Guinness Atkinson
Dividend Builder Fund
Managers Update – July 2020

GUINNESS ATKINSON FUNDS

Summary: Performance

Underperformance in the quarter comes as a result of the market's sharp rebound, led by growth stocks and cyclical sectors. IT and Consumer Discretionary were the best performing sectors in the quarter, with much of the recent optimism in equity markets driven by easing lockdowns and signs of progress towards a coronavirus vaccine. Being overweight Consumer Staples and underweight IT was a drag on Fund performance in the quarter, whereas zero exposure to Banks, Real Estate, Utilities and Energy proved positive.

In the coming years we believe income will be more in demand, but dependable and sustainable income will be harder to find, which we believe will be positive for the dividend paying companies that we own. The growing dividends that our stocks provide are a consequence of the companies themselves being able to grow successfully; our search for persistently high return on capital businesses leads us to companies which have navigated different economic environments well, not least the most recent. We therefore believe that our approach should stand us in good stead in our search for rising income streams and long-term capital growth in the future.

Summary: Dividends

Dividend payments have been top of mind in the current market environment where we have seen significant demand shocks across many sectors of the equity market, leading to a significant proportion of companies suspending or reducing their dividend payments. For example, the overall EuroSTOXX Index dividend is expected to decline by over 30% in 2020 compared to 2019; 25% of all companies in the index have cancelled their dividend so far this year with a further 25% having reduced their dividend.

Broadly, the dividend cuts seen this year have been concentrated in companies affected by (i) significant loss of revenues from COVID lockdowns (airlines, travel & leisure, retail, energy), (ii) regulatory pressure (European banks, insurance), (iii) government pressure (French state-owned businesses in particular), (iv) companies with weak balance sheets conserving capital by reducing or cancelling dividend payments.

In contrast, the Fund, as of the end of June, has seen 22 companies (out of our 35 holdings) announce dividend increases. Our current expectation is that the 2020 fund distribution will be similar to 2019 – but we note there are some moving parts to this analysis (e.g. FX rates or portfolio changes). We are carefully monitoring the income received for the portfolio and will update our view as the year progresses. To summarize our outlook for the fund, out of our 35 holdings:

- 7 companies have paid their full dividend for the year (or gone ex-dividend)

- 25 companies where we see high probability of full payment for the year

- 2 with some uncertainty

  - *Diageo*: Interim dividend was announced at the semi-annual results went ex- in late February (representing a 5.0% growth year-on-year). On April 9th, Diageo withdrew guidance and cancelled buybacks; the company has not committed to the final dividend yet. Management stated that China is beginning to see a slow return of on-trade consumption, whilst most bars are still shut in US and Europe. We also note that some peers are cutting their dividend.

  - *BAE Systems*: Deferred decision on the proposed 13.8p/share Final dividend (which normally goes ex- in mid-April) to July half year results. There has been no discussion regarding the October interim dividend. In the trading update on April 3rd, management stated, "We recognize the importance of the dividend payment to our shareholders and whilst it remains our intention to pay a dividend, the timing of any payment will be contingent on prevailing macro-economic and social conditions over the coming months." Defense companies are well placed in the current environment due to long contracts and resilient demand, but social/political pressure bears on any dividend decisions.

- 1 dividend cut announced for portfolio holdings to date

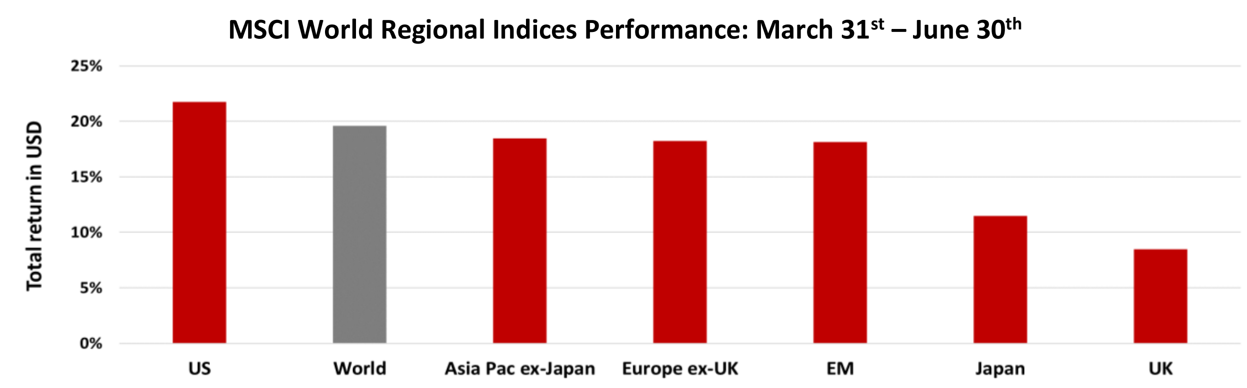
  - *Imperial Brands*: Final dividend (related to 2019 profits) went ex- in February. The first Interim dividend for 2020 (which is when the company has historically declared the growth in the dividend) was announced at the semi-annual results on May 19th and was rebased by 33%. Thereafter, management committed to a progressive dividend policy.
    - The lower dividend saves ~£650mn in the current year, which alongside the £1bn cigar business sale, will be used to strengthen the balance sheet by reducing debt (to <3X net debt/EBITDA).
    - This decision to lower the dividend payout was partly due to the delayed expectations of reduced-risk-product profitability. Potential incoming regulation lowers revenue growth expectations and forced management to scale back investment in new products.
    - Though vapor offerings only represent ~3.5% of Imperial Brands' sales globally, such products, along with new reduced-risk offerings, are seen as increasingly vital to offset falling cigarette sales.

- Interim CEO, Dominic Brisby, insisted that the dividend cut was not related to coronavirus. He said: "COVID-19 has only had a small impact on trading but we expect this to be more pronounced in the second half due to continued pressures to our duty free and travel retail businesses". With airports largely shut, smokers are missing out on bulk buying cheap duty-free cigarettes. It means that fewer packs are being bought, but customers are having to spend more on their habit in the shops, so the value of sales has held up.

- 0 dividend cancellations/suspensions

Quarter Review

After the severe sell-off seen in March, global equity markets rebounded impressively in the second quarter. All regions registered significant gains, with the US leading the pack:



Source: Bloomberg, as of June 30, 2020

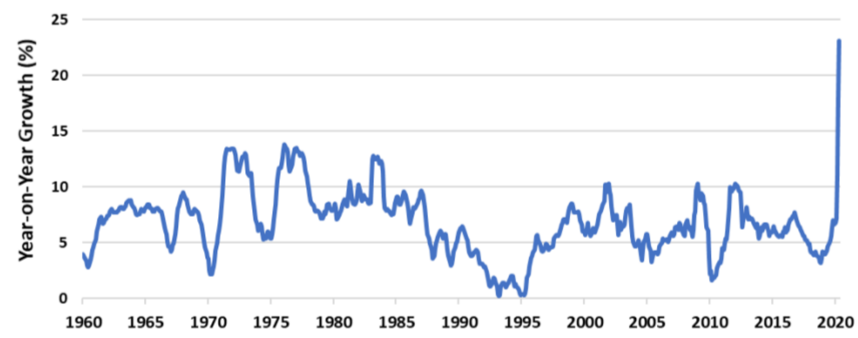
In fact, last month, on June 8th, the round trip officially completed as the fastest US stock market collapse on record was followed by the fastest recovery, and the S&P 500 Index dipped into positive territory for the year. Having since seen some volatility, at quarter end, the S&P 500 Index is down only 3% year-to-date.

This is extraordinary – and perhaps surprising – given that the coronavirus has not been fully contained, nor a vaccine approved. In continental Europe, Australasia and some parts of Asia, including China, new infections have fallen to low levels and economies are reopening. In the UK, new infections have also continued to fall, albeit not to as low levels as in Europe. However, in the US, the number of new infections is rising again, while several emerging markets, including India and much of Latin America, have been unable to get the virus under control.

Despite this, there has been an evident disconnect between "main street" and "wall street", with stock markets seemingly discounting in advance the expected success of reopened economies and also with regard to finding therapeutics and/or a vaccine for the virus itself. Case in point, the best-performing periods for the MSCI World Index came on days when there was a significant development announced with regards to therapeutics or vaccine results for the virus.

Further, it is no coincidence that the market sell-off halted – and the rally began – on March 23rd, when the Federal Reserve (Fed) announced it would do everything in its power to alleviate credit stresses. For many, the key takeaway from the eventfulness of 2020 so far has been to never ignore liquidity. Growth in US M2, a broad measure of money supply, has been its strongest since the Fed's records began in 1960:

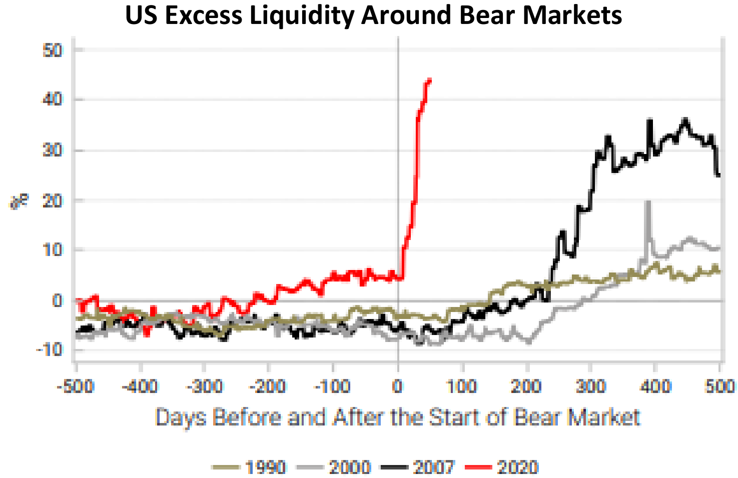
M2 Money Supply Growth in 2020 has been the Fastest on Record



Source: Bloomberg, Latest data as of May 31, 2020.

The Fed's response in this latest crisis has been swift and very large in scope. The chart below illustrates how excess liquidity grew during each of the last four bear markets and how the current response compares.

US Excess Liquidity Around Bear Markets



Source: Variant Perception, Latest data as of May 31, 2020.

The Fed's actions have provided an unprecedented support to markets and the clearest evidence comes from the performance of companies with the weakest balance sheets, compared to those with the strongest. The sell-off earlier this year was particularly brutal for companies with weak balance sheets, reflecting the belief that over-leveraged companies would not be able to survive the loss of revenues and profits from the COVID-19 lockdowns.

The most leveraged businesses still lag behind the market for the year to the date, but since the bottom on March 23rd, the below chart shows that they rallied strongly and kept pace with the strong balance sheet companies, at least according to the popular baskets of stocks maintained by Goldman Sachs:

Companies with weak balance sheets have rallied since March low

Normalized as of March 23, 2020

Source: Bloomberg, as of June 30, 2020

The rally in over-leveraged companies reflects the optimism that any recession will be mild, and that there will be no secondary financial crisis caused by insolvency. However, for the long-term investor, companies with large amounts of debt remain highly risky; such companies tend to rely on external debt financing to fuel any growth and they also carry interest rate re-financing risk. For an income investor particularly, there is also an opportunity cost of deleveraging since less cash can be returned to shareholders. When searching for companies in our Fund, we seek companies that prioritize return of capital and face as few hurdles as possible in doing so. Based on a few simple metrics, we are pleased that overall our holdings are better quality verses the benchmark index:

		Fund	MSCI World Index
Quality	Average 10 year Cashflow Return on Investment	17%	8%
	Weighted average net debt / equity	66%	90%

Source: Guinness Atkinson Asset Management, Credit Suisse HOLT, Bloomberg. Data as of June 30, 2020

In another sign of widening market breadth, small cap stocks have now outperformed large-caps since the March bottom:

Small-cap stocks have rallied since March low

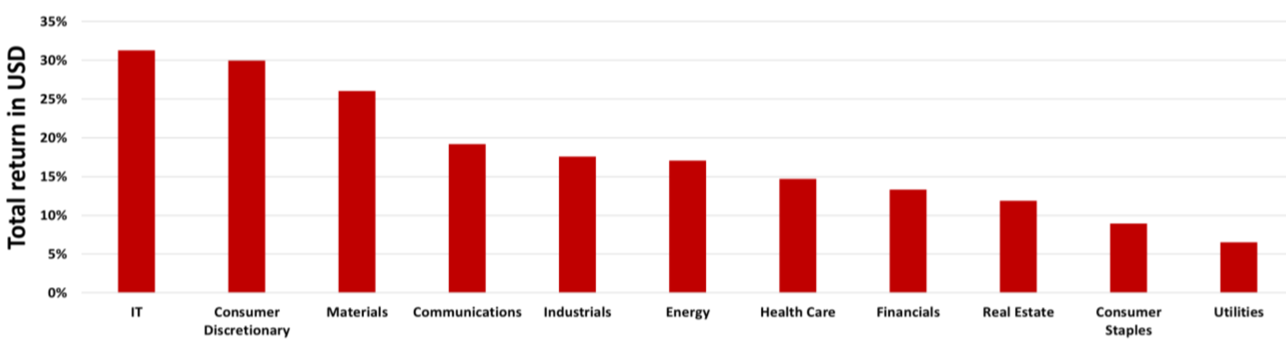
Normalized as of March 23, 2020

Source: Bloomberg, as of June 30, 2020

This proved a drag for the Fund over the quarter. We screen out companies under $1bn market cap and focus on more mature companies with greater business diversification. Small businesses also tend not to have the persistence in return on capital we seek nor the balance sheet strength or dividend profile we like to see in our holdings.

In terms of sectors, the recent rally was most pronounced in IT and Consumer Discretionary stocks:

MSCI World Sector Indices Performance: March 31st – June 30th



Source: Bloomberg, as of June 30, 2020

Cyclical sectors and growth stocks outperformed and were fueled by market optimism regarding an economic recovery. The Consumer Discretionary sector had its best quarterly gain on record, and the IT sector also saw large gains, cementing its leadership for the year. The Fund's underexposure in both sectors (c.5% in each) dragged on performance.

US consumer spending shrank by record amounts in March and April, falling 6% and 12%, respectively, as consumers cut spending due to job losses and stay-at-home orders. In May, spending rebounded as the economy reopened, consumers regained confidence, and the government supplied $5 trillion in stimulus measures. The June release showed that US non-farm payroll employment increased by 2.5m in May and that the unemployment rate declined, though still high at 13.3%. US retail sales in May were 17.7% higher than in the previous month and this aided the performance of the economically-sensitive sectors such as Consumer Discretionary.

Defensive sectors lagged. Having performed well in the drawdown, weaker performance from Consumer Staples and Healthcare weighed on Fund performance. This was partially offset by some positive stock selection as Reckitt Benckiser and Henkel outperformed the MSCI World Index over the quarter.

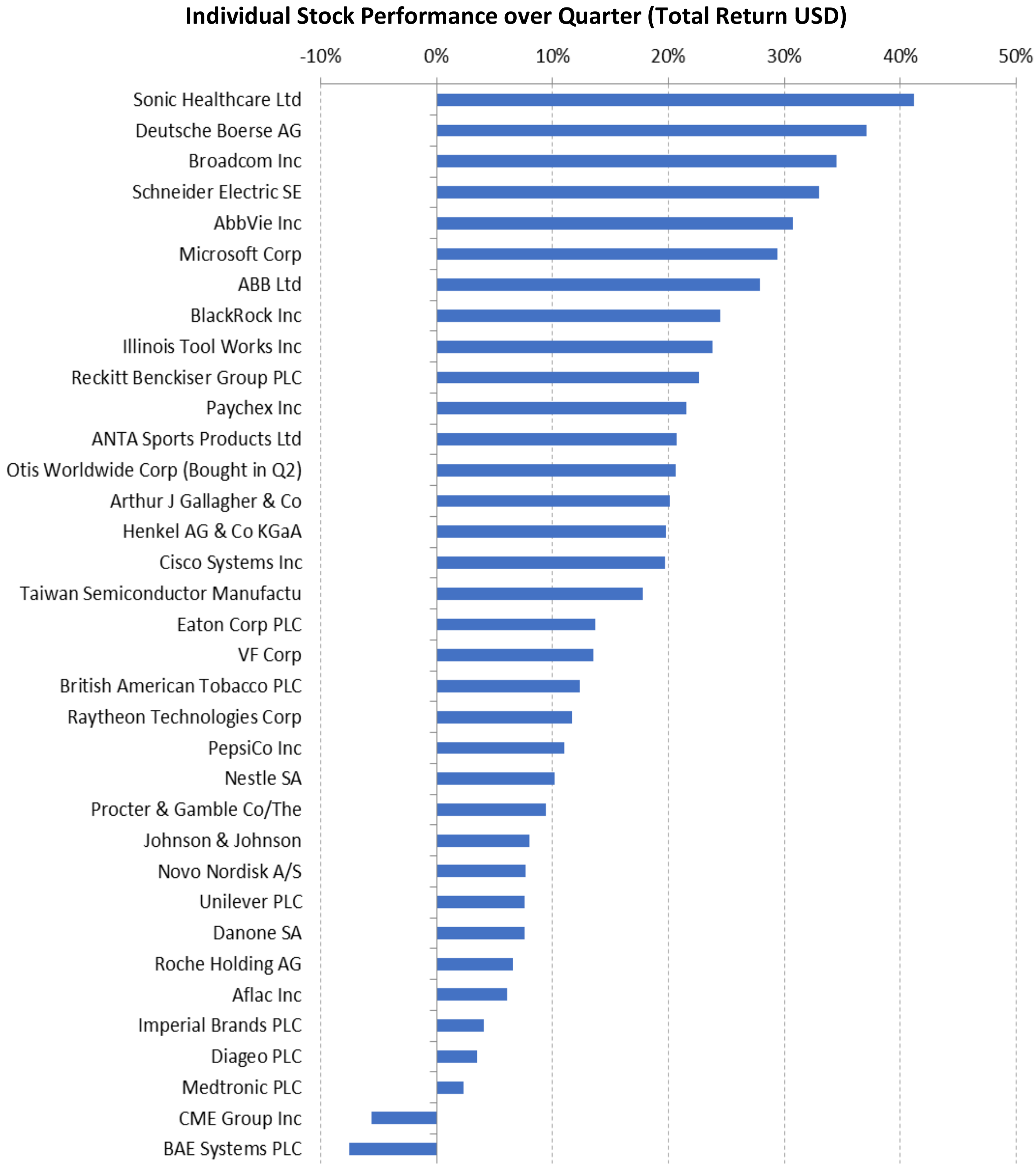
No exposure to Utilities, Real Estate and Banks proved beneficial once again in the last quarter as these sectors relatively underperformed.

All sectors posted positive gains in the quarter as stock markets have so far brushed aside political tensions, social unrest, weak economic readings and the possibility that the recovery from the COVID-led recession may well not be V-shaped. Monetary and fiscal stimulus – and more recently news on virus treatments/vaccines – have fueled an epic rally from March lows, though ultimately there is a risk that the stock market is not accurately reflecting second-order and longer-term economic impacts of the virus and attendant economic shutdown (including bankruptcies and temporary layoffs becoming permanent job losses). There is also a risk that the stock market is not accurately reflecting the weakness yet to be fully felt in corporate earnings.

The upcoming earnings season will mark the first full quarter since the economic lockdown was implemented. According to FactSet, Q2 earnings growth in the US is expected to decline 43.9% which would mark the largest YoY decline since Q4 2008 (-69.1%). The estimated Q2 earnings decline was -13.6% as of March 31st, and today all eleven sectors have seen those estimates decline further.

Given the uncertainty, we believe that our perpetual approach of focusing on good quality companies, with strong balance sheets and persistently high return on capital should stand us in good stead in our search for rising income streams and long-term capital growth.

Stock Selection



Source: Bloomberg, as of June 30, 2020

Sonic Healthcare was the best performer in the Fund in the quarter (+41.2% in USD). The Australian healthcare company provides medical diagnostic services to clinicians (GPs and specialists), hospitals, community health services, and private patients. Pathology accounts for 84% of revenue and the business benefits from long-term contracts with Government bodies and insurance companies. The company withdrew guidance in late March after social isolation and quarantine measures impacted normal diagnostic volumes as patients opted to delay routine testing. As economies opened up, pent-up testing has begun to resume and Sonic provided a guidance update towards the end of June, stating that the company expects full-year 2020 underlying earnings to be in line with last year. CEO Dr. Goldschmidt added that Sonic's trading results for March and April were substantially below forecast, with May results stronger than expected and this positive trend continuing through June. Much of Sonic's lost revenue has been replaced with new revenue via COVID testing in the US, Germany and Australia.

Deutsche Boerse also performed well in the quarter (+34.6% in USD), driven by a coronavirus-induced volatility surge. The company reported strong earnings results, beating analyst expectations by 1.4%; reported revenue for the first quarter also beat estimates by 14.0%. Deutsche Boerse offers listing and trading services and operates the trading platforms Xetra and Frankfurter Wertpapierboerse. It also provides clearing, reporting, settlement and custody services for fixed-income securities, stocks and investment funds.

Having met 2020 guidance targets and with net debt-to-Ebitda lower than 1, Deutsche Boerse is focusing on strategic M&A to diversify the business. Analysts also expect a second wave of volume-related catalysts for European exchanges in general, mainly from the reversion of net outflows of over 13 billion Euros in equity exchange-traded products (ETPs) in March. While fixed-income ETPs have reported a stronger recovery – particularly in corporate bonds – equity ETPs have fallen behind as investors bide time to trade on positive news of the pandemic and economic stimulus.

After being one of the best performing stocks at the start of the year, **BAE Systems** was in fact one of the worst performers over Q2 (-7.5% in USD). The company provides some of the world's most advanced defense, aerospace and security solutions, and the recent share price fall has largely been due to a profit decline: management announced at the end of June that it expects profits for the first half of 2020 to fall by around 15% and sales to be stable, after the coronavirus pandemic disrupted operations and lowered productivity.

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.

Changes to the Portfolio

The changes made to the portfolio in the second quarter relate to our holding in United Technologies, which underwent a series of corporate actions at the start of April. The company spun out two businesses: Carrier, a manufacturer of heating, ventilating and air conditioning equipment; and Otis, a manufacturer of escalators and lifts, leaving business segments related to aircraft engines and aerospace products and services which then subsequently merged with Raytheon, the US defense company, to create Raytheon Technologies. Following this we decided to (i) sell all our shares in Carrier (ii) buy additional shares in Otis to bring it to a full position in the portfolio and (iii) buy additional shares in Raytheon Technologies to bring it to a full position in the portfolio. This left the fund with our stated 35 positions, since in the first quarter we had sold three companies (Shell, WPP, Randstad) and only immediately replaced them with two (Pepsico and Medtronic).

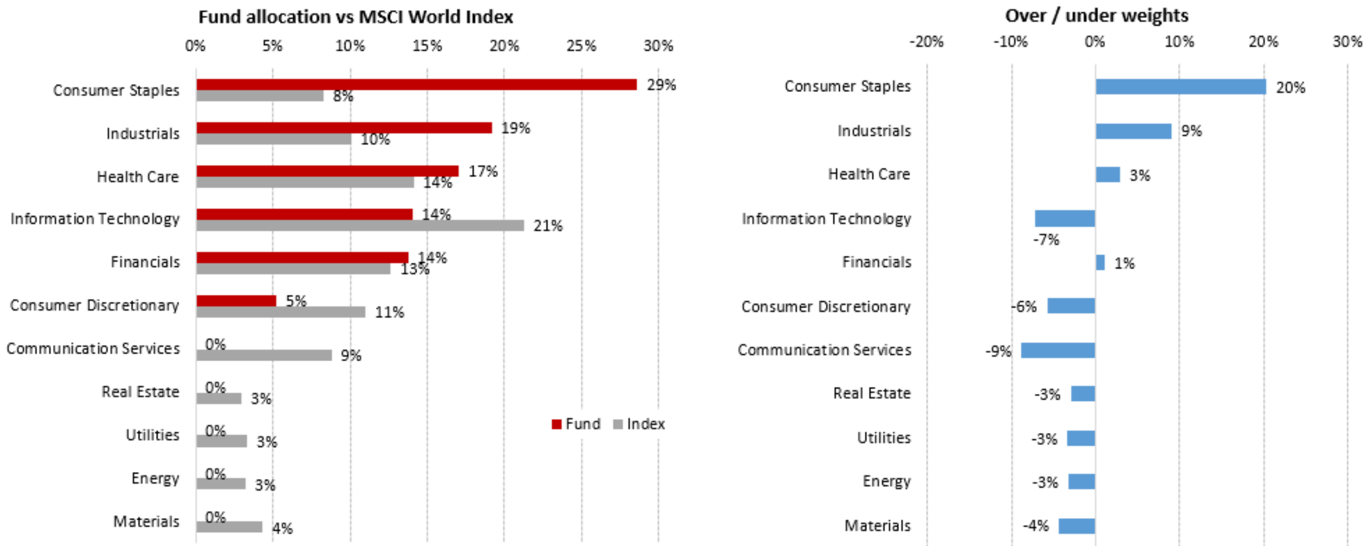
Our decision to make whole our position in **Otis Worldwide** comes as a result of the strong competitive positioning the company holds. Otis is the largest manufacturer of elevators and escalators in the world; it's maintenance base is 55%, i.e. where it receives recurring service revenues, and is almost twice the size of rivals' (Kone, Schindler); this may well help Otis weather falling equipment sales in 2020. The large installed base can also be leveraged for margin improvement with new cloud-based software (Otis ONE) which allows remote monitoring and predictive maintenance of lifts and escalators. The company has a return on capital above 20% and management has committed to an investment-grade debt rating, resulting in $500m of debt to be paid down across 2020/21. The guided payout ratio at purchase stood at c.60%, with an indicated dividend yield of 2.6% for 2020.

Portfolio Positioning

We continue to maintain a fairly even balance between quality defensive and quality cyclical/growth companies. We have approximately 50% in quality defensive companies (e.g. Consumer Staples and Healthcare companies) and around 50% in quality cyclical or growth-oriented companies (e.g. Industrials, Financials, Consumer Discretionary, Information Technology, etc.) Within Financials, however, we do not own any Banks, which helps to dampen the cyclicality of our Financials.

The Fund also has zero weighting to Energy, Utilities, Materials, and Real Estate. The largest overweight is to Consumer Staples.

Sector Breakdown of the Fund vs MSCI World Index

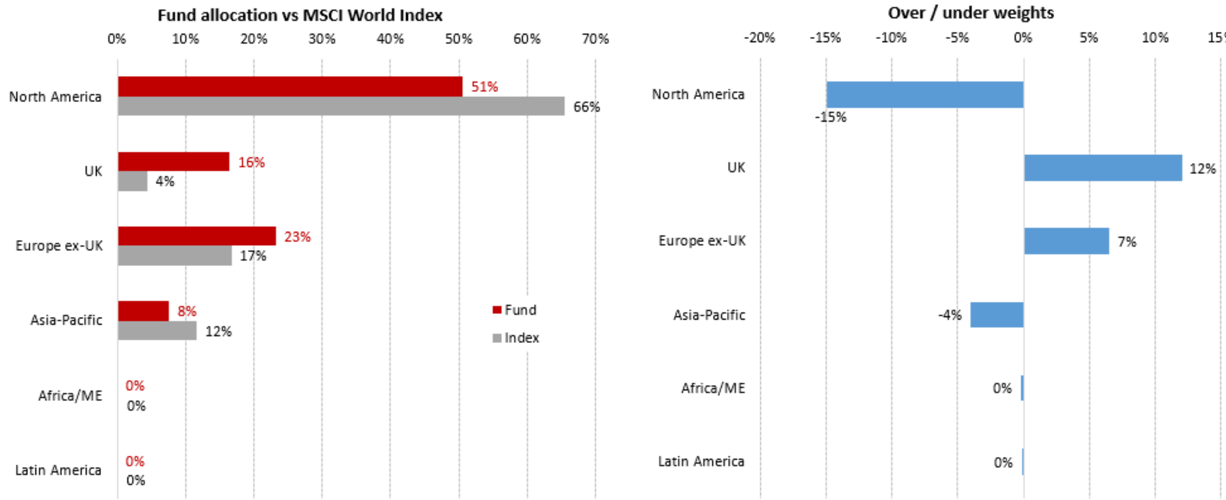


Source: Guinness Atkinson Asset Management, Bloomberg. Data as of June 30, 2020

In terms of geographic exposure (chart below), the largest difference between the Fund and the benchmark is our exposure to the US (as measured by country of domicile). The Fund over the quarter had on average c.51% weighting to North America which compares to the index at c.66%. The largest geographic overweight remains Europe ex-UK and the UK.

We are diversified around the world with 51% in the US, 39% in Europe and 8% in Asia-Pacific. Within the Asia-Pacific region we have one company listed in Hong Kong (Anta Sports), one company listed in Taiwan (Taiwan Semiconductor) and one company listed in Australia (Sonic Healthcare).

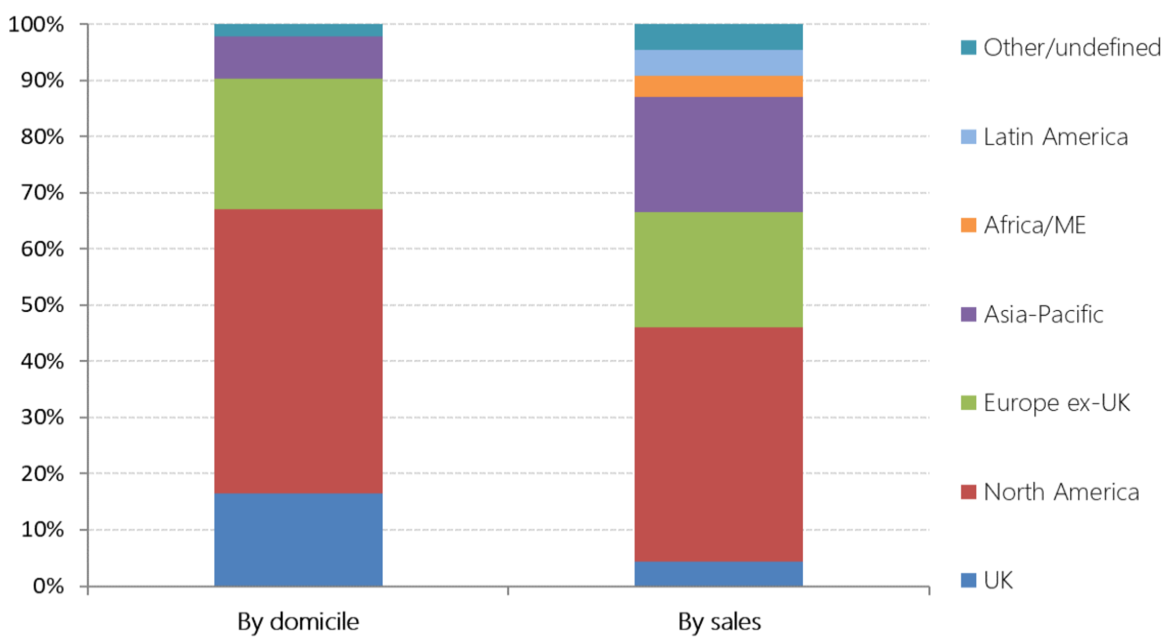
Regional Breakdown of the Fund vs MSCI World Index



Source: Guinness Atkinson Asset Management, Bloomberg. Data as of June 30, 2020

With regards to our UK exposure, we would note two main points, referring to the chart below; (i) the Fund has a lower exposure to the UK when considered in revenues (c.4%) versus by domicile (c.18%). This is because we have favored UK domiciled companies with a more global exposure (such as Unilever and Imperial Brands); and (ii) there is a larger exposure to Asia-Pacific by revenues (c.20%) than the equivalent statistic as measured by domicile (c.8%).

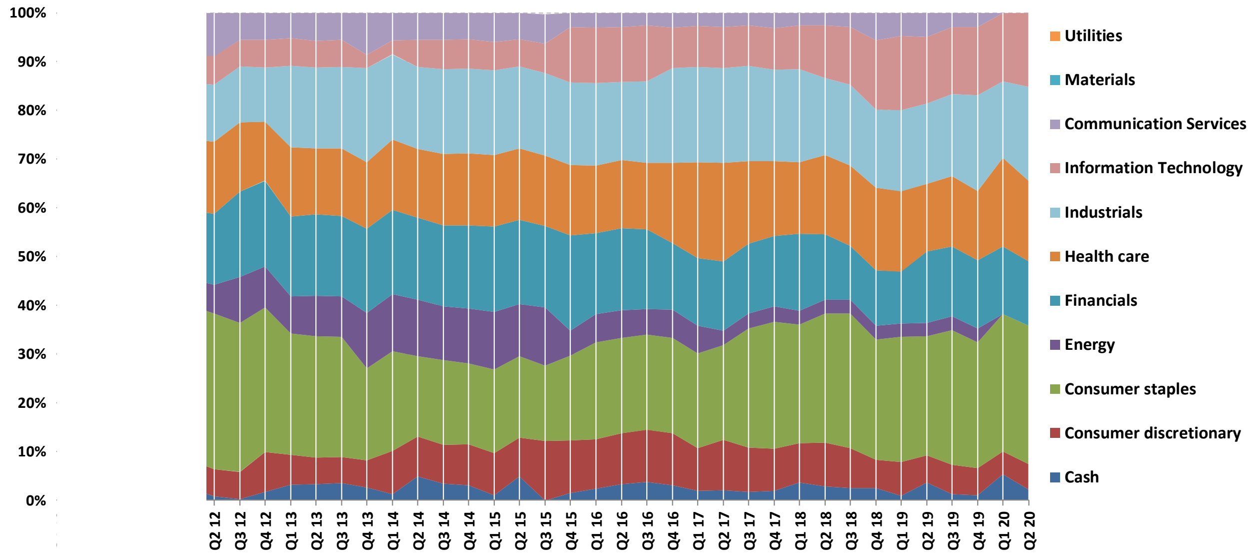
Geographic Breakdown of the Fund



Source: Guinness Atkinson Asset Management, Bloomberg. Data as of June 30, 2020

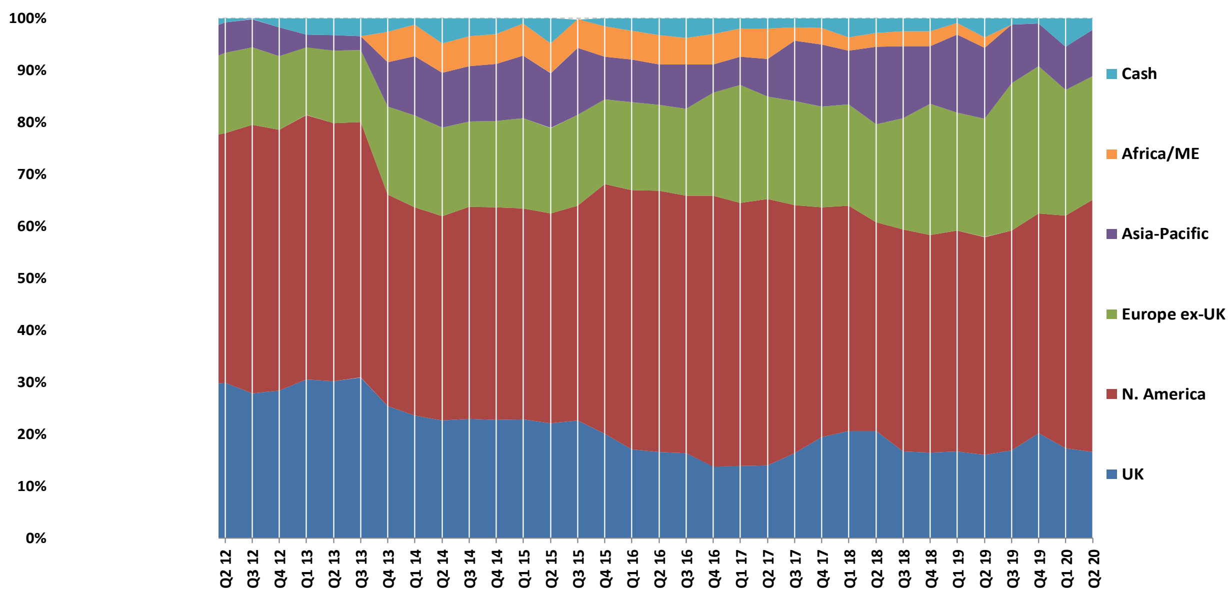
The below two charts show how the exposure of the fund has evolved since we launched the fund back in 2012.

Sector Breakdown of the Fund since Launch



Source: Guinness Atkinson Asset Management, Bloomberg. Data as of June 30, 2020

Geographic Breakdown of the Fund since Launch



Source: Guinness Atkinson Asset Management, Bloomberg. Data as of June 30, 2020

Outlook

The four key tenets to our approach are: quality, value, dividend, and conviction. We follow these metrics at the portfolio level to make sure we are providing what we say we will. Based on the measures, holistically, the high-conviction fund has companies which are on average better quality at better value versus the index. We are pleased to report that the portfolio continues to deliver on all four of these measures relative to the benchmark MSCI World Index.

Portfolio Metrics vs Index

		Fund	MSCI World Index
Quality	Average 10 year Cashflow Return on Investment	17%	8%
	Weighted average net debt / equity	66%	90%
Value	PE (2020e)	18.3	23.0
	FCF Yield (LTM)	5.9%	5.5%
Dividend	Dividend Yield (LTM)	2.8% (net)	2.3% (gross)
	Weighted average payout ratio	67%	63%
Conviction	Number of stocks	35	1650
	Active share	90%	-

Source: Guinness Atkinson Asset Management, Credit Suisse HOLT, Bloomberg. Data as of June 30, 2020

The fund at quarter end was trading on 18.3x 2020 expected price to earnings; a discount of 20.2% to the broad market. Additionally, on a free cashflow basis, the fund trades at a 7.3% discount to the market.

With so much uncertainty as we look to the next six months, forecasting earnings is very difficult. What we can focus on with a higher level of clarity is the balance sheet strength of our companies and we believe the holdings we have selected in the Fund remain very robust. We believe these companies are well placed to weather whatever happens next and will come out the other side ready for their next stage of growth. As investors in these companies we will receive a share of their profits each year in the form of a dividend and look forward to seeing those dividends grow in the years ahead.

We thank you for your continued support.

Performance

In June, the Guinness Atkinson Dividend Builder Fund produced a total return of 15.33% (TR in USD), compared to the MSCI World Net TR Index return of 19.36%. The Fund therefore underperformed the Index by 4.03%.

as of 06/30/20	YTD	1 YR	3 YR Annualized	5 YR Annualized	Since inception Annualized (3/30/12)
Dividend Builder Fund	-6.07%	3.51%	7.21%	7.35%	9.01%
MSCI World Net NR Index	-5.77%	2.84%	6.69%	6.89%	8.61%

All returns over 1 year annualized. Source: Bloomberg, Guinness Atkinson Asset Management
Expense Ratio: 0.68% (net); 1.98% (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, 2021. 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 prospectus contains this and other important information about

the investment company, and it may be obtained by calling 800-915-6566 or visiting gafunds.com. Read 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. 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 manifest in such a way that the Fund is unable to provide reasonable protection against inflation.

Top Fund Holdings as of 6/30/2020:

1.	Schneider Electric SE	3.51%
2.	Deutsche Boerse AG	3.23%
3.	Johnson & Johnson	3.19%
4.	Unilever PLC	3.12%
5.	Reckitt Benckiser Group PLC	3.10%
6.	Microsoft Corp	3.08%
7.	Paychex Inc	2.94%
8.	Broadcom Inc	2.90%
9.	Otis Worldwide Corp	2.89%
10.	ABB Ltd	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.

Dividend yield is calculated by annualizing the last quarterly dividend paid and dividing it by the current share price. Dividends are not guaranteed.

EuroSTOXX Index is a market capitalization-weighted stock index of 50 large, blue-chip European companies operating within Eurozone nations.

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

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

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

EBITDA, or earnings before interest, taxes, depreciation, and amortization, is a measure of a company's overall financial performance and is used as an alternative to net income in some circumstances.

One cannot invest directly in an index.

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