



**GUINNESS  
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F U N D S

## Alternative Energy *brief*



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

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*While the fund has enjoyed strong recent returns, stocks are still considerably lower than their 2008 peaks. Above and beyond the fact that stocks remain at depressed levels, we think that the potential for the alternative energy sector to outperform the broad markets over the medium term is stronger than ever. Political and subsidy support for the industry has never been stronger, the capital markets are returning and underlying interest rates remain low and at lower price points the underlying economics for the various technologies continue to improve. Also, oil and gas prices appear to have stabilized. While the next 12 months might be volatile, we think that the alternative energy sector has a good chance of moving back to strong growth and the potential to deliver upside for patient investors.*

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## Latest News

We highlight some of the more interesting items that have crossed our desks recently:

### Q2 New Energy Finance investment estimates are encouraging

- We attended a presentation given by New Energy Finance that showed their latest estimates for investment in the sector (including venture capital, Private equity and public markets). The numbers were encouraging, showing a rise from a low of c.\$13 billion in Q1 2009 to c.\$29bn in Q2 2009.
- This compares to runrate investment levels in 2007 and 2008 of c.\$30bn per quarter, with peak quarters of c.\$40bn and is therefore a good indicator that investment in the sector is returning.
- With c.\$160bn of international stimulus capital expected to be deployed over the next 3/4 years, starting in the second half of 2009, there are reasonably good prospects for investments in the sector to hit new highs in 2010.

### Positive solar datapoints

- Two major conferences, Intersolar and PV America saw the solar industry moving onto the front foot.
- A number of companies announced that they were seeing orders increasing in Q2 and that they expected Q1 2009 to have been the trough.
- Solar module pricing has fallen significantly but is now showing signs of stabilizing
- The prospects for Chinese solar subsidies now look better than previously expected. Chinese manufacturers are expected to benefit and the timescale for implementation is much faster than elsewhere.

### US Renewable Electricity Standard (RES) likely to be watered down to the point where it is irrelevant

- We are saddened to see that President Obama's goals for a renewable energy standard are being watered down at the Congressional level.
- Current proposals and exemptions mean that while other policies will provide support for growth in alternative energy, the RES will not be a primary driver of growth, but more of a gesture that indicates loose political support.
- We have low expectations for the impact of both this and any Carbon Cap and Trade or similar scheme. While both could be hugely beneficial policy instruments, we think that they are politically too difficult to achieve in a way that would make a difference to growth in alternative energy in the US.
- It will likely be the positive incentives of Investment Tax Credits, Production Tax Credits, Government grants and Government guaranteed financing for projects that will see a shift away from fossil fuels and growth in alternative energy in the US.

## Sector and geographic breakdown

Sector	% of Assets	Domicile	% of Assets
Solar	41.19%	Europe	53.57%
Wind	29.57%	North America	24.81%
Efficiency	6.46%	Asia	15.25%
Geothermal	6.56%	Australasia	0.50%
Hydro	9.61%	Latin America	2.82%
Biofuel	0.21%		
Biomass Energy	3.36%		

The portfolio is reasonably concentrated in the wind and solar sectors, with 41.19% in solar and 29.57% in Wind. We believe these sectors have the best long term growth potential of the alternative energy space. Both wind and solar stocks performed well in May, with growing recognition that the outlook for 2010 is excellent. However, while the stocks are off their lows, they are still trading at significant discounts to 2008 levels.

For the solar sector, lower module prices should ultimately enable the industry to grow faster sooner, and margins are protected to a certain extent by manufacturing process cost reductions and lower silicon prices. Improved subsidy regimes give greater certainty for financing and provide guaranteed revenues. We have exposure to thin film solar panel manufacturing via our holding in First Solar and are otherwise invested across the silicon photovoltaic value chain.

Both wind stocks and developers have recovered. Turbine costs (particularly steel) have fallen, 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 manufacturers and to wind farm developers.

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 heat recycling, with some exposure to transmission grid service providers.

We are invested in three geothermal companies, of which one is the principal 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 53.57% of its holdings in companies domiciled in Europe, reflecting the more mature European industry. North America accounts for 24.81% of the fund of which 5.25% is in Canada. The fund's 18.57% of emerging markets holdings is principally in Asia, with our investment in Chinese companies making up 12.41% of the fund.

Top Ten Holdings as of 05/31/09	% of Assets
Hansen Transmissions	3.88%
Wacker Chemie	3.85%
Verbund	3.70%
SMA Solar Technologies	3.64%
Gamesa	3.49%
EDP Renovaveis	3.49%
JA Solar	3.44%
EDF Energies Nouvelles	3.42%
Novera Energy	3.38%
Vestas Wind Systems	3.38%

Liquidity analysis as at 05/31/09

Mkt Cap \$m	Positions	% of Assets
>1,000	21	64.67%
500-1,000	2	5.78%
250-500	5	8.95%
100-250	5	9.60%
50-100	3	5.74%
<50	8	2.22%

Position Size	Positions	% of Assets
Units	25	79.23%
Half units	9	15.00%
Research units	8	2.72%

The liquidity of the fund remains excellent, with 64.67% of the fund in companies with a market capitalisation over US\$1,000 million and 3.04% in cash. The fund now has 25 full units and 9 half units.

Valuation as at 05/31/09

Valuation metrics	08	09	10
P/E	16.49	27.58	16.46
P/Sales	1.56	1.47	1.21
EV/Sales	2.08	1.96	1.61
EPS growth	4.17%	-40.23%	67.64%
Sales growth	16.49%	6.01%	21.56%
% NAV +ve eps	85.24%	80.20%	92.23%

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

After the strong performance of the last 3 months and as the equity analysts update their models to reflect the more accurately current earnings prospects, the multiples of the fund have increased. We think that the fund is reasonably priced at a 27.58x 2009 P/E, given the depressed state of earnings for 2009 and the strong growth potential for 2010 and beyond. The Fund P/E falls to 16.46x in 2010, with potential upside from earnings and strong growth thereafter.

The percentage of holdings with positive eps increases from 80.20% in 2009 to 92.23% in 2010. This figure has fallen over the last month by just under 10% as analysts amend their estimates. On an EV/Sales basis, the fund is trading on 1.96x 2009 sales, falling to 1.61x 2010 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 (May 2009)

The Guinness Atkinson Alternative Energy Fund was up 17.91% in May 2009.

Total Returns as of 3/31/09

	Mar. 2009	QTD 09	YTD 09	1 Year	From Inception
Guinness Atkinson Alternative Energy Fund (inception 03/31/06)	14.07%	-10.12%	-10.12%	-63.46%	-26.33%
WilderHill New Energy Global Innovation Index	11.35%	-8.78%	-8.78%	-56.27%	-15.71%
Wilderhill Clean Energy Index	17.37%	-10.07%	-10.07%	-61.69%	-29.70%

Expense Ratio 1.69%

Total Returns as of 05/31/09	May-09	QTD 09	YTD 09	1 Year	From Inception
Guinness Atkinson Alternative Energy Fund (inception 03/31/06)	17.91%	36.80%	22.96%	-54.89%	-17.37%
WilderHill New Energy Global Innovation Index	16.53%	41.90%	29.43%	-45.44%	-4.17%
Wilderhill Clean Energy Index	10.99%	30.51%	17.34%	-56.55%	-22.14%

Expense Ratio 1.69%

\* 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](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.**

## Stock Performance

Top 5	Size	May	Bottom Five	Size	May
CLIPPER WINDPOWER PLC-REG S	Full	132.94%	SOLAR INTEGRATED TECHNOLOGIE	Research	-47.03%
TRINA SOLAR LTD-SPON ADR	Half	75.18%	CEMIG SA -SPONS ADR	Full	-12.09%
THERMAL ENERGY INTL INC	Research	45.74%	ECHELON CORP	Full	-7.91%
NOVERA ENERGY PLC	Half	32.03%	FUTUREFUEL CORP	Research	-2.75%
EDF ENERGIES NOUVELLES SA	Full	31.88%	SUNPOWER CORP-CLASS A	Full	1.42%

The top 5 for May derives from a broad cross spectrum of the types of position held in the fund. Clipper Windpower is a distressed wind turbine manufacturer which has bounced back well as investors recognize that they are likely to survive. EDF Energies Nouvelles is one of the large cap utility developers, who have seen asset values recover. Trina Solar is a Chinese solar manufacturer, whose low cost manufacturing makes it attractive. Thermal Energy International is a small research holding in a company that provides systems for recovering heat from industry and reusing it.

The bottom 5 stocks are headed up by a research holding in Solar Integrated Technologies, who provide solar roofing and whose market has been hard hit by the recession. Cemig drifted sideways over the month, having finished April strongly. Echelon is a leading provider of building efficiency solutions, whose stock price has been held back as investors wait to

see where the stimulus package will be applied for efficiency improvements. Sunpower has underperformed over May, but remains well placed as a leading US solar company.

We position the fund in an attempt to benefit from the long term growth of the alternative energy sector and believe that long term both energy markets and banking markets should function to the benefit of sector companies and investors.

Thank you for your continuing support.

Edward Guinness

Matthew Page

June 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.

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.

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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