GUINNESS | ATKINSON FUNDS

Asia Brief – March 2007

Market Performance February 2007

	February 2007	Year to date 2007
Australia	2.95%	3.19%
China	-1.76%	-5.92%
Hong Kong	-2.59%	-1.03%
Indonesia	-3.49%	-8.08%
Korea	4.27%	-1.16%
Malaysia	0.47%	10.79%
New Zealand	-2.45%	-2.51%
Philippines	-5.98%	3.30%
Singapore	0.56%	4.44%
Taiwan	1.76%	-1.03%
Thailand	6.53%	6.55%
MSCI AC Far East Free ex Japan	0.75%	-1.00%
MSCI AC Pacific ex Japan*	1.75%	0.65%

*MSCI AC Pacific includes Australia & New Zealand

For most of February Asian markets were strong and up to February 26th the region, as measured by the MSCI AC Pacific Index was up 5.97%. However, on February 27th market sentiment changed and region ended the month 1.75% higher.

The trigger was a sharp fall in China's domestic stock markets where A shares, those available only to domestic Chinese investors, fell 9%. This followed an almost unbroken run of over 100% in 2006. We have written about these events in a special report *China Trouble* on February 27th which can be found on our website at www.gafunds.com. The main points we made in that report were:

1. Chinese stock markets cannot be used as barometers of local economic performance because participation limited to domestic investors has resulted in highly speculative behaviour and distorted valuations; and because most companies still derive the bulk of the capital requirements from bank borrowings.
2. Those looking for a guide to China's short-term growth prospects would be better looking at monetary policy and the activities of the central bank.

3. There is no sign that China's growth engine is slowing. A reduction in the headline economic growth rate does not tell the whole story since it is the nature and efficiency of the growth that matters more.

An interesting feature of the recent world market falls was the appearance of Europe and US following China. There, in the clearest and most unvarnished terms is the message that China's economic health really does matter. Even a suggestion that China's economy might be rolling over, no matter that it was a complete misreading, was enough to create a panic.

Of course there were and remain other issues contributing to all this, and these are more relevant. It is clear that all is not well in the world's largest economy. The housing market is slowing and the effects of this are visible particularly in sub-prime lending market. Those banks who expanded lending to those with poor credit records are now finding bad debts are snowballing. The extent to which this spills over into the broader consumer market is a matter of ongoing debate. A second issue is one of profit margins and market valuations. Alan Greenspan has been reported as saying that company profit margins have now stabilized and this is a sign of current economic cycle approaching its end.

The arguments surrounding these issues of US growth, its sustainability or otherwise and about inflation have been running for some time. What appears to have happened this month is that after a period of steadily rising markets since July 2006 (following an inflation scare) we have now focused on what could go wrong, and had a growth scare.

The underlying conditions in Asia however have not changed. Most countries in the region still have substantial current account surpluses which are keeping currencies on a rising trend against the US Dollar. Inflation is still low but is starting to show welcome signs of ticking up, a symptom of increasing domestic activity. Real estate prices have risen over the past eighteen months in almost all markets and construction activity, which led the domestic collapse back in 1998, is finally starting to turn. Company profits and profitability have stayed buoyant and debt levels are low.

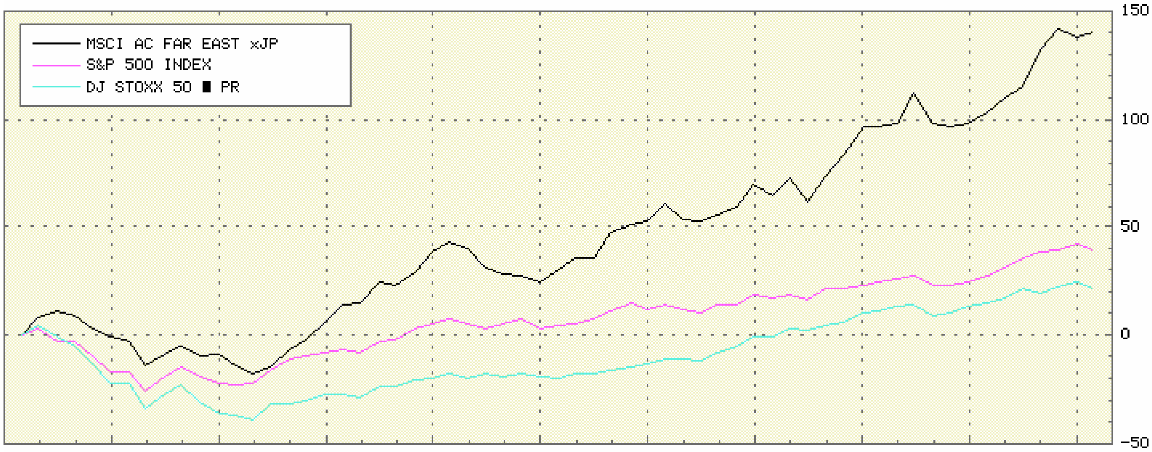
The comparative returns over three years for Asia ex Japan versus the US and Europe are shown in the chart below.

COMPARATIVE RETURNS Page 1/ 6

Range 2/28/02 - 2/28/07 Period M Monthly 60 Mo. Period

	Securities	Crncy	Prc Appr	Total Ret	Difference	Annual Eq
1	MXFEJ Index	USD	105.73 %	139.75 %	100.73 %	19.10 %
2	SPX Index	USD	27.12 %	39.02 %		6.81 %
3	SX5P Index	EUR	3.18 %	21.33 %	-17.69 %	3.94 %

(* = No dividends or coupons)



Market Outlook

In the short term it seems inevitable that we shall see higher volatility in equity markets everywhere. A seven month period of steadily rising markets where a benignly positive view of the world held sway has given way to a more balance reassessment of the risks, as well as the opportunities, facing investors.

The fact that US company profit margins are at cyclical highs and that stock markets do not appear especially cheap cannot be ignored. There is a strong likelihood that these will revert back to their long run averages. But how they do so and when they do so is especially hard to call. Certainly Alan Greenspan does not want to call it, and sensibly confines his forecasts to probabilities.

We do not believe that a collapse in margins or consumption in the US is imminent. However, we do believe it is likely that stock market returns from developed markets are likely to be moderate at best over the next few years and that therefore investors should seek to invest in sectors or areas with specific advantages.

Asia's story is driven by China's growth engine and is also driven by domestic recovery as the region finally emerges from the cyclical downturn that began in 1998. The first story is well known and, as we have already said, we see no sign that China's growth is about to be de-railed and indeed is likely to pick up in coming months.

The story of Asia's domestic recovery is less well known and understood because exports have dominated the region's economic growth for so long. However, excess capacity created in the expansion during the 1990's has been largely used up and as a consequence domestic investment is starting to accelerate. The long term implications of this are of an eventual de-linking of Asia from the US and the region becoming another engine of global growth. We are not there yet but the progress of Asia toward this goal over the next 10 years, rather than the next three months, is the rationale that underpins this fund.

In the short term we expect to see increased volatility in markets as near term uncertainty persists but we are comfortable with our view of the regions long term prospects. We have not been deflected, and we would encourage investors not to be deflected by short term volatility.

Edmund Harriss

March 13, 2007

Performance data quoted represents past performance and does not guarantee future results. Index performance is not illustrative of Guinness Atkinson fund performance and an investment cannot be made in an index. For Guinness Atkinson fund performance visit gafunds.com.

Mutual fund investing involves risk and loss of principal is possible. The Fund invests in foreign securities which involves greater volatility, political, economic and currency risks and differences in accounting methods. The Fund is non-diversified meaning it concentrates its assets in fewer holdings than diversified funds. Therefore, this Fund is more exposed to individual stock volatility than diversified funds.

The MSCI All Country Far East Free ex-Japan Index (MSCI AC Far East free ex-Japan Index) is a free float-adjusted, capitalization-weighted index that is designed to measure equity market performance in the Asia region excluding Japan. The Index is made up of the stock markets of China, Hong Kong, Indonesia, Korea, Malaysia, Philippines, Singapore, Taiwan and Thailand.

The MSCI All Country Pacific Free ex-Japan Index (MSCI AC Pacific Index) is a free float-adjusted, capitalization-weighted index that is designed to measure equity market performance in the Pacific region. The Index is made up of the stock markets of Australia, China, Hong Kong, Indonesia, Korea, Malaysia, New Zealand, Philippines, Singapore, Taiwan and Thailand.

One cannot invest directly in an index. Dividend yield is a measure of the annual dividend payment expressed as a percentage. It is calculated by dividing the annual dividend payment to shareholders by the price of the stock. P/E Ratio reflects the multiple of earnings at which a stock sells.

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