



**GUINNESS
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F U N D S

Alternative Energy *brief*



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**Commentary and Review by co-portfolio managers
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We discuss our thoughts on Climate Change as the Kyoto Protocol expires in 2012. The recent UN conference in Durban gives some hope, but in our view, Climate Change is not the primary driver behind alternative energy.



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Climate Change Thoughts

With the Kyoto protocol expiring at the end of 2012, the race is on to create a successor protocol that will include the US and those developing countries that are currently responsible for significant CO₂ emissions, such as China and India. The likelihood of reaching a meaningful agreement to which all nations will sign up to seems very small. While some parts of the media are currently hailing the Durban conference as a success, in reality the agreement appears to be little more than an agreement to reach an agreement by 2015, which will come into force in 2020.

The issue of climate change has received less media attention in recent years, as the global economic crisis has taken the headlines. Understandably, the public is more concerned with the near-term pressing concerns of maintaining economic growth, creating jobs, foreclosures, reducing debt, etc. However, the debate continues among the scientific community and politicians as to how to tackle the issue, which continued within the UN Framework Convention on climate change who met in Durban in December.

In 2007 the climate change debate was taking a growing number of column inches as concern grew among the public, politicians and scientists. While the media often told a story of an intense debate among two equally sized camps of climate scientists, the reality is a definite consensus exists that change to our climate since the industrial revolution has been caused by anthropogenic increased levels of carbon dioxide in the atmosphere.

Politicians often presented the issue of climate change as a reason for action when their real concern was energy security, and specifically for the US, its reliance on Middle Eastern oil. Climate change was more than a minor campaign issue for the early stages of the US presidential election campaign of 2008, but it seems unlikely to be such a hot topic in the 2012 campaign.

Al Gore's film and book *An Inconvenient Truth* presented the case for action on climate change to a receptive public. But whereas an "Inconvenient Truth" perhaps summed up the West's attitude to the issue back in 2007, perhaps today the attitude can better be described as one of an "Empathetic Concern". While the public are worried about it, it is not their most immediate concern.

So, how will this reduced concern regarding climate change affect the Alternative Energy sector?

We have always argued that the climate change debate has been of secondary importance to the growth of the Alternative Energy industry. We have argued that the most important drivers are the long-term economic argument of falling finite fossil fuel reserves leading to higher fossil fuel prices and the issue of energy security. These are the issues that are most urgent to countries. Germany did not become such a significant investor and developer of alternative energy because of concerns regarding climate change. The motivation for incentivising alternative energy was due to the fact that Germany has very few fossil fuel reserves and is highly reliant on natural gas imported from Russia and a number of ex-Soviet states that still have allegiances with Russia. Similarly, the more recent rapid rise in demand from China has been despite the fact that the Kyoto Protocol did not apply to them. China is motivated by reducing reliance on coal imports, which are likely to get more expensive every decade, and by reducing pollution, which is having a significant effect on the health of their population and thereby reducing the potential for economic growth.

Despite the Kyoto Protocol not applying to China and India and not ratified by the US, these countries are significant sources of demand for alternative energy. The US was the world's largest installer of wind turbines in 2009, only to be overtaken by China in 2010. India installed more wind turbines in 2010 than any country in Europe. This looks set to continue as the Chinese government has set a target to double the installed capacity of wind turbines from 45GW at the end 2010 to 90GW by the end of 2015. This doesn't only apply to the wind sector, either. We expect China to become the world's largest market for solar by 2013 and possibly as early as 2012.

The extent to which any meaningful agreement will be reached in 2015 will depend largely upon two factors. Firstly, the state of the global economy will set the level of priority that climate change will receive. If we experience three years of low economic growth, as many expect, then the minds of leaders are unlikely to be focused on climate change and more concerned with protecting domestic economic growth. Secondly, any solution is dependent on an agreement between the three largest polluters: the US, China and India. While a meaningful international consensus on climate change in 2015 appears uncertain, we are more certain that by 2015 alternative energy should be more affordable, more widely used, and that China, India and the US will likely be significant sources of alternative energy demand.

Fund Performance (November 2011)

The Guinness Atkinson Alternative Energy Fund had a total return of -7.76% in November 2011.

Total Returns as of 09/30/11

	Sep-11	QTD 2011	YTD 11	1 Year	5 Year	From Inception
Guinness Atkinson Alternative Energy Fund (inception 03/31/06)	-27.44%	-49.02%	-39.65%	-44.09%	-19.51%	-20.67%
WilderHill New Energy Global Innovation Index	-21.57%	-42.92%	-36.44%	-34.95%	-11.31%	-11.12%
Wilderhill Clean Energy Index	-24.02%	-48.90%	-47.22%	-44.19%	-20.24%	-22.16%
MSCI World Index	-8.60	-15.9	-11.81%	-3.80%	-1.62%	-0.72%

Gross Expense Ratio 1.76%

Total Returns as of 11/30/11

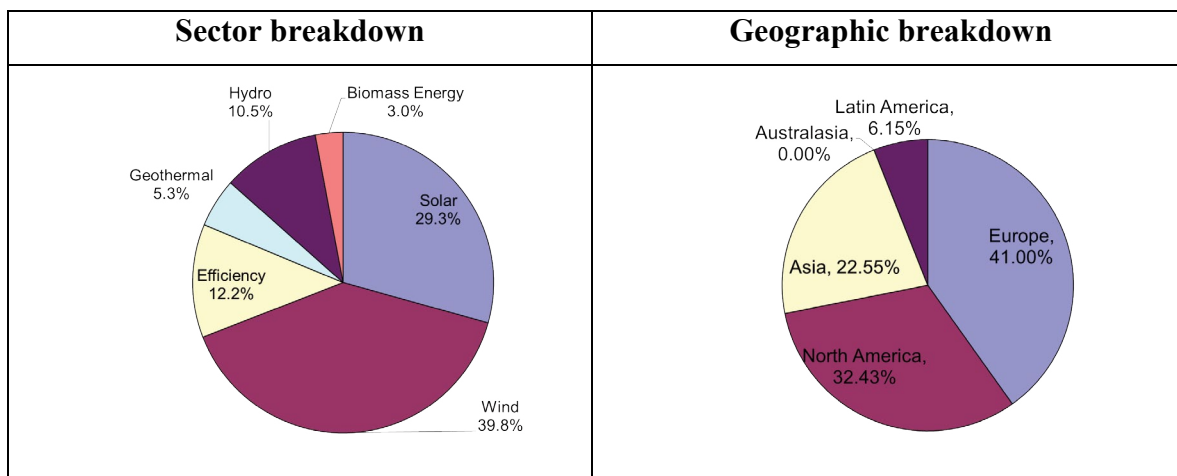
	November-11	QTD 2011	YTD 11	1 Year	5 Year	From Inception
Guinness Atkinson Alternative Energy Fund (inception 03/31/06)	-7.76%	2.88%	-37.91%	-34.09%	-20.5%	-19.73%
WilderHill New Energy Global Innovation Index	-8.75%	1.92%	-35.22%	-30.25%	-12.87%	-10.52%
Wilderhill Clean Energy Index	-8.60%	1.56%	-46.40%	-41.93%	-21.20%	-21.37%
MSCI World Index	-2.36%	7.76%	4.97%	2.06%	-1.35%	0.61%

Gross Expense Ratio 1.76%

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.



Fund Holdings

Better performers in the month were Boralex, STR Holdings, Yingli, Cemig, and Ormat Technologies. Poor performers were Phoenix Solar, REC, MEMC, Sunpower and JA Solar.

Top Ten Holdings as of 11/30/11	% of Assets
Acciona	6.21%
Cemig	6.15%
EDP Renovaveis	5.71%
Ormat Technologies	5.37%
China Longyuan	5.27%
China Suntien	5.24%
Itron	4.83%
Waterfurnace Renewables	4.80%
Theolia	4.73%
Verbund	4.55%

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.

Opinions expressed are subject to change, are not guaranteed and should not be considered investment advice.

This information is authorized for use when preceded or accompanied by a [prospectus](#) for the Guinness Atkinson Alternative 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 risks are greater for investments in emerging markets. 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.

The MSCI World Index (MXWO) is a capitalization weighted index that monitors the performance of stocks from around the world.

One cannot invest directly in an index.

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