GUINNESS ATKINSON FUNDS

Alternative Energy brief

Ed Guinness

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Commentary and Review by portfolio manager Edward Guinness

We look at reasons for third quarter draw backs in the Alternative Energy sector that included falling oil price, ebola concerns and Asian economic slowdown. However, solar sector demand has remained strong, which bodes well for our outlook for the remainder of the year. Which companies have been impacted during the quarter and how are discussed.

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Commentary and Outlook

The third quarter saw the gains of the first two quarters for alternative energy given back. It appears that the drivers have been the falling oil price, increasing ebola concerns, concerns of an Asian led global economic slowdown. We would argue that the economic impact of these changes is lower for the alternative energy sector and that the pullback is more sentimental. Over the quarter there has been no material deterioration in earnings expectations across the sector. The fall in the oil price has an impact on sentiment for the sector but directly impacts just one holding, Cosan which sells ethanol. Cosan is itself a diversified business with only one part exposed to ethanol market pricing. The majority of holdings are linked to electricity pricing which is driven for renewables by subsidies, wholesale electricity pricing methodologies and ultimately natural gas prices.

Within the solar sector, demand remains strong, with Japan, the US and China all supporting higher installation levels. Leading module manufacturers have reported that they are manufacturing at full capacity and module pricing has remained relatively steady with increases in the China price offset by falls in Japan and the US. Emerging market demand is becoming a reality and we expect the number of countries installing more than 1 GW per annum to increase steadily providing a more stable growth platform. Over the quarter the solar stocks in the portfolio only contributed marginally to the fall in the quarter, with losses in most of the module manufacturers offset by gains in Canadian Solar whose earnings exceeded expectations and Enphase, the microinverter manufacturer.

The outlook for the solar sector remains positive with the second half expected to deliver strong demand and some indications that there will be progress in the ongoing US/China/EU tariff wars. Any resolution of this would be highly positive for the whole industry, but particularly the Chinese low cost manufacturers.

The wind sector was particularly weak in the third quarter. While we sold the fund's main three wind turbine manufacturer holdings in July, ahead of price falls, the smaller cap wind utilities were hit hard over the quarter. While Theolia struggled with balance sheet restructuring, the falls in the other names was not matched by a deterioration in their underlying economics.

The outlook for the wind sector remains good with stable project rates of return supporting cash-flow and earnings growth that should support share prices. Good Energy in the UK continues to win customers with its renewable energy offering. The Chinese utilities are seeing lower levels of curtailment and meaningful new capacity entering production this year. Future pipelines of projects are supported by low wind turbine prices.

Overall, we are seeing more supportive policy for the alternative sector. India have indicated that they are preparing to lift their solar target to 15 gigawatts(GW) by 2019 and China is now aiming to have more than 100GW of installed solar capacity and 200GW of installed wind capacity by 2020. There are indications that the tariff wars between the US, EU and China may begin to abate for the alternative energy sector albeit no concrete action yet. Beijing may ask local governments to ensure that up to 10% of power consumption in their areas are from wind, solar and biomass by next year. The International Energy Agency (IEA) has announced that solar power might become the world's largest source of electricity by 2050 as falling costs boost installations. They say that photovoltaic plants may provide as much as 16% of global electricity and concentrating solar facilities could generate another 11%. Needless to say, we think that the prospects for solar photovoltaics are even higher. More yieldcos are emerging and existing yieldcos are raising additional capital which provides capital for the purchase of operating assets and allows continued development of alternative energy installations with confidence that end buyers and market benchmarks for valuations exist.

Portfolio Changes

There were some major changes made to the portfolio in the third quarter. The wind turbine manufacturing holdings – Vestas, Nordex and Gamesa were sold as valuations appeared stretched. We expect solid levels of wind installations and margin improvements, but not enough to merit premium valuations. The US market remains a risk, and the Chinese market is not penetrable for international players, leaving the main prospects for growth in other emerging markets. We expect these emerging markets to develop but not at high turbine prices.

Thee holdings were replaced by positions in Enphase, Canadian Solar and Centrotec Sustainable. Enphase are the leading solar microinverter manufacturer. Microinverters improve solar installation performance and robustness and have the potential to become cheaper than conventional inverters. We are excited about their prospects. Canadian Solar are a leading Chinese module manufacturer who have been early to recognize the opportunity in becoming an installer and developer of projects while maintaining a strong cost position and balance sheet. Cenrotec are a German heating system installer who are well placed for pending changes to German rules that will require boilers to be replaced after 30 years. The economics of installing their equipment is compelling without subsidies.

We have switched our holding in Waterfurnace Renewable Energy into their acquirer NIBE Industrier who are now a global player in heat pumps.

We have sold our holding in Itron and replaced it with a position in a leading Chinese metering provider – Wasion Group Holdings who traded on attractive valuations multiples.

We have sold the fund's holding in RB Energy, the lithium mining company, as it failed to hit production targets, and after the quarter end we sold the fund's position in Maple Energy who faced similar problems. We have replaced them with a position in Cosan SA, a leading Brazilian biofuels company with less direct ethanol price exposure.

The overall effect has been to lower the earnings multiple on which the fund trades and we believe positions the fund well in the stream of future growth stories.

Fund Performance (Q3 2014)

The Guinness Atkinson Alternative Energy Fund was down 10.51% for the third quarter of 2014. The fund underperformed the two indices which were down 7.13% and 8.19% and the sector under-performed the MSCI World Index which was down 2.03% for the quarter.

Total returns	Q3 2014	YTD 2014	1 Year	5 year	From inception (31/12/07)
Guinness Atkinson Alternative Energy Fund	-10.51%	0.25%	-0.74%	-8.58%	-16.54%
Wilderhill New Energy Index	-7.13%	8.31%	15.07%	-3.06%	-9.93%
Wilderhill Clean Energy Index	-8.19%	-0.83%	0.69%	-8.95%	-18.31%
MSCI World Index	-2.02%	4.42%	12.91%	11.60%	4.31%
Calendar year returns	**2009**	**2010**	**2011**	**2012**	**2013**
Guinness Atkinson Alternative Energy Fund	33.42%	-21.90%	-42.53%	-15.20%	61.54%
Wilderhill New Energy Index	41.12%	-13.65%	-38.91%	-4.14%	55.70%
Wilderhill Clean Energy Index	29.81%	-4.76%	-50.50%	-17.37%	58.54%
MSCI World Index	30.94%	12.49%	-4.92%	16.71%	27.49%

CY = Calendar Year

Expense Ratio: 2.00% (net); 2.13% (gross)

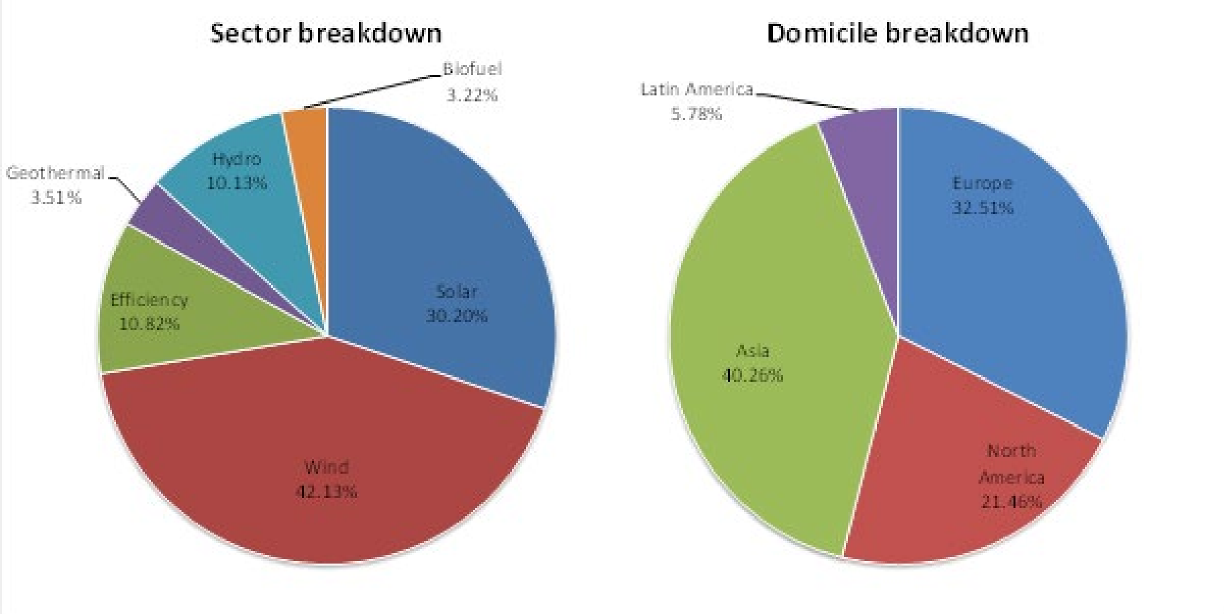
The Advisor has contractually agreed to reduce its fees and/or pay fund expenses in order to limit the Fund's Total Operating Expenses to 1.98% through 06/30/2015.

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



The top five performers over the third quarter were Enphase Energy (+75.32%), Wasion Group (+22.62%), Carmanah (+21.95%), Canadian Solar (+14.43%) and China Singyes (+5.47%).

The bottom five performers over the third quarter were Maple Energy (-67.16%), Theolia (-34.85%), Greentech Energy (-24.65%), China Suntien (-23.16%) and Centrotec Sustainable (-22.31%).

Top 10 holdings as of 09/30/14	% of assets
MYTRAH ENERGY LTD	4.44%
NORTHERN POWER SYSTEMS CORP	4.01%
INIZIATIVE BRESCIANE-INBRE S	3.97%
WASION GROUP HOLDINGS LTD	3.79%
VERBUND AG	3.75%
RENESOLA LTD-ADR	3.68%
CHINA SINGYES SOLAR TECH	3.64%
ENPHASE ENERGY INC	3.60%
ORMAT TECHNOLOGIES INC	3.58%
GOOD ENERGY GROUP PLC	3.58%

Commentary for our views on Global Energy, Dividends 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. Investments focused on the energy sector may be exposed to greater risk than an investment 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.

A Yieldco is generally defined as a publicly traded company that predominantly distributes its cash flows from owned operating assets as dividends or other payments to investors, focusing on income as opposed to growth.

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