



**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**

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*While the fund has shown good returns so far this year, stocks are still considerably lower than their 2008 peaks. As we look towards 2010, the industry is well placed for significant growth and valuations of stocks in our investment universe are attractive. Political support through subsidies, incentives, and mandates is the strongest it has ever been and looks set to improve as the US introduces a Climate Change Bill and China develops stronger incentives for its solar industry. Conventional energy prices appear to have stabilized. While the next 12 months might be volatile, we think that the alternative energy sector has a good chance to move back to strong growth and delivering upside for patient investors.*

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## Latest News

The US House of Representatives passed the American Clean Energy and Security Act of 2009 on June 26, 2009. The bill attempts to address the need to tackle climate change by focusing on both carbon emission reductions and by mandating a greater use of renewable sources of electricity generation.

The bill is essentially split into two parts.

1. The bill introduces a carbon 'cap and trade' scheme to reduce carbon emissions by 17% by 2020 from 2005 levels.
2. The bill creates a federal Renewable Electricity Standard (RES) which requires utilities supplying electricity to the retail market to meet 20% of their load from renewable sources and efficiency savings by 2020.

Although the targets set in the bill are less than we would have liked, as we mentioned in last months report, the targets are still significant for the growth of the alternative energy industry in the US.

The bill defines renewable sources of electricity as solar, wind, geothermal, biomass, biogas, biofuels, ocean energy and qualified hydropower. Qualified hydropower means generation arising from capacity increases at existing hydropower facilities. Importantly, facilities placed into service prior to January 1, 1992 will not count towards reaching the 20% target which therefore excludes most of the nation's hydroelectric capacity.

A maximum of a quarter of the 20% target can be made from efficiency gains. The remaining 15% therefore must come from renewable electricity generating capacity. Currently around 3% of the nation's electricity comes from renewable sources, as defined by the bill. The bill also mandates a doubling to 6% by 2012. In order to get to 15% renewable electricity generation capacity, annual installations will have to grow at an average rate of 16% per year for the next 11 years.

28 states and DC have already put in place Renewable Portfolio Standards which precede this legislation and we estimate that these alone would take the US as a whole to 12% renewable generating capacity by 2020. Some states have mandated higher levels than this bill.

We now wait to see how the Senate reacts to the details of this bill.

## Sector and geographic breakdown

Sector	% of Assets	Domicile	% of Assets
Solar	41.43%	Europe	51.64%
Wind	28.85%	North America	25.36%
Efficiency	7.16%	Asia	17.30%
Geothermal	6.67%	Australasia	0.39%
Hydro	9.87%	Latin America	2.90%
Biofuel	0.22%		
Biomass Energy	3.38%		

The portfolio is reasonably concentrated in the wind and solar sectors, with 41.43% in solar and 28.85% in Wind. We believe these sectors have the best long term growth potential of the alternative energy space. Solar stocks performed well in June, with recognition that companies were increasing capacity utilization as demand was starting to pick up. The outlook for 2010 continues to remain positive for both sectors. We continue to believe the valuations of these sectors are attractive.

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 51.64% of its holdings in companies domiciled in Europe, reflecting the more mature European industry. North America accounts for 25.36% of the fund of which 5.61% is in Canada. The fund's 20.20% of emerging markets holdings is principally in Asia, with our investment in Chinese companies making up 14.31% of the fund.

Top Ten Holdings as of 06/30/09	% of Assets
JA SOLAR HOLDINGS CO LTD-ADR	3.85%
HANSEN TRANSMISSIONS INT	3.74%
EDF ENERGIES NOUVELLES SA	3.64%
WACKER CHEMIE AG	3.56%
SUNTECH POWER HOLDINGS-ADR	3.56%
OEST ELEKTRIZITATSWIRTS-A	3.51%
EDP RENOVAVEIS SA	3.39%
NOVERA ENERGY PLC	3.38%
SMA SOLAR TECHNOLOGY AG	3.35%
VESTAS WIND SYSTEMS A/S	3.31%

#### Liquidity analysis as at 06/30/09

Mkt Cap \$m	Positions	% of Assets
>1,000	21	61.20%
500-1,000	2	6.32%
250-500	5	13.36%
100-250	5	8.12%
50-100	3	5.99%
<50	9	2.59%

Position Size	Positions	% of Assets
Units	26	79.53%
Half units	8	15.07%
Research units	8	2.61%

The liquidity of the fund remains excellent, with 61.20% of the fund in companies with a market capitalisation over US\$1,000 million and 2.42% in cash. The fund now has 26 full units and 8 half units.

Valuation as at 06/30/09

Valuation metrics	08	09	10
P/E	15.93	26.29	15.48
P/Sales	1.56	1.45	1.19
EV/Sales	2.04	1.91	1.56
EPS growth	6.27%	-39.40%	69.84%
Sales growth	14.37%	7.15%	22.05%
% NAV +ve eps	84.88%	77.39%	91.66%

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 current earnings prospects, the multiples of the fund have increased. We think that the fund is reasonably priced at a 26.29x 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 15.48x in 2010, with potential upside from earnings and strong growth thereafter.

The percentage of holdings with positive eps increases from 77.39% in 2009 to 91.66% in 2010. On an EV/Sales basis, the fund is trading on 1.91x 2009 sales, falling to 1.56x 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 potential path to high returns.

## Fund Performance (June 2009)

The Guinness Atkinson Alternative Energy Fund was down 2.37% in June 2009.

### Total Returns as of 06/30/09

	Jun-09	QTD 09	YTD 09	1 Year	From Inception
Guinness Atkinson Alternative Energy Fund (inception 03/31/06)	-2.37%	33.55%	20.04%	-51.83%	-17.56%
WilderHill New Energy Global Innovation Index	-3.61%	36.81%	24.80%	-43.83%	-6.13%
Wilderhill Clean Energy Index	0.19%	30.77%	17.60%	-49.94%	-21.56%

Expense Ratio 1.69%

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	June	Bottom Five	Size	June
RENESOLA LTD-ADR	Half	32.78%	SOLARWORLD AG	Full	-24.53%
LDK SOLAR CO LTD - ADR	Half	23.68%	GEODYNAMICS LTD	Research	-23.41%
ECHELON CORP	Full	15.69%	Q-CELLS SE	Full	-19.03%
CAN HYDRO DEVELOPERS INC	Half	13.30%	CLIPPER WINDPOWER PLC-REG S	Full	-16.83%
COMPOSITE TECHNOLOGY CORPOR	Half	13.21%	GAMESA CORP TECNOLOGICA SA	Full	-15.19%

Our top two performing stocks for the month are both Chinese solar wafer manufacturers who benefited from reports of increased demand for their products, higher capacity utilization and early signs of price stabilization. Echelon is an efficiency play which has recovered well from its low in February. Canadian Hydro Developers is an independent power producer where we see good value. Composite is a manufacturer of high efficiency transmission cable that should benefit from grid expansion and upgrading.

Two of our European solar positions, Solarworld and Q-cells performed poorly on concerns over margin compression as module prices continued to fall. A research position Geodynamics which is an Australian Geothermal developer sold off over concerns with the success of recent drilling activity. Clipper Windpower sold off after performing very well in the previous month. Gamesa gave up some of the gains from the previous three months.

We seek to position the fund 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.

Matthew Page  
Edward Guinness  
July 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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