



**GUINNESS  
ATKINSON**  
F U N D S

## Alternative Energy *brief*



Ed Guinness

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**Commentary and Review by portfolio manager  
Edward Guinness**

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In reviewing the second quarter, we take a look at the progress of the solar sector and what it means for the future. We also take a look the effect the recent slowdown of China's growth may have on Alternative Energy

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### **Commentary**

Stock performance of the Guinness Atkinson Alternative Energy Fund's solar holdings varied dramatically.

Almost all of the fund's wind farm operator and developer holdings contributed positively to returns, with the Chinese companies particularly benefiting from strong Chinese markets, continued government mandated growth and falling interest rates. The notable poor performer was Northern Power Systems, the fund's only remaining wind turbine manufacturer, whose business has been hurt by delays in orders for its small wind turbines.

The Chinese solar manufacturers mainly gave up their first quarter gains with the notable exceptions of Xinyi Solar and Jinkosolar. The fund's microinverter holding, Enphase, was hit by loss of market share at some key customers. However, they continued to make fast progress in growing volumes and bringing costs down, so we remain confident in their future.

The fund's three hydro investments performed poorly, for differing reasons. Cemig struggled with the Brazilian regulatory environment and from weak hydrology. Verbund struggled with weak central European electricity pricing. Iniziative Bresciane gave back some of its gains mainly as a result of low stock liquidity.

This was a strong quarter for the fund's efficiency holdings. Wasion, the Chinese metering manufacturer and Nibe, the global heating technology provider both performed well.

The fund's holding in Cosan, the Brazilian biofuels company was weak as a result of the falling oil price, notwithstanding that only a small part of its business has direct exposure to the oil price.

The solar sector continued to make progress in the quarter, with strong demand coming from China, the US and India. The Chinese government announced an increased target of 17GW of solar installations in China for 2015 which we believe may be exceeded. The US is heading towards the 2017 expiry of the Solar Investment Tax Credit (ITC). Companies are already preparing themselves for a post ITC pricing structure. We believe that the expiry will accelerate US solar projects over the intervening period. Once this surge has been built, we believe high growth will continue. There is a lot of room for solar installation costs to fall in the US and this is what has been seen in countries like Germany and the UK where there have been subsidy reductions. India has set a 100GW solar target by 2022, which will require massive growth in annual installations. Further progress is being seen across the emerging markets as more and more countries wake up to solar's potential. Even in Europe we are now seeing real unsubsidised demand. For example, Germany held auctions for the provision of 150MW of solar installations where the strike prices were between 9 and 10 US cents per kWh.

Pricing for solar modules held relatively firm over the quarter whilst polysilicon prices fell from over \$20 per kg to around \$16 per kg (Bloomberg New Energy Finance) which helped margins. There was no progress towards removing the European minimum price and US duties on Chinese solar modules, but Australia decided not to impose duties on Chinese solar modules. We understand that progress is being made on global trade talks to remove tariffs on sustainable technologies, but this does not appear imminent. We note the recognition from Al-Naimi, the Saudi oil minister, that solar is likely to take over from oil eventually. We believe this is likely to mean more investment from the Middle East into solar projects and is an affirmation of the sector's prospects.

Emerging markets now provide the best hope of demand growth for the wind sector. China is increasing its wind installation targets and Latin America continues to grow. European onshore wind demand is relatively static, but with higher potential for offshore growth. The UK market for onshore wind will no longer qualify for the existing subsidies from 2016, leaving future growth uncertain, and Germany has a cap on annual onshore wind installations. Production tax credits may come to an end but we expect that the Obama Clean Power Plan will create a framework that should support future US market growth, but we still need to see the details of individual state policy to understand its full potential. We believe solar is also likely to be a major beneficiary.

Other alternative energy investment opportunities outside of wind and solar tend to be unique situations rather than benefit from the overall trend away from fossil fuels, rather than sector specific growth stories. For example we believe that heatpumps and improved efficiency heating technologies are likely to become more prevalent as continental European best practise is exported globally.

We believe the long term outlook for alternative energy remains good. The key drivers remain in place: dwindling fossil fuel supplies; energy security concerns; environmental issues; and climate change. The reduced cost of alternative energy technologies is likely to accelerate the growth of the alternative energy sector. We continue to seek to position the fund to benefit from the long term growth of the sector.

### Third quarter sell off

It has been a gritty period for alternative energy equities. We see the major driver behind the pull-back in world equities as concerns about the slowdown of growth in China. The falling oil price and falling natural gas and electricity prices have weighed further on the alternative energy sector. The fund has 40.31% invested in Chinese domiciled companies that have performed weakly. The Chinese power producers are we think well placed as attractive engines for growth of the Chinese economy that the government is likely to continue to support and they would be major beneficiaries of lower interest rates which we believe are likely. The solar equities have performed poorly, but earnings forecasts remain robust and global demand remains intact – undimmed by wider energy price falls. As exporters they are beneficiaries of the slightly lower Yuan and Chinese domestic demand is expected to continue to grow – it is not dependent on any level of gross domestic product (GDP) growth.

Our conviction in the alternative sector remains strong. The portfolio is positioned to seek to perform well even in a low energy price environment such as has been the fall in cost of the main technologies. As well as having its main drivers still intact, a recovery in the broad market, China or the energy sector provide potential for returns for the fund following the weakness over the summer.

## Fund Holdings

## Portfolio changes

We made no major changes to the portfolio in the second quarter.

## Fund Performance (Q2 2015)

The Guinness Atkinson Alternative Energy Fund was down 0.85% for the second quarter of 2015. The fund underperformed Wilderhill New Energy Index which was up 1.39% and the MSCI World Index which was up 0.47% but outperformed the Wilderhill Clean Energy Index which was down 3.20%. (Total Returns as of 6/30/15)

Total returns	Q2 2015	CY 2014	1 year	5 year	From launch (31/03/06)
Guinness Atkinson Alternative Energy Fund	-0.85%	-14.29%	-21.25%	-4.75%	-11.53%
Wilderhill New Energy Index	1.39%	-2.16%	-7.00%	3.08%	-2.18%
Wilderhill Clean Energy Index	-3.20%	-16.93%	-21.23%	-6.98%	-13.42%
MSCI World Index	0.47%	5.61%	2.06%	15.01%	13.83%

Calendar year returns	2010	2011	2012	2013	2014
Guinness Atkinson Alternative Energy Fund	-21.90%	-42.53%	-15.20%	61.54%	-14.29%
Wilderhill New Energy Index	-13.65%	-38.91%	-4.14%	55.70%	-2.16%
Wilderhill Clean Energy Index	-4.76%	-50.50%	-17.37%	58.54%	-16.93%
MSCI World Index	12.49%	-4.92%	16.71%	27.49%	5.61%

CY = Calendar Year

Expense Ratio: 2.02% (net); 2.06% (gross)

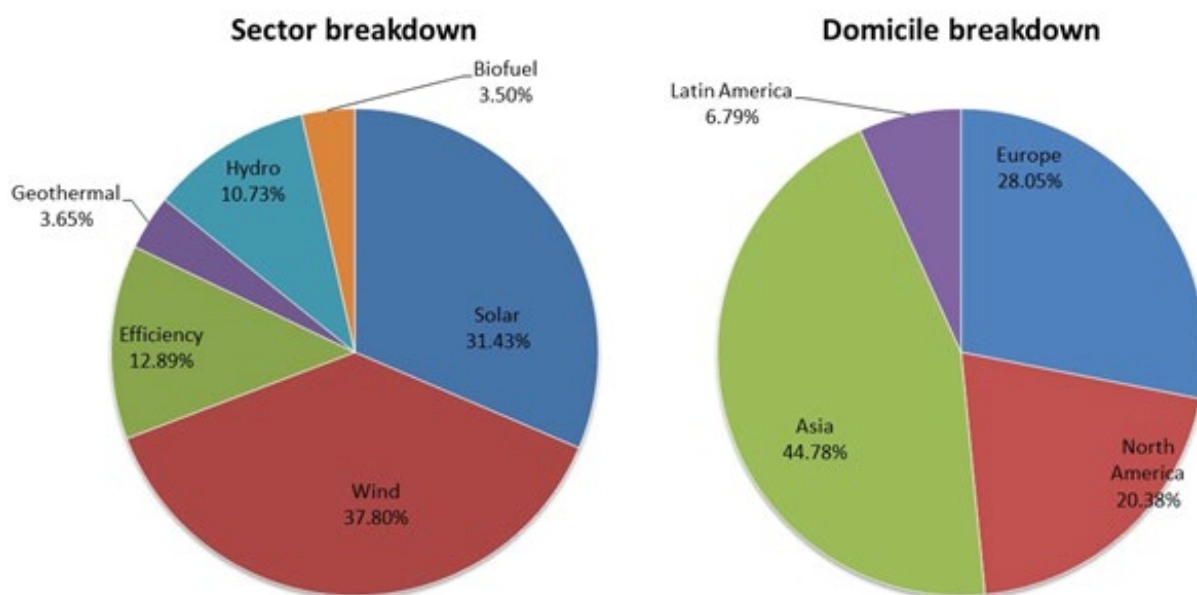
All return figures represent average annualized returns except for periods of one year or less, which are actual returns.

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.

The Advisor has contractually agreed to reduce its fees and/or pay Fund expenses (excluding Acquired Fund Fees and Expenses, interest, taxes, dividends on short positions and extraordinary expenses) in order to limit the Fund's Total Annual Operating Expenses to 1.98% through June 30, 2016.

**Fund Holdings**



Top 10 holdings as of 06/30/15	% of assets
GOOD ENERGY GROUP PLC	4.32%
INIZIATIVE BRESCIANE-INBRE S	4.09%
MYTRAH ENERGY LTD	3.79%
ENEL GREEN POWER SPA	3.70%
ORMAT TECHNOLOGIES INC	3.59%
CENTROTEC SUSTAINABLE AG	3.55%
JINKOSOLAR HOLDING CO-ADR	3.53%
WASION GROUP HOLDINGS LTD	3.52%
SUNPOWER CORP	3.50%
JA SOLAR HOLDINGS CO LTD-ADR	3.48%

The top five performers over the second quarter were Xinyi Solar (+34.19%), Mytrah Energy (+31.59%), Wasion Group (+27.79%), Carmanah Technologies (+15.15%) and Jinkosolar (+15.13%).

The bottom five performers over the second quarter were Northern Power Systems (-42.94%), Enphase Energy (-42.30%), Yingli Green Energy (-33.51%), Theolia (-19.00%) and Canadian Solar (-14.35%).

-Edward Guinness

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.

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