



**GUINNESS
ATKINSON**
F U N D S

Alternative Energy *brief*



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Commentary and Review by co-portfolio managers Edward Guinness and Matthew Page

In February, Congress allocated substantial new resources to stimulate alternative energy projects and grid improvements. The extent of the near-term effects of the stimulus will be determined by how quickly the Department of Energy can distribute the funds. Wind and solar remain our most concentrated holdings.



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Latest News

On 13th of February 2009 the House and Senate passed the \$787 billion American Recovery and Reinvestment Act. A significant proportion of this will contribute to the development of the alternative energy industry and provide the necessary infrastructure to enable grid connection of additional alternative energy electricity generating sources.

The act seeks to provide attractive long-term incentives and to improve access to low cost credit for project developers. Specifically the act addresses these areas in the following ways:

1. Key government incentives have been extended, made more flexible and more attractive. Estimated value \$20 billion.

The Production Tax Credit (PTC) which is the key federal incentive for the wind industry received a 3 year extension

having been due to expire at the end of 2009. This will enable projects that were previously on hold to proceed.

Wind developers are now also given the option of using the Investment Tax Credit (ITC) instead of the PTC. Prior to this wind developers could only take advantage of the PTC. The ITC is the tax incentive used by solar developers. The ITC is attractive as it provides an upfront 30% cost reduction in the capital cost of the project whereas the PTC is paid over the life of the project.

This improved flexibility has been made even more attractive by offering the 30% upfront cost reduction in the form of a grant rather than having to rely on tax-equity investors. This is key for the industry as the appetite for new projects from the tax-equity market has largely dried up as the economic downturn has hit. A number of investment banks

(including Lehman Brothers) were key players in the tax-equity market but as their profits have eroded so has their tax bill. They were able to offset taxes by investing in wind and solar projects but are now not in a position to provide this “tax equity”.

Whereas prior to this act developers could not take advantage of both a federal incentive (ITC or PTC) and state incentives, now they can. This makes projects in some states far more attractive. For example in California approximately 60% of the cost of a solar project can now be covered by federal and state incentives.

2. A loan guarantee program for alternative energy and transmission projects. Estimated value \$60 billion. \$6 billion of federal investment is expected to provide support for \$60 billion of debt financing in alternative energy and transmission projects. By guaranteeing debt financing on these projects the cost of capital of the project is reduced as the credit risk is lowered.

3. Investment in federal buildings. Estimated value \$5.5 billion. \$5.5 billion is available to transform government buildings into “green buildings”. This is likely to involve efficiency drives as well as installation of solar panels.

4. Manufacturing tax credits. Estimated value \$2.3 billion. \$2.3 billion is available in the form of a 30% investment tax credit for companies that establish manufacturing facilities for renewable components.

The extent to which these measures will have an effect in the near term is dependent on how fast the Department of Energy can implement these measures and process applications. They have said they are aiming to be writing checks by May/June. The measures put in place are a positive step for the development of alternative energy in the US.

We also expect further legislation to be put in place in the US this year as a new Energy Bill is to be debated in the next couple of months. A key component of this is likely to be the target to reach 25% of electricity production from renewable energy sources by 2025.

Sector and geographic breakdown

Sector	% of Assets	Region*	% of Assets
Solar	38.76%	Europe	51.34%
Wind	30.12%	N. America	31.89%
Hydro	10.59%	Asia	12.45%
Efficiency	9.78%	Latin America	3.68%
Geothermal	7.58%	Australasia	0.64%
Biomass	2.85%		
Biofuel	0.31%		

* region is as per company domicile.

The portfolio is reasonably concentrated in the wind and solar sectors, with 38.76% in solar and 30.12% 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 (in addition to the improved subsidy regimes in the US). 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 order books 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 only 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 51.34% of its holdings in companies domiciled in Europe, reflecting the more mature European industry. North America accounts for 31.89% of the fund of which 6.57% is in Canada. The fund's 16.77% of emerging markets holdings is principally in Asia, with our investment in Chinese companies making up 8.17% of the fund.

Top Ten Holdings as of 02/28/09	% of Assets
EDP Renovaveis SA	4.36%
Waterfurnace Renewable Energy	4.26%
Iberdrola Renovables SA	4.11%
SMA Solar Technology AG	3.91%
Sunpower Corp - Class B	3.70%
Solarworld AG	3.59%
EDF Energies Nouvelles SA	3.55%
Energy Development Corp	3.44%
Cemig SA - ADRs	3.44%
Echelon Corp	3.40%

Liquidity analysis as at 02/28/09

Mkt Cap \$m	Positions	% of Assets
>1000	16	51.43%
500-1000	4	9.83%
250-500	3	5.26%
100-250	8	16.37%
50-100	4	6.64%

Mkt Cap \$m	Positions	% of Assets
<50	9	3.67%

Position Size	Positions	% of Assets
Full	25	75.92%
Half	9	13.01%
Research	10	4.27%

The liquidity of the fund remains excellent, with 51.43% of the fund in companies with a market capitalisation over US\$1,000 million and 6.80% in cash. The fund now has 25 full units and 9 half units.

Valuation as at 02/28/09

Valuation Metrics	08	09	10
P/E	11.09	11.81	8.47
P/Sales	1.05	.93	.78
EV/Sales	1.31	1.15	0.97
EPS growth	5.08%	-6.14%	39.52%
Sales growth	22.08%	13.54%	19.21%
% NAV +ve eps	85.88%	88.47%	89.73%

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 11.81x P/E multiple in 2009 which falls to a 8.47 P/E multiple in 2010. 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 735.09 was on a higher P/E of 11.90x based on the current (Zacks 4th March) estimate of S&P500 EPS of 61.76 for 2009.

The percentage of holdings with positive eps increases from 85.88% in 2008 to 88.47% in 2009. On an EV/Sales basis, the fund is trading on 1.31x 2008 sales, falling to 1.15x 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. Future sales and earnings growth over the long run provide a straightforward path to high returns.

Fund performance (February 2009)

The Guinness Atkinson Alternative Energy Fund was down 14.38% in February 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 2/28/09

	Feb. 09	QTD 09	YTD 09	1 Year	From Inception
Guinness Atkinson Alternative Energy Fund (inception 03/31/06)	-14.38%	-21.21%	-21.21%	67.19%	-30.22%
WilderHill New Energy Global Innovation Index	-12.57%	-18.07%	-18.07%	-60.23%	-18.38%
Wilderhill Clean Energy Index	-16.72%	-23.37%	-23.37%	-68.67	-34.15%

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 1.64% 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	Feb	Bottom Five	Size	Feb
Energy Development Corp	Full	11.48%	LDK Solar	Half	57.69%
MEMC	Full	10.37%	Theolia	Full	-47.98%
Greentech	Half	3.20%	Composite Tech	Half	-36.36%
SMA Solar Tech	Full	1.05%	Suntech	Full	-35.28%
Cemig - ADRs	Full	0.52%	Renesola	Half	-34.24%

Four out of five of the funds weakest performing stocks were solar stocks, however two of our top performing stocks were also in the solar sector.

MEMC supplies silicon wafers to the solar cell manufacturers while SMA Solar Tech is a manufacturer of solar inverters which are a key component for solar projects.

Thank you for your continuing support.

Tim Guinness
Edward Guinness
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March 2009

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. Current and future portfolio holdings are subject to risk.

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.

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.

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.

One cannot invest directly in an index.

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