



**GUINNESS  
ATKINSON**  
F U N D S

## Alternative Energy *brief*



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**Commentary and Review by co-portfolio managers  
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*This month we provide a general update and comment on recent news that impacts the sector.*

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### **Fund News**

December 2012 was a strong month for alternative energy stocks, with the sector rallying into the year-end led by the solar stocks. This rally was driven by strong indications of Chinese government support for the solar sector, and in particular, the leading companies in the solar sector.

The outlook for 2013 remains challenging from a macroeconomic perspective, and visibility on 2013 earnings for most companies is limited. However, this is offset by stock prices that reflect the uncertainty and the negative investor sentiment for the sector. Longer term, the investment case is still intact, but there are grounds for near term caution.

Energy security is an important driver for uptake of energy security. However, increasing oil and gas production in the US are moving the country closer towards national energy independence. The oil market is a global market, so even if the US produces as much oil as it consumed domestically, prices are impacted by the international price for oil which is supported by OPEC and the growth in demand from emerging economies. On the natural gas side, we think that once LNG exports from the US commence, we will move closer to a global gas market which is likely to lead to higher US natural gas prices.

The environmental case for moving to alternative energy remains fully intact, but there is a lower political will towards addressing climate change, as witnessed by the Republican position in the US. However, the visible increasing numbers of “extreme” weather events underpins popular support for alternative energy, and we expect policy support to continue globally, albeit focused on the least expensive solutions.

Recent news that has a positive impact on the alternative energy sector:

- **Extension of the Production Tax Credit.** As part of the Bill that allowed the US to avoid going over the fiscal cliff, the key subsidy for wind in the US – the Production Tax Credit – was extended. We have been led to understand that while the headline extension is for one year, this effectively enables two years of installations because a change in the terms will allow projects to qualify for the credit if they have commenced rather than commissioned their installations.
- **Chinese renewables demand.** The Chinese government has increased its targets for Chinese domestic solar installations to 10GW for 2013. This should support Chinese manufacturers. China has also increased its targets for wind installations but only to 18GW in line with historic installation levels.
- **German solar demand.** Contrary to market expectations, the German market for solar has remained strong in 2012, with installations of 7.6GW versus 7.5GW in 2011. We expect this to likely fall to around 4GW in 2013, increasing again in 2014 on unsubsidized demand.
- **Japanese solar demand.** With the new attractive tariffs for solar in Japan, installations have accelerated. Cumulative approvals under the new tariffs have now reached over 3GW after just two quarters.

Recent news that has a negative impacts on the alternative energy sector:

- **Concerns over the fiscal cliff.** Alternative energy would have been held back by a shock to the US economy. In the end, the deal to move beyond the fiscal cliff included an extension of the key tax credit for wind turbines, as mentioned above. The deferral of the issue that was implemented will mean that concerns over US tax cuts are likely to raise its ugly head again in 2012.
- **European economy and politics.** Although there were no major events, the simmering tensions between the EU countries that are moving towards closer union and federalisation and the UK indicate further political turmoil to come. While countries like Ireland have “taken their medicine”, it is yet to be seen whether countries like Spain, Greece and Italy have adequately addressed their structural economic issues, and even if they had, whether the damage to domestic morale will be too great to avoid further issues.
- **China polysilicon anti-dumping and anti-subsidy tariffs.** China is moving towards implementing tariffs on polysilicon imported from the US, Europe and South Korea in retaliation for the tariffs imposed by the US and proposed in Europe on Chinese modules. While there is enough polysilicon manufacturing capacity in China to meet Chinese module demand, this is likely to push the polysilicon price upwards, with the most benefit to the Chinese polysilicon manufacturers. Provided the move is not significantly above \$20 per kg from just below \$16 per kg today, this should not have too much impact on the Chinese manufacturers of solar modules, most of whom are paying more than the spot price today.

**Fund Performance (December 2012)**

The Guinness Atkinson Alternative Energy Fund was up 8.61% for December 2012 and is down 15.20% for the year 2012.

**Total Returns as of 12/31/12**

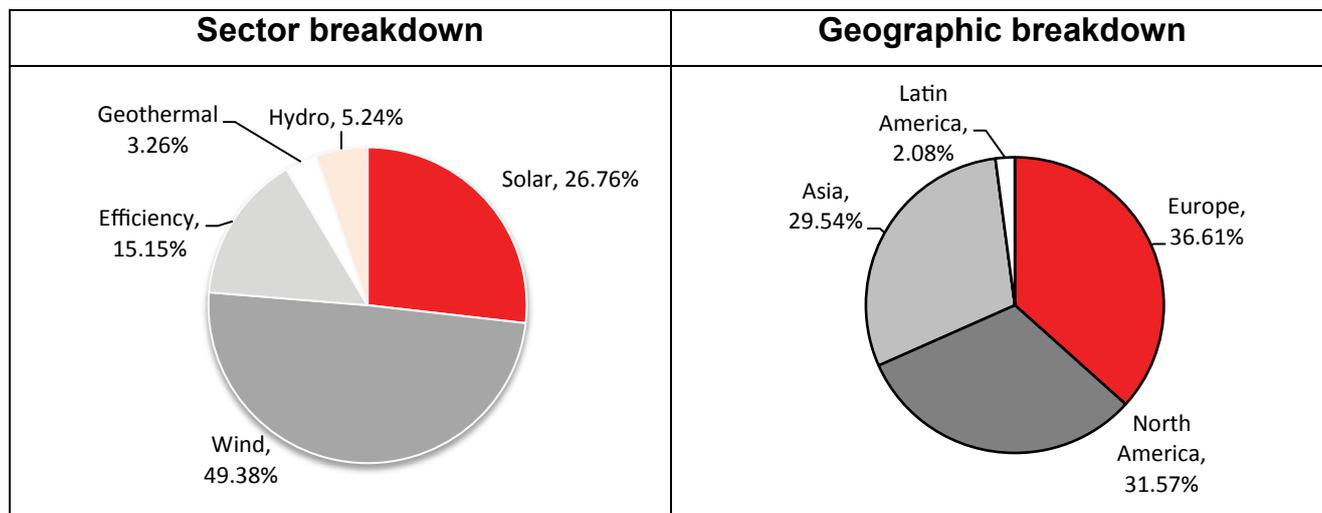
	Dec-12	QTD 2012	YTD 12	1 Year	5 Year	From Inception
Guinness Atkinson Alternative Energy Fund (inception 03/31/06)	8.61%	2.75%	-15.20%	-15.20%	-29.70%	-19.77%
WilderHill New Energy Global Innovation Index	7.27%	2.95%	-4.23%	-4.23%	-22.63%	-10.41%
Wilderhill Clean Energy Index	6.49%	-1.98%	-17.59%	-17.59%	-31.53%	-21.50%
MSCI World Index	1.96%	2.68%	16.62%	16.62%	-0.62%	2.83%

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](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.



### Fund Holdings

Better performers in December were entirely solar holdings—Suntech Power, Trina Solar, JA Solar, Yingli Solar, LDK Solar. Poor performers were Cemig, Canada Lithium, Good Energy Group, Theolia and Power-One.

Top Ten Holdings as of 12/31/12	% of Assets
CANADA LITHIUM	6.64%
GOOD ENERGY GROUP	6.45%
CHINA LONGYUAN POWER	4.09%
CHINA SUNTIEN GREEN ENERGY	3.95%
BORALEX	3.92%
ENEL GREEN POWER	3.79%
ACCIONA	3.59%
POWER-ONE	3.55%
SUNPOWER	3.49%
THEOLIA	3.32%

Commentary for our views on global energy and Asia markets is available on our website. Please [click here](#) to view.

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. The Fund's focus on the energy sector to the exclusion of other sectors exposes the Fund to greater market risk and potential monetary losses than if the Fund's assets were diversified among various sectors.**

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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