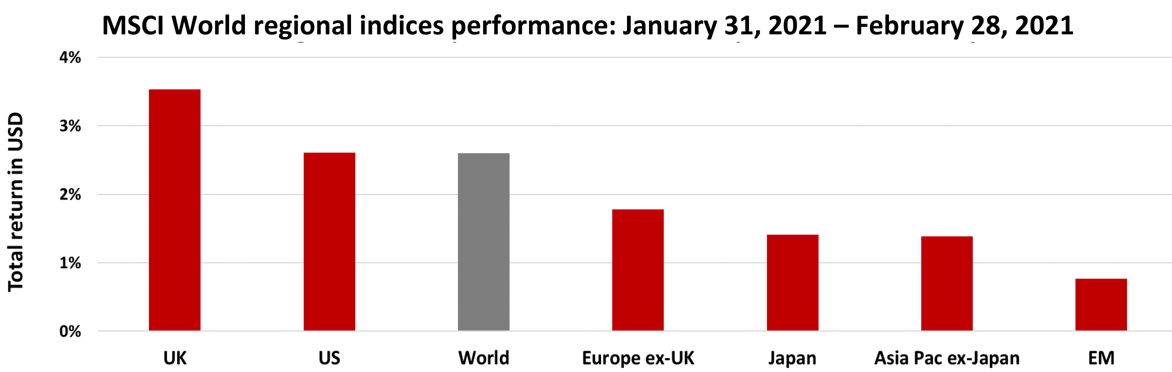
Guinness Atkinson
Dividend Builder Fund (GAINX)
Managers Update – March 2021

February in Review

Global equity markets closed February with modest gains despite making new all-time highs earlier in the month. Positive market sentiment was buoyed by the White House's fiscal stimulus promises, rapid vaccine rollout programs, and a pledge by the Fed Chairman, Jerome Powell, to keep interest rates lower-for-longer to help support the economic recovery. All regions registered gains:



Source: Bloomberg. As of February 28th 2021

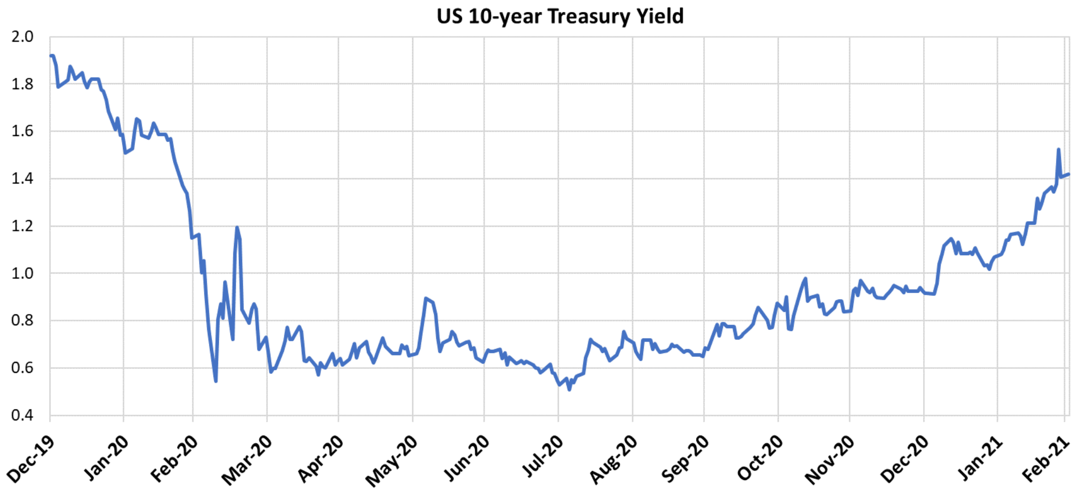
This positive sentiment, however, was put to the test late in the month as choppy trading returned to the market as bond yields surged higher.

The yield on 10-year US treasuries is up more than 50 basis points since the beginning of the year. On Thursday 25th February, the yield on the 10-year hit 1.60% – which is higher than the S&P 500 dividend yield – before settling at 1.42% the next day. While the sharp intra-day moves were triggered by weak demand at a government bond auction, broader moves in recent weeks have been driven by a marked rise in optimism around the economic recovery in the US and associated concerns around higher inflation.

There are three drivers for this:

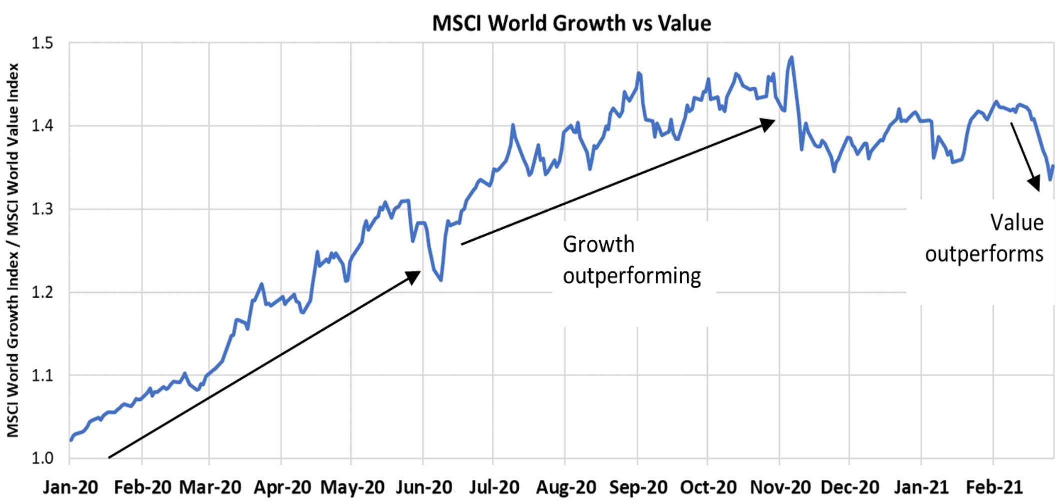
- President Biden's proposed $1.9 trillion fiscal package (9% of US GDP)
- A successful vaccine rollout which has seen 13% of the US population receive at least one jab, with the pace of inoculation faster than in the majority of the world.
- Positive economic data surprises in the US, especially in consumer spending and housing activity.

Despite the Fed's reassurances that interest rate will remain low, the sharp rise in yields sparked a sell off in global equity markets due to fears that rates may not remain supportively lower-for-longer if there is a material spike in inflation.



Source: Bloomberg. As of February 28th 2021

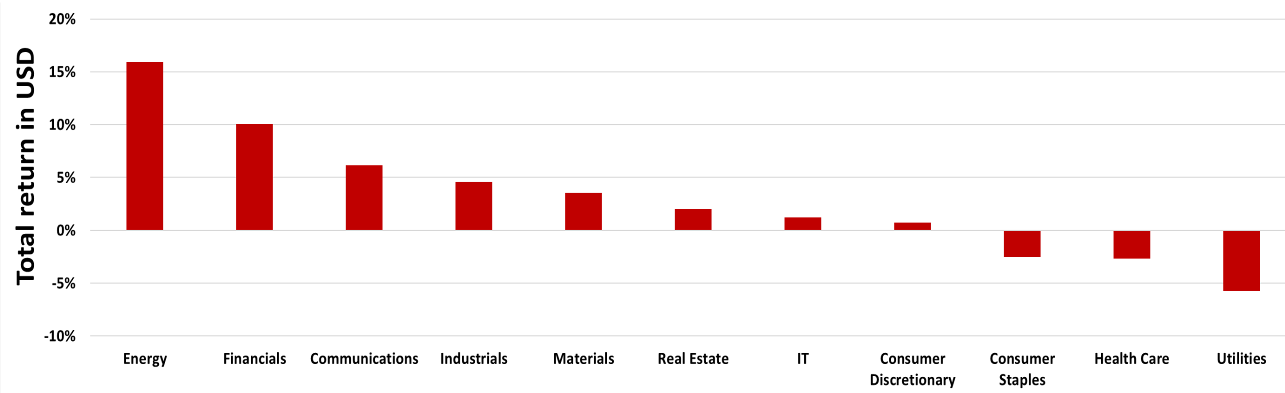
This particularly dragged on the outlook for *growth* stocks which are expected to see earnings growth further out into the future and so are more vulnerable to higher discount rates; these *growth* stocks carry significant weighting in large-cap indices and therefore caused their decline too. In contrast, *value* stocks performed relatively better as the "stay-at-home" trade gave way to the "re-opening" trade.



Source: Bloomberg. As of February 28th 2021

Not surprisingly, the sectors that are most sensitive to the economic cycle – such as Energy, Financials, and Industrials – performed best over the month, while defensive sectors, such as Consumer Staples and Healthcare, lagged and this was a drag on the Fund's performance in February.

MSCI World sector indices performance: January 31st 2021 – February 28th 2021



Source: Bloomberg. As of February 28th 2021

Energy was the best performer for the second month running, with both WTI and Brent Crude Oil prices hitting new one-year highs. WTI was up over 17% for the month, while Brent increased 20%. Commodities, and Banks are seen as the beneficiaries of higher inflation and interest rates, and so have participated in what is known as the reflationary trade. This also helped markets like the UK perform strongly given its sector biases.

Portfolio Holdings

Eaton was the best performer in the Fund in February (+10.6% in USD) after it reported stronger-than-expected FY2020 earnings and revenues. The global power management company manufactures engineered products for industrial, vehicle, construction, and aerospace markets. Recent portfolio restructuring has included sale of its Lighting and Hydraulics businesses, and acquisitions of Tripp Lite and Cobham Mission Systems, which respectively boost Eaton's exposure in the fast-growing electrical-equipment segment and the steady defence aerospace business. After a decade of focusing on margin expansion, the company is now prioritizing growth initiatives and benefits from a number of mega-trends including electrification of vehicles and electricity grids, data centre growth, as well as greater demand for energy efficiency products.

Unilever was the worst performer in February (-9.5% in USD) and the month marked Unilever's worst monthly return since June 2008. The company reported FY2020 earnings which underwhelmed; Covid-induced lockdowns particularly impacted revenue growth in Emerging Markets – which derive 60% of Unilever's total revenue – while lower-than-expected margins sparked concerns about Unilever's growth strategy. Management outlined a long-term annual sales target of 3-5% and while this disappointed versus analyst expectations, CEO Alan Jope did say that the group is "targeting higher growth, with categories such as hygiene, skin care, prestige beauty, 'functional nutrition' and plant-based foods likely to be made a priority".

As one of the world's largest consumer goods producers, Unilever's products are used by 2.5 billion people daily. The company owns over 400 brands of which 13 brands generate annual revenues over €1bn, and account for more than half of the total revenue. Unilever has a strong balance sheet and cash flow generation, enabling its dividend to grow annually for the last 25 year. We also see the stock currently trading at an attractive valuation given that its 1-year forward price-to-earnings ratio (17.5x as of 28th Feb 2021) is well below its 10-year average and below its peers.

Portfolio Changes

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

Summary: Dividend

So far, in 2021, we have had dividend updates from 20 of our 35 holdings:

- 16 companies announced increases for their 2021 dividend vs 2020.
- 3 companies have announced a flat dividend vs 2020.
- 1 company (Danone) has announced a modest cut to its dividend vs 2020.
- 0 companies have announced dividend cancellations.
    - This follows the Fund seeing 0 cancellations also in 2020.

So far, in the Fund, the median dividend growth announced for 2021 stands at 5.9%, and our Financial holdings have declared the largest year-on-year dividend increases:

- **Aflac**: To grow its dividend by 17.9% for 2021. This follows the 3.7% growth in 2020.
- **Blackrock**: To grow its dividend by 13.8% for 2021. This follows the 10.0% growth in 2020.
- **Arthur Gallagher**: To grow its dividend by 6.7% for 2021. This follows the 4.7% growth in 2020.
- **CME Group**: To grow its dividend by 5.9% for 2021. This follows the 13.3% growth in 2020.
- **Deutsche Boerse**: To grow its dividend by 3.4% for 2021. This follows the 7.4% growth in 2020.

The Fund holds no Banks, and never has. Banks tend to be screened out of our universe in our quest for companies with persistently high profitability. From a dividend perspective, no exposure proved beneficial in 2020 after European regulators asked Banks to pause dividend payments in order to preserve cash.

The three companies which held their dividend flat for 2021 – Henkel, Reckitt Benckiser, and ABB – all cited cautiousness and uncertainty as reasons for capital preservation. These companies continue to have strong balance sheets and low leverage, and we believe they have the ability to continue growing their dividend in the future.

- Henkel and ABB both have a low net-debt-to-equity of 11%

- Reckitt Benckiser's figure stands at 97%, though this is as a result of the company re-leveraging to finance the $18bn acquisition of Mead Johnson. The debt is very manageable given the cash-generative nature of RB's business and the interest expense is covered 11-times by earnings.

Danone, the one company to announce a cut in its dividend (by 7.6%) for 2021, also grew its dividend in 2020 (by 8.3%). The global food and beverage company is organized into Dairy & Plant-based products, Specialized Nutrition, and Water, and enjoys a leading market share in a range of niche product categories (e.g. yoghurt, soy milk and out-of-home water). This in turn means that brands such as Activia, Actimel, Alpro, Evian and Volvic dominate prime retail shelf space. In recent years 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, and boost both gross and net margins, the company has announced plans to cut costs by €1bn over the next few years. Combined with continued efforts to deleverage, this further strengthens the company's balance sheet for the future, but in the short-term has meant that management has decided to reduce the dividend payment to reflect 2020's lower earnings. The reduced dividend (€1.94/share) is exactly the equivalent of the dividend paid by the company in 2019, and 7.6% less than 2020 (€2.10/share). This reflects the company's 13.2% decline in earnings in 2020 (from €3.85/share in 2019 to €3.34/share in 2020).

Performance

In February, the Guinness Atkinson Dividend Builder Fund produced a total return of 0.40% (TR in USD), compared to the MSCI World Net TR Index return of 2.56%. The Fund therefore underperformed the Index by 2.16%.

Global equity markets closed February with positive returns despite a drop towards the end of the month. The rotation in favour of *value* and *small-caps* continued as a result of the expected post-pandemic normalisation and rising bond yields. Energy and Banks were the two best performing industries in February, and this dragged on the Fund's performance given no exposure. Staples and Healthcare – where the Fund is relatively overweight – also fared relatively poorly in the month as investors focused their attention on cyclical stocks as further lockdown fears eased. The sharp rise of bond yields in late-February also turned the spotlight on frothy valuations – particularly in non-profitable IT companies.

as of 02/28/21	YTD	1 YR	3 YR Annualized	5 YR Annualized	Since inception Annualized (3/30/12)
Dividend Builder Fund	-1.41%	21.66%	9.83%	12.19%	10.32%
MSCI World Net NR Index	1.54%	29.34%	10.78%	14.11%	10.67%

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, 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 02/28/2021:

1.	Taiwan Semiconductor Manufacturing Co Ltd	3.32%
2.	CME Group Inc	3.11%
3.	AbbVie Inc	2.98%
4.	Eaton Corp PLC	2.95%
5.	Arthur J Gallagher & Co	2.95%
6.	Microsoft Corp	2.94%
7.	Illinois Tool Works Inc	2.92%
8.	Danone SA	2.89%
9.	BAE Systems PLC	2.87%
10.	Otis Worldwide Corp	2.87%

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.

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.

Basis points are a common unit of measure in finance. One basis point is equal to 0.01%

Debt-to-equity is calculated by dividing a company's total liabilities by its shareholder equity. A high debt/equity ratio is often associated with high risk.

Cash flow is the net amount of cash being transferred into and out of a business.

MSCI World Growth Index is a free float-adjusted market capitalization weighted index of large and mid-cap securities exhibiting overall growth style characteristics across developed countries.

MSCI World Value Index is a free float-adjusted market capitalization weighted index of large and mid-cap securities exhibiting overall value style characteristics across developed countries.

One cannot invest directly in an index.

Distributed by Foreside Fund Services, LLC.