



**Alternative Energy Brief  
July 2008**

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Welcome to the July 2008 Guinness Atkinson Alternative Energy Brief.

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**Fund performance.**

**Total Returns as of 06/30/08**

<b>Total returns</b>	<b>June 08</b>	<b>YTD 08</b>	<b>1 Year</b>	<b>From inception</b>
Guinness Atkinson Alternative Energy Fund (inception 03/31/06)	-8.58%	-15.38%	-7.93%	4.65%
WilderHill New Energy Global Innovation Index	-6.08%	-12.31%	6.16%	18.54%
WilderHill Clean Energy Index	-13.01%	-29.36%	-5.86%	-4.25%

Gross Expense Ratio 1.58%

Net Expense Ratio\* 1.64%

\* The expense ratio shown is from the most recent prospectus (April 30, 2008). The Advisor has contractually agreed to cap the Fund's Total Operating Expenses at 1.98% through June 30, 2009

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 Guinness Atkinson Alternative Energy Fund was down 8.58% for the month of June. We are down 15.38% year to date through June 30, 2008, which is behind the WilderHill New Energy Global Innovation Index, but well ahead of the WilderHill Clean Energy Index

During June, the alternative energy markets were hit particularly hard by the continued weakness in the broad markets, with high volatility and strong reactions to news flow. The long term prospects for the alternative energy sector remain good and we are seeing buying opportunities rather than having concerns over valuation levels. The sector remains one of the only sectors that offer the prospect of growth through an economic downturn, particularly with high fossil fuel prices and impending electricity price hikes.

### Sector and geographic breakdown

Sector	% of Assets	Region	% of Assets
Solar	39.22%	Europe	55.74%
Wind	32.32%	North America	23.73%
Efficiency	9.04%	Asia	10.60%
Geothermal	6.68%	Australasia	4.32%
Hydro	6.11%	Latin America	3.51%
Biomass Energy	2.34%		
Biofuel	2.17%		

We maintained our overweight position in Solar stocks with a 39.22% holding. 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 and installers and distributors. Concerns about the US and Spanish subsidy regimes, combined with worries about oversupply have been weighing on the stocks. Our view is that these are short term issues, which may be overcome over the next 6 months. The industry has a plan to reduce costs by more than 50% over the next 5 years, which should help maintain margins as average selling prices fall.

We hold 32.32% in wind and our positions in wind are split evenly between turbine manufacturers and wind farm developers. Turbine manufacturers have benefited from tight market conditions, and wind farm developers appear well placed because of faster approval cycles and increased asset values.

Efficiency includes stocks in a number of areas from hybrid vehicles and ground source heat pumps to building efficiency and LED lighting where companies should profit from reducing energy use for industry and consumers. We currently hold 9.04% of the portfolio in efficiency stocks.

Hydro forms a lower risk strand of the portfolio, with a current weight of 6.11%. 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, at 6.68% of the fund, has similar dynamics, and is similarly location constrained, but is at a much earlier stage of implementation.

We remain circumspect about Biofuels which account for 2.17% of the fund now, although we are monitoring valuations carefully. We prefer biofuels stocks that have some form of vertical integration (ie they manage their own feedstock production). In our view, biofuel refining stocks have most potential as shorter term trading ideas.

Biomass Energy accounts for 2.34% of the fund. There are a number of opportunities in this space, but the growth potential and returns are less attractive than elsewhere.

Fuelcells remain some way from mass commercialization and we currently hold no investments. Similarly we hold no wave/tidal investments today.

Europe accounts for 55.74% of the assets in the fund versus 23.73% in North America. This reflects the earlier development of the European wind and solar industries. We have 18.42% 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	25	66.08%	Full	22	63.32%
500-1000	6	10.30%	Half	17	27.97%
250-500	6	10.02%	Research	11	6.61%
100-250	10	9.87%			
50-100	0	0.00%			
<50	3	1.63%			

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 66.08% and only 1.63% of the portfolio is invested in stocks with a market capitalization below \$50 million. The universe of high quality large cap alternative energy stocks has been growing both organically and from new issues, although there has been little issuance to date in 2008. 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 22 half units, with a further 11 research positions. This enables us to benefit from a strict rebalancing discipline.

## Valuation

Valuation metrics	2007	2008 EST	2009 EST
P/E	191.89	28.96	16.21
P/Sales	2.81	1.87	1.41
EV/Sales	3.19	2.13	1.60
EPS growth		562.67%	78.69%
Sales growth		49.97%	32.56%
% of the fund with positive earnings	83.00%	88.08%	96.45%

Source: GA estimates, Bloomberg

We have decided to include some valuation metrics for the portfolio to demonstrate why we perceive there to be an investment opportunity in the sector. The fund is trading on a 28.96x P/E multiple in 2008 which falls to a 16.21x P/E multiple in 2009. This is a function of the strong growth in earnings and the percentage of holdings with positive eps increasing from 88.08% to 96.45%. On an EV/Sales basis, the fund is trading on 2.13x 2008 sales, falling to 1.60x 2009 sales. We think that this emphasizes how the alternative energy companies, in which we are invested, are companies that should achieve real sales and earnings rather than promising future sales, and can be analyzed using conventional financial metrics – they do not require a “new paradigm” to justify valuations.

## Stock performance

Top 5	Size	June	Bottom 5	Size	June
SAG Solarstrom	Research	119.8%	Tanfield	Full	-55.83%
Solon	Half	29.44%	Applied Intellectual	Research	-50.55%
Maple Energy	Research	18.34%	Theolia	Full	-26.54%
Carmanah	Research	16.51%	Echelon	Half	-26.15%
Composite Tech	Half	15.35%	LDK	Half	-17.74%

SAG Solarstrom, the top performing stock, is a small German solar installer. We took advantage of the price increase to reduce our position. Solon, a larger German solar module manufacturer recovered well in June. Maple Energy continued to perform well as the prospects for Peruvian ethanol remained good. Carmanah, a niche solar lighting producer started to reap the benefit of new management and Composite Technology, a new entrant wind turbine manufacturer started to reflect the value that its strong orderbook should deserve.

Tanfield had major issues, and was a source of underperformance. The company had been guiding investors that trading was in line with expectations right up until the end of May, but June trading had been so weak that the stock price then collapsed. We are carefully reviewing the position and what we might have done to avoid owning the stock. Applied Intellectual is a small holding with limited liquidity going through a period of

uncertainty. For Theolia, Echelon and LDK, there was nothing stock specific that caused the stocks to fall, although they are all higher beta stocks that trade with high volatility.

## **Trading**

Over the month we completed our sale of SAG Solarstrom equity. We acquired a holding in EDP Renovaveis, which IPO'd at the beginning of the month. We acquired a research holding in Thermal Energy International, a company which makes better use of heat waste.

Thank you for your continuing support.

Tim Guinness  
Edward Guinness  
Matthew Page  
*July 2008*

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 measures the volatility of a fund, as compared to that of the overall market. The market's beta is 1.00; a beta higher than 1.00 is considered to be more volatile than the market, while a beta lower than 1.00 is considered to be less volatile.

Price to earnings (P/E) ratio is a common tool for comparing the prices of different common stocks and is calculated by dividing the current market price of a stock by the earnings per share.

Price to sales ratio: a tool for calculating a stock's valuation relative to other companies, calculated by dividing a stock's current price by its revenue per share.

Enterprise Value to Sales (EV/Sales) is a valuation measure that compares the enterprise value of a company to the company's sales. EV/sales gives investors an idea of how much it costs to buy the company's sales

Earnings per share (EPS) is calculated by taking the total earnings divided by the number of shares outstanding.

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 06/30/08</b>	<b>% of Assets</b>
Ormat Technologies Inc	3.30%
EDF Energies Nouvelles SA	3.26%
Solon AG Fuer Solartechnik	3.20%
Iberdrola Renovables	3.11%
PNOG Energy Development Corp	3.03%
Solarworld AG	3.03%
Vestas Wind Systems A/S	3.02%
Conergy AG	2.94%
Gamesa Corp Tecnologica SA	2.93%
Nordex AG	2.92%

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