



**Alternative Energy Brief**  
**August 2007**

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Welcome to the August 2007 Guinness Atkinson Alternative Energy Brief.

In this issue:

- Fund Performance
- Portfolio Breakdown
- Stock Performance
- Trading
- Solar thoughts

In this issue we discuss our views on the impact of recent sub prime problems on the alternative energy sector and summarise the conclusions we have drawn from our recent visits to Chinese and German solar manufacturing facilities.

## Fund performance

The Guinness Atkinson Alternative Energy Fund was down 0.40% in June which takes us to up 30.60% for the year to date (YTD) 2007. July was a highly volatile month – after a very strong start to the month, we gave all the gains back as the broader markets fell. We underperformed our two benchmark indices as we are in higher beta stocks, which have been slightly worse hit in this downturn and as a result of our first “flop” in a stock – Renewable Power and Light (for details see later).

### Total Returns as of 7/31/07

Total returns	July 07	YTD 07	1 Year	From Inception
Guinness Atkinson Alternative Energy Fund (03/31/06)	-0.40%	30.60%	34.35%	14.53%
WilderHill New Energy Global Innovation Index	3.87%	36.86%	56.99%	33.40%
WilderHill Clean Energy Index	4.69%	25.01%	22.39%	0.64%

Gross Expense Ratio 2.60%

Net Expense Ratio\* 1.98%

### Total Returns as of 6/30/07

Total returns	June 07	YTD 07	1 Year	From Inception:
Guinness Atkinson Alternative Energy Fund (03/31/06)	3.51%	31.12%	34.65%	20.32%
WilderHill New Energy Global Innovation Index	3.06%	31.65%	47.41%	41.29%
WilderHill Clean Energy Index	5.49%	19.39%	8.28%	-3.67%

Gross Expense Ratio 2.60%

Net Expense Ratio\* 1.98%

\* The expense ratio shown is from the most recent prospectus (April 30, 2007). The Fund has an expense cap in place and the advisor is contractually obligated to cap the total expenses at least through June 30, 2008. The Advisor has guaranteed total fund operating expenses (as a percentage of net assets) will not exceed 1.98% through June 30, 2008 or until such a later date as the Advisor determines.

All return figures represent average annualized returns except for periods of one year or less which are actual returns.

**Performance data quoted represents past performance; past performance 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. Performance data current to the most recent month end may be obtained by visiting [www.gafunds.com](http://www.gafunds.com) or calling 800-915-6566.**

**The funds impose a redemption fee of 2% on shares held less than 30 days. Performance data does not reflect the redemption fee. If reflected, total returns would be reduced.**

The underlying fundamentals have not changed and if anything look even more promising as the price of oil is nearly at an all time high and political support for the development of alternative energy is only increasing. We are watching for any impact of tightening debt markets on new projects, but think that the risk is mitigated by the government guaranteed tariffs that many of these projects enjoy. Similarly we think that the likelihood of interest rates moving higher has become lower which takes away the risk that projects relying on debt financing become uneconomical.

### Sector and geographic breakdown

Sector	% of Assets	Region	% of Assets
Solar	33.01%	Europe	50.58%
Wind	18.90%	North America	21.83%
Hydro	13.89%	Asia	10.72%
Efficiency	8.52%	Australia/NZ	7.60%
Fuelcell	6.24%	Latin America	5.96%
Biofuel	8.56%	Cash	1.55%
Geothermal	7.01%		
Biomass Energy	2.15%		
Wave/tidal	0.17%		
Cash	1.55%		
	100.00%		100.0%

Our current thinking is that the most favourable areas for investment are in Solar and Wind, as companies in this area are already profitable and are experiencing strong demand-driven growth. We think that Hydroelectric and Geothermal are also attractive investment areas owing to their operating leverage. For Biofuels, we think that they will play their part over the longer term, but may not necessarily be appropriate for long term investing. Our belief is that feedstock prices (of all types) may rise as the incremental demand on feedstocks for fuel is “game-changing” for agriculture. We are therefore most interested now in biofuel investments that are vertically integrated ( i.e. they produce their own feedstock).

The fund continues to have a European bias, with 50.58% of the fund reflecting the relatively higher maturity of the European solar and wind industries. We now have 24.28% invested across Asia, Australia/NZ and Latin America, in some very interesting opportunities that we believe are missed by many looking at the alternative energy industry. This gives us exposure to emerging markets growth and reflects the global nature of this industry – many of the “solutions” are specific to their relevant geographies, such as Geothermal in the Philippines and Hydro in more mountainous areas.

### Liquidity analysis

Mkt Cap \$m	Positions	% of Assets	Position Size	Positions	% of Assets
>1000	23	56.90%	Full	12	41.61%
500-1000	7	12.12%	Half	31	50.84%
250-500	8	9.77%	Research	23	2.78%
100-250	13	14.30%			
50-100	7	3.13%			
<50	8	1.94%			
Cash		1.55%	Cash		1.55%
Total	65	100.00%		63	100.00%

The liquidity of the portfolio remains good. Roughly half (56.90%) of the portfolio is in stocks with a market capitalisation of over \$1 billion and only 1.94% of the portfolio is invested in stocks with a market capitalisation below \$50 million. We are endeavouring to maintain a balance between holding larger capitalisation more liquid stocks and positions in smaller capitalisation less liquid stocks where the value and growth opportunity might be greater. We have segmented the portfolio into three types of holdings: full, half and research. We currently hold 13 full units and 33 half units, with a further 17 research positions. This also enables us to benefit from a strict rebalancing discipline. Over the month we have reclassified a number of positions as research positions where our appetite for additional exposure was reduced as a result of the position size. We remain enthusiastic about these stocks and will opportunistically increase our positions rather than trading with flows.

### Stock performance

Top 5	Position Size	June % of Assets	Bottom 5	Position Size	June % OF Assets
Ceres Power	Research	26.35%	Renewable Power & Light	Research	-73.42%
Echelon Corp	Half	26.23%	Natural Fuel	Research	-23.51%
Railpower Tech	Research	25.76%	Azure Dynamics	Research	-22.28%
PNOC Energy Dev't	Full	16.35%	Carmanah Tech	Half	-20.77%
Gamesa	Full	12.20%	Quantum Fuel	Half	-17.95%

Over a tricky month, we saw strong performance from diverse stocks. Ceres Power, a UK fuelcell company - a research position that is almost half a unit in size - continued its good run with the prospect of a product demonstration in the fall. Echelon won a contract from McDonald's which should spur further growth and act as a verification of the technology. PNOC Energy Development Corp is a Philippines based geothermal company which benefited from the sale of a stake in the company by the government. This went some way towards alleviating the overhang which the government stake creates over the stock price. Gamesa, the Spanish wind turbine manufacturer performed well over the month. This has been a favourite of ours with strong customer ties and lower multiples than the other turbine manufacturers.

Renewable Power & Light provided us with our first major flop. This had been a half unit and is now a research position for us. The company had acquired Mothballed Generation Plant on the East Coast of the U.S. and had signed a contract for importing palmoil at fixed prices through a U.S. wholesaler. Unfortunately the U.S. wholesaler was relying on large Nigerian contracts and when the palmoil price more than doubled from where the contract was struck, the Nigerians said they would not deliver under the contract. The company is now trading at a discount to cash and asset value, but we think that management will need to do a lot before they can regain investor confidence. This cost us over 1% in performance which was a great disappointment to us. However, we recognise that this is part of the risk involved with investing in this sector and it particularly highlights the importance of portfolio investing in the alternative energy sector.

Of the other poor performers, Natural Fuel continued down as palmoil prices remained high. Azure Dynamics in which we only hold a research position is a volatile small stock, Carmanah suffered after a weak quarter driven by inventory cost and Canadian dollar issues, and Quantum Fuel Systems is struggling to regain investor confidence after a poorly managed accelerated bookbuild at a big discount.

## **Trading**

We bought positions in the IPOs of Jetion, a Chinese solar play and Maple Energy, a unique Peruvian company which is developing low cost ethanol capabilities. We bought a half unit in Greentech Energy, a wind developer and Wacker Chemie a silicon manufacturer. We also topped up our positions in Solon, the German solar module manufacturer and Clipper Wind the U.S. wind turbine manufacturer.

We sold our positions in Trading Emissions and Environmental Power and reduced our position in Biopetrol Industries to half a unit.

## **Solar thoughts**

As mentioned in the June brief, Matt and Edward visited Germany and China to inspect solar facilities. The German visit included visits to facilities of Ersol, EverQ, Q-Cells, Solon and Conergy. Most notable was that the solar industry is only now entering into professional large scale manufacturing and there are still many steps in the process where efficiencies can be achieved and where full automation leads to significant quality and cost benefits. Easy to achieve benefits will also come from lower capital costs and improved silicon usage. The Germans are striving to achieve scale while continuously innovating and we believe that the quality of workforce they have will enable them to achieve this tricky goal. They are expecting 5-10% price reductions (minimum) annually, but have a roadmap to achieve the necessary cost reductions to remain highly profitable. It was readily apparent that the industry is gearing up to accelerate through the foothills of the expected growth to deliver grid parity and a profitable business model.

The Chinese tour involved visits to facilities or separate meetings with management with Suntech, JA Solar, China Sunergy, Trina, Renesola, Canadian Solar and Solarfun. Silicon supply across the industry is tight and looks set to continue to be tight through 2008. A number of Chinese companies are buying scrap silicon from the electronics industry at a discounted price to virgin polysilicon and recycling it. This is a process which would not be economically viable in Europe due to the labour intensive nature of sorting the scrap silicon, yet it is providing additional polysilicon supply to a tight market. Ultimately there will be a cap in the size of the scrap polysilicon market as it is a function of the amount of polysilicon used by the electronics industry. Many of the Chinese companies that have had IPO's recently are paying very high prices for polysilicon on the spot market (in some cases \$330 per kg) whereas those companies that have managed to sign long-term supply contracts will be paying nearer \$50-60 per kg. This difference in raw material costs for different companies will clearly make a significant difference to their margins. We identified Suntech Power as the best placed company due to the long-term silicon supply contracts, quality of management and scale of operation. We should start to see their margins expanding as their long-term polysilicon contract supplies a higher percentage of their silicon requirements combined with improving cell efficiency. After discussions with a number of companies we estimate that new Chinese companies who are building facilities to produce virgin polysilicon will have capacity to produce around 300-500MW by 2010 which compares to industry estimates of worldwide demand of 15,000 MW by 2010. Should significant polysilicon supply come on line over the next few years then the Chinese cell and module producers are well placed for margin expansion, however, if polysilicon prices remain high some of these companies will struggle.

Thank you for your continuing support.

Tim Guinness  
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Commentary for our views on global energy and Asia markets is available on our website. Please [click here](#) to view.

Total returns reflect a fee waiver in effect and in the absence of this waiver, the total returns would be lower.

This information is authorized for use when preceded or accompanied by a prospectus for the Guinness Atkinson Global Energy Fund. The prospectus contains more complete information, including investment objectives, risks, charges and expenses related to an ongoing investment in the Fund. Please read the prospectus carefully before investing.

*The Fund invests in foreign securities which will involve greater volatility and political, economic and currency risks and difference in accounting methods. The Fund is non-diversified meaning its assets may be concentrated in fewer individual holdings than diversified funds. Therefore, the Fund is more exposed to individual stock volatility than diversified funds. The Fund also invests in smaller companies, which will involve additional risks such as limited liquidity and greater volatility.*

Fund holdings and/or sector allocations are subject to change at any time and are not recommendations to buy or sell any security.

Beta is a measure of a stock's volatility in relation to the market.

The WilderHill New Energy Global Innovation Index (NEX) is a modified dollar weighted index of publicly traded companies which are active in renewable and low-carbon energy, and which stand to benefit from responses to climate change and energy security concerns.

The WilderHill Clean Energy Index (ECO) is a modified equal dollar weighted index comprised of publicly traded companies whose business's stand to benefit substantially from societal transition toward the use of cleaner energy and conservation.

One cannot invest directly in an index.

<b>Top Ten Holdings as of 7/31/07</b>	<b>% of Assets</b>
Ormat Technologies Inc	3.47%
Conergy AG	3.23%
Iberdrola SA	3.21%
Q-Cells AG	3.21%
Suntech Power Holdings	3.18%
Gamesa Corp Tecnologica SA	3.18%
Solarworld AG	3.18%
Solon AG	3.14%
Vestas Wind Systems A/S	3.11%

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