Guinness Atkinson
Global Innovators Fund eBrief
July 2015

The sharp sell-off in equity markets in June was premised by two main factors; (i) the renewed potential of 'Grexit' as Eurozone leaders failed to reach a consensus on a new bailout package for Greece, and (ii) the huge pull back in the Chinese stock market. The former brought to focus the long term future of the European region, how any fall out of Greek exit, in whatever form, would affect the Euro and thus future economic growth prospects. The latter highlighted how quickly equity bubbles can form when the right mix of monetary easing and investor leverage is combined with a myopic view of momentum rather than fundamentals. The subsequent reversal of the local Shanghai market which began in earnest on June 12th also served to show how quickly these bubbles can dissipate when everyone heads for the exits. We must wait and see where the margin financing debts created during the rout land, but the consensus today is that it will be with the retail investors. These wild swings in Chinese equity markets come on top of the gradual adjustment investors have been making to a world where China is not necessarily going to be the driver of economic growth as it has been over the past two decades – a fact which has been most keenly felt in the commodities and raw materials markets. The interventionist policies enacted by the Chinese government in July to try and stem the tide of falling prices also highlighted that the opening up of capital and foreign exchange markets is still only part way through.

Unsurprisingly the worst performing regions over the month were Europe and Asia, but the US was only marginally better. The US was down 1.9% versus Europe down 3.0% and Asia down 2.7%.

Within sectors utilities, materials, and information technology were weakest over the month, down 5.4%, 4.3%, and 4.2% respectively. Utilities continued to give up the gains made through 2014 as rate rises loom on the horizon, and materials companies moved in lock-step with weakening commodity prices. Within the portfolio we continue to own no utilities or materials companies, as generally they do not have the return on capital profiles we seek and today they do not appear to have the potential for profitable growth over the short or medium term. The fund does hold just over 40% in the IT sector, however, and this represents an approximately 20% overweight versus the benchmark MSCI World Index. This overweight accounted for almost all of the underperformance of the fund in the month.

Within the information technology sector it is useful to split out the underlying industry groups as there is a diverse group of companies within each. The Global Industry Classification Standard (GICS) has three sub industries within the wider information technology sector; semiconductors and semiconductor equipment, software and services, and technology hardware and equipment. Over the month these fell 8.8%, 2.5%, and 4.9%, respectively, which highlights that the more cyclical companies in the sector drove the underperformance versus the broad market. Indeed, the second worst performing company held in the portfolio over the month was Intel, which is arguably the 'bellwether' stock for the semiconductor industry. Within the portfolio our 40% exposure is split relatively evenly between the three industry groups of the IT sector; 12% semiconductors, 16% software, and 12% technology hardware.

Intel fell quickly at the start of the month, falling almost 8% through the first five trading days of the month. On June 1st the company confirmed the deal with Altera that had been first reported by the Wall Street Journal on March 27th. Intel agreed to pay $54 per share for Altera valuing the company at $16.7bn, or around $14.3bn taking into account Altera's net cash position. This represented a 50%+ premium to the Altera share price before any reports of a deal were published at the end of

March. This deal continues the increased mergers and acquisition activity in the semiconductor sector (and the market at a whole) we have seen this year. Intel has a healthy balance sheet with almost $14bn in cash and short term investments and only $12bn in long term debt so the deal does not appear to bring any stress to the financing position of Intel, even if a decent proportion of it is financed by debt – the mix of debt and cash to finance the deal was not disclosed. The valuation of the deal appears rich, however, and despite stating that the deal would be accretive to earnings in 2016 and generate additional free cash flow we would conservatively estimate any expected 'synergies'. The deal does give Intel a much improved presence in growing markets such as wireless communications infrastructure and could also help bolster its faster growing server processor group (by incorporating Altera technology) in the future. So, the deal should help Intel maintain its market share in a segment that has been driving revenue growth in recent years and could provide useful avenues to grow in new markets. The company trades today at 12.5X 2015 expected earnings, which is at the low end of it historic trading range, and market expectations are for a steep decline in return on capital over the next three years to its cost of capital. We think this is too pessimistic for a company that have maintained its return on capital well above its cost of capital for the last decade. We can see a scenario where long term growth is better than the market has baked in and could result in a re-rating of the multiple alongside.

Another trend seen over the past few years has been activist investors agitating for company managements to 'unlock value' by either (i) increasing shareholder returns via increased buy backs or dividends or (ii) splitting companies up into smaller, more specialist, entities. In the portfolio we have had two instances of the later in the portfolio. Ebay completed its split into an online payment and processing specialist (Paypal) and a purely online marketplace. Ostensibly this resulted in investors getting to choose between a high growth business (Paypal) and a moderate growth business (Ebay). We have maintained our holdings in both companies for now, but are carefully assessing whether the growth expectations of both companies justify their 'new' values.

The second split was that of Gannett into one company with all the publishing assets, such as USA Today, and a second which will focus on broadcast and digital. The publishing asset, when spun off, accounted for approximately 20% of the equity value of our holding. When we purchased Gannett in October 2013 we were drawn to the higher growth broadcasting and digital assets and thought the 'old media' assets were probably undervalued by the market. This separation has allowed us to recognise the value of those assets and we sold our position in the new company (which retained the name Gannett) and used the proceeds to top up to a full position Tegna, the renamed broadcast and digital company.

We thank you for your continued support.

Ian Mortimer and Matthew Page

Fund Managers

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

Mutual fund investing involves risk and loss of principal is possible. Investments in foreign securities involve greater volatility, political, economic and currency risks and differences in accounting methods. These risks are greater for emerging markets countries. The Fund also invests in medium and smaller companies, which will involve additional risks such as limited liquidity and greater volatility. The Fund may invest in derivatives which involves risks different from, and in certain cases, greater than the risks presented by traditional investments.

Securities mentioned are not recommendations to buy or sell any security. Current and future portfolio holdings are subject to risk

This information is authorized for use when preceded or accompanied by a prospectus for the Guinness Atkinson Global Innovators 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.

Click here to view the Top 10 Holdings of Guinness Atkinson Global Innovators Fund

Top 10 Holdings of Guinness Atkinson Global Innovators Fund as of 6/30/15:

1. Gilead Sciences Inc. 3.88% 2. PTC Inc. 3.85% 3. Capital One Financial Corp. 3.68% 4. Ultra Electronics Holdings PLC 3.59% 5. Schlumberger Ltd. 3.55% 6. Comcast Corp. 3.49% 7. State Street Corp. 3.46% 8. Roper Industries Inc. 3.40% 9. eBay Inc. 3.40% 10. BP PLC 3.39%

Price to Earnings Ratio (P/E) is a valuation ratio of a company's current share price compared to its per-share earnings. Calculated as: Market Value per Share / Earnings per Share (EPS)

MSCI World Index- is a stock market index of 1,631 'world' stocks. It is maintained by MSCI Inc.

It is not possible to invest in an index.

Cash flow is the total amount of money being transferred into and out of a business, especially as affecting liquidity.

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