



Alternative Energy Brief
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Welcome to the February 2008 Guinness Atkinson Alternative Energy Brief.

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Outlook

Despite the weak performance over the second half of 2008, we still believe strongly that the long term fundamental alternative energy story is intact. The three principle drivers – finite fossil fuel supplies, energy security concerns and climate change – are still pertinent and provide us with confidence that the long term investment story has the potential to generate good investor returns.

Energy security and climate change concerns remain unchanged, and while current lower energy prices create a headwind for alternative energy economics, the long term challenges in providing enough oil and gas to satisfy demand will likely lead to higher energy prices.

The hardest question to answer today is whether the near term issues which companies face are adequately factored into share prices. Strong balance sheets are an important factor in determining the likelihood of survival for companies, and the industry is in surprisingly good shape from that perspective. Many companies have raised capital and are sitting on net cash positions. By postponing capital expenditures and reducing costs, positive cashflows are achievable which should position the high quality companies to emerge well into the next phase of growth for the sector.

In many ways, the current crisis should enable this growth to be achieved in a shorter timeframe. The costs of capital equipment for end users (eg solar panels, wind turbines) are being lowered by a combination of manufacturing technology improvements, scale, lower interest rates and lower raw material costs. While in the near term this may lead to some contraction in margins, the potential growth in volumes may more than compensate for this soon.

Political support is now firmly behind the sector, with stimulus programmes that exceed previous expectations, particularly in the US. The alternative energy sector is being championed as one of the places for investment to return economies to a more even keel. The first steps of the Obama administration are demonstrating that there is an understanding that long term incentive programmes are important for lowering technology costs and that there needs to be a focus on enabling capital to be invested in the sector.

In the near term the major constraint on the industry is this lack of capital. We anticipate that the industry will likely benefit from being one of the more obvious areas for banks to put balance sheets to work and should therefore be one of the first sectors to recover access to reasonably priced capital. Long term, government backed, predictable offtake agreements, combined with low operating costs make the industry particularly well suited for debt financing. In fact, capital costs may turn out to be a plus for the industry as low interest rates improve returns for developers provided interest margins come down over the year.

A further concern is that demand declines in electricity and gasoline consumption will lead to postponement of projects. However, much of the new electricity generating capacity that need to be built relates to replacement of power plants that have reached the end of their useful lives. Utilities are required to take a long term view as a result of the long lead times, which supports the continuing rollout of planned new capacity.

Overall we look at the extreme volatility the fund has experienced and see it as providing opportunities to acquire holdings in companies hurt by indiscriminate selling. Given that we believe the long term outlook for alternative energy remains excellent, we are excited about the prospects for the fund. In the medium term we are looking for improvements in capital availability and a firming of energy prices to drive returns. In the long run, we are looking for the costs of alternative energy sources to be low enough to support a strong industry without subsidies.

Sector and geographic breakdown

Sector	% of Assets	Region*	% of Assets
Solar	38.65%	Europe	48.00%
Wind	27.55%	North America	29.28%
Hydro	9.47%	Asia	13.00%
Efficiency	8.78%	Australasia	0.53%
Geothermal	6.27%	Latin America	2.90%
Biomass Energy	2.73%		
Biofuel	0.26%		

- region is as per company domicile.

The portfolio is reasonably concentrated in the wind and solar sectors, with 38.65% in solar and 27.55% in Wind. We believe these sectors have the best long term growth potential of the alternative energy space. Stock prices have been hit hard, but that provides an opportunity in the event of a recovery in the markets. While the lack of capital is creating difficult trading conditions now, valuations reflect much of this concern, and we believe that the higher quality companies should do well later in 2009.

For the solar sector, lower prices should ultimately enable the industry to grow faster sooner, and much of these prices are matched by ongoing cost reductions and lower silicon prices. We have exposure to thin film solar panel manufacturing via our holding in First Solar and are otherwise invested across the photovoltaic value chain.

The wind sector has seen concerns over the quality of contract backlogs and potential declining orderbooks and prices for turbine manufacturers. However, costs (particularly steel) are falling too, which should assist the turbine manufacturers in maintaining margins. This should feed through into higher returns for developers with access to capital, who should also benefit from lower financing costs. We have exposure to turbine manufacturing and to wind farm developers in the fund.

Our hydro holdings are in utilities and small independent power producers. These businesses have solid cashflows and low cost bases. As such, we believe they are well placed in the current economic environment.

Efficiency is an area where the Obama stimulus plan will likely provide a wealth of opportunity. However, the biggest beneficiary is the eventual energy user. We have interesting investments in ground source heat pumps, building efficiency and smart metering, with some exposure to transmission grid service providers.

We are invested in three geothermal companies, of which one is the principle builder of systems, Ormat, the second is a Philippine utility and the third small position is invested in a hot rock project in Australia. We expect geothermal to become a more important part of alternative energy plans as a result of its low costs and established technology.

Our biomass investment is in a company where the biomass part of the business is being used to finance the development of a wind portfolio. We think there are some interesting niche biomass projects and we are interested in those companies that do not have constraints on future biomass supply.

We have a small research holding in biofuels. We monitor the sector closely, but have concerns about overcapacity and negative margins in the US ethanol refining sector.

We have no investments in fuelcells, tidal or wave power companies, but remain interested in these areas.

The fund has 48.00% of its holdings in companies domiciled in Europe, reflecting the more mature European industry. North America accounts for 22.78% of the fund of which 6.50% is in Canada. The fund's 16.43% of emerging markets holdings is principally in Asia, with our investment in Chinese companies making up 10.38% of the fund.

Top Ten Holdings as of 01/31/09	% of Assets
Solarworld AG	3.78%
EDP Renovaveis SA	3.75%
First Solar, Inc.	3.73%
WFI Industries Ltd.	3.68%
Echelon Corporation	3.56%
Iberdrola Renovables	3.50%
Renewable Energy Corporation AS	3.42%
EDF Energies Nouvelles SA	3.39%
SunPower Corporation	3.35%
Hansen Transmissions Int	3.35%

Liquidity analysis as at 01/31/09

Mkt Cap \$m	Positions	% of Assets	Position size	Positions	% of Assets
>1000	19	57.91%	Full	25	75.22%
500-1000	1	2.62%	Half	9	14.27%
250-500	4	9.36%	Research	10	4.22%
100-250	8	14.65%			
50-100	4	6.26%			
<50	8	2.90%			

The liquidity of the fund remains excellent, with 57.91% of the fund in companies with a market capitalisation over US\$1,000 million and 6.29% in cash. The fund now has 25 full units and 9 half units. We have successfully moved the portfolio to lower the number of half units as valuation and liquidity levels have made it more attractive to hold more full units.

Valuation as at 01/31/09

Valuation metrics	07	08	09
P/E	13.78	12.68	12.31
P/Sales	1.49	1.22	1.03
EV/Sales	1.77	1.46	1.23
EPS growth		-11.39%	94.60%
Sales growth		21.68%	18.53%
% NAV +ve eps	87.60%	84.66%	89.65%

Source: GA estimates, Bloomberg. P/E based on total portfolio value but include negative earnings at zero.

We include 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 12.68x P/E multiple in 2008 which falls to a 12.31 P/E multiple in 2009. This is a function of the strong growth of the industry, notwithstanding downgrades as analysts pare their forecasts. By comparison the S&P500 at the end of January at 825.88 was on a higher P/E of 13.03x based on the current (Zacks 17 Feb) estimate of S&P500 EPS of 63.39 for 2009.

The percentage of holdings with positive eps increases from 84.66% in 2008 to 89.65% in 2009. On an EV/Sales basis, the fund is trading on 1.46x 2008 sales, falling to 1.23x 2009 sales. These are not multiples that reflect the long term growth potential of the sector, notwithstanding that there may be delays in some projects in the sector while the financing market recovers.

We think that the table above emphasises how the alternative energy companies in which we are invested are companies that are achieving real sales and earnings today and can be analysed using conventional financial metrics – they do not require a “new paradigm” to justify valuations. We believe future sales and earnings growth over the long run provide the potential for a path to solid returns.

Fund performance (January 2009)

The Guinness Atkinson Alternative Energy Fund was down 7.98% in January 2009. The fund is behind the WilderHill New Energy Global Innovation Index, but just ahead of the WilderHill Clean Energy Index.

Total Returns as of 12/31/08

	Dec 2008	QTD 08	YTD 08	1 Year	From inception
Guinness Atkinson Alternative Energy Fund (inception 03/31/06)	6.10%	-41.68%	-66.05%	-66.05%	-25.48%
WilderHill New Energy Global Innovation Index	8.32%	-35.62%	-60.53%	-60.53%	-14.09%
WilderHill Clean Energy Index	-0.85%	-42.49%	-69.89%	-69.89%	-29.20%

Gross Expense Ratio 1.58%

Net Expense Ratio* 1.64%

Total Returns as of 1/31/09

	Jan 09	QTD 09	YTD 09	1 Year	From inception
Guinness Atkinson Alternative Energy Fund (inception 03/31/06)	-7.98%	-7.98%	-7.98%	-62.61%	-27.02%
WilderHill New Energy Global Innovation Index	-6.30%	-6.30%	-6.30%	-54.80%	-15.68%
WilderHill Clean Energy Index	-8.00%	-8.00%	-8.00%	-64.70%	-30.56%

Gross Expense Ratio 1.58%

Net Expense Ratio* 1.64%

* The expense ratio shown is from the most recent prospectus (April 30, 2008). The Fund has an expense cap in place and the advisor is contractually obligated to cap the total expenses at least through June 30, 2009. The Advisor has guaranteed total fund operating expenses (as a percentage of net assets) will not exceed 1.98% through June 30, 2009 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.

Stock performance

Top 5	Size	Jan	Bottom 5	Size	Jan
Daystar Tech	Research	91.49%	JA Solar	Full	-39.13%
Carmanah Tech	Research	58.12%	Wacker Chemie	Full	-31.72%
Composite Tech	Half	22.22%	Q-Cells	Full	-30.95%
Novera Energy	Full	17.66%	Sunpower	Full	-28.59%
Clipper Windpower	Full	16.56%	Solar Integrated	Research	-27.95%

All of the funds weakest performing stocks were solar stocks, as fears over the impact of the deepening recession hit the solar sector particularly hard.

Daystar, the top performing stock is an interesting early stage thin-film solar manufacturer and Carmanah is a developer of niche solar products like marine navigation devices (buoys) and airfield runway lighting systems (among others). Composite, NOvera all benefitted from a bounce back after poor performance in December, with all having exposure to the wind sector.

Thank you for your continuing support.

Tim Guinness
Edward Guinness
Matthew Page
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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.

The S&P 500 Index is a broad based unmanaged index of 500 stocks, which is widely recognized as representative of the equity market in general.

Price to earnings ratio (P/E) is equal to a stock's market capitalization divided by its aftertax earnings over the previous 12 months. Earnings per share (EPS) measures total earnings divided by the number of shares outstanding. The price to sales ratio (P/S) is equal to the total capitalization of the company divided by total sales (revenue). The enterprise value to sales ratio (EV/S) measures a company's enterprise value in relation to its total sales (revenue). Cash flow measures the cash generating capability of a company by adding non-cash charges (e.g. depreciation) and interest expense to pretax income.

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.

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