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### August in Review

August gave a sense of déjà vu. President Trump continues to battle on through controversies, this time failing to specifically condemn white supremacists at the fatal Charlottesville clashes. North Korea riled both its main ally, China, and foes alike as it continued to test ballistic and nuclear weaponry. Another terrorist attack brought grief to Barcelona, with a further attack thwarted by Spanish authorities.

In Asia, North Korea tested the world's patience by firing a ballistic missile directly over Japan. This was followed by what was suspected to be the largest North Korean nuclear test yet. China says the North Korean missile threat is reaching 'crisis point'. A war of words broke out, spearheaded by Donald Trump's warning to North Korea that if its threats to the US continue, the nation will be "met with the fire and the fury like the world has never seen". North Korea spurned a new round of sanctions imposed by the UN Security Council and pledged to continue to press forward with development of nuclear weapons that could reach the US mainland. As a result, haven assets such as the Yen, Swiss franc and gold were up. Stocks slid mid-month in US and Europe, with sharper falls in Asia, although there was some recovery by the end of the month.

Abu Dhabi launched an informal boycott of western banks with significant Qatari shareholders, broadening the impact of the Arab quartet's two-month embargo against the gas-rich state. The quartet includes UAE, Saudi Arabia, Egypt and Bahrain.

In the US, Donald Trump is attempting to get a stalled legislative agenda back on track. He is to launch a major push on tax reform. Gary Cohn, head of the White House national economic council, said the President will focus on fiscal policy in an effort to secure a first big legislative victory by the end of the year.

The fatal demonstrations in Charlottesville appeared to present a distraction to this aim. After the President's controversial response, several business leaders stepped from the administration's business advisory groups and urged others to follow suit. In the end, Trump dissolved three of these groups: his manufacturing and jobs council, his strategy and policy forum and the presidential advisory council on infrastructure.

US hiring remained strong last month, with 209,000 jobs created, according to the labor department. Wall Street's expectation was for 180,000. June's non-farm payrolls growth was revised to 231,000 from 222,000.

Minutes of the Fed's July rate-setting meeting revealed differences of opinion on when to begin the shrinking of the Fed's balance sheet, together with growing concern among some policymakers over low inflation, which bolsters the case against quick tightening. The dollar subsequently pulled back. There was, however, consensus on starting to reduce the Fed's balance sheet "relatively soon", although the committee did not explicitly agree on an announcement date.

Hurricane Harvey caused havoc in southern Texas and the Houston area. Preliminary estimates of the economic losses are between \$70 and \$190 billion.

In the European Central Bank's July policy vote, there appeared to be concern over the strength of the euro. In August, the single currency hit a two-and-a-half year high against the dollar. The ECB is looking to

decide on tapering its €2trn quantitative easing program. A strong euro complicates the ECB's efforts to hit its inflation goal of just under 2 percent by making imports cheaper and weighing on export growth.

Emmanuel Macron celebrated his first hundred days as President of France amid an improving economy but decreasing approval ratings. He has drawn criticism for his love of pomp and a series of missteps, including a spat over the military budget that led to the resignation of a highly regarded general. Popular support for the 39-year-old centrist has melted away, and his approval ratings have decreased from two-thirds to 36 percent – 10 percentage points lower than his deeply unpopular predecessor, François Hollande, at the same point in his tenure.

In the German election on 24 September, Angela Merkel is expected to succeed in remaining as Chancellor for a fourth term. In the UK, the march towards Brexit continues and as MPs return from holiday, Mark Carney, Governor of the Bank of England, has warned that uncertainty is holding back investment.

### **Market Movements**

In August, there were mixed returns across sectors. Defensive stocks outperformed cyclical stocks. The sectors with the strongest performance were Utilities and Information Technology. Energy, Financials and Telecoms were the worst performing sectors in the month. The Global Innovators Fund's current overweight position in Information Technology contributed positively to its performance.

In August, Asia and North America performed marginally better than Europe. The trade-weighted EUR was up +0.6%. The trade-weighted GBP fell the most, with -2.2%, and the trade-weighted USD was down -0.4%.

### **Portfolio update**

Individual stock performance in the month largely followed these market movements. Key idiosyncratic stock movements are highlighted below.

AAC Technologies (+35.5% total return in USD), manufacturer of acoustic components for smartphones, has seen a boost in sales following their Q2 2017 earnings release in late August. It also reported improved diversification across product lines and achieved a high gross profit margin of over 40%.

Catcher Technology (+10.8% total return in USD), manufacturer of aluminium and magnesium casings for notebook computers and smartphones, had a weak July due to poor Taiwan tech sales. In early August, Catcher recovered July's losses and continued to rally as there was renewed expectation of strong iPhone demand, following positive earnings from Apple. Catcher reported earnings which failed to meet this expectation, and the rally ended.

Shire (-12.0% total return in USD), the UK-listed biopharmaceutical company, beat 4Q revenue estimates. However, the share price suffered with negative sentiment, staff dissatisfaction and the loss of its CFO and Head of Research. Shire continues to face challenges over its merger with US-based Baxalta.

WisdomTree (-11.5% total return in USD), the US asset management firm specializing in ETFs, reported earnings at the very end of July. The company experienced its strongest net flow quarter since 3Q15 and diversity of growth in multiple segments. In August, sentiment turned negative as investors were not convinced by WisdomTree's new products and recent investments in technology and solutions.

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**Changes to portfolio**

We made two changes to the portfolio in August: we bought Facebook and Continental and sold Gilead and Qualcomm.

Gilead, the US-based biopharmaceutical company has been held in the fund since October 2010. It has done well from its innovative Hepatitis C and HIV drugs, but is losing market share due to competition and pricing from generic products, in part due to the expiration of a patent for a key active ingredient in some of its key drugs. This has started to erode revenues and earnings and the amount of debt has been rising. We therefore decided to sell our full position in Gilead.

Qualcomm, the US multinational semiconductor and telecommunications equipment company, designs chips for 3G and next-generation mobile technologies. The company has been held in the Global Innovators Fund since October 2013. Qualcomm's sales may be impacted by lawsuits against its royalty model from Apple and stressed by a falling share of the smartphone chip market. Qualcomm also faces revenue pressures as smartphone shipments slow and prices for its chips drop amid rising competition among the chip manufacturers. In addition, we believe over the next few years we will see more in-house chips from the major smartphone manufacturers. For these reasons, in combination with a declining cash flow return on investment, we decided it was time to sell our entire position in Qualcomm.

We bought Facebook, the social media company, on the prospect of continued strong earnings growth which the market is not appreciating. The company generates revenue through targeted advertising to over 2 billion users who regularly use its social media platform. There is significant earnings potential in Facebook's unmonetized apps such as WhatsApp and Messenger, which each have significant user bases. There is upside potential in the average revenue per user (ARPU) growth in the US, as Facebook still accounts for a relatively small percentage of the total revenue spend per person in the US. There is also upside potential in ARPU in the rest of the world, especially Europe and Asia. In our upside case we note that user growth could accelerate in Asia, especially in India. Facebook's cash flow return on investment has grown considerably over the last few years. Combined with a strong balance sheet (with no debt) and stable-to-growing margins, this makes Facebook a good addition to the portfolio.

We bought Continental, the German automotive manufacturing company traditionally known as a tire manufacturer. Today, over half its revenue comes from automotive systems, which cover a range of innovative technologies set to improve the automotive industry. Continental has expertise in safety technologies, efficiency improvement in internal combustion engines, battery management systems, comfort and security. It is well positioned to take advantage of a shift towards smarter and connected cars and autonomous driving. Continental has a stable and high cash flow return on investment, fairly low debt and margins which are higher than its peers, indicating its leading position in the tire and automotive industry.

The effect of these switches on the portfolio has been to improve average balance sheet quality and increase expected growth for the portfolio. Facebook has no debt and Continental has a debt-to-equity ratio of just 34%, whereas Qualcomm and Gilead had much higher levels of debt. Both Facebook and Continental have exposure to some exciting innovation themes and are spending their cash to exploit them

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through investment in research and development. Facebook and Continental are expected to grow their earnings this year by 19% and 10% respectively, whereas both Qualcomm and Gilead have seen their growth opportunities decline over the last 12 months.

Thank you for your continued support.

**Portfolio managers**

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**Performance**

In August, the Guinness Atkinson Global Innovators Fund produced a total return of 1.09% (investor class) versus the MSCI World Index return of 0.20%. The fund therefore outperformed the index by 0.89%.

| as of 08.31.2017 (in USD)                           | YTD    | 1 year | 3 years annualized | 5 years annualized | 10 years annualized | Since inception annualized |
|---|--------|--------|--------------------|--------------------|---------------------|----------------------------|
| Global Innovators, Investor Class <sup>1</sup>      | 22.49% | 26.20% | 9.13%              | 17.52%             | 8.79%               | 7.84%                      |
| Global Innovators, Institutional Class <sup>2</sup> | 22.65% | 26.45% | 9.28%              | 17.62%             | 8.83%               | 7.86%                      |
| MSCI World Index                                    | 13.93% | 16.88% | 6.57%              | 11.78%             | 5.12%               | 5.68%                      |

| as of 06.30.2017 (in USD)                           | YTD    | 1 year | 3 years annualized | 5 years annualized | 10 years annualized | Since inception annualized |
|---|--------|--------|--------------------|--------------------|---------------------|----------------------------|
| Global Innovators, Investor Class <sup>1</sup>      | 16.60% | 30.77% | 8.08%              | 17.13%             | 8.15%               | 7.63%                      |
| Global Innovators, Institutional Class <sup>2</sup> | 16.72% | 31.08% | 8.22%              | 17.22%             | 8.19%               | 7.65%                      |
| MSCI World Index                                    | 11.01% | 18.89% | 5.87%              | 12.05%             | 4.60%               | 5.58%                      |

Investor class (IWIRX) Inception 12.15.1998                      Expense ratio\* 1.24% (net); 1.35% (gross)

Institutional class (GINNX) Inception 12.31.2015              Expense ratio\* 0.99% (net); 1.38% (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 <https://www.gafunds.com/our-funds/global-innovators-fund> or call (800) 915-6566.*

**Performance data shown for Global Innovators, Institutional Class (GINNX), prior to its launch date on 12/31/15, uses performance data from the Global Innovators, Investor Class (IWIRX).**

\*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 .99% for the Institutional class and 1.24% for the Investor class through June 30, 2018. 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 0.99% for the Institutional class and 1.24% for the Investor class expense cap.

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Total returns reflect a fee waiver in effect and in the absence of this waiver, the total returns would be lower

**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.

Top 10 holdings for Global Innovators Fund, as of 08/31/17, are:

|  |       |
|--|-------|
| 1. AAC Technologies Holdings Inc                 | 5.19% |
| 2. Boeing Co/The                                 | 4.37% |
| 3. NVIDIA Corp                                   | 4.23% |
| 4. PayPal Holdings Inc                           | 4.21% |
| 5. Catcher Technology Co Ltd                     | 3.93% |
| 6. Cognizant Technology Solutions                | 3.81% |
| 7. Samsung Electronics Co Ltd                    | 3.73% |
| 8. New Oriental Education & Technology Group Inc | 3.57% |
| 9. Check Point Software Technologies Ltd         | 3.52% |
| 10. Infineon Technologies AG                     | 3.46% |

For a complete list of holdings for the Global Innovators Fund, please visit <https://www.gafunds.com/our-funds/global-innovators-fund>

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

*The Fund's investment objectives, risks, charges and expenses must be considered carefully before investing. The statutory and summary prospectus contains this and other important information about the investment company, and it may be obtained by calling 800-915-6566 or visiting [gafunds.com](http://gafunds.com). Read it carefully before investing.*

**Earnings growth is not representative of the Fund's future performance.**

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

One cannot invest directly in an index.

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