

January in Review

Coming off the heels of a strong 2019, global equity markets began the new decade in a similarly buoyant fashion. The first half of January saw the US and China reaching “Phase One” of an economic and trade agreement, which provided some much-needed assurance to market participants following months of uncertainty. Economic data also showed signs of improvement globally, thus allaying near-term recession fears, while major central banks provided further support by signaling they would remain accommodative for the year ahead.

However, this initial optimism was eventually dampened by two black swan events. The first, was the exchange of missiles between the US and Iran, and the killing of a key Iranian military figure. Perhaps far from resolved, the incident has currently de-escalated to the market’s satisfaction. The second event, and the one garnering greater investor attention, is the outbreak of the novel coronavirus that has swiftly spread from China to other regions of the world.

While China has taken measures to restrict movement in and out of the region, the outbreak coincided with the Chinese Lunar new year and as such, the increase in tourism has led to the spread to different regions including the US and UK. By the end of the month, over 17,000 cases have been confirmed globally with 362 confirmed fatalities – a mortality rate of around 2.7%. By comparison, the SARS outbreak of 2003 affected over 8,000 people and resulted in the death of 774 – a mortality rate of around 10% and significantly greater than that of the new coronavirus.

While we are still in the early stages of the outbreak, China, and indeed the rest of the world, are keen to manage the situation more effectively than the SARS outbreak: the Lunar New Year holiday has been extended around China, many flights have been cancelled to and from China and the Chinese government has responded by cutting the repo rate by 10bps and injecting \$174bn into money markets to ensure sufficient liquidity in the banking system.

While the outbreak will undoubtedly cause short-term disruption to travel & tourism, consumer purchases, supply chains and economic growth in China, we believe the fund is well-positioned to weather this uncertainty:

- We do not own any stocks with revenue exposed to travel & tourism.
- We only own one domestically focused MSCI Chinese holding: Anta Sports.
 - Anta Sports (down 2% vs MSCI China down 5.1% (in USD) over the month) has direct exposure being in the consumer sector. However, with 25% of revenue derived from online, this is likely to help dampen the negative effects.

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- Indirect effects of the outbreak may be a slowdown in global growth which may affect more cyclical industries such as Industrials and IT components. However, we reiterate that the investment theses for these holdings are long term.
- The fund aims to invest in high-quality companies with high returns-on-capital and low levels of debt, which typically have been more likely to fair better in times of uncertainty.

Further, while there is always the chance that the next outbreak could have greater consequences than those in the past, the global economy and markets have been relatively immune to the effects of past viral epidemics – a short-term dip in stocks tended to be followed by the continuation of the upward trend.



Source: Charles Schwab, FactSet, as of January 21, 2020

Of course, we need to be careful about making simple comparisons to the past because these viruses are all unique; China is also much more integrated into the global economy today versus 2003. The economic cost of lost production due to widespread shutdowns and the resources devoted to the crisis could have the potential to trigger a recession in the global economy already vulnerable to a shock due to last year’s trade-driven slowdown. Also, the re-inversion of the yield curve (when the 10-year Treasury yield falls

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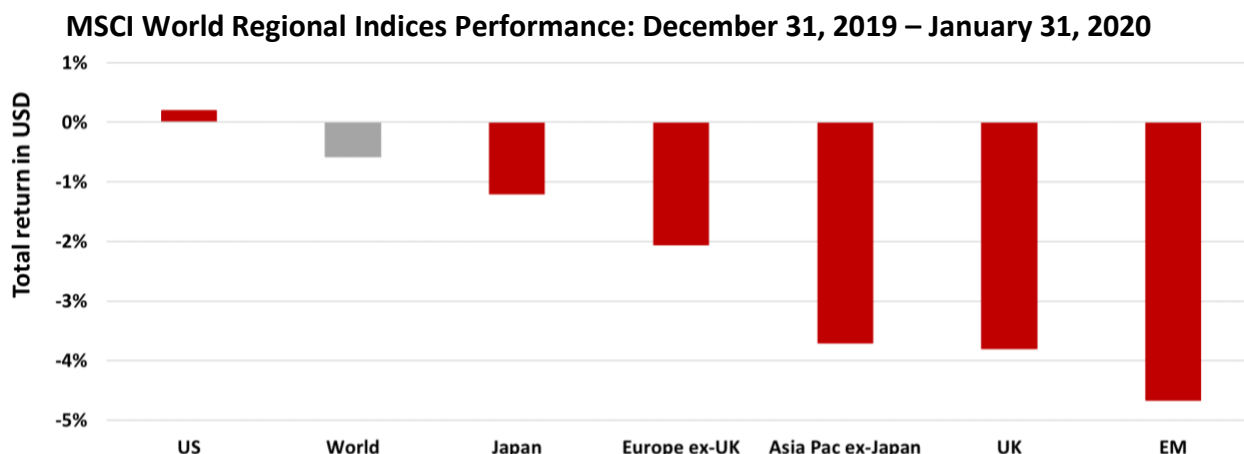
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below the 3-month yield) may bring recession fears to the forefront of investors’ minds given its reliable historical record as a pre-cursor signal.

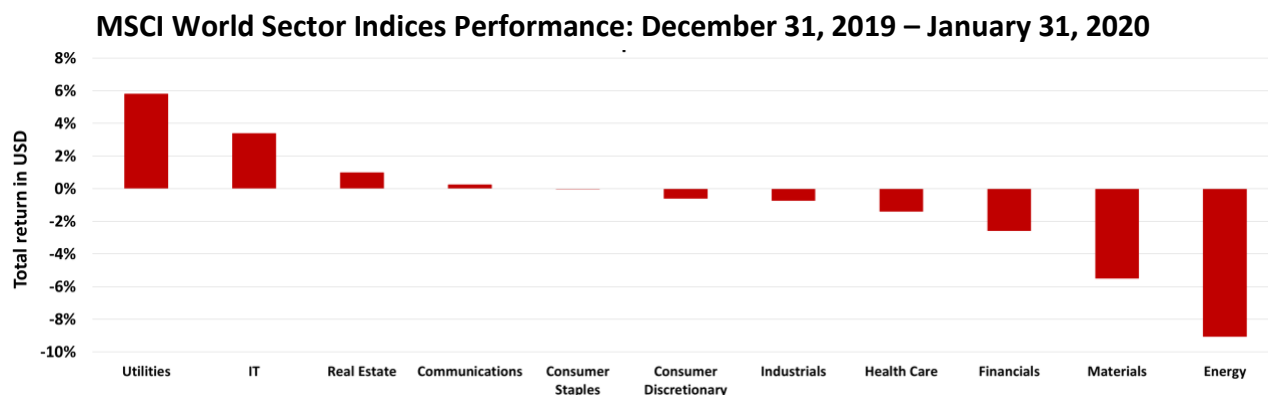
As an offset to these concerns, any related tightening of financial conditions could be met with additional monetary and fiscal support by authorities, which could limit the downside for equity markets.



Source: Bloomberg, as of January 31, 2020

Unsurprisingly, Asia Pacific ex-Japan and Emerging Markets were amongst the worst performing regions over the month, and the Fund’s underweight exposure here was beneficial to performance. The US was the best performing region, helped by a solid start to the earnings season, as several blue-chip companies reported positive earnings outlooks. Underweight exposure to the US proved a drag, though was countered by strong stock selection.

In the UK, the “Boris Bounce” did not last particularly long and January saw relatively weak performance. January 31st, 2020 became the day the UK officially left the European Union, 47 years after joining the Common Market. The country is for now somewhat in a limbo period, until December 31st, 2020, by when it seeks to sign a trade agreement with the EU. In parallel, Boris Johnson’s Government will be looking to reach a deal with other countries including the US, although the special relationship has been under pressure over plans for a tax on digital services, which would impact US technology giants, and the decision to allow the purchase of 5G telecoms equipment from Huawei, seen by the Americans as a security risk. The Bank of England opted to keep interest rates unchanged in January although the Monetary Policy Committee said it was ready to cut them if the post-election bounce in confidence loses momentum.



Source: Bloomberg, as of January 31, 2020

Looking at sector performances, equities saw a wide range of outcomes. Utilities, widely regarded as more defensive, shined, while the Technology sector benefited from strong earnings reports. On the other hand, the Energy and Materials sectors were noticeably lower as commodity prices slipped.

After being the worst performing sector in 2019, Energy is under pressure again as the coronavirus is threatening fuel demand from China, the world’s largest oil and gas importer. Fears over this outbreak have dampened air travel, driving, trucking and factory use, further shrinking demand. In an attempt to stem the fall in oil prices, policymakers from some of the world’s largest oil producers (OPEC) are moving to curb their production. Yet, the US, a non-member, is estimated to continue growing its production steadily over the coming years, potentially thwarting OPEC’s efforts to stabilize oil prices. Our exposure to the Energy sector in the Fund is limited to one stock (Royal Dutch Shell) and we have no holding in the Materials sector.

The Fund’s outperformance in the month can largely be attributed to good stock selection, with **BAE Systems** coming out as the top performer (+11.2% in USD). The company provides some of the world’s most advanced defense, aerospace and security solutions; the recent share price rally comes after management announced it is proposing to buy Collins Aerospace’s GPS business for a consideration of \$2 billion. The asset is for sale as part of the regulatory process in the Raytheon/United Technologies merger, and it is the largest deal for BAE Systems in a decade – equating to approximately 8% of current market cap. The market received the news well as the GPS business will integrate easily into the electronic systems segment; the GPS business has a large installed base on more than 280 military platforms and is expected to grow revenues in excess of 10% per year over the next four years while maintaining margins. The deal will make BAE the largest supplier of military GPS receivers, with twice the market share of its nearest competitor, and reinforce the group’s position as a strategic supplier to the US Department of Defense.



Longer term, the wider defense industry is expected to deliver an improving growth rate in future years as continued geopolitical risks across a variety of regions mean that defense spending is forecast to increase at a faster pace. The US has already increased its defense budget, while other NATO members are expected to do likewise as they seek to meet their responsibilities and achieve the required military spending of 2% of GDP. This could act as a tailwind for defense-related companies and boost BAE's financial performance.

CME Group also performed particularly well (+8.2% in USD), and this coincided with a return of higher volatility, rising from US-Iran conflict and the spread of the coronavirus.



Longer term, the exchange is well positioned to integrate the NEX 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 2020, with an outlook to expand recurring revenue. CME is also particularly well-placed to benefit from any increased interest-rate hedging around FED rate decisions and rising US 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 17% with returns on capital increasing every year for the last five.

VF Corp was the worst performer in the month (-16.7% in USD). The global apparel company owns brands such as Timberland and The North Face (outdoor-oriented brands), and Vans (skateboard-inspired footwear). The recent poor performance comes as 60% of its stores in China are temporarily closed due to coronavirus, leading investors to speculate that VF could miss its Q4 outlook. We view this as a near-term headwind, with longer-term prospects in China – 6% of total sales – still very promising.



We made no changes to the portfolio during the month

We thank you for your continued support.

Portfolio Managers

Matthew Page
Ian Mortimer

Performance

In January, the Guinness Atkinson Dividend Builder Fund produced a total return of -0.63% (TR in USD), compared to the MSCI World Net TR Index return of -0.61%. The Fund therefore underperformed the Index marginally by 0.02%.

Performance

as of 01/31/20	1 YR	3 YR Annualized	5 YR Annualized	Since inception Annualized (3/30/12)
Dividend Builder Fund	19.75%	12.93%	8.69%	10.30%
MSCI World Net TR Index	17.73%	11.45%	8.99%	9.82%

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.qafunds.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

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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 1/31/2020:

1. British American Tobacco PLC	3.15%
2. Microsoft Corp	3.06%
3. CME Group Inc	3.03%
4. Novo Nordisk A/S	2.99%
5. BAE Systems PLC	2.98%
6. Nestle SA	2.94%
7. Reckitt Benckiser Group PLC	2.94%
8. Roche Holding AG	2.94%
9. BlackRock Inc	2.94%
10. Imperial Brands PLC	2.93%

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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.

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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