thus we aim to position the Guinness Atkinson Dividend Builder Fund so that it is better able to weather whichever direction the market takes.

The Fund's focus on quality companies at attractive valuations has resulted in the Fund tending to outperform in falling markets. Over the course of the year, expectedly, this is generally the outcome we saw:

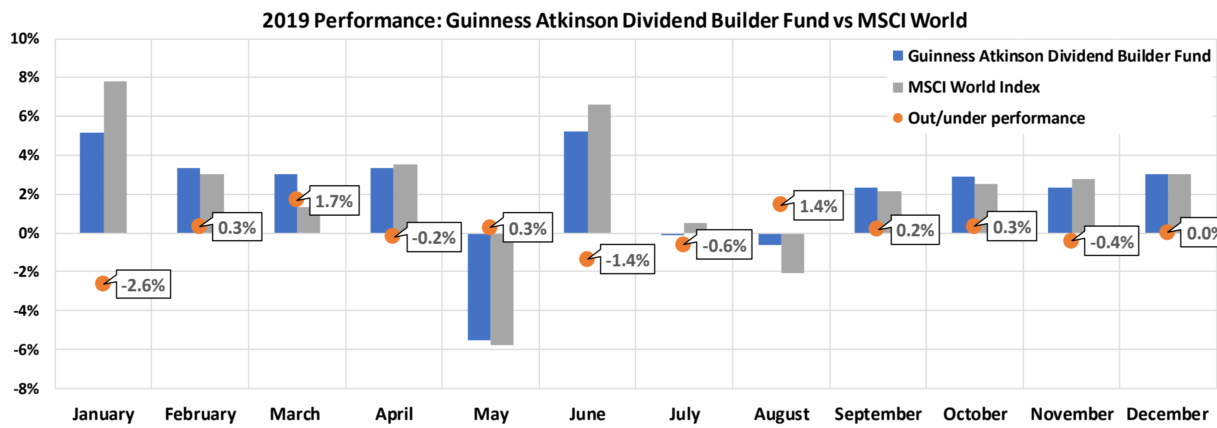


Figure 4 – Monthly total return of fund vs benchmark in 2019, in USD. Source: Bloomberg

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.

Looking at the above performance chart (figure 4), there were only two months with negative returns (in USD) for the MSCI World Index: May and August. The Fund outperformed in both months, and broadly stayed in line with the rising markets in other months.

Markets fell in May after an eventful month included a breakdown of US-China trade talks, the UK Prime Minister Teresa May resigned, North Korea fired missiles, and the US expanded the tariff war to Mexico. In August, market pessimism came via a surprising tweet by President Trump which announced that a new set of tariffs would be imposed on Chinese imports in September. That was swiftly followed by China allowing its currency to depreciate below 7 Renminbi-to-the-Dollar – a key historical threshold – and the US declaring that China was a currency manipulator. The tit-for-tat continued and led to a flight for safety, which subsequently favoured defensive stocks and bonds. The rally in bond prices and depressed bond yields led to the first yield curve inversion – between the two-year and 10-year US Treasury bonds – since 2006. The move was significant because such inversions of the yield curve – in which short-maturity yields exceed those for longer-maturity bonds – have preceded nearly all recessions dating back to the 1950s; the occurrence spooked markets and exacerbated the equity sell off.

At the start of 2019, global equity markets surged higher and this period led to the Fund's largest underperformance in the year. Markets kicked off the year surprisingly strongly and favoured the Information Technology stocks that had sold-off heavily in Q4 2018. The bounce back came after the FED pivoted at the start of the year, reversing course on interest rate rises. This set the tone for Growth stocks to continue their assent and the trend persisted for most of the year:

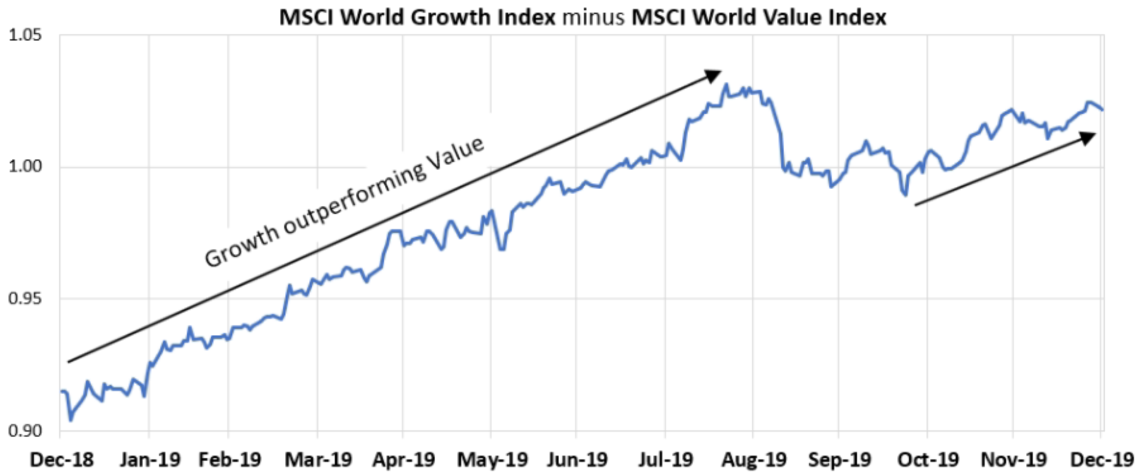


Figure 5: MSCI World style performance in 2019 (TR in USD). As of December 31st 2019. Source: Bloomberg

By some margin, IT was the best performing sector of the year, up 47.6% in USD. Energy was the worst performer, up 11.0% in USD, while all the other sectors closed the year within a narrow range (23-28%).

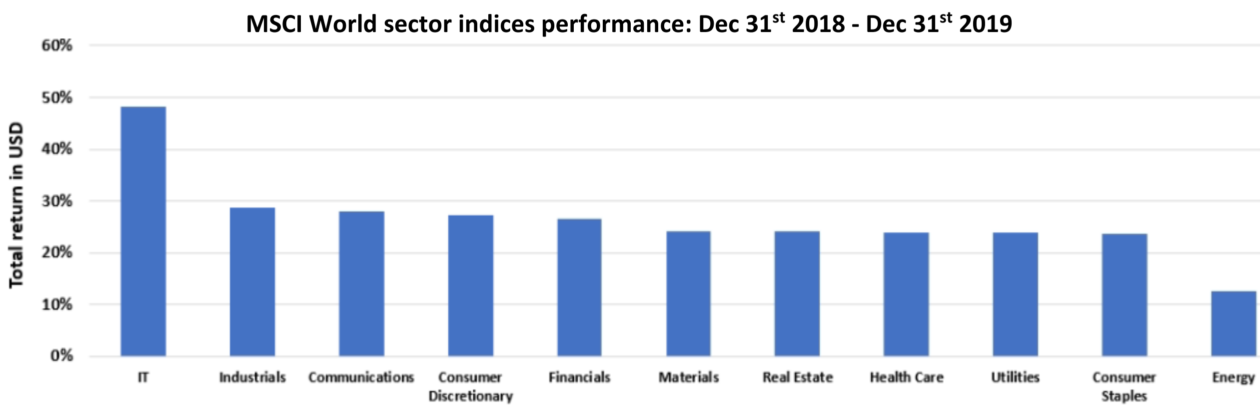


Figure 6: MSCI World sector performance in 2019 (TR in USD). As of December 31st 2019. Source: Bloomberg

Being underweight IT was a drag on Fund performance in the year, however looking more intricately:

- Semiconductors led within the sector with a 55% return (in USD) over the year. The Fund is about 3% overweight Semiconductors vs the MSCI World Index, and participated in the rally via positions in TSMC (+57%) and Broadcom (+27%).
- Software & Services rose 42% in the year, and though we are or 3% underweight, we benefited from good stock selection in the industry, via our holding of Microsoft (+58%) and Paychex (+35%).
- Technology Hardware rose 56% in the year and the Fund is or 3% underweight. This proved to be a drag on active performance since our only holding in the space, Cisco (+14%), struggled to keep up with the industry lifted higher by a surging Apple (+89%).

> Apple was the largest contributor to the MSCI World Index return in the year. Its low dividend yield screens it out of our Fund selection.

Energy was the worst performer of the year, and the Fund was somewhat immune given it only holds one position in the sector. The price of oil has stayed low due to oversupply and low demand conditions. Furthermore, investors fretted over increases in supply as shale oil production in the US continued to grow, and OPEC seemed unwilling to cut production, all of which had a negative impact on the sector's performance. The drone attack on oil processing systems in Saudi Arabia, in September, wiped out 5% of global supply, though market reaction was fairly muted, and supply was reinstated.

The Fund's largest overweight positions are in Consumer Staples (about 18% vs the MSCI World Index) and Industrials (about 9%). Overall, the allocation effect from both sectors did not meaningfully add or subtract from Fund performance relative to the benchmark over the year, though stock selection within each sector contributed significantly. Good stock selection within the Capital Goods industry (Industrials sector) benefited the Fund's active performance, whereas poor performance in the Tobacco industry (Consumer Staples) dragged on performance. Overall, investors favored growthier and more cyclical stocks, aiding Industrials and IT, and thwarting Consumer Staples and Healthcare stocks.

The big question going into 2020 is whether the bull run may continue and what exactly may lead to its downfall. As ever, rather than trying to pick which way the macro or political winds will blow in the near term, we maintain our focus on companies that appear likely to deliver a sustainable, rising income stream alongside capital growth over the long term. Holding good quality companies, that have persistently generated high levels of return on capital gives us confidence that the fund is well placed to weather the majority of market conditions.

Individual Stock Performance

When we look at how individual companies within the portfolio performed in 2019 we see that out of the top five, we have two IT, two Consumer Discretionary, and one Industrial stock (figure 7). This highlights the benefit of our moderate dividend yield and sector-agnostic approach, which can identify opportunities outside of the traditional high-yield or 'defensive' areas typically associated with income funds.

Individual Stock performance over year (total return USD)

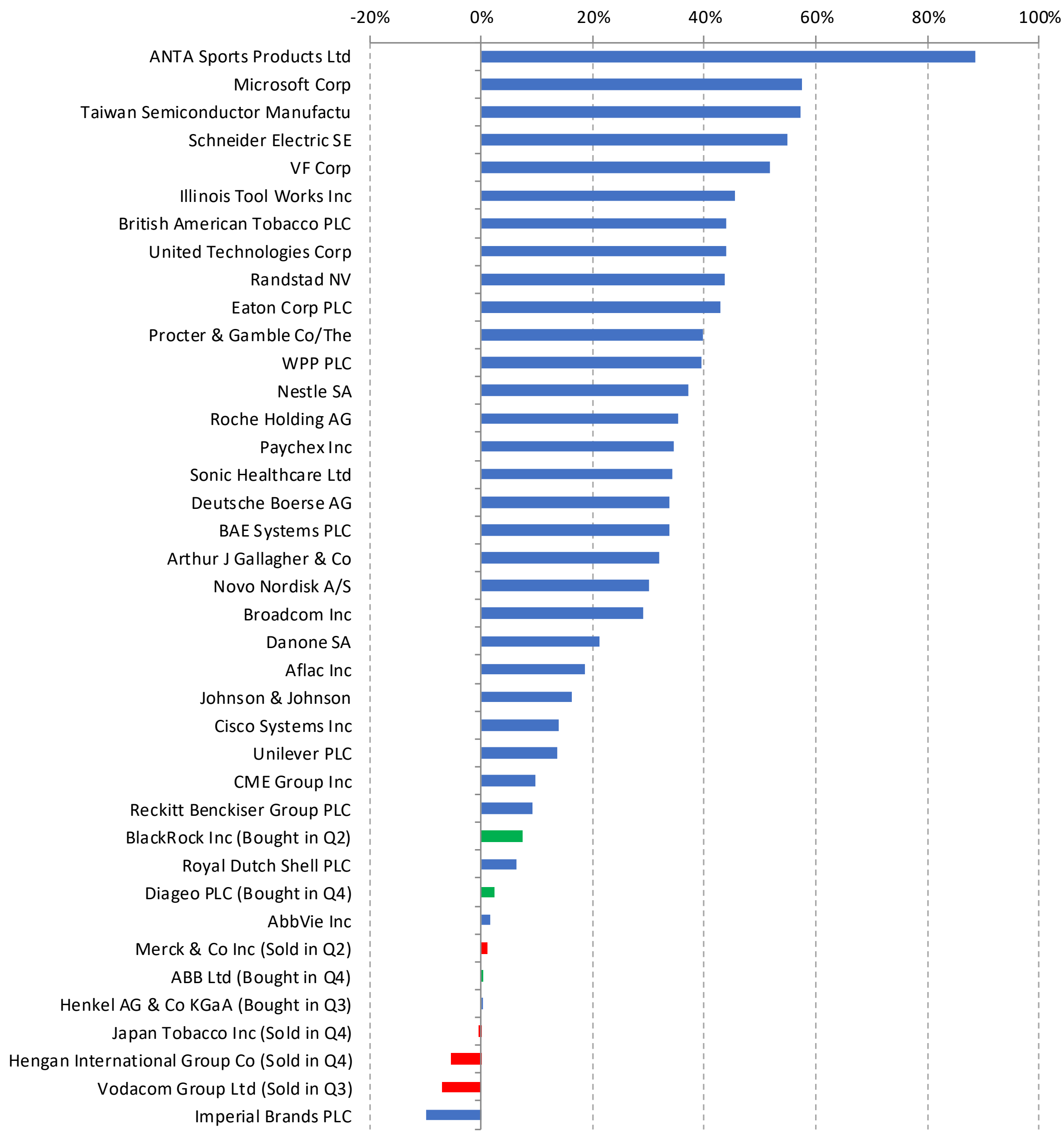


Figure 7: Individual stock performance over holding period during 2019 (TR in USD). As of December 31st 2019. Source: Bloomberg

The best performer over the year was **Anta Sports** (+88% in USD). The company generates revenue through the manufacture and trading of sporting goods, including footwear, apparel and accessories. ANTA is poised for greater market share in China as it seeks to woo affluent shoppers with pricier athletic gear. This includes their namesake products under the ANTA brand and other popular brands such as Fila and Descente, as well as Salomon and Arc'teryx – both owned by Amer Sports, who ANTA acquired. ANTA's sales growth is likely to accelerate due to the Amer acquisition; the move to acquire a European company gives ANTA Sports scale to expand geographically, as well as launch new products in China. The company's growing product offering could well fuel earnings and revenue growth and the shrewd move into winter sport clothing and equipment comes well-timed ahead of the next Winter Olympics in 2022 in Beijing.

Microsoft also performed very well in the year (+58% in USD); it was the software maker's cloud transformation that has seen buoyant demand. 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. We have held Microsoft in the Fund since launch in 2012.

Azure is the company's main revenue growth driver:

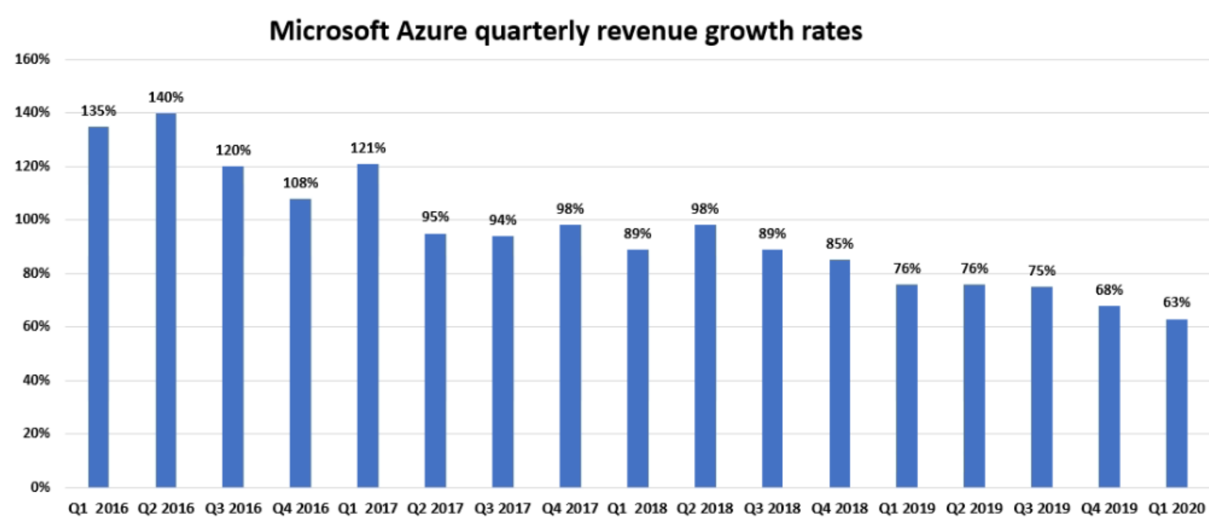


Figure 8: Quarters follow Company's Fiscal Year. Data as of December 31st 2019.
Source: Bloomberg Intelligence

TSMC was another top performer (+58% in USD). TSMC is a pure-play foundry business and manufactures integrated circuits which are used in computers, communication equipment, consumer electronics, automotive and industrial equipment. At the time of purchase (June 2018) we were fond of the company's very low debt to equity ratio of 12%, its attractive dividend yield of 3% and double digit earnings and profit growth estimates. Bought with a 2-year forward P/E Ratio of 14.5, we saw the company as attractively valued given its above-market-average growth forecasts. Revenues and gross margins have increased every year for the last eight and returns on capital have been consistently high for the last 10 years. The company's recent rally points to optimism regarding future sales and profit growth which are expected to rise as the use of artificial intelligence applications and the emerging adoption of 5G communication standards boost demand for high-end semiconductors. The company's leadership in manufacturing technology, along with Globalfoundries' decision to suspend its 7-nanometer product development, will allow TSMC to solidify its market share in high-performance computing chips and to maintain its industry-leading profit margin.

The worst performing stock over the year was **Imperial Brands** (-15% in USD). The traditional tobacco company which has been developing its alternative e-cigarette business, reported results during the year that missed revenue and earnings expectations due to 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 intends to raise £2 billion from asset sales, which would sensibly help reduce debt and raise R&D. The stock continues to trade at a significant discount to its peers, while offering one of the largest dividends among UK companies (11% dividend yield), which has been growing at an average of 10% per year for the last 5 years. The company has recently also changed to a progressive dividend policy – rather than a pay-out ratio policy – in order to allow it greater flexibility to make investments into new next-generation products.

Though investors' confidence in the tobacco industry has been dented by proposals of regulation and by declining smoking trends, we believe the market has been overly pessimistic given the fundamentals that Imperial Brands possesses. Enviable cash generation, high barriers to entry, a committed approach to returning income to shareholders, and over-discounted valuations have convinced us to continue holding Imperial Brands in the portfolio.

Amongst the weaker contributors to the Fund in 2019 are the four companies that we sold in the year. We detail our thoughts on these below when referring to the changes made to the portfolio.

Changes to the Portfolio

In 2019 we sold four positions and bought four new positions, leaving the portfolio with 35 positions at the end of the year.

	2012	2013	2014	2015	2016	2017	2018	2019
Buys	4	7	2	7	4	5	4	4
Sales	3	8	3	6	4	5	4	4
Total holdings	36	35	34	35	35	35	35	35

Figure 9: Number of changes to the portfolio

In the first quarter, we made no changes to the portfolio.

In the second quarter, we made one change, whereby we replaced Merck with BlackRock.

Merck, the global healthcare company saw poor performance starting 2019, and this came 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.

Our decision to take profits and sell our holding came 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 had 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, 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 totalling nearly $1T in AUM. Vanguard is second with $610bn and it falls to $470bn 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 its focus 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; at time of purchase, we believed this meant BlackRock became cheaper than its true valuation and so provided us an attractive entry point into a stock with a solid stream of dividends and good potential for growth. The company had also boosted its dividend, with year-on-year growth (2019 vs 2018) greater than 20%.

In the <u>third quarter</u>, we also made one change to the portfolio. We replaced our position in Vodacom with a position in Henkel.

Vodacom, by the third quarter, had a poor year in terms of share price performance and was one of the worst performers in the Fund. Sub-Saharan Africa's largest telecom carrier had been battling headwinds facing the entire industry, specifically in the form of price reductions driven by competition and regulation. With around 60% market share in South Africa, the company is highly exposed to any regulatory changes; revenues started to suffer from government initiatives to make mobile data more accessible via lower and more transparent pricing. Our decision to sell also coincided with the greater risks the company faces from confirmed plans to introduce a Wholesale Open Access Network (WOAN), which reduces Vodacom's access to spectrum and increase costs for the company. Spectrum refers to the radio frequencies available for wireless communication signals to travel over the air. The WOAN would reduce the spectrum available to the private sector and thus bid up prices at auction. Though gross margins have remarkably been increasing year on year for a decade, we saw the recent events as threats to the company's margins and believed we found an opportune time to sell our holding.

vodacom

Henkel manufactures chemical products, used in various industries: laundry and homecare (Persil, All, Pril); cosmetics and toiletries (Schwarzkopf, Dial, Syoss); adhesives (Loctite, Pritt, UniBond). Henkel's business is centred in Europe, with a growing presence in developing economies. The company has a diversified revenue stream with Adhesive Technologies accounting for around 45% of sales, Laundry and Homecare makes up around 35%, and Beauty Care accounts for about 20%. Dividends have grown at an annualized rate of 9% over the last 5 years; yield at purchase was 2.3% and the 1-year forward price-to-earnings sat below the 10-year average. At such a valuation we believe there is limited downside relative to upside potential from a multiple re-rating, increasing dividend and improved growth as restructuring plans come to fruition. Given that the company has low debt, persistently high cashflow returns on investment, and is seeking both organic and acquisitive growth, we believe Henkel to be an attractive addition to the portfolio.

In the fourth quarter, we made two changes, whereby we replaced Hengan International and Japan Tobacco, with Diageo and ABB.

Hengan International had a poor year in terms of share price performance and was one of the worst performers in the Fund. 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 sought growth from online exposure. Management has built up an e-commerce team to take advantage of the channel shift in China, whereby 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 were some of the reasons we found 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 Procter and Gamble and Kimberly Clark, as well as Japan's Unicharm and Kao. Competition has started to erode Hengan's previous dominant position and ultimately the recovery in growth we hoped for, from the sales transformation strategy, has not occurred. The fall in asset turnover suggests it is harder for the company to generate sales from its current asset base, and with debt-to-equity reaching 130% – and the cashflow return on investment falling below 10% – the stock has fallen out of our universe leading us to sell our full holding.

Japan Tobacco also did not fare well in the year, and has been a disappointing holding in the Fund. The global tobacco manufacturer owns brands such as Mevius, Winston, Camel and Seven Stars, and controls 60% of Japan's cigarette market – one of the largest in the world. Japan Tobacco's revenues and profits have been trending downwards over the last few years as cigarette smoking declines and regulation plays an ever-important role. Our optimism for upside also wanes with regards to the company's ability to compete in the alternative tobacco space. Japan Tobacco has two vape brands, Logic and Ploom TECH, and sales of these have suffered at the expense of competitors such as Phillip Morris' IQOS and Altria's JUUL. Recent international tobacco acquisitions have yet to boost organic growth and management are looking to invest 100 billion Yen over the next three years to boost innovation in "reduced-risk products". There is significant uncertainty as to whether geographic and product uncertainty can weather the challenges of regulation and global declines in cigarette revenues. With these risks in mind, we decided to lower our tobacco exposure in the Fund in favor of more compelling ideas:

Diageo, the alcoholic beverage manufacturer, provided us an attractive entry point after its price-to-earnings multiple de-rated by over 20%. The UK-based company is a global leader in spirits and liqueurs, boasting a portfolio of world-renowned brands such as Smirnoff vodka, Captain Morgan rum, Johnnie Walker whisky, Baileys Irish cream, and Tanqueray gin. It also makes beer, including Guinness, and wine. With more than 200 global, local, and luxury brands, it owns some two dozen of the world's top 100 premium spirits labels. Spirits comprise most of the company's revenue, generating some 70%. Beer accounts for about 15% of sales and ready-to-drink products (such as premixed gin and tonic) generate about 5%.

With sales in virtually every country in the world, and 150-plus production sites globally, Diageo is pursuing a policy of premiumization in its mature and emerging markets. As part of this, recent acquisitions have included Belsazar, a premium German aperitif, and Pierde Almas, an ultra-premium mezcal.

Diageo has grown revenues, margins and returns on capital for four consecutive years and the recent de-rating comes because the market expected a larger buyback amount than what management announced ($5.6bn until 2022). The buyback in 2019 was $3.6bn alone and reflected management's focus on balance-sheet efficiency and non-core asset disposals. Speculators believe management may be saving cash for acquisitions or being prudent in light of a higher share price, and thus may be keeping flexibility for a special dividend. The current 12-month forward dividend yield stands at 2.3%; dividend growth (CAGR) over the last five years stands at 6%, and the company has had consistent earnings growth for the last four years. These characteristics combined made Diageo a compelling buy for our Fund.

ABB is a leading European industrial electrical equipment company, making products used in electrical grids and transmission, industrial automation, and production line robotics. Its product lines are diverse and serve customers in a wide range of sectors, including automotive, buildings and infrastructure, data centers, and food and beverage. It is in the process of selling a majority stake in its Power Grids business, which makes transformers and long-distance power transmission systems, to Hitachi. This is set to complete in H1 2020 and may well allow the company to return further cash to shareholders via a large special dividend. The current dividend yield stands at 3.6%, and earnings are expected to grow double-digits in the next year; we hope to benefit from both these avenues of capital return.

Portfolio Positioning

The charts below show the sector and geographic breakdown of the portfolio both currently and over the last nine years. The major effect of the changes we made to the portfolio in 2019 was to increase our Industrials and Financials exposure, while reducing our Communications and Healthcare exposure. In terms of sector weightings, the fund continues to have a zero weighting to Utilities, Materials, and Real Estate. The largest overweight positions are to Consumer Staples and Industrials.

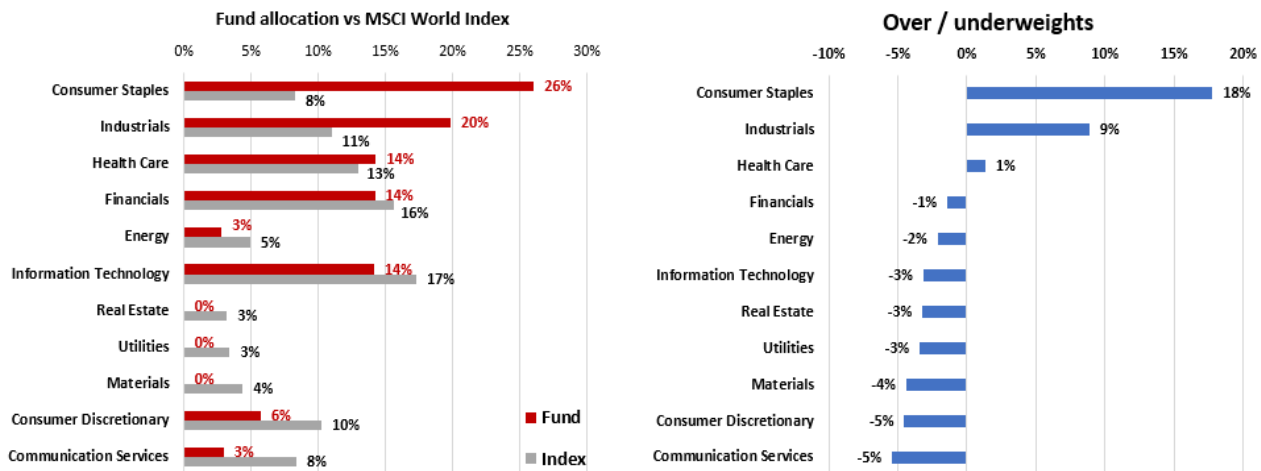


Figure 10 – Portfolio sector breakdown versus the MSCI World Index.
Source: Guinness Atkinson Asset Management, Bloomberg (data as at December 31st 2019)

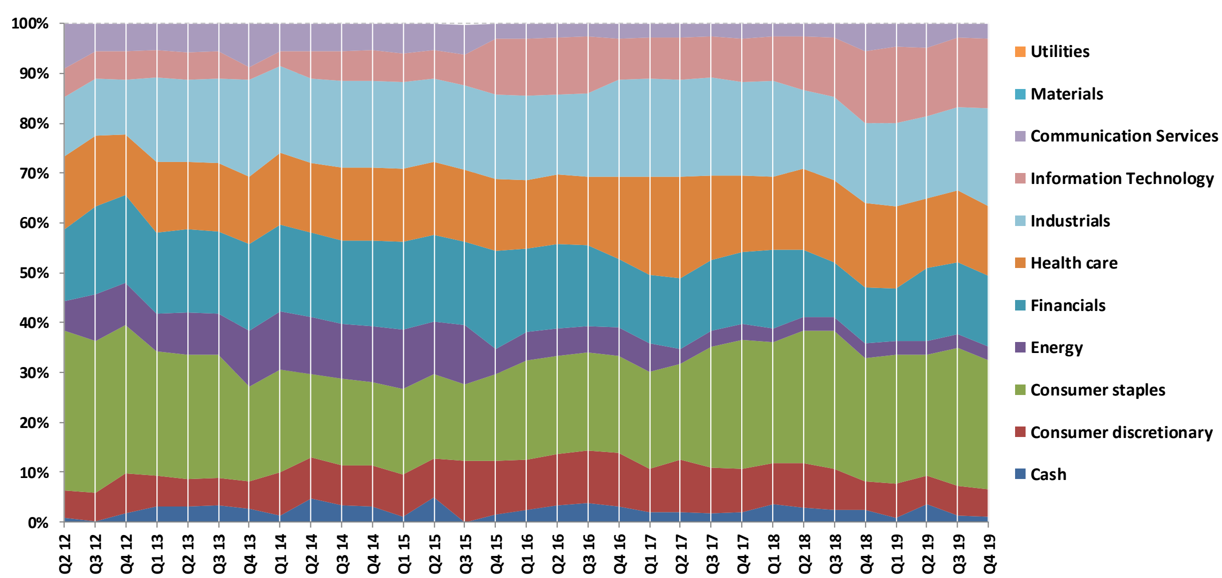


Figure 11 – Portfolio sector breakdown (as of December 31st 2019).
Source: Guinness Atkinson Asset Management

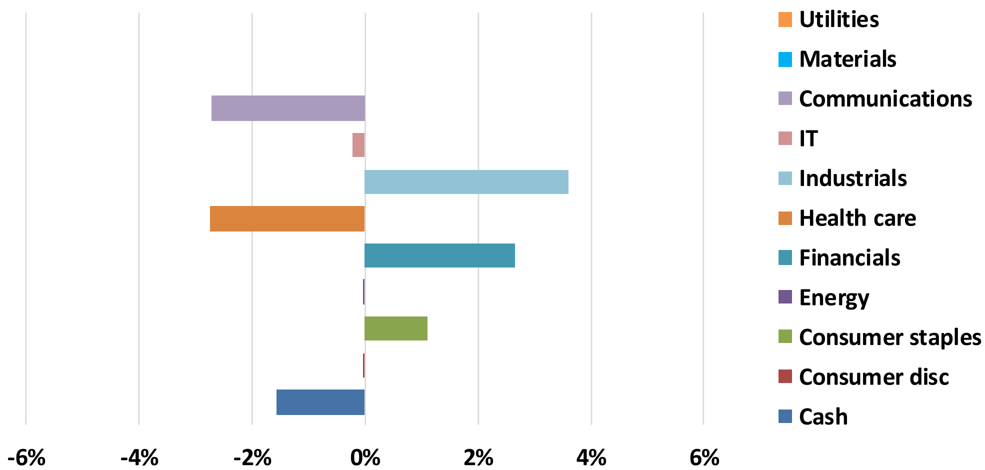
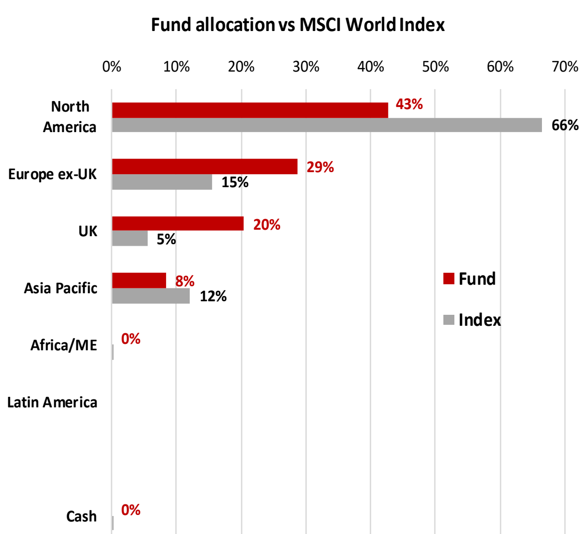


Figure 12 – Year on year change in sector breakdown (December 31st 2019 vs December 31st 2018). Source: Guinness Atkinson Asset Management

In terms of geographic allocation, we reduced our Asia-Pacific and Africa/ME (Middle East) weighting, while increasing our exposure to Europe and the UK. This is based on bottom-up, fundamental stock analysis, rather than regional bets.

The Fund is currently at 24% underweight the US, and though this was the best performing region in 2019, there was no meaningful effect on attribution. Any drag on the allocation effect was somewhat offset by good stock selection. In fact, out of the top 10 performing stocks in the fund, 5 were US domiciled.



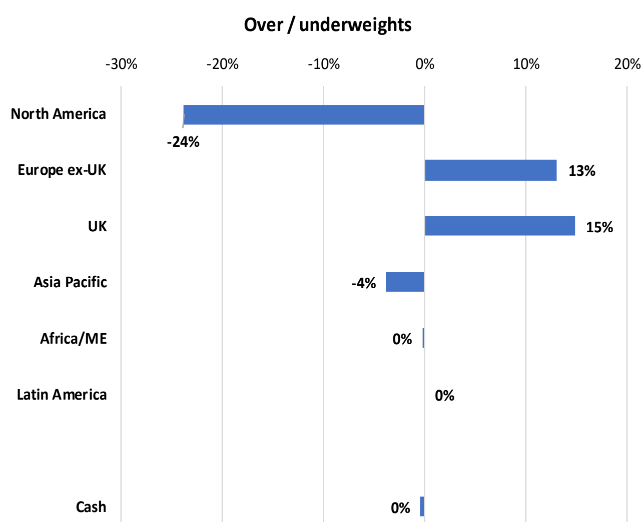


Figure 13 – Portfolio geographic breakdown versus the MSCI World Index. Source: Guinness Atkinson Asset Management, Bloomberg (data as at December 31st 2019)

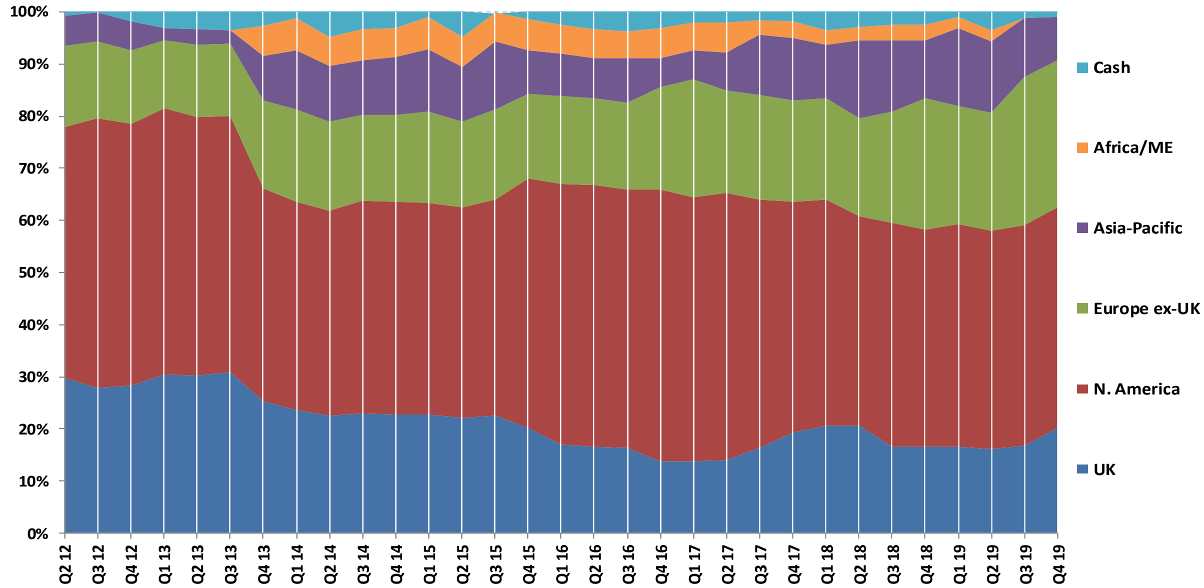


Figure 14 – Portfolio geographic breakdown (as of December 31st 2019). Source: Guinness Atkinson Asset Management

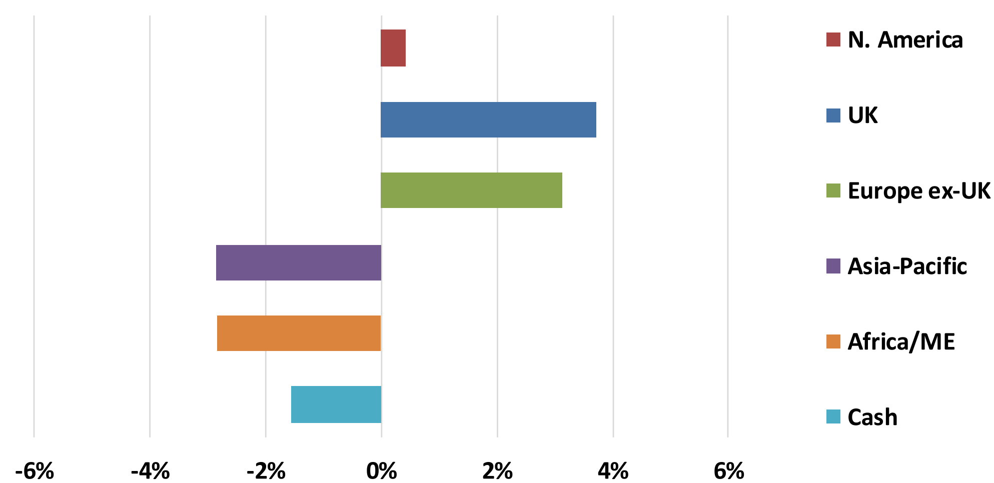


Figure 15 – Portfolio: Year on year change in geographic breakdown (December 31st 2019 vs December 31st 2018). Source: Guinness Atkinson Asset Management

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. At the year end, we are pleased to report that the portfolio continues to deliver on all four of these measures relative to the MSCI World Index benchmark:

		Fund	MSCI World Index
Quality	Average 10 year Cashflow Return on Investment	17%	8%
	Weighted average net debt / equity	53%	80%
Value	PE (2020e)	16.3	17.2
	FCF Yield (LTM)	6.5%	4.2%
Dividend	Dividend Yield (LTM)	2.7% (net)	2.4% (gross)
	Weighted average payout ratio	58%	53%
Conviction	Number of stocks	35	1650
	Active share	91%	-

Figure 16 – Portfolio metrics versus index. As of December 31st 2019
Source: Guinness Asset Management, Credit Suisse HOLT, Bloomberg

Based on the measures, holistically, the high-conviction fund has companies which are on average better quality at better value versus the index. The fund at the end of the year was trading on 16.3x 2020 expected price to earnings; a discount of 5% to the broad market. Additionally, on a free cashflow basis, the fund trades at a 35% discount to the market.

As we look ahead to 2020, it is clear that central banks are still shouldering the burden for stimulating the economy via monetary policy, as has been the case since the Global Financial Crisis. After a nascent attempt at normalizing, some major central banks have become more accommodative as 2019 progressed. That should bode well for 2020, as the rate cuts enacted by the US Federal Reserve in 2019 have already resulted in an acceleration in money and credit growth. Monetary easing proved to be more fruitful for equity markets than the overall economy in 2019, and there does not seem any reason at the outset as to why that may change going into 2020.

Countering the positive effects of monetary stimulus is geopolitical disruption — and the economic policy uncertainty that comes with it. Though markets have tended to shrug these off longer term, current sources of policy uncertainty include:

- US-China trade war and Brexit, which have been the most prominent creators of uncertainty in 2019
- The 2020 US Presidential Election, which will kick into higher gear in the second half of 2020
- The conflict between China and Hong Kong
- Tensions in the Middle East

Economic and political uncertainty is perhaps likely to continue to depress capital spending and we must watch vigilantly to notice any spill over into greater unemployment or inflation. Nonetheless, our perpetual approach of focusing on quality compounders and dividend-growers (which in fact act as inflation-hedges) should stand us in good stead in our search for rising income streams and long-term capital growth.

As ever we would like to thank you for your continued support, and we wish you all a prosperous 2020.

Portfolio Managers
Matthew Page
Ian Mortimer

Performance

In 2019 the Guinness Atkinson Dividend Builder Fund produced a total return of 26.71% (TR in USD), compared to the MSCI World Net TR Index return of 27.67%. The Fund therefore underperformed the Index by 0.96%.

Standardized Performance

as of 12/31/19	1 YR	3 YR Annualized	5 YR Annualized	Since inception Annualized (3/30/12)
Dividend Builder Fund	26.71%	13.80%	8.70%	10.50%
MSCI World Net TR Index	27.67%	12.56%	8.73%	10.02%

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. The Fund invests in small- or mid-cap companies, which involve additional risks such as limited liquidity and greater volatility than larger companies. When inflation rate is greater than expected, that markets may respond differently to changes in the inflation rate than the Advisor expects, or inflation may manifests in such a way that the Fund is unable to provide reasonable protection against inflation.

Top Fund Holdings as of 12/31/2019:

1. British American Tobacco PLC	3.10%
2. WPP PLC	3.06%
3. Taiwan Semiconductor Manufacturing	2.99%
4. Illinois Tool Works Inc	2.96%
5. Broadcom Inc	2.91%
6. United Technologies	2.90%
7. Schneider Electric SE	2.89%
8. Eaton Corp PLC	2.88%
9. Roche Holding AG	2.88%
10. Microsoft Corp	2.88%

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.

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.

Compound Annual Growth Rate (CAGR) is the rate of return that would be required for an investment to grow from its beginning balance to its ending balance, assuming the profits were reinvested at the end of each year of the investment's lifespan.

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.

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

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

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

One cannot invest directly in an index.

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