Guinness Atkinson
**Dividend Builder Fund**
Annual Review 2020 – January 2021

GUINNESS ATKINSON FUNDS

## Fund Summary

In 2020 the Guinness Atkinson Dividend Builder Fund produced a total return of 12.26% (in USD), compared to the MSCI World Net TR Index return of 15.90% (in USD); the Fund underperformed the Index by 3.64%.

- Since launch, the Fund has produced an annualized total return of 10.70% (TR in USD) compared to the MSCI World Net TR Index return of 10.67%

- Equity markets began 2020 buoyant but saw a sharp sell-off at the end of Q1 as increasing Covid-19 cases induced global lockdowns and deeper recession fears. The Fund's stringent focus on companies exhibiting persistent profitability and balance sheet strength provided it with the defensive characteristics required to preserve capital – and outperform – in this down-market.
    - In fact, since launch, the Fund has outperformed in each of the largest drawdowns, capturing only 66% of market downside on average.

- Unprecedented monetary and fiscal stimulus, later combined with vaccine optimism, drove equity markets higher between Q2 and year-end. This was led by growth stocks in general, and in particular 'US Big Tech' which increasingly benefitted from 'stay-at-home' orders. The Fund managed to keep up with rising markets overall, and this is attributed to having a roughly equal balance between cyclical and defensive exposures.

- There were two bouts in the year which saw negative returns for the MSCI World Index: February/March and October. The Fund outperformed significantly in the first broad-based sell-off, whilst underperformed slightly in the second period which was led by a sharp rotation in defensives and deeper-value sectors such as Utilities, Telecommunications and Banks, which the fund is underweight.

- 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.
    - In the Fund, however, our focus on quality companies with strong balance sheets and long histories of high return on capital meant that we have seen 28 out of our 35 holdings grow their dividend in 2020, 6 keep their dividend flat, only 1 company cut its dividend, and we saw 0 companies completely cancel their dividend.

- As an income Fund we target a moderate yield (currently 1.9% net) but look for good dividend growth.

*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 philosophy and process behind the Fund was designed by Matthew Page and Ian Mortimer, and they have co-managed the Fund since launch in 2012. The philosophy remains the same today:
    - The Fund seeks to invest in good quality businesses with persistently high returns on capital, strong balance sheets, that are historically highly cash generative, and that are trading at attractive valuations. We believe that such businesses are best placed to pay a sustainable and growing dividend in the future.
    - The Fund takes a long-term view, holding companies for 3-5 years on average, and is a concentrated portfolio (35 stocks) of equally weighted positions, with an active share of >90% vs the benchmark.
- We believe the balanced approach of the fund – seeking a return from a combination of cash flow growth, multiple expansion, and dividends – alongside a focus on quality characteristics mean the fund is well placed whatever the future market direction in 2021, and beyond.

## Dividends

Overall, in 2020, dividend-orientated strategies lagged the market given that a significant proportion of companies suspended or reduced their dividend payments in light of the economic 'sudden stop' caused by the worldwide response to COVID. For example, the MSCI World High Dividend Yield Index was down -0.03% (TR in USD), and the Fund outperformed this Index by 12.29%.

Broadly, the dividend cuts seen in 2020 were 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 Europe, the overall EuroSTOXX Index dividend declined by over 30% in 2020 compared to 2019; 25% of all companies in the index cancelled their dividend with a further 25% having reduced their dividend. *(Source: SocGen)*
- Similarly, in the UK, the FTSE100 Index dividend for 2020 declined by over 35%; 30% of companies cancelled and a further 25% reduced their dividend in the year. *(Source: SocGen)*
- In the US, these respective figures were much lower owing to a culture of progressive dividend policies, a focus on share buybacks, and more conservative payout ratios.

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

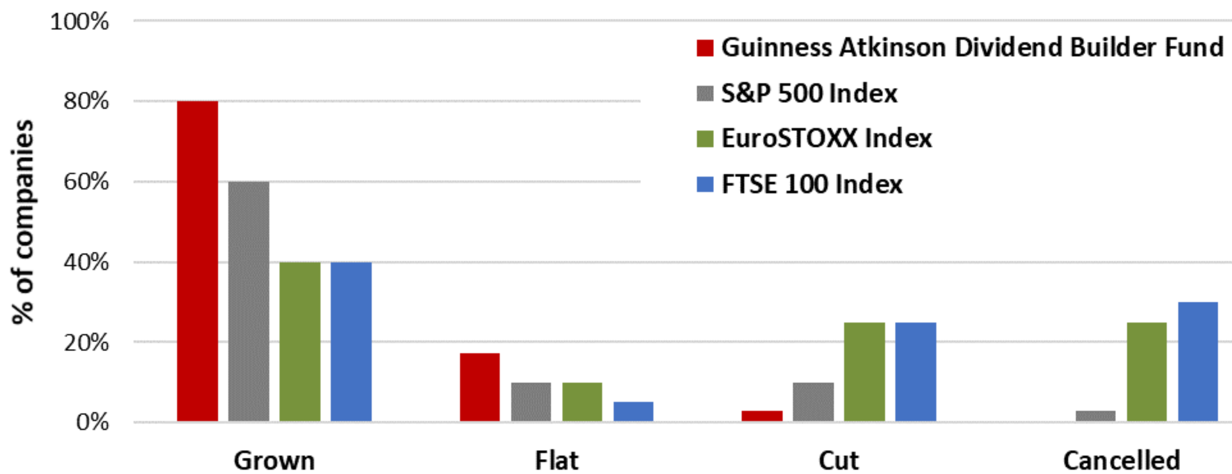


*Figure 1 – Source: Guinness Atkinson Asset Management, SocGen, as of December 31st 2020*

Out of our 35 holdings:

- 28 companies **grew** their dividend
- 6 companies kept their dividend **flat**
- 1 company **cut** its dividend
- 0 companies **cancelled** their dividend

The one company to cut its dividend was Imperial Brands, the tobacco manufacturer. The final dividend (related to 2019 profits) went ex- in February 2020 as expected, but 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%. Management did commit to a progressive dividend policy from this lower level, however. Although the company was able to pay an unaffected dividend, the new management team decided to use the approximately £650mn 'savings to pay down debt which, alongside the £1bn proceeds from the cigar business sale, will help achieve a target of <3X net debt/EBITDA (Earnings Before Interest, Taxes, Depreciation, and Amortization) over time. Based on year-end prices the Fund had a 12-month trailing dividend yield of 1.9% (net of withholding taxes), higher than the benchmark index dividend yield of 1.8% (gross of withholding taxes).

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. This is evident in that the forward dividend yield of the MSCI World Index is currently estimated at 1.9% and 2.1% respectively for 2021 and 2022; that is, the dividend is not expected to recover to pre-pandemic levels until at least 2023, showing that many companies who cut their dividend in 2020 will not necessarily begin paying at their previous levels any time soon. In contrast a number of holdings in the fund have already announced dividend growth plans for 2021 and we are confident that all our holdings have the ability to grow their dividends in 2021.

Further, with current estimates for interest rates around the world set to stay low, company dividends are likely to provide better income than bonds for some time; companies can also increase their dividends whereas bond coupons are fixed to maturity. Dividend growth that compounds over time is a particularly compelling proposition in an environment of sub-1% Treasury yields leading some to worry about inflation.

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. Most of the companies we hold today have a history of consistent dividend growth and almost 25% of our holdings are classed as "Dividend Aristocrats", i.e. they have increased their dividend consecutively for 25+ years:

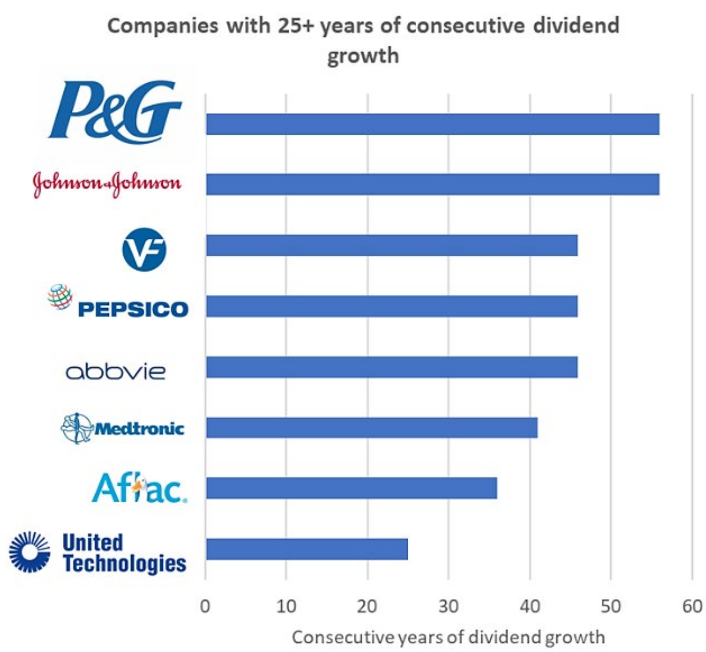


*Figure 2 – Dividend Aristocrats. Source: Bloomberg, Guinness Atkinson Asset Management.*

We currently have 45% of the portfolio in Consumer Staples and Healthcare companies (vs 21% in MSCI World Index). These are sectors that tend to be more defensive and so dividends and earnings are less sensitive to the economy. Using examples of the companies we own in the Fund, dividend growth in 2020 came via firms exhibiting:

- Robust demand (e.g. Nestle)
- Asset light business models (e.g. Microsoft)
- No near-term refinancing needs (e.g. Novo Nordisk)
- Significant family ownership (e.g. Roche)

- Strong credit ratings (e.g. Johnson & Johnson)

As sales in certain industries collapsed when economies around the world moved into lockdown, internal sources of cash began drying up for many businesses, leaving them reliant on borrowing to meet expenses. Companies with no turnover needed cash desperately and had to rapidly rein in expenditures, dividends and share buybacks to ensure survival. This once again highlighted the importance of balance sheet strength and we therefore think it is important to monitor the credit rating of the companies we own.

The below chart shows that we currently have strong credit ratings vs the MSCI World Index benchmark, giving us confidence that our companies not only have relatively better prospects of survival, but they are better positioned to continue rewarding shareholders through dividends and to potentially use any weakness in their competitors to take market share or improve their long-term prospects.

71% of our portfolio companies have a credit rating of at least A+:A- compared to only 23% in the MSCI World Index:

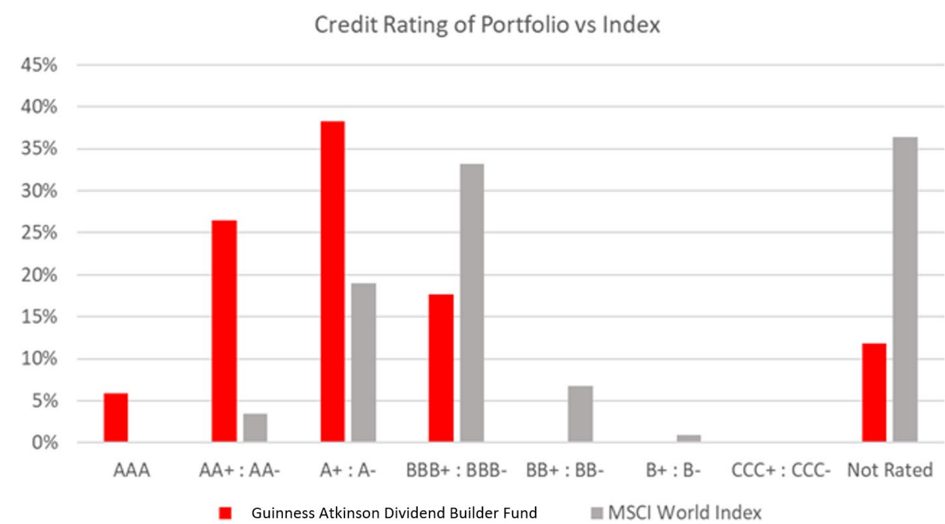


*Figure 3 – Source: Bloomberg, S&P Credit Ratings, as of 31st December 2020*

## Review of 2020

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 signalling that they would remain accommodative for the year ahead.

However, this initial optimism was quickly dampened with the introduction of the Covid-19 virus and its rapid spread from China to all over the globe. Governments worldwide were forced to implement lockdowns as cases and deaths surged and national health services became overwhelmed. Under such unprecedented circumstances US jobless claims smashed a new record as three million people registered in one week, more than four times the previous high in 1967. The S&P 500 Index also broke a record ending the longest bull run in US history in the fastest time – the Index fell 20% in just 22 days:

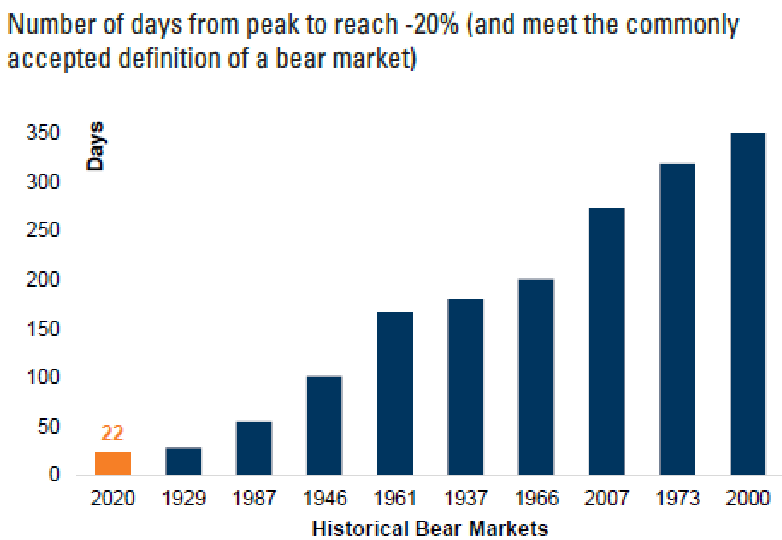


*Figure 4 – Source: Bloomberg, Goldman Sachs Research*

In the drawdown from the peak of the market on February 19th to the trough on March 23rd, the Fund was down -32.2% (in USD), versus the MSCI World Index benchmark, down -34.0%. The Fund therefore outperformed the Index by 1.8% over this period. This is perhaps unsurprising given that the Fund has outperformed in each of the largest drawdowns seen in the last 8 years, i.e. since the launch of the Fund in 2012.

For the MSCI World Index the sharp drawdown in Q1 preceded an impressive rebound. Astonishingly, the losses from the record-breaking crash were fully recovered by August 26th, only five months after the market bottomed and while the global economy was still deep in a quagmire. Since then, it has sailed even higher, most recently on the back of positive vaccine news. The crash was unusually severe in a historical context, and the recovery was equally, if not more, extraordinary. Falls of this magnitude normally take years to recover from: on the previous three occasions when the market has fallen by more than 30%, it has taken nearly three years or longer for losses to be recovered.

It is no coincidence that the rally began on March 23rd when the Federal Reserve (Fed) announced it would do everything in its power to alleviate credit stresses, including buying corporate bonds (and even junk bonds) for the first time. Growth in US M2, a broad measure of money supply, was the strongest in 2020 since the Fed's records began in 1960:


*Figure 5 – Source: Bloomberg. Latest data as of December 31st 2020.*

The Fed's response in the latest crisis has been swift and very large in scope. Coupled with President Trump's initial $3 trillion coronavirus relief bills (for context, the 2009 stimulus package was $831 billion) and an initial €750bn European Central Bank (ECB) asset purchase program, unprecedented stimulus faced off with an unprecedented economic contraction.

Following the March sell-off, policymakers essentially provided equity markets a floor. Combined with increased optimism that lockdown measures were having some success in reducing infection rates, Q2's market rally was led by growth sectors and this trend continued for most of the year.

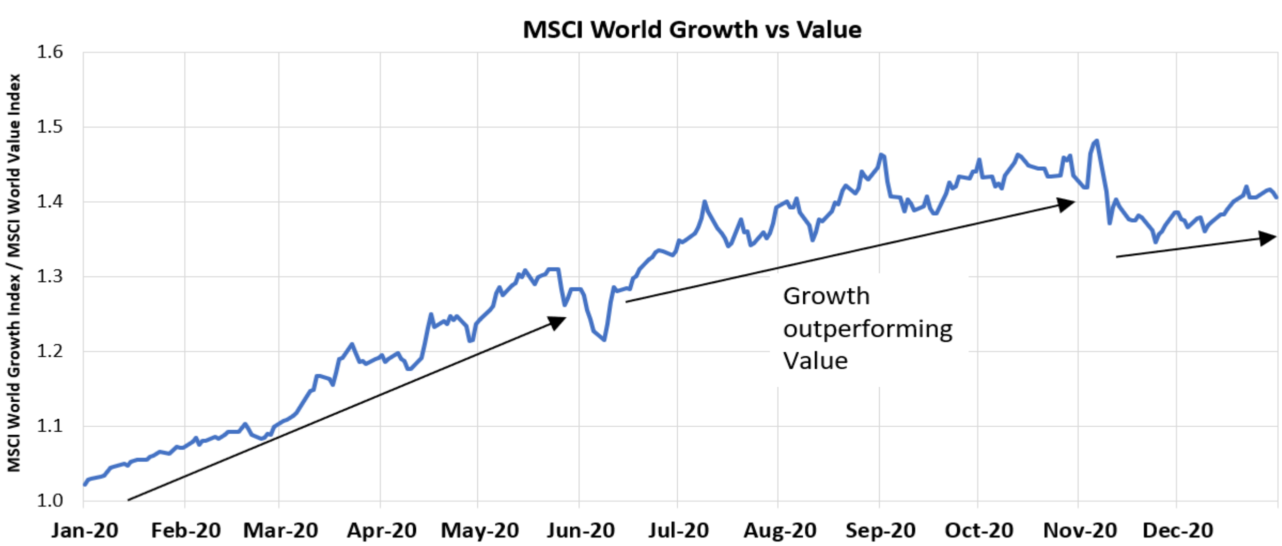


*Figure 6 – MSCI World style performance in 2020 (TR in USD). As of December 31st 2020.*
*Source: Bloomberg*

The only blip for 'growth' came in November where we saw a significant rotation into value stocks driven primarily by 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. Weighing up the prospect of possibly greater corporate taxes versus greater fiscal stimulus, 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 was 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 had 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 Oxford/AstraZeneca, showed positive trial results with high efficacy. These vaccines received regulatory approval and began rolling out in December, in turn sparking optimism that unconstrained social and economic life could perhaps return in the not-too-distant future.

The big question going into 2021 is whether the strong equity 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 can 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 most market conditions.

## Sector & Regional Attribution

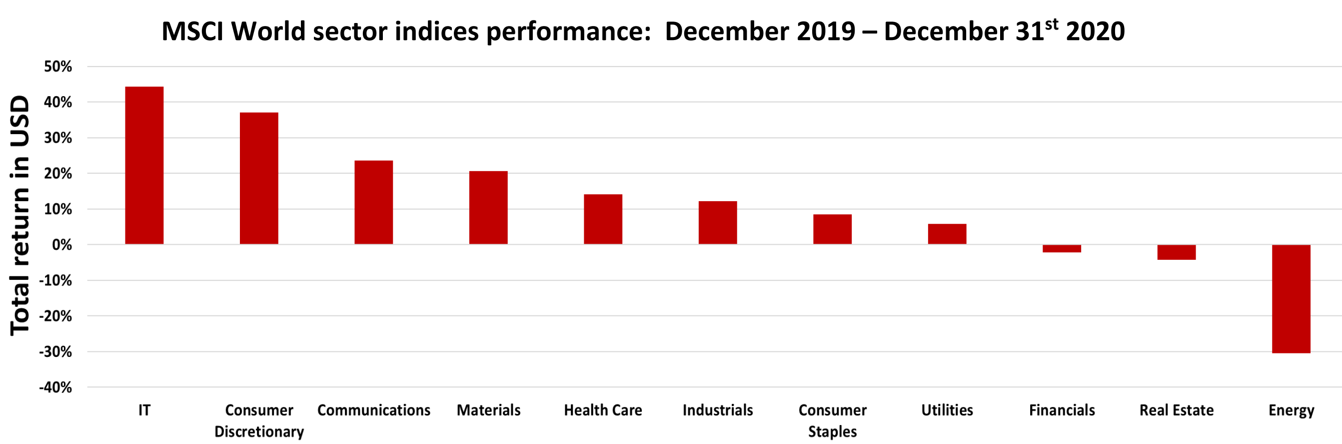


*Figure 7 – MSCI World sector performance in 2020 (TR in USD). As of December 31st 2020. Source: Bloomberg*

IT, Consumer Discretionary and Communications were overall the best performing sectors in the year, and these were aided by the rally in the US 'Big Tech' names. The five largest weighted companies in the MSCI World Index (Apple, Microsoft, Amazon, Facebook, Alphabet) make up about 15% – the largest concentration the Index has ever seen in only five holdings. The strong performance of these stocks was therefore highly influential on the Index's overall performance, and also on the respective performance of the IT, Consumer Discretionary and Communications sectors. The general – and somewhat justifiable – perception was that the 'FAMAG' stocks would continue to benefit from long-term revenue and earnings growth having asymmetrically benefited from the forced changes to work, social and shopping practices during lockdowns.

Being underweight IT was a drag on Fund performance in the year, however looking more intricately, the chart below highlights that the Fund's relative underperformance vs the MSCI World Index over the full year is explained by the Index's narrow leadership. The visual compares the Fund's performance to the MSCI World Index including and excluding the five 'FAMAG' stocks:

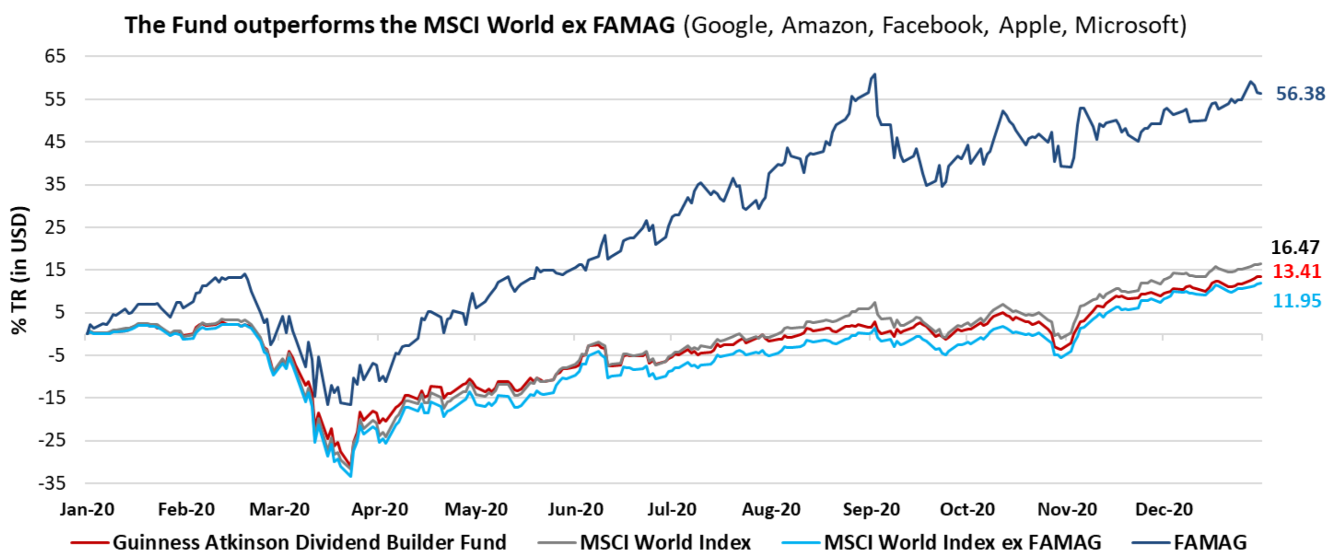


*Figure 8 – Source: Bloomberg, as of December 31st 2020*

Though there was a rotation in Q3 towards defensive sectors, as uncertainty over US elections and fiscal stimulus negotiations weighed on the cyclical sectors, this was not sufficient enough to buck any broader yearly trend.

Energy was the weakest performing sector over 2020 as the price of oil plunged after Saudi Arabia failed to convince Russia to back production cuts. The US oil benchmark, WTI (West Texas Intermediate), fell towards $20/barrel in April, close to its lowest level in 18 years, and after starting the year at $60/barrel. Aside from increased supply, demand for the commodity collapsed as most airlines suspended their flight schedules due to the Covid-19 outbreak. Lower oil prices prompted many US energy producers to cut the number of operating drilling rigs and to lower capital expenditure plans. The Fund holds no Energy stocks after selling its one previous holding (Royal Dutch Shell) in Q1, prior to the OPEC meeting which resulted in a major sell-off in the sector.

Financials also fared poorly over the year as interest rates were cut by central banks globally and the market assessed the risk to corporate credit. The Federal Reserve cut interest rates twice in March for the first time since the Global Financial Crisis and announced unlimited quantitative easing. US interest rates now stand at 0-0.25%. Within the Financials sector Banks led the declines, and having no exposure was beneficial to the Fund. Banks have underperformed in recent times due a number of reasons: firstly, lower interest rates in turn squeeze banks' lending margins. Secondly, with consumers and businesses facing greater financial stress, outstanding bank loans are riskier and have a greater probability of default. Thirdly, to add salt to the wounds, regulators in the US ruled that banks must cap dividends and undertake no share buybacks, while in Europe, banks were forced to withhold all dividend payments until at least 2021.

In the Fund, we currently have a good balance of defensive exposure (Consumer Staples and Healthcare) and cyclical exposure (Industrials, IT, Financials). Whilst the defensive names tend to have lower beta and hold up better when markets are falling, the cyclical holdings allow the Fund to maintain performance when markets are rebounding and rising. We believe that within these more cyclical sectors we are owning the 'quality' businesses. All the companies we seek to invest in have strong balance sheets and a history of performing well in difficult market environments. Within financials, for example, we do not own any banks, but we do own exchange groups such as CME and Deutsche Boerse (which do well in periods of market volatility as volumes tend to increase at these times which results in higher revenues for the exchanges).

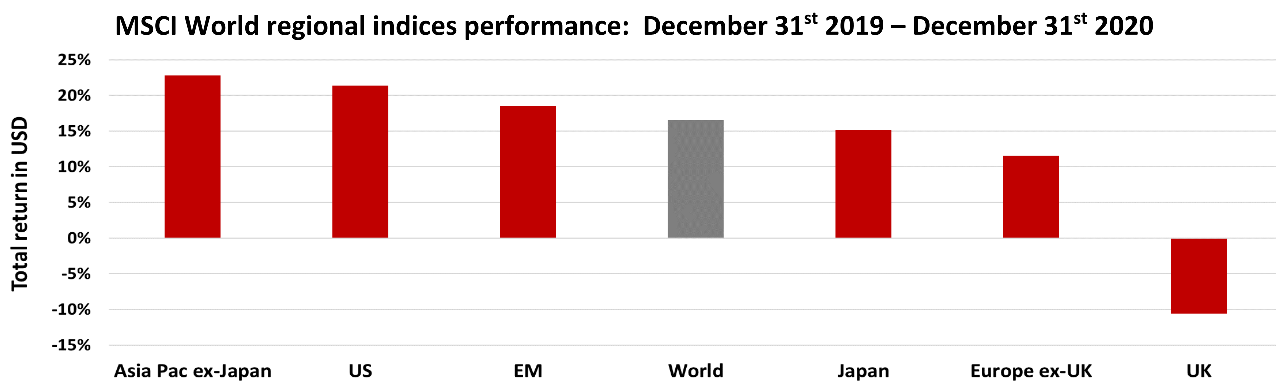


*Figure 9 – Regional Performance (TR in USD). As of 31st December 2020. Source: Bloomberg*

Regionally, Asia Pac ex-Japan and Emerging Markets were amongst the best performing regions in the year, largely benefiting from a weak US Dollar, ongoing monetary and fiscal stimulus, and a continued recovery in economic data due to an effective virus response allowing for less restrictions and faster revival in consumption. In China, third-quarter GDP growth printed at 4.9% year on year and the region is set to be the only major one to see positive aggregate economic growth over 2020 relative to 2019. Within the Fund our EM and Asia-Pac exposure comes via three companies: TSMC (Taiwan), Anta Sports (Hong Kong) and Sonic Healthcare (Australia), which all performed well in the year.

US equity markets also continued their ascent in the year despite mixed economic data releases and increasing political uncertainty. Although it was anticipated, confirmation that Q2's quarterly contraction in GDP (-32.9%) was the worst on record raised questions over a swift recovery. Near-zero interest rates in the US have had a depreciating effect on the US Dollar, which has seen a steady decline since its March highs. The weaker Dollar versus a basket of foreign currencies boosts US stocks by attracting foreign investors and export demand. This is not beneficial, however, to foreign-domiciled multinational companies which translate their Dollar earnings into local currency at a less favorable exchange rate. This particularly affects the FTSE 100 Index given that the largest UK companies collectively derive over 70% of their earnings from overseas. Alongside sector biases towards Financial and Energy stocks, and continued uncertainty over Brexit negotiations, the UK fared as the worst performing region in the year. Being overweight in the UK proved a drag on Fund performance in the year.

## Individual Stock Performance

When we look at how individual companies within the portfolio performed in 2020 we see that out of the top five, we have one Consumer Discretionary, two IT, one Financial and one Industrial stock (figure 16). 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.

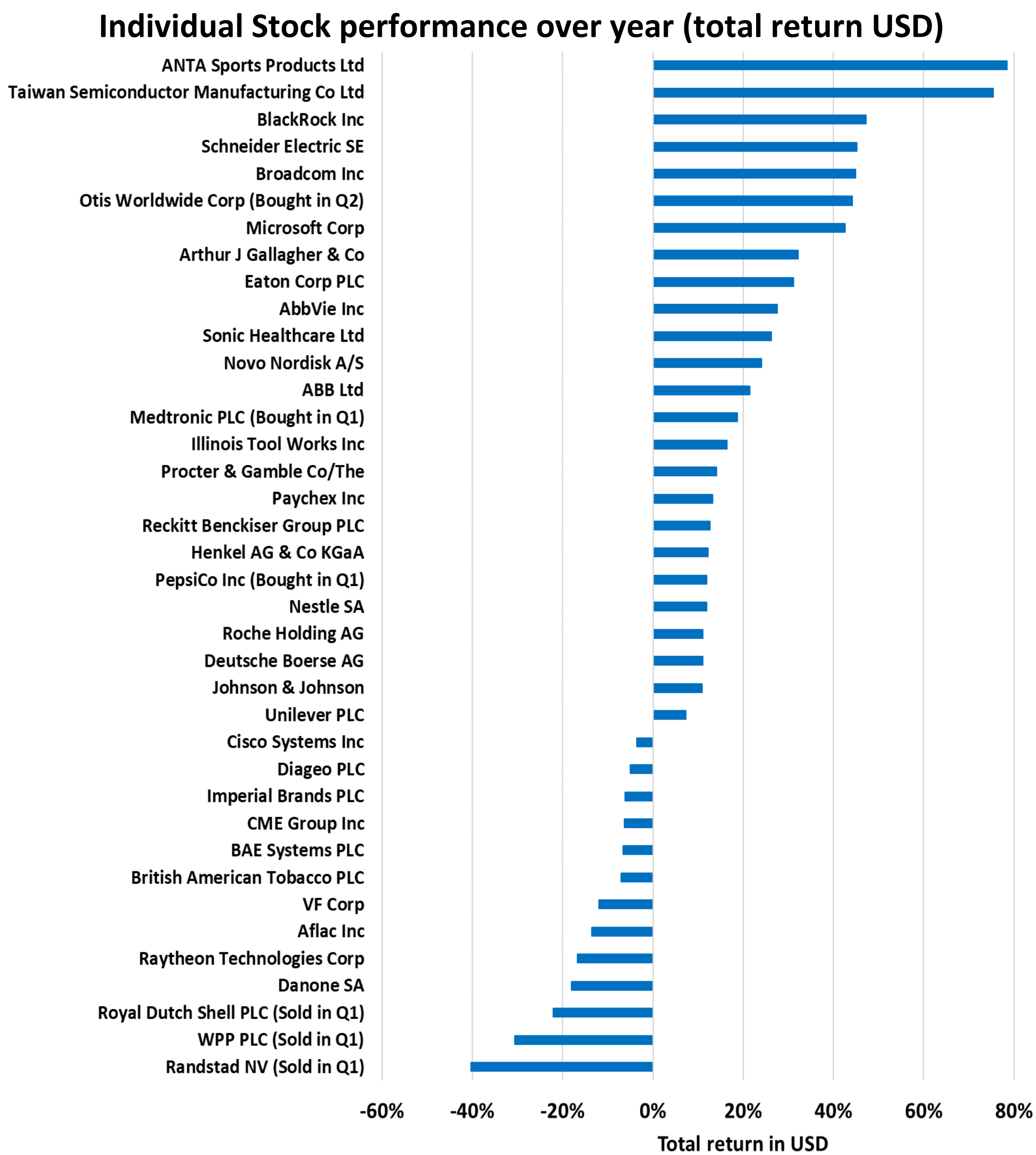


*Figure 10 – Individual stock performance over holding period during 2020 (TR in USD). As of December 31st 2020. Source: Bloomberg*

The best performer over the year was **Anta Sports** (+78.4% in USD). The company generates revenue through the manufacture 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.

**TSMC** also performed very well in the year (+75.4% in USD) after the world's leading global foundry raised its 2020 sales target as well as the growth outlook for the integrated chip foundry sector. TSMC dominates the advanced node-processing foundry market with about 75% market share. The company's extreme ultraviolet lithography (EUV) process capacity is more than triple its peers such as Samsung and Intel after it spent more than $3.3 billion on 18 new EUV machines in 2019. TSMC's success in adopting the 5-nanometer node process in mass production this year should allow it to command a higher selling price, helping it maintain its revenue growth amid the Covid-19 pandemic. Further, Intel announced on July 23rd that it is planning to outsource production of some chip products to external manufacturers due to low production yield in its own 7-nm technology under development. This not only will pass more business to TSMC, but will extend its lead over Intel and other peers who cannot compete with the high required R&D expenditure. The company's expansion into a new semiconductor packaging business, although less profitable than chipmaking, should also help to retain its market-share leadership amid increasing competition with Samsung.

The worst performing stock over the year – which we continue to hold – was **Danone** (-18.0% in USD). Danone is a global food and beverage company organised into Diary & Plant-based products, Specialized Nutrition, and Water. The company enjoys a leading market share in a range of niche product categories (e.g. yogurt, soy milk and out-of-home water) which in turn means that brands such as Activia, Actimel, Alpro, Evian and Volvic dominate prime retail shelf space. Recent organic growth has come via strong demand in China and greater direct-to-consumer sales online. However, Danone has lagged other consumer staples businesses in terms of growth and profitability which is reflected in lower valuation multiples paid for the company today. To address this, the company has announced plans to cut costs by €1bn over the next few years, seeking to boost both gross and net margins, while continued efforts to deleverage further strengthens the company's balance sheet.

Amongst the weakest contributors to the Fund in 2020 are the three 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 2020 we sold 3 positions and replaced them with 3 new ones, leaving the portfolio with 35 positions.

| | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|---|---|---|---|---|---|---|---|---|---|
| **Buys** | 4 | 7 | 2 | 7 | 4 | 5 | 4 | 4 | 3 |
| **Sales** | 3 | 8 | 3 | 6 | 4 | 5 | 4 | 4 | 3 |
| **Total holdings** | 36 | 35 | 34 | 35 | 35 | 35 | 35 | 35 | 35 |

*Figure 11 – Number of changes to the portfolio*

**In the first quarter, we sold three companies and replaced them with two companies. We sold positions in Royal Dutch Shell, WPP and Randstad; we added positions in Pepsi and Medtronic.**

Royal Dutch Shell had been a long-term holding in the fund. Following the long-term shift in oil prices at the end of 2014 as US shale oil production ramped up and expectations of demand from the 'BRIC' nations tempered, Royal Dutch Shell, along with the other majors, reset their business models focussing again on returns over growth. During this transition the safety of the dividend was questioned along with the sustainability of debt that had accumulated in the previous era of growth. Ultimately Royal Dutch did not cut its dividend, although it did move for a time to scrip payments, as capex and costs were cut, and a significant disposal program was executed. Recent results raised some question marks for the company as the buyback program was reduced and we saw weakness across all areas of the business, including in the downstream which is usually counter cyclical. As oil prices fell once again on demand worries in relation to recent events, we took the view that we could potentially see lower oil prices for the medium term which would affect cash flows that are already under pressure leading to the dividend once again becoming questionable, but now from a position where costs have already been cut. We sold the position in late February prior to the OPEC meeting on March 3rd which led to another significant fall in the oil price.

Since 2017 WPP has faced a number of headwinds. The global advertising agency has faced a fall in revenues from consumer goods companies, a traditionally large customer base, seeking to cut advertising budgets. This is an issue that has affected the ad agencies as a group and has led to slower growth for these high return businesses. The threat of Facebook and Google and programmatic advertising taking market share has also weighed on long term sentiment. Long-time CEO Martin Sorrell left WPP somewhat under a cloud in April 2018, with new CEO Mark Read taking over shortly after and implementing a strategy to merge businesses within the group and drive growth. Dividend growth was halted although the dividend itself was not cut and a decision to sell a stake in the Kantar Group Unit was announced in July 2019 which helped alleviate pressure on the balance sheet, another market concern. Performance was positive in 2019 with the stock price up 34% (in GBP) outperforming the FTSE All Share by 15%. However, results in February were weak, and the stock price reacted very negatively falling 16% on the day (in GBP) as the market fell alongside. Organic growth for the quarter was weaker than expected but guidance for 2020 was adjusted downwards to zero growth and did not account for any effects of the coronavirus at the time. This led us to conclude that the planned turnaround could well take longer and may also require further investment – which could weigh on operating margins – in an environment where the economic background is less certain, and the long-term competitive headwinds have not yet abated. This uncertainty coupled with the low probability of a return to dividend growth in the near term (and a higher probability of a reduction in the dividend) led to our decision to sell the position. We sold the position in late February and the company went on suspend its dividend on March 31st.

Randstad is one of the largest temporary staffing and employment services agencies in the world, operating primarily in Europe, but also in Asia and the US. With the deepening impact of COVID-19 being felt across the world we decided that the outlook for Randstad, which relies significantly on shorter-term employment contracts and has exposure to industrial and automotive sectors, would be very negative in the shorter term, with the potential to be negative in the medium term depending on the length and second order effects of the national shutdowns being implemented. We sold the position in early March and Randstad subsequently went on to suspend its dividend on March 23rd.

Medtronic is the largest pure-play medical device maker (current market capitalization of $160bn) and has a diversified product base covering chronic diseases and numerous acute care cases in hospitals and typically holds significant market share in its core products such as heart devices. The company has continuously invested into new, innovative areas through research and development which helps to protect from competition and offers new channels for growth in the future rather than purely relying on established products – which is evident from consistently high and historically stable returns on capital. The balance sheet is strong, and the company has been paying down debt over recent years. More recently the company has focused on costs which has driven growing operating margins and led to improved earnings growth. With the potential to capitalize on previous investments to further increase revenue growth we see a good runway for steady earnings growth in the medium to long term. The dividend yield was back above 2% at time of purchase due to the Q1 2020 sell off, the dividend growth averaged 8% over the past 3 years, and the forward PE multiple had fallen to close to the average over the past 5 years. We saw this as a good opportunity to buy a consistent, and high-quality business at a reasonable price which can provide good earnings growth in a market environment where growth has become more uncertain.

The purchase of PepsiCo for the portfolio marks the second time we have owned it – having held the stock at launch in 2012 and subsequently sold in late 2012. The global beverage and snack business often sits #2 to rival Coke in many large markets but its integrated business model can potentially lead to advantages in an environment of quickly changing tastes and differences locally. The company has taken a more data-driven approach to tailor products to customers more specifically, utilizing its agile supply chains, leading to improved returns. Like other established branded consumer goods companies, it has begun to devolve decision making more locally to adapt more quickly and potentially develop new, higher growth, products. Operating margin declines in 2019 were affected by higher investments, which should now be behind the company and lead to incremental improvements in 2020 and beyond. The market expects growth of around 8% in earnings per share over the medium term, which may be affected by the virus short term, but should be relatively well insulated. The dividend yield is almost 3% and has been growing 8% on average over the last 3 years. The stock is below its average PE multiple over the past 5 years, but is now expected to grow faster, and is at a small discount to peers. The return on capital remains solid and has been improving slightly in recent years. Much like Medtronic (above) we saw a good entry point for a high-quality business at a reasonable price with a strong, growing dividend.

**In the <u>second quarter</u>, the changes made to the portfolio related 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 defence 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 and only immediately replaced them with two.

Our decision to make whole our position in **Otis Worldwide** came as a result of the strong competitive positioning the company holds. Otis is the largest manufacturer of elevators and escalators in the world; its maintenance base is 55%, i.e. where it receives recurring service revenues, and is almost twice the size of rivals' (Kone, Schindler). 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 about 60%, with an indicated dividend yield of 2.6% for 2020.

**In the <u>third and fourth quarters</u>, we made no changes to the portfolio.**

## Portfolio Positioning

The charts below show the sector and geographic breakdown of the portfolio both currently and over the last 8 years. The major effect of the changes we made to the portfolio in 2020 was to increase our Healthcare and Consumer Staples exposure, while reducing our Communications and Energy exposure. In terms of sector weightings, the Fund has a zero weighting to Utilities, Materials, Real Estate, Energy and Communications. The largest overweight positions are to Consumer Staples and Industrials.

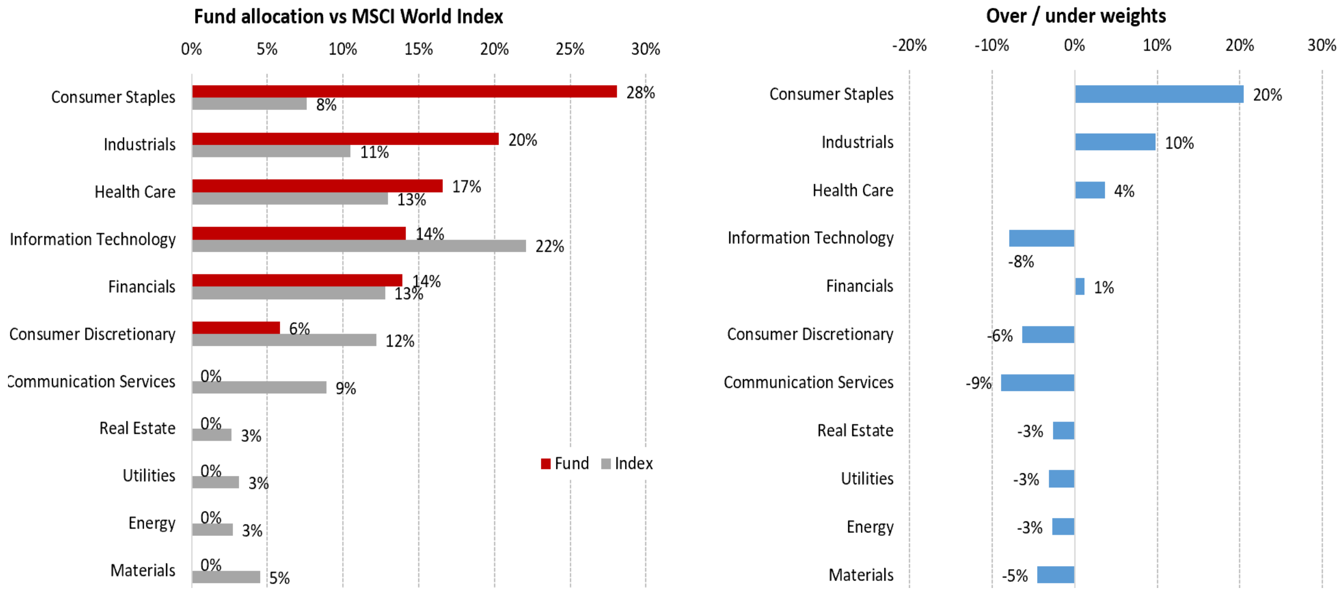


*Figure 12 – Portfolio sector breakdown versus the MSCI World Index.*
*Source: Guinness Atkinson Asset Management, Bloomberg (data as of December 31st 2020)*

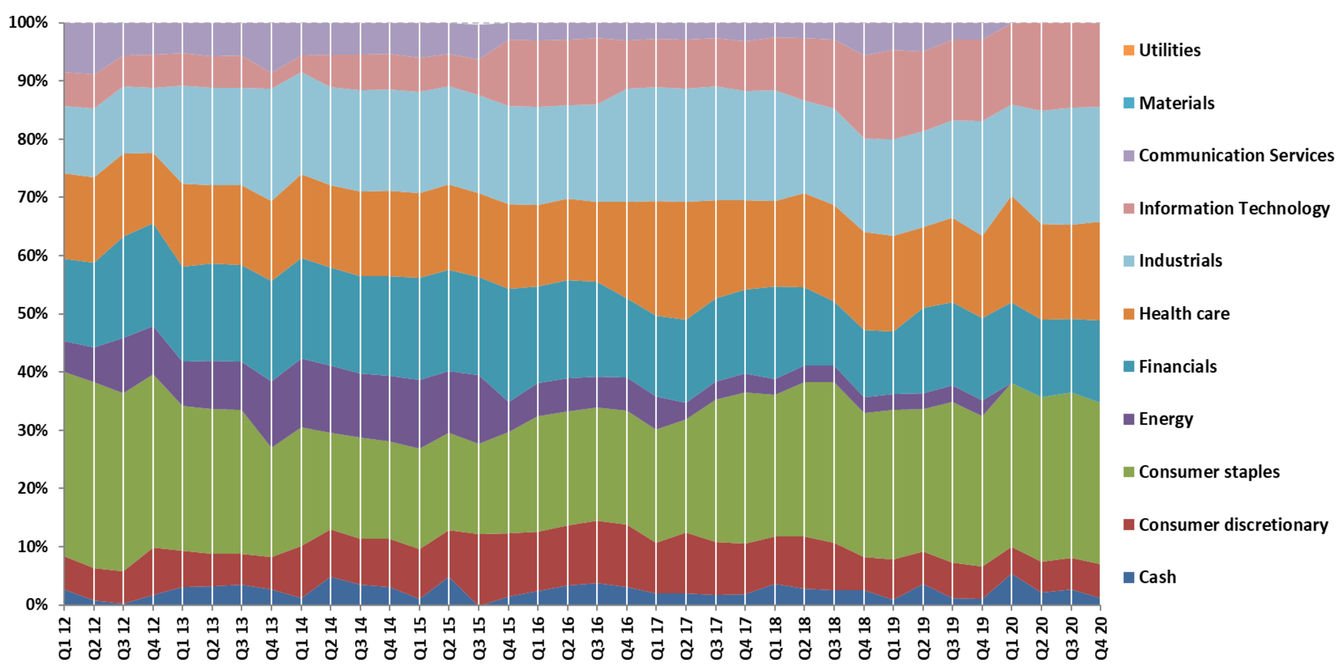


*Figure 13 – Portfolio sector breakdown (as of December 31st 2020).*
*Source: Guinness Atkinson Asset Management*

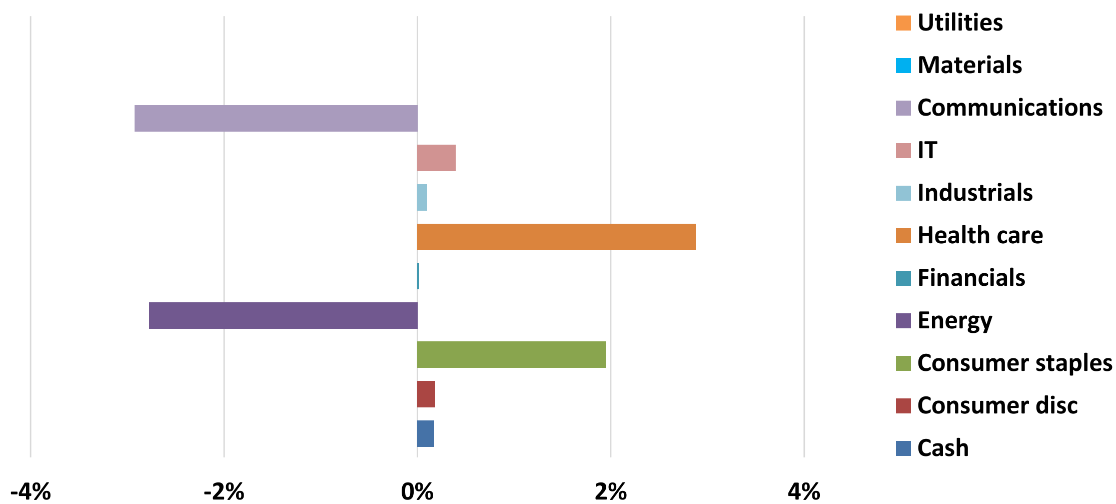


*Figure 14 – Year on year change in sector breakdown (December 31st 2020 vs December 31st 2019). Source: Guinness Atkinson Asset Management*

In terms of geographic allocation, we reduced our Europe and UK weighting, while increasing our exposure to the US. This is based on bottom-up, fundamental stock analysis, rather than regional bets.

The Fund is currently approximately 16% underweight the US, and though this was the best performing region in 2020, 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, 7 were US domiciled.

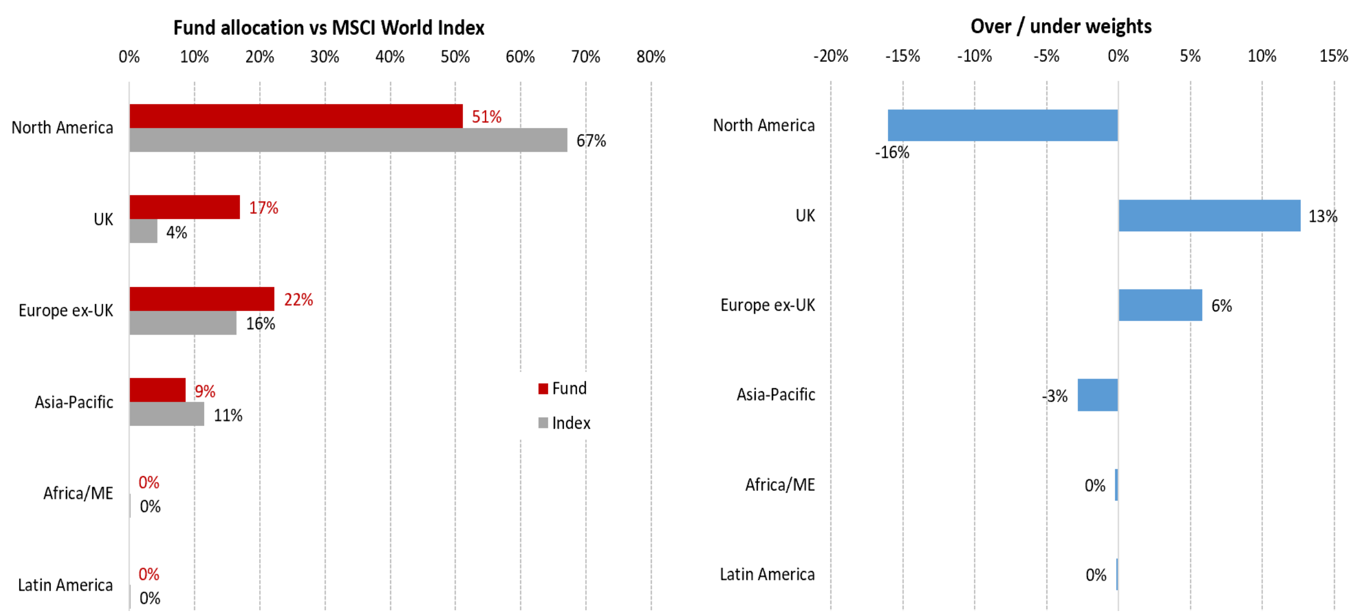


*Figure 15 – Portfolio geographic breakdown versus the MSCI World Index. Source: Guinness Atkinson Asset Management, Bloomberg (data as of December 31st 2020)*

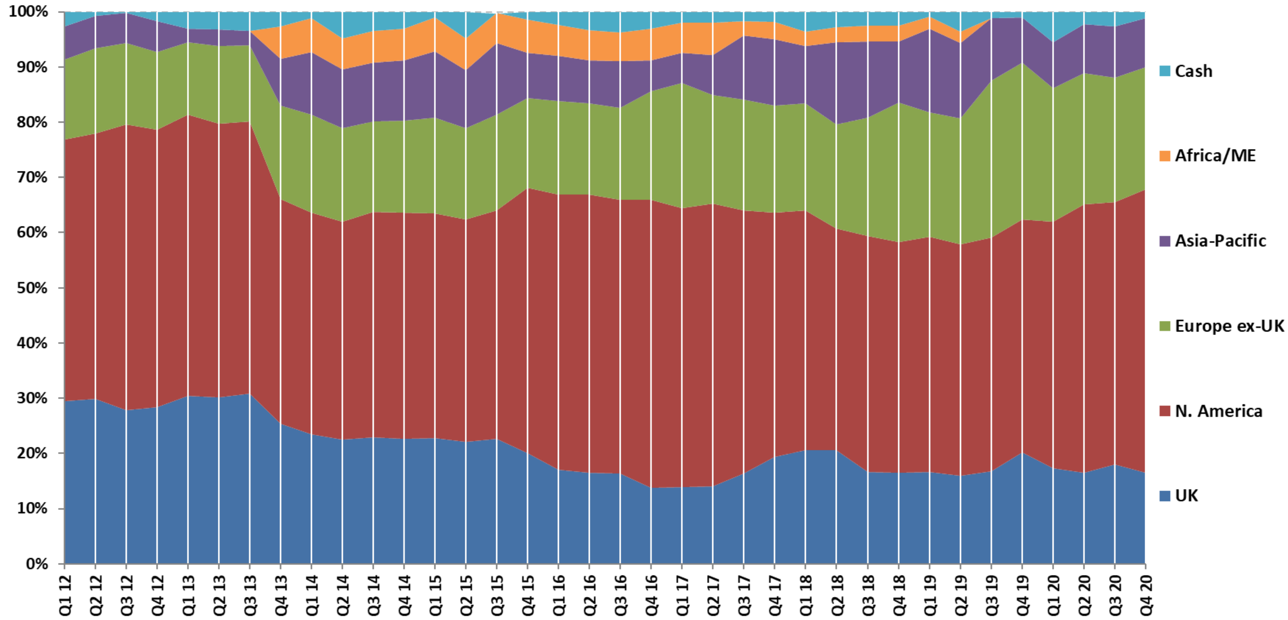


*Figure 16 – Portfolio geographic breakdown (as of December 31st 2020).*
*Source: Guinness Atkinson Asset Management*

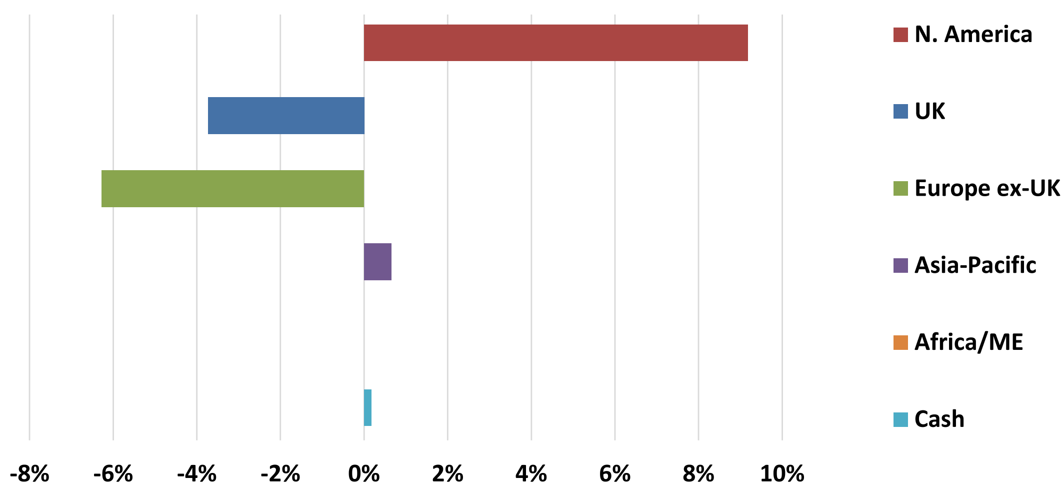


*Figure 17 – Year on year change in geographic breakdown*
*(December 31st 2020 vs December 31st 2019).*
*Source: Guinness Atkinson Asset Management*

## 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% |
| | ROE | 23% | 8% |
| | Weighted average net debt / equity | 66% | 82% |
| Value | PE (2021e) | 17.9 | 21.5 |
| | FCF Yield (LTM) | 6.4% | 5.7% |
| Dividend | Dividend Yield (LTM) | 1.9% (net) | 1.8% (gross) |
| | Weighted average payout ratio | 53% | 80% |
| Conviction | Number of stocks | 35 | 1650 |
| | Active share | 90% | - |

*Figure 18 – Portfolio metrics versus index. As of December 31st 2020*
*Source: Guinness Atkinson 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 and with a higher dividend yield. The fund at the end of the year was trading on 17.9x 2020 expected earnings; a discount of 16.4%.

As we look ahead to 2021, while the news of effective vaccines is unquestionably good news and markets are likely to put expected near-term economic weakness in the context of better times on the horizon, investors should appreciate there is still some uncertainty around the extent to which these vaccines are a panacea, and how soon they may be delivered. Within equities, the market's renewed appetite for value stocks makes sense in the context of the vaccine, but whether the move away from growth will be sustained is still uncertain. Questions also remain around the outlook for inflation and interest rates, which have underpinned higher valuations for equities in general. We believe the holdings we have selected in the Fund remain very robust and are well placed to weather whatever the new year brings; our perpetual approach of focusing on quality compounders and dividend-growers should continue to 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 safe and prosperous 2021.

Portfolio Managers
Matthew Page
Ian Mortimer

Investment Analysts
Sagar Thanki
Joseph Stephens

## Performance

In 2020 the Guinness Atkinson Dividend Builder Fund produced a total return of 12.26% (TR in USD), compared to the MSCI World Net TR Index return of 15.90%. The Fund therefore underperformed the Index by 3.64%.

### Standardized Performance

| as of 12/31/20 | 1 YR | 3 YR Annualized | 5 YR Annualized | Since inception Annualized (3/30/12) |
|---|---|---|---|---|
| **Dividend Builder Fund** | 12.26% | 10.89% | 12.07% | 10.70% |
| **MSCI World Net TR Index** | 15.90% | 10.51% | 12.18% | 10.67% |

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, 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 12/31/2020:

| | | |
|---|---|---|
| 1 | ANTA Sports Products Ltd | 3.49% |
| 2 | Taiwan Semiconductor Manufacturing Co Ltd | 3.27% |
| 3 | AbbVie Inc | 2.98% |
| 4 | BlackRock Inc | 2.94% |
| 5 | VF Corp | 2.93% |
| 6 | Broadcom Inc | 2.86% |
| 7 | ABB Ltd | 2.79% |
| 8 | Aflac Inc | 2.78% |
| 9 | Paychex Inc | 2.76% |
| 10 | Otis Worldwide Corp | 2.75% |

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 adding the dividends paid over the last 12 months and dividing 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.

The Credit Ratings reflect Standard and Poor's opinion as to the quality of the underlying securities in the Index and the Fund's portfolio and not that of the Fund itself. Quality ratings are subject to change. Standard and Poor's assigns a rating of AAA as the highest to D as the lowest credit quality rating.

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.

Active Share is the percentage of portfolio holdings in a Fund that differs from the benchmark index.

One cannot invest directly in an index.

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