

With the initial Brexit shock from the 23rd of June and subsequent market reverberations dying down through July, financial markets digested the prospect of further easy monetary policy by rewarding equities. Asian and emerging market equities were the main beneficiaries, while UK and European equities lagged.

This heightened risk appetite meant small-cap stocks outperformed large-cap. Similarly, defensive sectors lagged cyclicals with the exception of the energy sector where we saw a sharp decline in the oil price due to short-term shifts in the supply and demand balance.

The companies we owned in the fund largely reflected this broader picture. Technology was the strongest performing sector over the month and our holdings in Lagan Precision, Microsoft and Cisco all ranked in our top 10 performing positions over the month. Our holdings in Consumer Staples generally lagged, with Danone being the exception.

In light of the Brexit fall-out we have been looking closely at more attractive entry points for a number of companies on our watch list, and while we have so far not added any new names we have been rebalancing positions.

Summer thoughts

With global equity valuations grinding higher, swings in FX rates post the Brexit vote and potentially further political shocks on the horizon it is worth considering where value opportunities can be found within global equities today.

By looking at valuation multiples by region you can see that on a price to earnings (P/E) (2016) basis the US looks expensive and emerging markets look cheap.

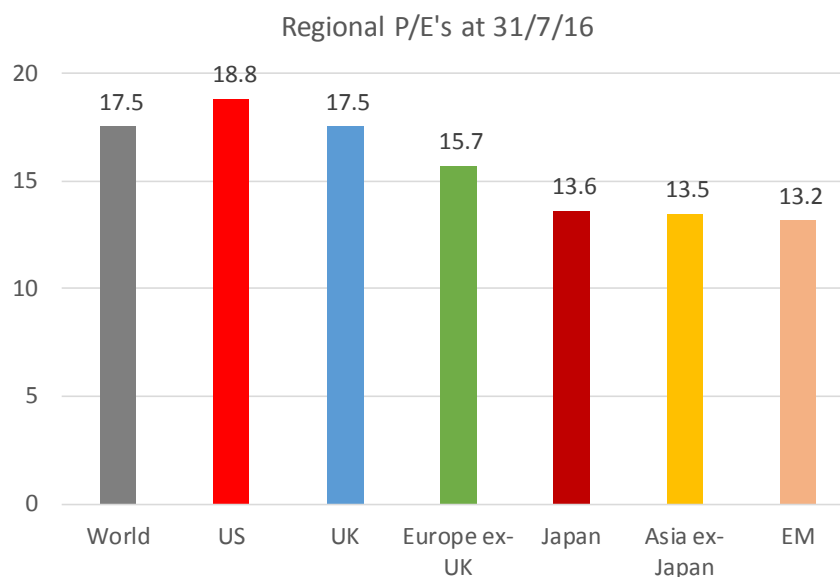


Chart 1: Regional 1 year forward P/E ratios. Guinness Atkinson Asset Management, MSCI, Bloomberg (data as at 7.31.2016)

Guinness Atkinson
Dividend Builder Fund
Managers Update – August 2016

And if we look at the 1 year forward P/E multiple of just the US going back to the end of 2010 (when we launched our fund), you can see from the chart below that the US currently trades at its highest multiple over this period.

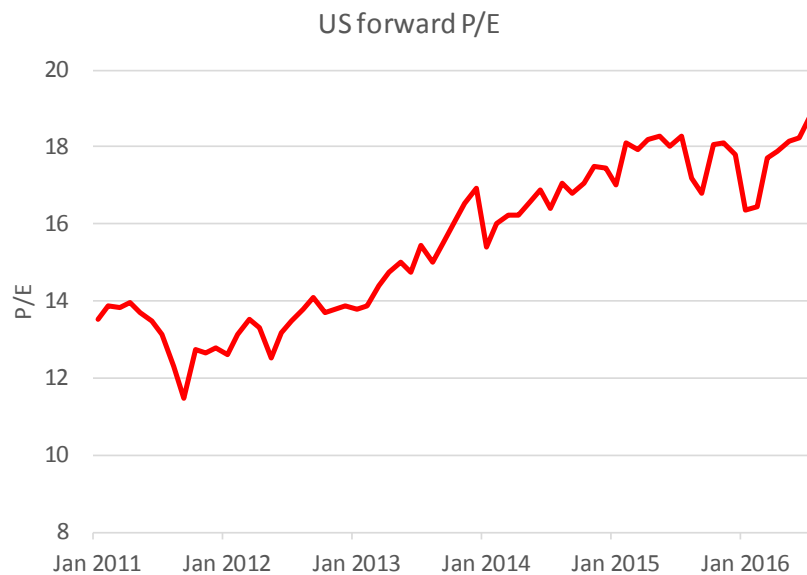


Chart 2: US 1 year forward P/E ratio. Guinness Atkinson Asset Management, MSCI, Bloomberg (data from 12.31.2010 to 7.31.2016)

The UK also shows a very similar picture having gradually worked up to a higher multiple, despite the recent gyrations due to the Brexit referendum result.

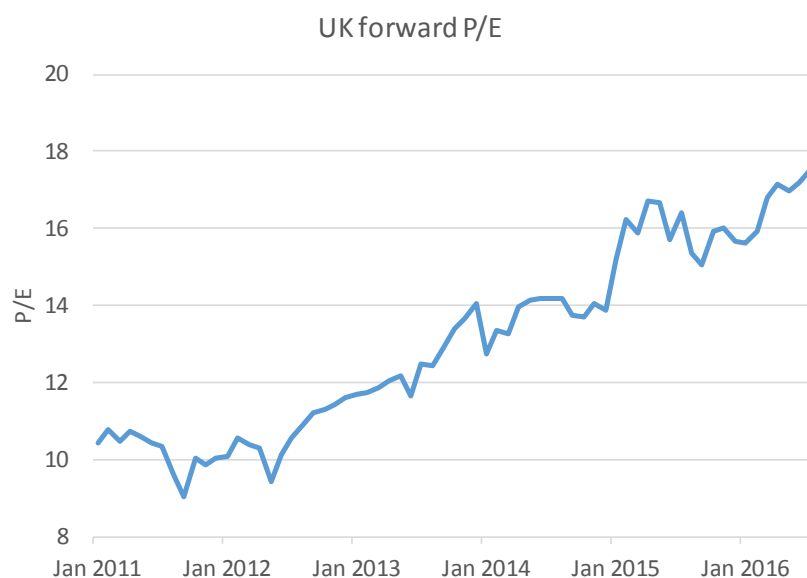


Chart 3: UK 1 year forward P/E ratio. Guinness Atkinson Asset Management, MSCI, Bloomberg (data from 12.31.2010 to 7.31.2016)

Europe has also seen a significant expansion in its multiple over this period and is not far off the highs we saw in 2015.

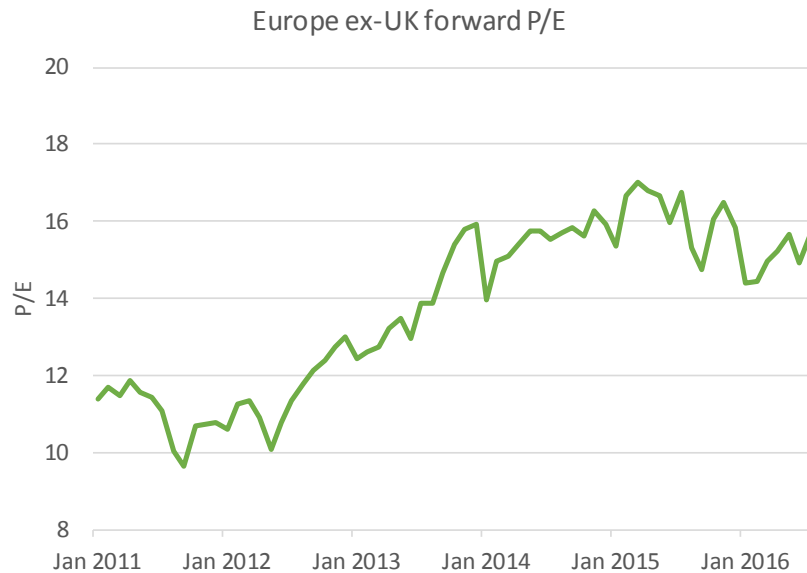


Chart 4: Europe ex-UK 1 year forward P/E ratio. Guinness Atkinson Asset Management, MSCI, Bloomberg (data from 12.31.2010 to 7.31.2016)

While Asia ex-Japan and Emerging Markets look cheaper than the US and UK, they also both trade at their highest multiples over this period.

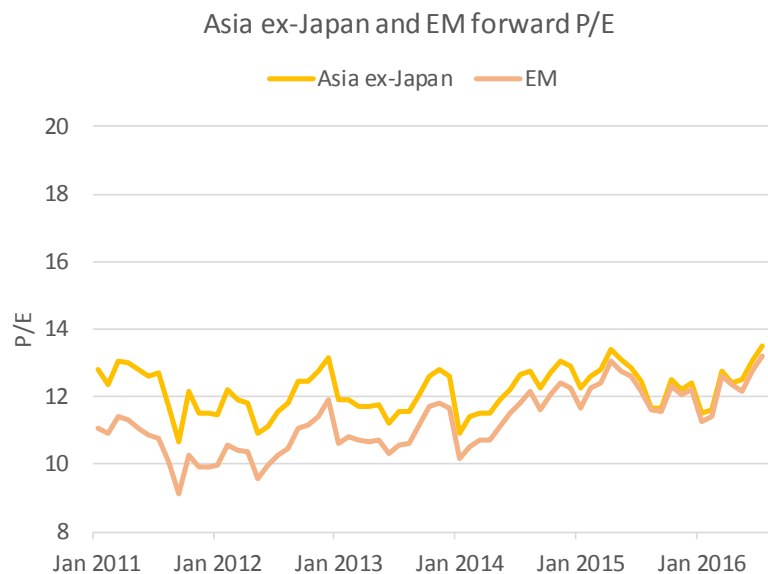


Chart 5: Asia and EM 1 year forward P/E ratios. Guinness Atkinson Asset Management, MSCI, Bloomberg (data from 12.31.2010 to 7.31.2016)

However, Japan is the only region that is trading on a multiple below its recent historic average. While Japan therefore looks attractive on this basis we find that relatively few Japanese companies meet our criteria of having generated consistently high return on capital. Of those that have met our criteria many of those trade at high multiples given their scarcity. We currently own one position in Japan which is Japan Tobacco. However, we also have exposure to Japan through our position in Aflac which is listed in the US but generates 75% of its revenue from Japan.

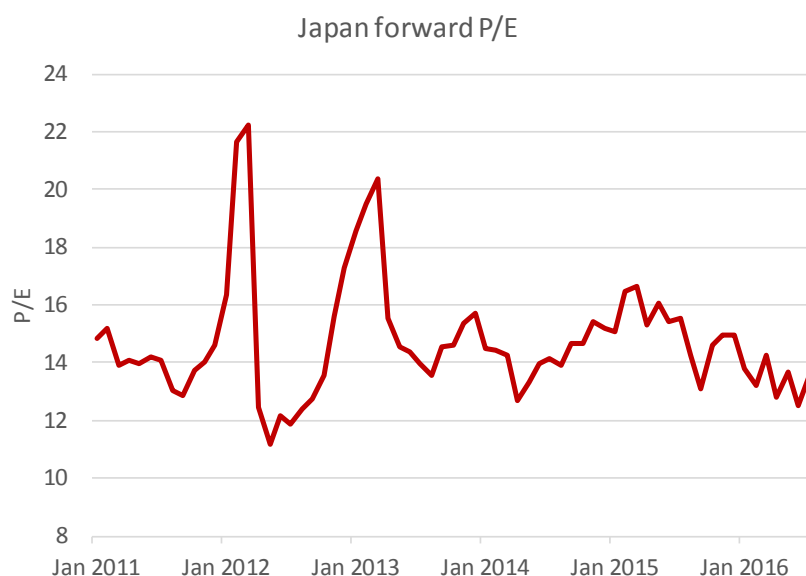


Chart 6: Japan 1 year forward P/E ratio. Guinness Atkinson Asset Management, MSCI, Bloomberg (data from 12.31.2010 to 7.31.2016)

Indeed this scenario of the US and UK appearing expensive, and Asia and emerging markets appearing cheap would have looked the same if you looked at in at almost any point throughout the last five years. Taking this top down view on valuation is interesting, but is not particularly useful for our investment process which is ultimately about selecting individual companies that have the characteristics we seek.

We are cautious about drawing too many conclusions for our investment process from looking at aggregate data like this. An average can obscure huge amounts of useful and interesting data in the underlying spread and the bias that market capitalisation can have on these weighted averages. Indeed, our investment process is designed to focus on identifying companies whose valuations are at the far left of the distribution, not the average (i.e. are cheap relative to their peers).

Any historic analysis of index valuations has its limitations so we are cautious about drawing too many conclusions from it. The constituents of indices change over time and over relatively short periods of time this will have a minimal impact. However, over a period of 20 years it can have a quite a meaningful impact. For example, the S&P500 has on average had 22 companies added or removed each year since its inception. So over 20 years that's 440 changes to an index of supposedly 500 stocks!

Sector weights can also change quite considerably over time. For example, the energy sector represented over 15% of the S&P500 in 2008 while today it is less than half that at 7%. Or more dramatically, financials represented 8% in 1990 vs 22% by 2005.

Similarly, the beta of a sector can also change quite dramatically over these time periods, as you can see in the chart below. From 1997 and through most of the last decade the World IT sector had a beta above 1 and peaked at around 2 in the dot-com bubble of 2001. However, for most of the last 6 years it has essentially been 1. In contrast the energy sector has had a beta well above 1 for most of the last ten years, while for the ten years prior to that it had a beta well below 1.

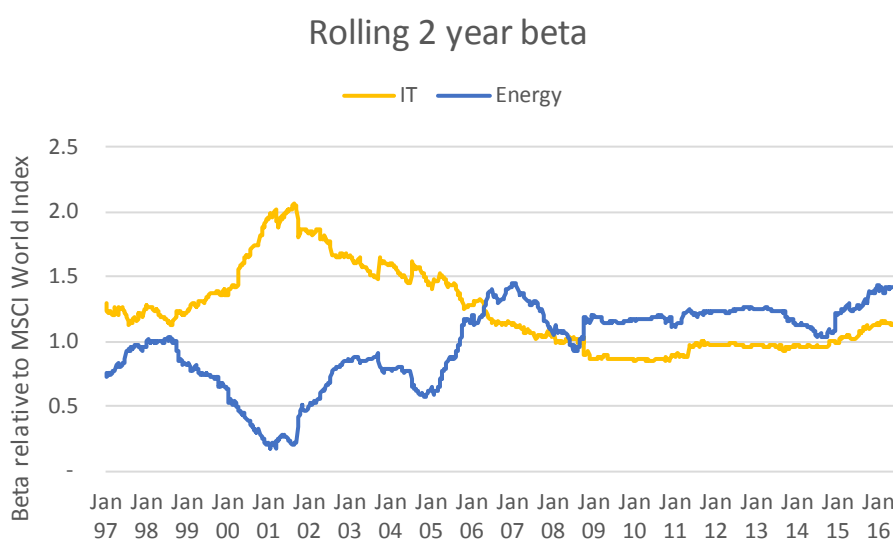


Chart 7: Rolling 2 year beta of MSCI World IT sector and MSCI World Energy sector. Guinness Atkinson Asset Management, MSCI, Bloomberg (data from 1.31.1997 to 7.31.2016)

So while a historic analysis has its limitations perhaps we can get more out of looking in more detail at the current valuations of sectors in each region. When we look at it in this more granular fashion a more complex picture emerges.

Although the energy sector stands out as trading on an exceptionally high multiple this is largely a consequence of last year's dramatic fall in the oil price affecting near term earnings.

	World	US	UK	Europe ex-UK	Japan	Asia ex-Japan	EM
Index	17.5	18.8	17.5	15.7	13.6	13.5	13.2
Energy	52.0	109.3	24.9	20.2	10.4	17.8	10.7
Materials	19.5	18.4	24.0	18.2	14.4	14.4	14.6
Industrials	17.3	18.7	16.8	16.6	14.0	14.1	15.3
Cons Disc	16.9	19.3	14.5	13.5	13.1	14.3	16.2
Cons Staples	21.9	21.8	21.1	22.5	22.9	23.3	23.8
Healthcare	17.5	17.2	17.0	17.9	25.3	27.7	26.1
Financials	13.1	14.8	12.1	10.9	9.9	9.8	9.2
IT	18.3	18.1	35.6	20.5	17.5	16.2	16.3
Telecomms	15.6	15.8	23.2	16.0	11.3	17.5	16.6
Utilities	17.3	18.9	16.5	14.7	11.1	11.6	10.0

Source: Guinness Atkinson Asset Management,

Guinness Atkinson
Dividend Builder Fund
 Managers Update – August 2016

Table 1: 1 year forward P/E ratio by sector and region. Guinness Atkinson Asset Management, MSCI, Bloomberg (data as of 7.31.2016)

What is most notable to us is to look at the valuations of defensive sectors such as consumer staples and healthcare. Much is written about how expensive high quality consumer staples and healthcare companies are in the US and Europe. Indeed we agree with much of it and we reduced our exposure to this sector substantially from 2012 to 2014 on valuation concerns. What is notable however, is that consumer staples and healthcare companies are more expensive in Asia and emerging markets than they are in developed markets.

What does look cheap in Asia and emerging markets is financials and since the financial sector makes up around one third of these regions' benchmarks it has a significant effect of dragging down the regions' multiples.

It is also worth looking at dividend yields by region. The chart below shows the dividend yield of each region at the end of 2015. As you can see, the US and Japan offer the lowest dividend yields by region whereas the UK and Europe offer the highest.

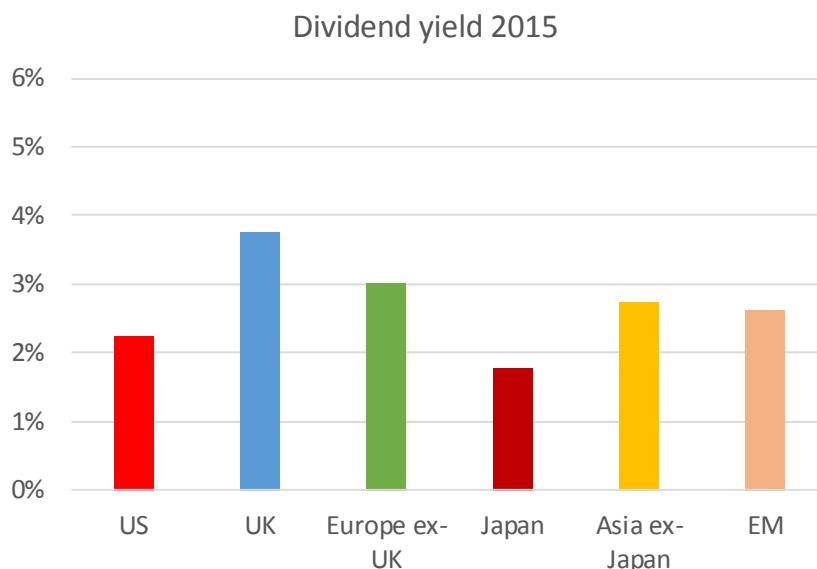


Chart 8: Trailing 12 months dividend yield by region. Guinness Atkinson Asset Management, Bloomberg (data as of 12.31.2015)

However, if we add in the other way of returning excess cash to shareholders, share buybacks, a somewhat different picture emerges (see chart below). US companies are offering a shareholder yield of well over 5% when you factor in share buybacks (the faded bars).

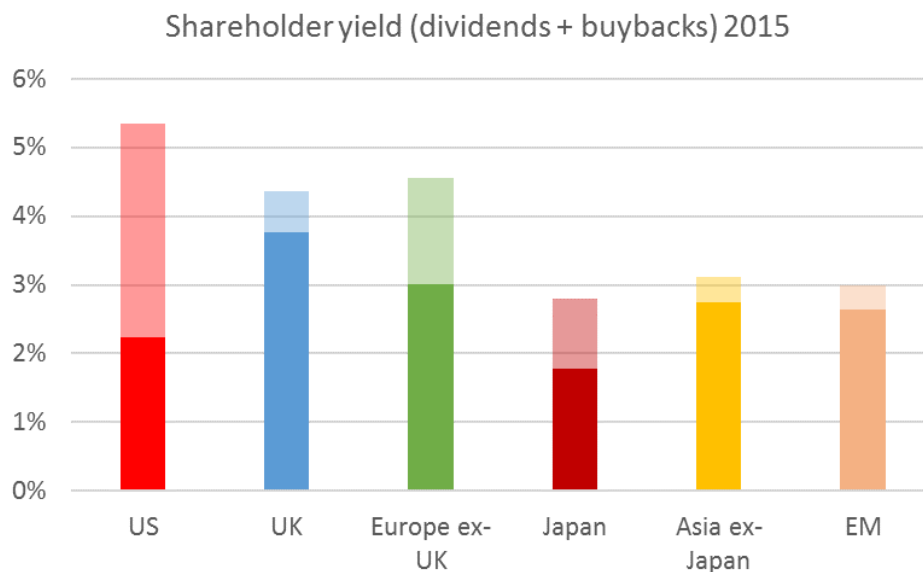


Chart 9: Trailing 12 months shareholder yield by region. Guinness Atkinson Asset Management, Bloomberg (data as of 12.31.2015)

US companies have long used share buybacks as a method of returning cash to shareholders as for US investors it tends to be more tax efficient. Over the last 15 years share buybacks have represent somewhere between 50% and 60% of shareholder yield, other than in 2007 when it reached 70%. As you can see below, back in 2010 it was not dramatically different to today, despite the fact that US equities have rallied substantially over this period.

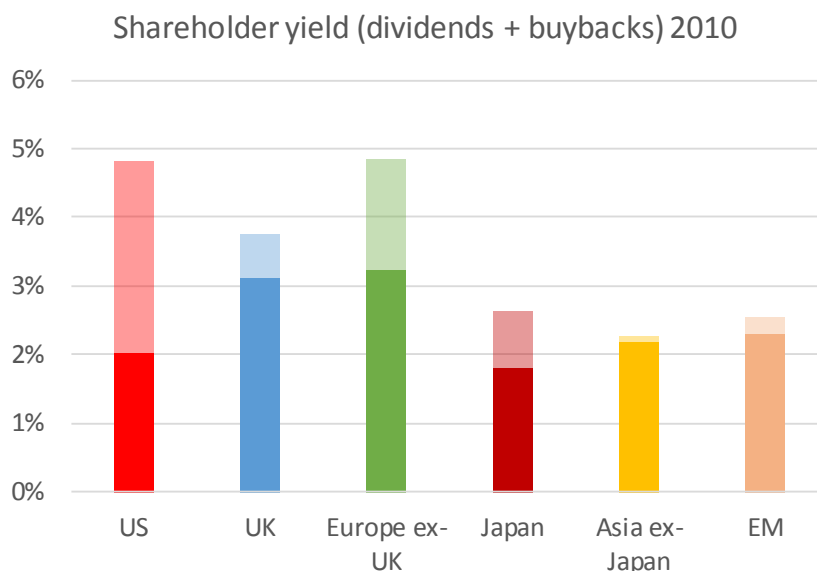


Chart 10: Trailing 12 months shareholder yield by region. Guinness Atkinson Asset Management, Bloomberg (data as of 12.31.2015)

When you consider the decline in the yields on government bonds over this period it is certainly one way to feel more comfortable with equities trading on higher multiples today than in 2010. If you can identify a few quality companies with consistent cashflow and these kinds of yields then one might consider them highly attractive.

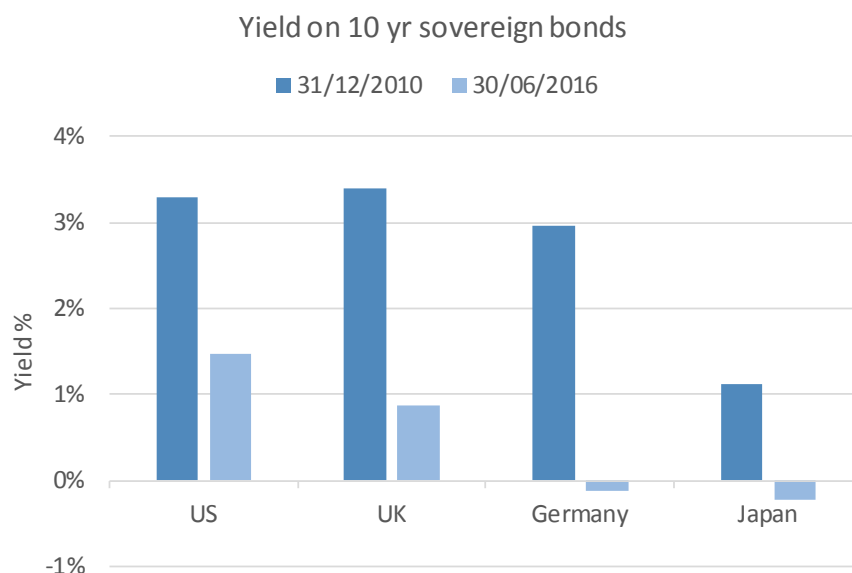


Chart 11: Comparison of yield on sovereign debt by country. Guinness Atkinson Asset Management, Bloomberg (data from 12.31.2010 to 06.30.2015)

Our conclusion from all of this analysis is that there is a very mixed picture out there.

- All regions look expensive today relative to their valuations over the last 5 years.
- Asia and EM look cheap relative to the US, Europe and UK, but less dramatically so if you strip out the effect of financials.
- Financials look particularly cheap but given we are in an ultra-low interest rate environment and global growth looks weak they may turn out to be value traps.
- US companies are expensive on P/E valuations but are distributing more cash to shareholders than any other region.

In these uncertain times of low bond yields and extended global equity valuations we believe more than ever these are the conditions in which we must be carefully selective. We need to look for the companies where their valuations are the exceptions relative to their peers, where a company's outlook offers some uncertainty but comes with a heavily discounted valuation and where a long-term time horizon can enable us to wait for a valuation gap to close. The macro noise can all be rather distracting.

With this in mind a more relevant analysis for our investment process is to focus on looking at the companies that meet our requirements of a decade of consistently high return on capital and a debt to equity ratio limited to 100%. There are around 500 companies that currently meet these requirements and this defines our investible universe.

Guinness Atkinson Dividend Builder Fund Managers Update – August 2016

We don't just look for these elements of quality, but also for attractive value. We also want a dividend that can grow as well as a healthy dividend yield.

So if we take a quick look at those companies that have a dividend yield of at least 1.5% and trade on a P/E multiple of less than the MSCI World Index (17.5x), we find that there are approximately 130 companies today. That's 130 companies with consistently high return on capital for a decade, all with a strong balance sheet, that all pay a dividend.

These companies are therefore very different to the average company of the benchmark. In a nutshell we believe they are objectively far higher quality, yet despite that they are cheaper than the benchmark.

Not only that but the average dividend yield of these 130 companies is 3.8% which is well above that of the MSCI World Index at 2.6%.

Pleasingly these companies are well diversified globally as can be seen in the regional breakdown chart below. It is not an exact mirror of the MSCI World Index, with the UK being overweight and the US being underweight but it is more than sufficiently diversified for our purposes of finding candidates to replace one of the 35 companies in the portfolio.

Regional breakdown

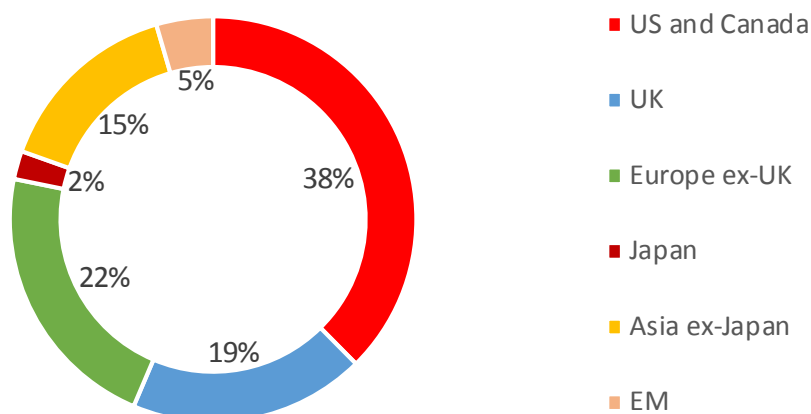


Chart 12: Regional breakdown of opportunity current opportunity set. Guinness Atkinson Asset Management, Bloomberg (data as of 07.31.2016)

When we look at these 130 companies on a sector basis we can see that cyclical sectors outweigh defensive sectors. It is also notable that no Utilities or Materials companies are in this opportunity set. Whilst Financials is the largest sector there are very few banks within this. The financials that meet our criteria are generally asset managers, financial exchanges, insurance brokers or other financial services companies.

Consumer Staples and Health Care together only represent 10%. Although this is a small proportion it does also prove there are still some opportunities in these sectors if you are selective.

Whilst the cyclical sectors dominate the opportunity set today it is worth remembering that the companies in this analysis have all maintained their high return on capital over the last ten years. Our initial screen effectively removes companies that are the most sensitive to the economic cycle. Those that make it through tend to be best of breed cyclical companies with some element of secular growth, niche, or dominant market position allowing them to weather periods of economic instability.

Sector breakdown

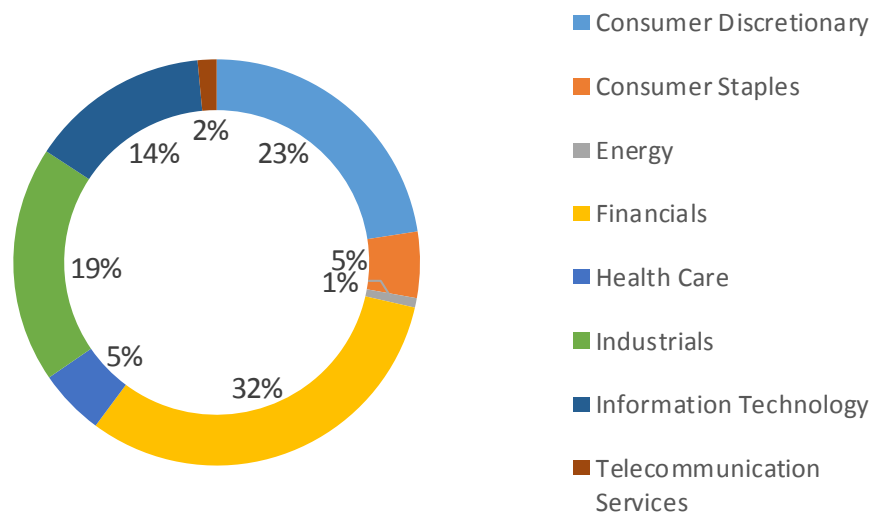


Chart 13: Sector breakdown of opportunity current opportunity set. Guinness Atkinson Asset Management, Bloomberg (data as of 07.31.2016)

We can drill in some more to look at the dividend yields on offer, and historic dividend growth, compared to the market cap of these companies. The chart below shows this by comparing the dividend yield on the vertical axis and the market cap on the horizontal axis. Each blue point on the chart represents one company, and the size of the point represents how many times they have grown their dividend in the last ten years. The larger the dot, the larger the number of dividend increases.

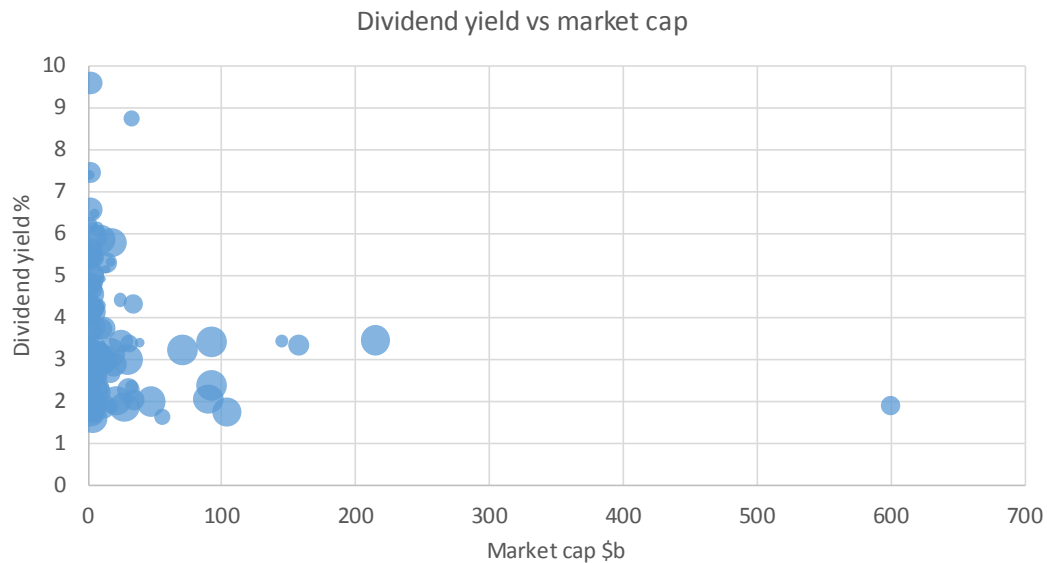


Chart 14: Dividend yield vs market cap for opportunity set. Guinness Atkinson Asset Management, Bloomberg (data as of 07.31.2016)

This chart is somewhat difficult to read due to a few mega cap stocks skewing the scale (particularly Apple at the far right of the chart with its market cap of around \$600 billion). However, if we change the market cap scale to a log scale then it is far easier to analyse as you can see in the next chart.

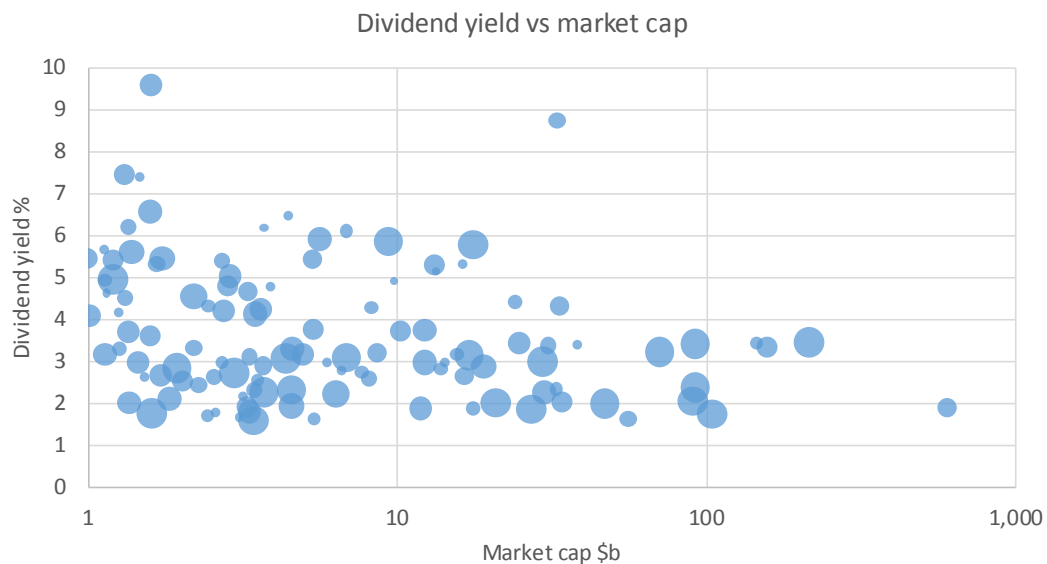


Chart 15: Dividend yield vs market cap for opportunity set on a log scale. Guinness Atkinson Asset Management, Bloomberg (data as of 07.31.2016)

This chart shows more clearly how there is good diversification across market caps and across the dividend yield spectrum. It also shows there are still a good number of companies with long track

records of consistent dividend growth (the larger dots) that still offer a valuation discount to the market.

In the next chart we take the same data but highlight each region. As you can see and as we might expect many of the US and Canadian stocks are towards the bottom of the chart as they have a lower dividend yield. However, given the size of their data points we can also see that these US and Canadian companies have more consistent dividend growth than other regions.

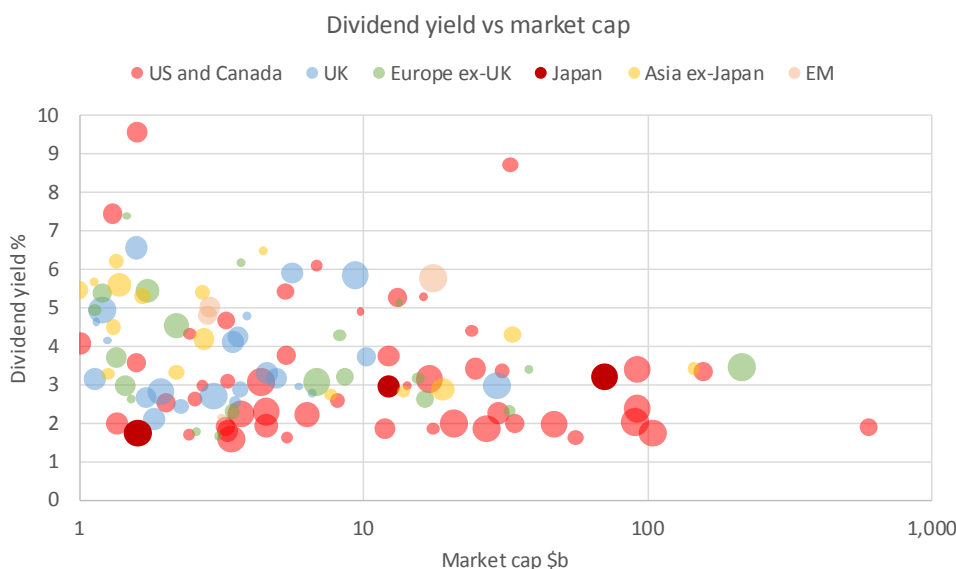


Chart 16: Dividend yield vs market cap, by region, for opportunity. Guinness Atkinson Asset Management, Bloomberg (data as of 07.31.2016)

Therefore, from a stock selection perspective, it is certainly harder today than it was in 2010 to find attractively valued companies that have the robust return on capital profile and the balance sheet depth that we desire. However, we continue to have a diverse opportunity set to select from as the above analysis shows. With hindsight the valuations that consumer staples and health care stocks traded on in 2010 seem obviously cheap. However, they were by no means consensus trades back in 2010 when the market was laser focused on patent cliffs and low growth in emerging markets. Value is by definition non-consensus and that means what offers value today is not going to stare you in the face. What is important to us is not to be tempted into lower quality names and find ourselves in value traps. We think the key to finding value opportunities that are not value traps is to ensure the companies have our quality characteristics – persistence of high return on capital without excessive debt.

Our approach has consistently been to look for companies which when brought together in a portfolio will be able to weather whatever economic shocks are thrown at us, and pleasingly it has proven to work over the last five and half years. Whilst we like to have a macro and top-down perspective we actively seek to avoid allowing it to influence our stock selection. Making macro forecasts such as predicting the price of commodities or the changes in policy of the European Central Bank or the outcomes of elections is just not our skill set. If we conclude, as we have, that we can't predict the

Guinness Atkinson
Dividend Builder Fund
Managers Update – August 2016



future then it changes the way you construct a portfolio, and the characteristics you want in a company. As we put it in September 2014:

“We continue to invest in companies that have weathered macro storms remarkably well and where valuations are attractive, certain in the knowledge that we don’t know what the future holds.”

Performance

In July the Guinness Atkinson Dividend Builder Fund produced a total return of 3.80%, vs that of the MSCI World Index, 4.25%. The fund therefore underperformed the index by 0.45%. This year to the end of July the fund has produced a total return of 8.82%, vs the MSCI World index 5.31%. The fund has therefore outperformed the benchmark by 3.51% so far this year.

Standardized Performance

as of 7/31/16	YTD	1 YR	3 YR	5 YR	10 YR	Since inception (3/30/12)
Dividend Builder Fund	8.82%	3.05%	6.31%	N/A	N/A	9.80%
MSCI World Index	5.31%	0.17%	7.25%	N/A	N/A	9.36%

as of 6/30/16	YTD	1 YR	3 YR	5 YR	10 YR	Since inception (3/30/12)
Dividend Builder Fund	4.84%	1.06%	6.78%	N/A	N/A	9.05%
MSCI World Index	1.02%	-2.16%	7.59%	N/A	N/A	8.48%

All returns over 1 year annualized. Source: Bloomberg, Guinness Atkinson Asset Management Expense Ratio: 0.68% (net); 1.77% (gross)

Performance data quoted represents past performance and 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. For most recent month-end and quarter-end performance, visit http://www.gafunds.com/GIF_performance or call (800) 915-6566. Total returns reflect a fee waiver in effect and in the absence of this waiver, the total returns would be lower.

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 0.68% through June 30, 2017. To the extent that the Advisor waives its fees and/or absorbs expenses to satisfy this cap, it may seek repayment of a portion or all of such amounts at any time within three fiscal years after the fiscal year in which such amounts were waived or absorbed, subject to the 0.68%

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

Guinness Atkinson

Dividend Builder Fund

Managers Update – August 2016



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

Mutual fund investing involves risk and loss of principal is possible. The Fund's strategy of investing in dividend-paying stocks involves the risk that such stocks may fall out of favor with investors and could reduce or eliminate the payment of dividends in the future or the anticipated acceleration of dividends could not occur. The Fund invests in foreign securities which will involve greater volatility and political, economic and currency risks and differences in accounting methods. This risk is greater in emerging markets. Medium- and small-capitalization companies tend to have limited liquidity and greater price volatility than large-capitalization companies.

Top Fund Holdings as of 7/31/16

1	AbbieVie Inc	3.03%
2	CA Inc	2.96%
3	Danone SA	2.96%
4	General Dynamics Corp	2.95%
5	Deutsche Boerse AG	2.93%
6	Schneider Electric SE	2.92%
7	TOTAL SA	2.90%
8	Sonic Healthcare Ltd	2.90%
9	CME Group	2.89%
10	Willis Towers Watson	2.89%

Current and future fund holdings and sector allocations are subject to change and risk, and are not recommendations to buy or sell any security.

Growth stocks typically are more volatile than value stocks; however, value stocks have a lower expected growth rate in earnings and sales.

Dividend yield is calculated by annualizing the last quarterly dividend paid and dividing it by the current share price.

MSCI World Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed countries.

Price to earnings is a ratio for valuing a company that measures its current share price relative to its per share earnings. The formula is market value per share divided by the earnings per share.

The S&P 500 index is a market capitalization weighted index of 500 US listed companies.

One cannot invest directly in an index.

Beta is a measure of the volatility of a security compared to the market as a whole.

Distributed by Foreside Fund Services, LLC.