

Alternative Energy Brief
January 2008

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Welcome to the January 2008 Guinness Atkinson Alternative Energy Brief.

In this issue:

- Fund Performance
- Portfolio Breakdown
- Stock Performance
- Trading

Fund performance

The Guinness Atkinson Alternative Energy Fund was up 1.34% in December which takes us to 42.68% for the entire year 2007. We are very pleased with this performance but would caution investors that the real returns in this sector are from the long term prospects and we would expect to see continued high volatility.

Total Returns as of 12/31/07

Total returns	Dec 07	YTD 07	1 Year	From inception
Guinness Atkinson Alternative Energy Fund (03/31/06)	1.34%	42.68%	42.68%	16.61%
WilderHill New Energy Global Innovation Index	4.69%	59.38%	59.38%	34.54%
WilderHill Clean Energy Index	16.14%	58.88%	58.88%	15.21%

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 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.

For the first time in a month we significantly underperformed the two main benchmarks we have been following. We will take this opportunity to elaborate on the differences between our fund and the two benchmarks.

First, both benchmarks contain a number of large cap stocks and stocks in subsectors which would not be included in our universe. Second, the Wilderhill Clean Energy Index only invests in US listed stocks. This means it is very closely correlated to the US market performance and has no Wind stocks or any European exposure. Weaker European markets were a contributor in December.

From a fund management point of view, the indices exposure to Solar stocks, particularly some of the Chinese and higher valued solar stocks, was a part of their higher performance. As value investors, there will sometimes be moments where the market

momentum takes prices way beyond valuations which we can justify. Over the long run this approach has served us well and we expect it to continue to do so.

In addition both indices benefited significantly from exposure to the battery area. This is not a core subsector in which we would invest heavily.

From a fund management point of view we have very little biofuels exposure and this area saw some bounce, but we think it remains unattractive (see later for comment).

Sector and geographic breakdown

Sector	% of Assets	Region	% of Assets
Solar	38.90%	Europe	52.85%
Wind	27.74%	North America	25.52%
Hydro	10.36%	Asia	10.72%
Efficiency	7.77%	Australia/NZ	5.40%
Geothermal	6.50%	Latin America	4.34%
Biofuel	2.84%		
Fuelcell	2.63%		
Biomass Energy	1.52%		
Wave/Tidal	0.154%		

Solar remains the highest weighted sector with 38.90% of the assets of the fund. We think that the next 5 years should carry the solar industry to a position where the holy grail of grid parity is achievable. Investments in solar cover all elements of the value chain from silicon producers to cell and module manufacturers. We have remained in the stocks where we can see valuation upside – there are a number of highly volatile solar stocks where the valuation is challenging in our view (and which we do not hold). We hold 27.74% in wind and our positions in wind are split evenly between turbine manufacturers and wind farm developers. Turbine manufacturers are benefiting from tight market conditions, and wind farm developers are well placed because of faster approval cycles and increasing asset values. Hydro forms lower risk bedrock to the portfolio. The overarching idea behind holding these is because of their low operating cost which means that increases in electricity prices and payments for carbon credits go straight to the bottom line. Geothermal power has similar dynamics, and is similarly location constrained, but it is at a much earlier stage of implementation. We remain circumspect about biofuels which account for 2.84% of the fund now, although we are monitoring valuations carefully for an attractive re-entry point. We prefer biofuels stocks that have some form of vertical integration. Biofuel refining stocks have most potential as shorter term trading ideas. Fuelcells remain some way from mass commercialization and we currently hold only niche investments which we hope will give us access to some of the early winners. Biomass Energy accounts for 1.52% of the fund. There are a number of opportunities in this space, but the growth potential and returns are less attractive. Wave/Tidal power has very few investment opportunities to date, but we are following the sector keenly. Our only holding is a small research position.

Europe accounts for 52.85% of the assets in the fund versus 25.52% in North America. This reflects the earlier development of the European wind and solar industries. We have 20.46% in Asia, Australia and Latin America and are continually looking for international opportunities that are under the US investor’s radar screen.

Liquidity analysis

Mkt Cap \$m	Positions	% of Assets	Position size	Positions	% of Assets
>1000	26	65.61%	Full	16	51.51%
500-1000	4	7.05%	Half	29	41.94%
250-500	10	12.76%	Research	17	5.37%
100-250	11	8.58%			
50-100	5	3.41%			
<50	6	1.41%			

The liquidity of the portfolio remains good. The percentage of the portfolio that is in stocks with a market capitalization of over \$1 billion is now 65.61% and only 1.41% of the portfolio is invested in stocks with a market capitalization below \$50 million. The universe of high quality large cap alternative energy stocks is growing fast, both organically and from new issues. We are endeavouring to maintain a balance between holding larger capitalization more liquid stocks and positions in smaller capitalization less liquid stocks where the value and growth opportunity might be greater. We have segmented the portfolio into three types of holding: full, half and research. We currently hold 16 full units and 29 half units, with a further 17 research positions. We believe this enables us to benefit from a strict rebalancing discipline.

Stock performance

Top 5	Size	Dec	Bottom 5	Size	Dec
Daystar	Research	38.89%	Agcert	Research	-62.84%
Solar Fabrik	Half	31.65%	Composite Tech	Half	-45.22%
Echelon	Half	22.93%	Quantum Fuel Sys	Research	-43.18%
Motech	Half	21.80%	Polyfuel	Research	-28.22%
MEMC	Half	14.06%	Solar Millenium	Half	-28.04%

Daystar is a sizeable research position we have bought in one of the most likely potential new entrants in the thin-film solar market. Solar-Fabrik is a larger scale installer of solar systems in Germany. Echelon is an interesting company who provide systems for improving building efficiency and metering. Motech is a much overlooked Taiwanese solar cell manufacturer and MEMC is a leading polysilicon manufacturer.

We have exited almost all of our small Agcert position. Composite is a very interesting company with two strands – a nascent wind turbine manufacturing business and a transmission wires business. Performance suffered as smaller stocks were penalised, but we expect to see actual business milestones in 2008. Quantum Fuel Systems and Polyfuel are fuelcell research holdings. Solar Millenium is the only installer of concentrated solar power in its various guises and is we think uniquely positioned.

Trading

We picked up a small position in a niche solar installer, Solar Integrated Technologies in a secondary placing. We took part in the largest IPO in the sector to date, swapping our Iberdrola position for a position in its spin out, Iberdrola Renovables, which contains the wind and other renewable assets which had so attracted us to Iberdrola in the first place. We continued to clear out our research portfolio of a number of stocks.

We sold our position in Fuelcell as we felt that the recent run up in the price fully valued the risk in rolling out large scale fuelcells.

Thank you for your continuing support.

Tim Guinness
Edward 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 Alternative 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.

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.

Top Ten Holdings as of 12/31/07	% of Assets
Vestas Wind Systems A/S	4.02%
Q-Cells AG	3.85%
Suntech Power Holdings Co Ltd	3.65%
Theolia SA	3.49%
Gamesa Corp Tecnologica SA	3.40%
Iberdrola Renovabl	3.37%
Verbund - Oesterreichische Elektrizitaetswirtschafts AG	3.26%
Conergy AG	3.26%
Ormat Technologies Inc	3.24%
Clipper Windpower PLC	3.18%

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