

At the beginning of 2016 we wrote in our Annual review of 2015:

“As we look forward in 2016, many of the uncertainties that existed in 2015 are still with us: the trajectory of US interest rates, the divergence of central bank policies, emerging market currency risks, weaker growth in China, and Europe grappling with various social and economic problems, to mention the most widely discussed topics.”

2016 turned out to be a year of surprises. At the beginning of the year many were expecting the Fed to vote to raise interest rates four times over the course of 2016. There was also a consensus view that the UK would vote to remain in the European Union, while Hilary Clinton looked set to become the first female president of the United States. Clearly this all turned out to be wrong.

We have never seen much value to our investment process of attempting to predict macroeconomic events. We do not spend too much time worrying about how the global economic environment will fare in the near future but instead prefer to focus our time and thoughts on our process and on identifying high quality companies and including the best value opportunities in the portfolio.

Our approach has always been to try to build a portfolio of consistently high return on capital companies that can weather whatever the macro environment might throw at it. Not only had the macro events surprised investors, it also turned out to be an environment where chasing trends would have been a dangerous strategy.

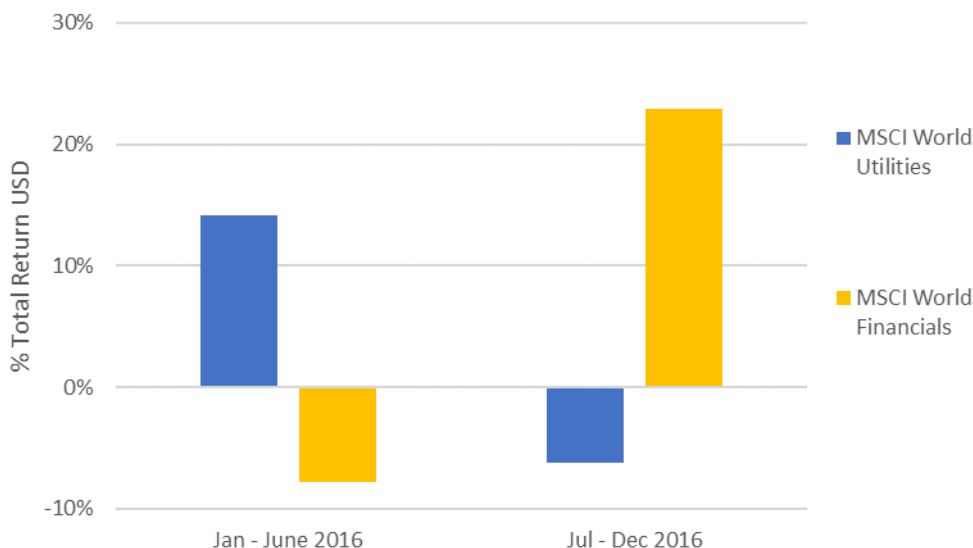
In the end we had one interest rate rise in the US which came in December, the UK did vote to leave the EU and Donald Trump became President-elect of the United States.

The fact we only had one interest rate rise in the US in 2016 was largely a consequence of global economic uncertainty that began in the first quarter with concerns surrounding a slowdown of growth in China, and a surprise devaluation in the Renminbi. Global equity markets fell 10% (USD) in the first six weeks of the year only to rebound and regain much of this ground by the end of the quarter.

Investors then turned their focus to the UK referendum of 23rd June. The initial reaction to the referendum result saw some large moves in equity prices with the MSCI World index falling around 7% (USD) in the two days after the election. However, the index had recovered all of these losses by the 12th July. It was the Pound that suffered in response to the UK referendum falling 17% between the date of the UK referendum and the end of the year.

Whilst the politics of 2016 was unexpected the most interesting change that occurred in 2016 was a sector rotation that really began at the end of June. The first half of the year was characterised by strong performance from defensive sectors while the second half of the year saw a sector rotation that favoured more cyclical sectors. If we take the Utilities sector as the measure of a defensive sector and the Financials sector as a measure of a cyclical sector then the chart below shows this in stark relief.

Figure 1: MSCI World Utilities vs MSCI World Financials



Source: Bloomberg as of 12.31.16

The Trump election victory in November only added further stimulus to this sector rotation.

When we look at the performance of global equities by region and by sector as per the table below we see that it was the US that lead global equities higher, followed by Emerging Markets. The recovery in global commodity prices that eventually occurred in 2016 lead to strong performance for the relatively small Energy and Materials sectors. Healthcare on the other hand was the only sector to post negative performance, much of this having been driven by negative sentiment on the back of Hilary Clinton’s desire to clamp down on drug pricing. Notably the top five performing sectors: Energy, Materials, Industrials, Financials and IT were all cyclical sectors indicating that the market has bet on an improving outlook for these company’s earnings.

Figure 2: Total return by region and sector (USD) in 2016

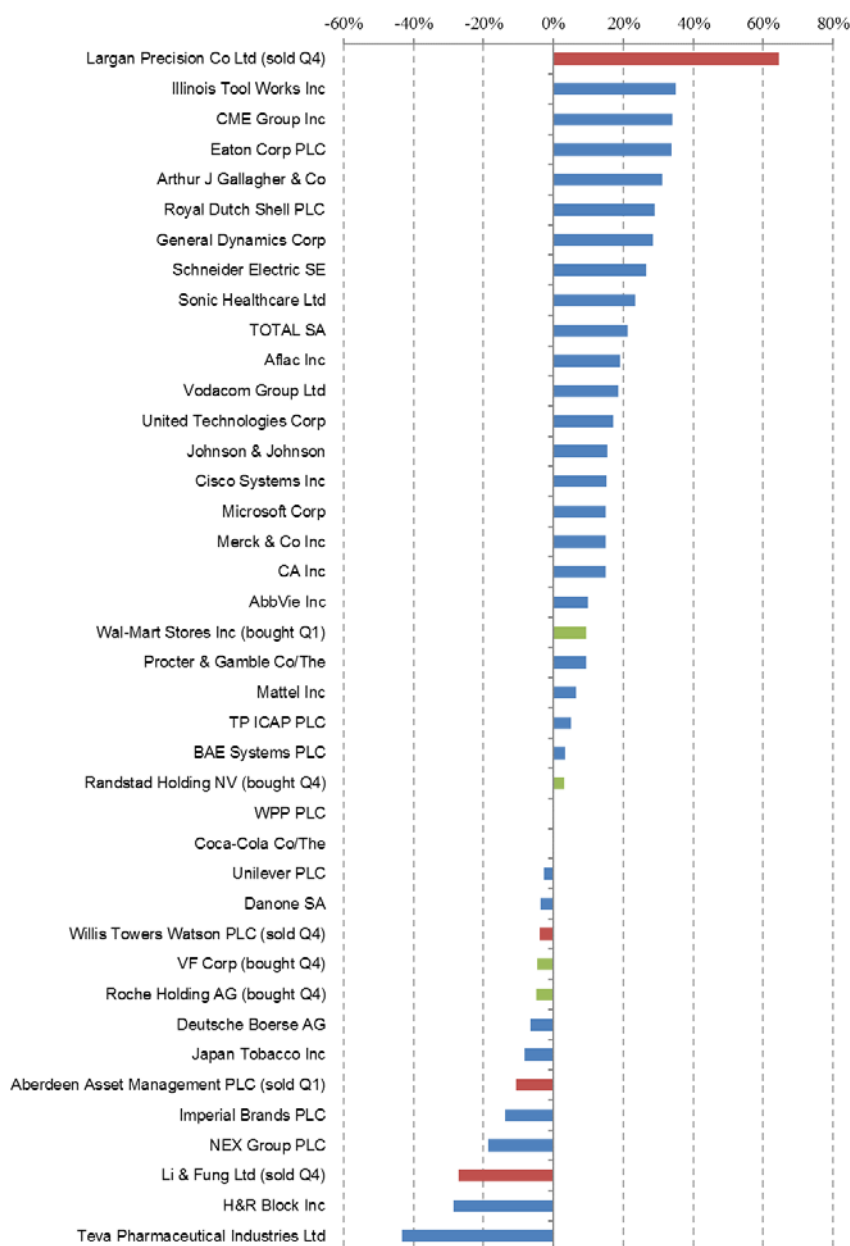
Total Return (USD)	MSCI World	MSCI US	MSCI Europe	MSCI Asia	MSCI EM
Index	8.2%	11.6%	0.2%	4.1%	11.3%
Energy	27.6%	25.8%	30.1%	18.6%	36.8%
Materials	23.0%	16.2%	25.3%	14.1%	31.5%
Industrials	13.5%	18.9%	8.1%	3.3%	-2.0%
Financials	13.3%	22.7%	-2.6%	3.5%	13.2%
IT	12.0%	13.3%	1.7%	13.8%	16.8%
Utilities	7.1%	16.3%	-6.9%	-4.6%	2.7%
Telecomms	6.8%	23.9%	-15.0%	5.3%	2.3%
Cons Disc	3.6%	6.2%	-2.8%	-0.1%	0.8%
Cons Staples	2.3%	5.7%	-2.8%	-3.0%	0.4%
Healthcare	-6.3%	-2.9%	-11.4%	-7.0%	-7.4%

Source: Bloomberg as of 12.31.16

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When we look at how individual companies within the portfolio performed in 2016 we see a similar picture. Our top five performing positions included one IT company, two Industrials and two Financials. Our holdings in Industrials and IT were the largest contributors to performance relative to the benchmark. Pleasingly our positions in the Healthcare sector were net positive contributors to performance despite the sector as a whole being the weakest performing sector, and having poor performance from our position in Teva Pharmaceuticals. Our positions in the Consumer Discretionary sector were the main detractors from performance.

Figure 3: Individual holdings price performance over holding period during 2016 (total return USD)



Source: Bloomberg as of 12.31.16

Changes to the portfolio

In 2016 we sold four positions and bought five new positions, leaving the portfolio with 35 positions at the end of the year. This was fewer changes than we made in 2015 but more than we made in 2014.

Figure 4: Number of changes to the portfolio

	2013	2014	2015	2016
Buys	7	2	6	5
Sales	8	3	6	4
Total holdings	35	34	35	35

In the **first quarter** we sold our position in **Aberdeen Asset Management** and bought a position in **Walmart and Largan Precision**.



We had owned **Aberdeen Asset Management** since we launched the Fund in 2012 but we decided to sell due to a combination of three factors – a poor outlook for emerging markets, large outflows from sovereign wealth funds of oil producing countries and declining performance of their funds. We will continue to monitor the company and look for a change in fortunes but we decided it made more sense to sell, replacing it with a company that we had owned previously and had continued to monitor in the form of **Walmart**.

We held Walmart from December 2010 to March 2013, and decided to take a profit after we saw a significant valuation rerating and compression in the dividend yield we were receiving. Since then Walmart has been facing significant challenges, including the increasing threat of Amazon, wage inflation and foreign exchange (FX) headwinds. We have seen margins decline over the last few years as the company has been investing to catch up in e-commerce and expanding its online grocery pickup offering, which should start to have an impact this year. Last year we saw a significant decline in the valuation the market has been willing to pay. At the beginning of 2015 the company was trading towards the peak of its 10 year historical multiple and by the beginning of 2016 it was trading around one standard deviation below its 10 year average multiple.

By January this year the dividend yield was the highest it has been for the last 10 years. We also note that Walmart has grown its dividend every year that we have been alive! Dividend growth over the last five years has been particularly impressive at an average rate of 10% per year. Whether this level of dividend growth is achievable in the next five years is hard to predict but we think the dividend certainly looks very safe; the company is generating a high return on capital well above its cost of capital, its dividend represents a modest payout ratio of 40%, it has a Debt to EBITDA ratio of 1.5x and a AA credit rating.

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We did not make any changes to the portfolio in the **second** and **third quarter**.

We made a small number of changes to the portfolio in the **fourth quarter**. We sold our positions in **Largan Precision**, **Li & Fung** and **Willis Towers Watson**, and replaced them with new positions in **Roche**, **Randstad** and **VF**.



We bought **Largan Precision**, a Taiwanese manufacturer of optical lenses for smartphones, early in the first quarter of 2016 and it went on to perform very well for the fund. The company had demonstrated impressive growth along with margin expansion which is a combination we always like to see. The stock price fell quite significantly over the second half of 2015 in an environment of general emerging market weakness, allowing us to find an attractive entry point towards the end of the year. Indeed, we managed to purchase the company on a P/E multiple of 11x 2016 expected earnings. Given the strong share price performance we have seen this year, the P/E multiple has since expanded to 21x 2016 expected earnings which we felt was too rich. We continue to like the company and it will remain on our watchlist as a potential candidate to re-enter the portfolio if we see a similarly attractive entry point in the future.

We bought Willis Group, as it was called back in 2010, when we launched this fund. We always like insurance brokers' scalable and capital-light business models. However, the company merged with Towers Watson at the beginning of this year which led to a change in the capital structure of the business and, importantly for us, a lower dividend yield. The company has performed well in the portfolio but its dividend yield now of around 1.5%, down from 3.5% when we bought the stock, made us feel there are better opportunities elsewhere.

Li & Fung was a position where we got it wrong and decided to cut our losses and move on. We bought the company back in 2014 and we liked the company's asset-light business model as we could see how growth would translate into significant operational leverage. Growth had been weak for some time but we thought there was a reasonable chance that it would turn around. Unfortunately that did not occur and with the election of Donald Trump we felt the company's model of a global outsourcing business became more vulnerable. We also came to the conclusion that there is now a real risk of a dividend cut.

In the run-up to the US election there had been a meaningful sell-off in the healthcare sector and we felt this provided an opportune time to purchase **Roche** for the portfolio. The one year forward P/E multiple for Roche peaked at about 20x in the middle of 2015. We managed to pick it up on a multiple of 15x, a very reasonable discount not only to its historic level but also relative to the market given the company's high quality characteristics.

We also purchased **VF**, which we had owned when we launched the fund in 2010 but later sold after some particularly strong performance. The company owns clothing brands such as North Face,

Timberland and Wrangler Jeans. We had sold the company in 2013 as the company’s dividend growth, while impressive at over 10% per year, had failed to keep up with share price performance, meaning the yield had fallen below 2%. Since then, the dividend growth has remained as impressive but the share price has been weak over the last 18 months, meaning we were able to buy the company on a dividend yield of around 3%.

Finally, we added a position in the Dutch recruitment firm **Randstad**. We are always looking for companies that meet our quality criteria but trade on valuations towards the lows of their historic ranges. Randstad certainly met these criteria after the company’s share price reacted negatively to the Brexit referendum. The market valued this high quality company on a forward P/E of 20x in the middle of 2015, yet we were able to pick it up on a forward P/E of 13x in November.

Portfolio and outlook

The charts below show the sector and geographic breakdown of the portfolio since launch in March 2012. The most notable effects of the changes we made to the portfolio in 2016 were to increase our exposure to consumer staples, health care and industrials, while reducing our exposure to financials, consumer discretionary and IT. These were relatively modest changes in allocation given we only made four sales and five buys during the year.

Figure 5: Portfolio sector breakdown (31.12.16)

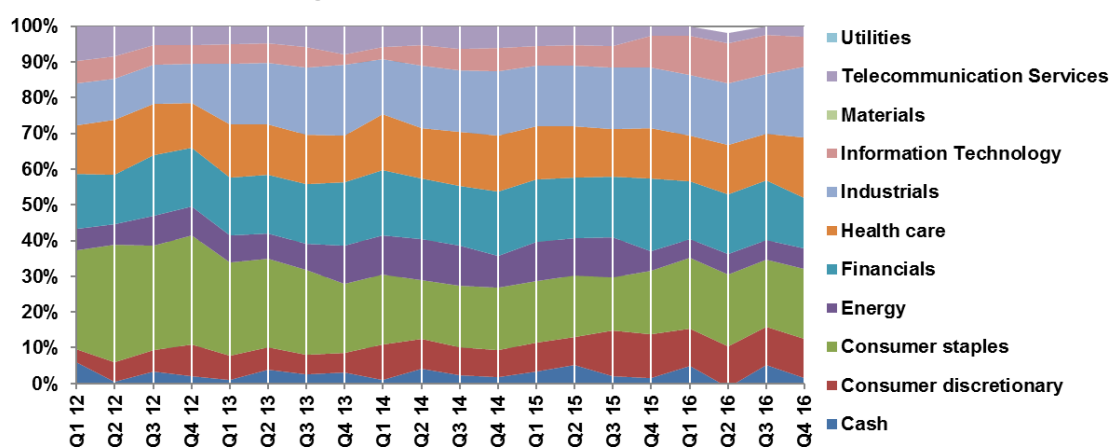
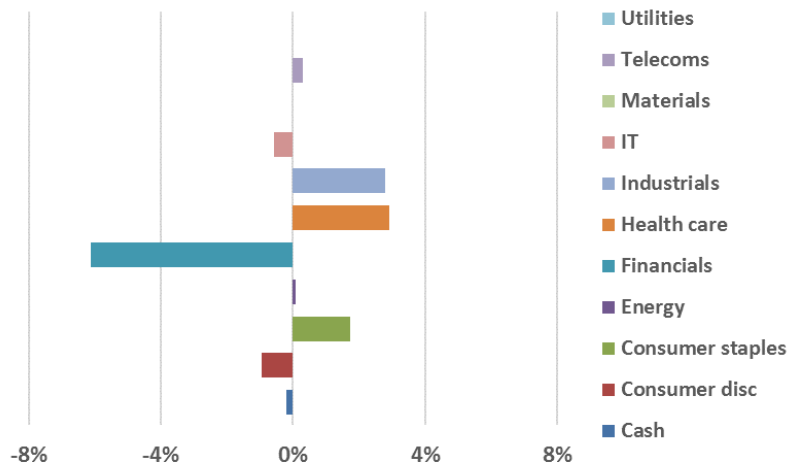


Figure 6: Year on year change in sector breakdown (31.12.16 vs 31.12.15)



In terms of geographic allocation we reduced our exposure to the Europe and Asia-Pacific while increasing our exposure to North America.

Figure 7: Portfolio geographic breakdown (31.12.16)

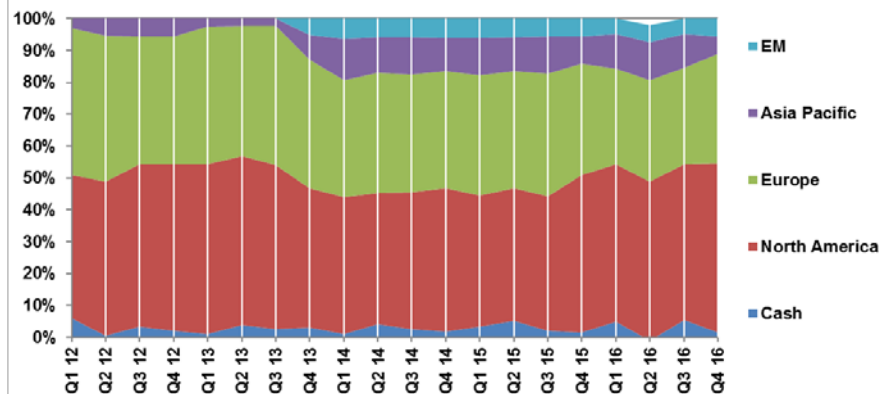
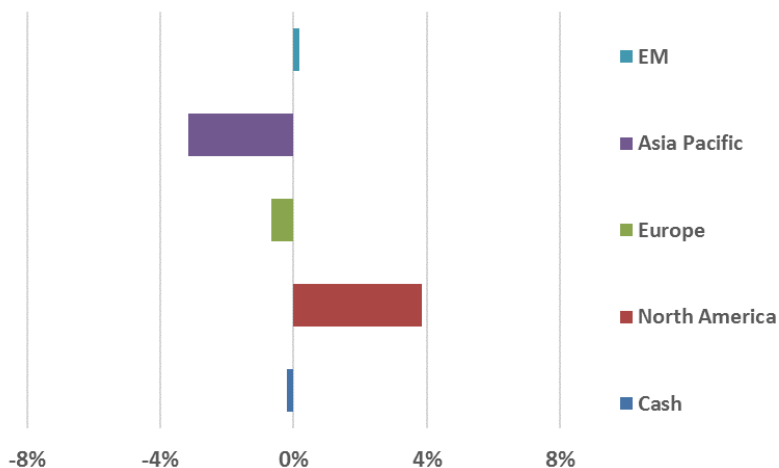


Figure 8: Year on year change in geographic breakdown (31.12.16 vs 31.12.15)



As we reflect on 2016 and look forward to 2017, there is considerable uncertainty in markets.

In contrast, at the start of 2016 there was a strong consensus view that Britain would vote to remain in the EU and that Hilary Clinton would be elected President of the United States of America. There was also a widely held view that the US would increase interest rates four times over the course of the year. Latching on to these forecasts and building your portfolio in anticipation of these outcomes would have made for a painful 2016.

Today there is uncertainty surrounding the direction of Donald Trump's policies, the threat of trade wars, tariffs and broader protectionist measures. In Europe we have a French Presidential election, a German Presidential election and the triggering of Article 50 to look forward to. All events that could move markets and this uncertainty leaves us feeling a little apprehensive. However, we have never sought to build our investment process to rely on making big decisions on macro events, let alone on binary events such as elections. We have always preferred high return on capital and strong balance sheets to a macro crystal ball, and if this uncertainty persists through 2017 then we believe the chances are these types of companies should be a more pleasant place to be invested.

So we will refrain from making any big predictions for 2017, as your inbox will almost certainly be overloaded with them already, and instead leave you a few words from Voltaire:

"Doubt is not a pleasant condition but certainty is an absurd one"

We thank you for your continued support.

Performance

In 2016 the Guinness Atkinson Dividend Builder Fund produced a total return of 6.83% compared to the MSCI World Index of 8.18%.

Looking at the performance of the fund over 2016 it was particularly pleasing to see the fund performing well in the first quarter which began with US equities recording their worst start to a year on record. Similarly, it was pleasing to see the fund hold up well through the second quarter, a period

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which included the aftermath of the UK referendum vote. The third quarter was largely uneventful. The fund underperformed in the fourth quarter which was mainly a result of the strong performance from US banks on expectations that Trump’s policies would lead to higher interest rates, an industry the fund has historically had a low exposure to.

Standardized Performance

as of 12/31/16	YTD	1 YR	3 YR	5 YR	10 YR	Since inception (3/30/12)
Dividend Builder Fund	6.83%	6.83%	2.63%	N/A	N/A	8.48%
MSCI World Index	8.18%	8.18%	4.43%	N/A	N/A	9.11%

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% expense cap.

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 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

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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 12/31/16

1.Vodacom Group Ltd	3.00%
2.Roche Holding AG	2.93%
3.Illinois Tool Works Inc	2.89%
4.Eaton Corp PLC	2.89%
5.Merck & Co Inc	2.88%
6.BAE Systems PLC	2.88%
7.Schneider Electric SE	2.85%
8.WPP PLC	2.84%
9.Danone SA	2.83%
10.Imperial Brands PLC	2.83%

Fund holdings and sector allocations are subject to change and should not be considered a recommendation to buy or sell any security.

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.

The debt to EBITDA ratio is a measurement of leverage, calculated as a company's debt, divided by its earnings before interest, tax, depreciation and amortization.

Article 50 is a part of European Union law that sets out the process by which member states may withdraw from the European Union.

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

Return on capital measures how effectively a company uses the money (borrowed or owned) invested in its operations.

Price to earnings (P/E) ratio is a common tool for comparing the prices of different common stocks and is calculated by dividing the current market price of a stock by the earnings per share.

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

The MSCI World Value Index captures large and mid cap securities exhibiting overall value style characteristics across 23 Developed Markets countries.

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The MSCI World Growth Index captures large and mid cap securities exhibiting overall growth style characteristics across 23 Developed Markets countries.

The MSCI US Index is designed to measure the performance of the large and mid cap segments of the US market.

The MSCI Europe Index is designed to measure the performance of the large and mid cap segments of the Europe market.

The MSCI Asia Index is designed to measure the performance of the large and mid cap segments of the Asia market.

The MSCI EM Index is designed to measure the performance of the large and mid cap segments of the EM market.

One cannot invest directly in an index.

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