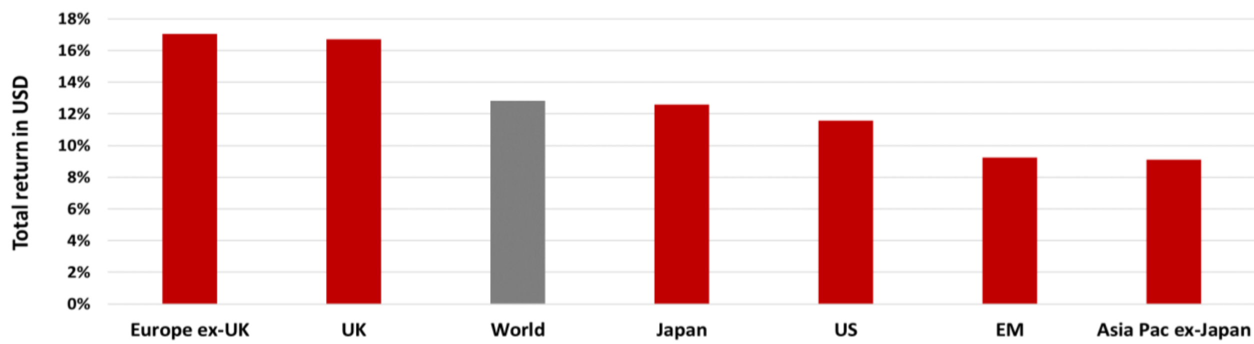
Guinness Atkinson
**Dividend Builder Fund**
Managers Update – December 2020

### November in Review

In November, global equities – as represented by the MSCI World Index – notched their largest monthly gain since 1986. The Index's 12.83% gain (in USD) is only the 7th positive double-digit monthly return since 1986 and this adds perspective on just how remarkable the equity rally was in November. While the S&P 500 Index (large-cap US) and the Nasdaq Index (all-cap US) hit new highs, the Russell 2000 Index (small-cap US) and the STOXX 600 Index (large-cap Europe) saw their best ever monthly gains.

**MSCI World Regional Indices Performance: October 31 – November 30, 2020**




*Source: Bloomberg. Data as of November 30, 2020*

Europe outperformed the US, small-caps outperformed large-caps, and value outperformed growth. All these trends were contrary to what has so far been observed this year, and the rotation was driven primarily by the combination of two factors:

**First**, the initial uncertainty about the US Presidential election dissipated as it became clear that Democratic candidate, Joe Biden, had secured enough votes to claim the Presidency, and the Democrats also retained control of the House. Although President Trump was slow to concede, early fears of a disorderly handover and possible social unrest did not materialize.

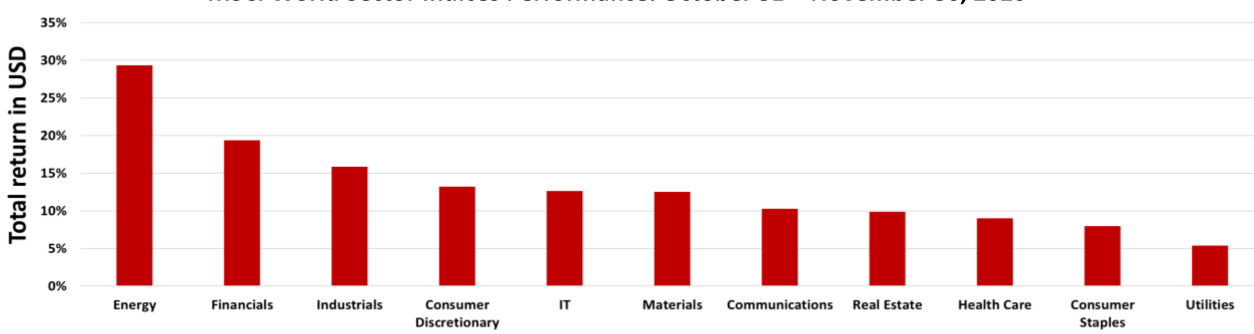
If the Republicans manage to win at least one of the Senate runoff elections in Georgia, as looks most likely, then Republicans will control the Senate and Congress will be divided. That outcome would likely herald a smaller and less far-reaching stimulus package than under a "blue wave" scenario, but also prevent substantial corporate tax rises. Weighing up the prospect of less fiscal stimulus versus little change to corporate taxes, fewer trade war tweets and generally lower uncertainty, the markets on balance cheered the election outcome.

As Joe Biden started to announce his cabinet, one notable appointment is that of Janet Yellen to head up the Treasury. Having the former chair of the Federal Reserve in charge of government spending is an indication of fiscal and monetary policy co-ordination in the years ahead, and that was seen as a positive for markets after a period in which central banks have been forced to do all the heavy lifting in terms of economic stimulus.

The **second** major positive for shares in November was the announcement that three vaccines, from Pfizer/BioNTech, Moderna and AstraZeneca, showed positive trial results with high efficacy. The vaccines await regulatory approval, full production and an effective roll-out however they sparked optimism that unconstrained social and economic life could return in 2021.

While this year's stock market rallies have generally been led by only a handful of US Big Tech names, the latest gains were more broad-based with 467 stocks in the S&P 500 Index rising in November – the most since April 2020. This was led by the cyclical sectors, i.e. those with greater sensitivity to the economy, which tend to do better when a recovery is on the cards. Seen in the chart below, Financials, Industrials and Consumer Discretionary boasted relatively stronger performance in the month, though Energy was the best performer. After falling for most of the year, oil prices rose by almost 30% – albeit from a low base – as expectations for a reopened and buoyant economy solidified. Whether to continue with existing supply cuts or allow more oil onto the market now the price has risen is the main focus of discussion at the December meeting between OPEC countries and Russia.

**MSCI World Sector Indices Performance: October 31 – November 30, 2020**




*Source: Bloomberg. Data as of November 30, 2020*

In the Fund, our overweight positioning within Industrials (verses the MSCI World Index benchmark) benefited performance, and this was added to by good stock selection. Two of the best performing stocks in the month are from the aerospace and defense industry, and news of vaccinations boosted their prospects:

**Raytheon Technologies** was the best performer in November (+33.0% in USD). The company is a multinational manufacturer of advanced technology products for the aerospace and defense industry, and revenues are split 55:45 between defense and commercial. As virus-induced global lockdowns have led to a 90% decline in global air traffic this year, news of prospective vaccinations offers a glimmer of hope that demand for Raytheon Technologies' products may pick up in 2021. Analyst upgrades and a few large contract wins in November increased investor optimism in the well-run business, which has a track record of strong cashflow generation and solid dividend growth (8% CAGR over the last 5 years).

The company operates in four segments and is a global leader in each: Pratt & Whitney (an engine manufacturer), Collins Aerospace (a diversified aerospace supplier), Intelligence, Space and Airborne Systems (a mix between a sensors business and a government IT contractor), and Integrated Defense and Missile Systems (a defense prime contractor focusing on missile hardware).

**BAE Systems** also performed well (+31.0% in USD) in the month. The largest defense contractor in Europe is well-positioned to benefit from modernization efforts by militaries worldwide amid ever-present geopolitical uncertainty. The maker of 500 Typhoon fighter jets, combat vehicles, warfare ships and Astute Class nuclear-powered attack submarines, said its defense business, which accounts for 90% of group revenues, was close to being back to pre-pandemic levels. Recent contract wins in the Middle East and Germany can sustain Typhoon fighter jet production into the 2030s, and BAE continues to demand a leading market share in key defense markets (UK, US, Saudi Arabia, Australia). 45% of sales are derived from services and support, 35% from major programs such as the F-35 Lightning II and Eurofighter Typhoon fighter jets, with the balance derived from electronic systems & cyber intelligence

**Sonic Healthcare** (down -0.8% in USD) was the worst performer in the month, after falling 5.9% on November 10th following the announcement of the first (Pfizer/BioNTech) vaccine candidate. Sonic Healthcare provides medical diagnostic services to clinicians (GPs and specialists), hospitals, community health services, and private patients. It is the world's 3rd largest pathology/clinical lab operator with revenues generated across the US, Australia, Germany, UK, Switzerland and Belgium – this segment contributes 85% of total revenue and in recent times has been boosted by the company's involvement in COVID-19 testing. Weaker performance in the month can be attributed to the fact that less testing may be needed in the future if vaccinations are readily available; Sonic Healthcare was also subject to some profit taking after being a pandemic-beneficiary for much of the year (up 23.7% year-to-date till November 30, 2020).

**Summary: Dividends**

This year, dividend-oriented strategies have lagged the market given that a significant proportion of companies have suspended or reduced their dividend payments. The MSCI World High Yield Index is down -2.18% (TR in USD) year-to-date November 30, lagging the MSCI World Index by 13.37%. Source: Bloomberg

- In Europe, 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. *Source: SocGen*

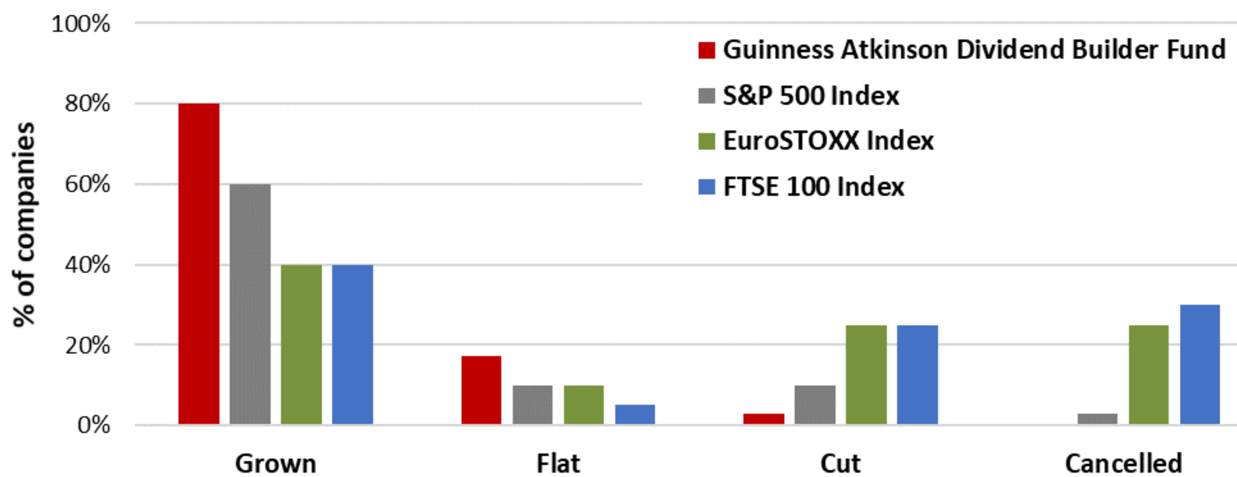
- Similarly, in the UK, the FTSE100 Index dividend for 2020 is expected to decline by over 35%; 30% of companies have cancelled and a further 25% have reduced their dividend so far this year. *Source: SocGen*

- In the US, these respective figures are much lower owing to a culture of progressive dividend policies, a focus on share buybacks, and more conservative payout ratios.

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.

The Fund has an overweight to Europe (including UK) and an underweight to the US, yet the dividend actions of our holdings have been extremely robust across all regions:

**2020 Dividend Actions**




*Source: Guinness Atkinson Asset Management, SocGen. Data as of November 30, 2020*
Data for the Fund includes companies that have declared their 2020 dividend action and includes our expectation for the one remaining Fund holding which will declare its dividend action in December.

So far, out of our 35 holdings:
- 27 companies have **grown** their dividend this year
- 6 companies have kept their dividend **flat**
- 1 company **cut** its dividend (Imperial Brands)
- 0 companies **cancelled** their dividend

For the 1 remaining company, Broadcom, we expect a dividend increase to be announced in December – this is when the company typically announces its year-on-year growth in its quarterly dividend. This is reflected in the chart above.

Our current expectation is that the 2020 fund dividend distribution will be very similar to 2019 – but we note there are some moving parts to this analysis (e.g. FX rates or portfolio changes).

**<u>Portfolio Changes</u>**

We made no changes to the portfolio holdings in the month.

**Performance**

In November, the Guinness Atkinson Dividend Builder Fund produced a total return of 12.62% (TR in USD), compared to the MSCI World Net TR Index return of 12.79%. The Fund therefore underperformed the Index by 0.16%.

| as of 11/30/20 | YTD | 1 YR | 3 YR Annualized | 5 YR Annualized | Since inception Annualized (3/30/12) |
|---|---|---|---|---|---|
| **Dividend Builder Fund** | 7.80% | 11.06% | 10.14% | 10.54% | 10.29% |
| **MSCI World Net NR Index** | 11.19% | 14.52% | 9.50% | 10.86% | 10.26% |

| as of 09/30/20 | YTD | 1 YR | 3 YR Annualized | 5 YR Annualized | Since inception Annualized (3/30/12) |
|---|---|---|---|---|---|
| **Dividend Builder Fund** | 0.24% | 8.76% | 8.77% | 10.48% | 9.57% |
| **MSCI World Net NR Index** | 1.70% | 10.41% | 7.72% | 10.46% | 9.32% |

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, 2024. 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 11/30/2020:

| | | |
|---|---|---|
| 1. | ANTA Sports Products Ltd | 3.25% |
| 2. | Taiwan Semiconductor Manufacturing Co Ltd | 3.18% |
| 3. | AbbVie Inc | 3.17% |
| 4. | VF Corp | 3.11% |
| 5. | BlackRock Inc | 3.10% |
| 6. | Paychex Inc | 3.00% |
| 7. | Eaton Corp PLC | 3.00% |
| 8. | Aflac Inc | 2.99% |
| 9. | Raytheon Technologies Corp | 2.94% |
| 10. | Deutsche Boerse AG | 2.93% |

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.

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

S&P 500 Index or the Standard & Poor's 500 Index is a market-capitalization-weighted index of the 500 largest U.S. publicly traded companies.

Nasdaq Index is the market capitalization-weighted index of over 2,500 common equities listed on the Nasdaq stock exchange.

The Russell 2000 index is an index measuring the performance of approximately 2,000 smallest-cap American companies in the Russell 3000 Index, which is made up of 3,000 of the largest U.S. stocks.

The STOXX 600 Index is derived from the STOXX Europe Total Market Index (TMI) and is a subset of the STOXX Global 1800 Index. With a fixed number of 600 components, the STOXX Europe 600 Index represents large, mid and small capitalization companies across 17 countries of the European region: Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, Norway, Poland, Portugal, Spain, Sweden, Switzerland and the United Kingdom.

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.

One cannot invest directly in an index.

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