GUINNESS ATKINSON FUNDS

Alternative Energy *brief*

Ed Guinness

August 2013

Commentary and Review by portfolio manager Edward Guinness

Subscribe to other Guinness Atkinson E-mail services

View Archive Briefs

New sources of financing and resolution of industry conflicts are examined this month, and we also provide an update to our Fund outlook and positioning.

Fund News

New structured company launches

The outlook for the alternative energy sector continues to improve, and this is reflected by the continuation of new sources of finance for alternative energy projects.

We are seeing new sources and structures for financing of all forms of alternative energy, such as Master Limited Partnerships (MLPs) and Real Estate Investment Trusts (REITs) in the US and launches of new renewables infrastructure funds listed on the London markets.

There have been three new renewables infrastructure funds in the London market over the last 6 months—Greencoat Wind, Bluefields Income Fund and The Renewables Infrastructure Group Limited. These companies have acquired operating solar and wind assets at high prices and are managing them for their dividend yield potential. This creates a useful and high benchmark for assets which supports financing for new projects.

EU/China solar spat resolved

It was to our great relief that the EU anti-dumping tariffs against Chinese solar manufacturers have been dropped. As we have stated previously, these were not sensible. While the final decision will be made in December, we expect this issue to be forgotten as rapidly as the US tariffs on Chinese solar modules have been forgotten. The Chinese solar module manufacturers have agreed to a minimum price for their modules and to a maximum amount of imports into Europe from China. Once the legislation is in place, we expect the leading module manufacturers to increase imports from low cost countries outside China, which should lead to a healthy competitive market for modules remaining in Europe.

Spanish renewable regulatory regime changes

The Spanish market has again provided a reminder of the risks that developers take with regulatory regimes in all but the most reliable of countries. The Spanish have announced that they will be further lowering the tariffs earned by renewables projects. This has impacted the performance of Acciona and EDP Renovaveis. We believe that the final ruling may be somewhat less draconian than feared. There are in Spain a large number of highly levered installations where the reduction in tariffs will result in write downs for the banking sector in Spain, and fear of unforeseen consequences of this may temper the final decision.

Outlook

With the strong run up in the first half of 2013, we have some concerns that stock prices are now more accurately reflecting the levels of risk that the sector faces. However, much of the return has come from stocks recovering from distressed situations, and for many of the stocks, we are still a long way from historically high prices.

The risks facing the sector are slowly being resolved. Price levels of installations for all alternative energy technologies, not just wind and solar, have fallen to levels where there are much improved economics for installations and where the level of investment is only beginning to respond to the attractive returns now available. Expectations of the long term natural gas price in a world with shale gas are rising, and public support for the sector remains strong. Balance sheets have been improving, and for most sectors, there is more rational pricing of equipment.

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 position the fund to benefit from the long term growth of the sector.

Positioning

The fund is most exposed to the wind and solar sectors with just under half the portfolio in wind stocks and roughly a quarter of the portfolio in solar stocks. The remainder of the portfolio is invested in specific company situations, rather than representing sector views.

Within the wind portfolio there is a range of types of holding. About a quarter of the wind exposure is invested in turbine manufacturers, who are beginning to see growth in their order books and who have been benefiting from lowering their cost base over the last five years. The rest of the wind exposure is split between large utility type positions, smaller utilities and Chinese renewables utilities.

The large utility type positions have attractive valuations and solid pipelines for steady growth. The smaller utilities have been reaping the rewards of having completed portfolios of installations over recent years but whose pipelines provide a strong growth corridor. The Chinese utilities have been benefiting from mandated strong growth and low cost of installations. Several of them had suffered when the wind production was curtailed in recent years, but improvements to the grid are now reversing that.

The fund's solar positions have performed well this year but have significant potential for further growth. Stabilization of pricing this year and a floor to the polysilicon price have been allowing manufacturers to catch their breath, and the long expected pick-up in demand should support improved utilization and therefore margins. We are positioned in a number of the tier one manufacturers to benefit from this and have recently acquired a position in a Chinese installer who we believe are well placed for the government mandated growth in installations in China.

Other holdings are in hydro companies who have struggled with lower baseload electricity prices in Europe and unexpected regulatory changes in Latin America.

As a distinct fund investing in alternative energy as a pure play strategy, we are well placed to capture the returns from an industry that is only now beginning to recover from 2008.

Fund Performance (June and July 2013)

The fund is continuing its strong run in 2013 and is now up 47.77% year to date. The fund was up 16.99% in July after a down 1.27% month in June where the fund managed to outperform the MSCI World Index, which was down 2.42%.

Total Returns as of 06/28/13

	Jun-13	QTD 2012	YTD 12	1 Year	5 Year	From Inception
Guinness Atkinson Alternative Energy Fund (inception 03/31/06)	-1.27%	20.00%	26.32%	28.19%	-23.76%	-15.88%
WilderHill New Energy Global Innovation Index	-4.88%	14.08%	25.35%	31.02%	-16.63%	-6.69%
Wilderhill Clean Energy Index	-0.16%	24.95%	32.43%	21.83%	-22.19%	-17.01%
MSCI World Index	-2.42%	0.84%	8.81%	19.41%	3.42%	3.91%

Total Returns as of 07/31/12

	Jul-13	QTD 2012	YTD 12	1 Year	5 Year	From Inception
Guinness Atkinson Alternative Energy Fund (inception 03/31/06)	16.99%	16.99%	47.77%	65.58%	-19.65%	-13.89%
WilderHill New Energy Global Innovation Index	8.05%	8.05%	35.43%	53.48%	-14.49%	-5.63%
Wilderhill Clean Energy Index	9.30%	9.30%	44.74%	47.89%	-20.22%	-15.82%
MSCI World Index	5.31%	5.31%	14.60%	24.12%	5.01%	4.60%

Expense Ratio 2.02% (net); 2.32% (gross)

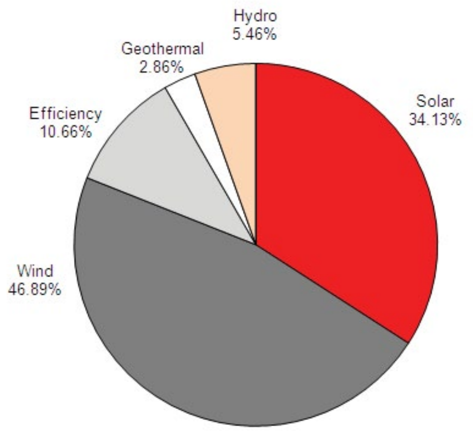
The Advisor has contractually agreed to reduce its fees and/or pay fund expenses in order to limit the Fund's Total Operating Expenses to 1.98% through 06/30/2014.

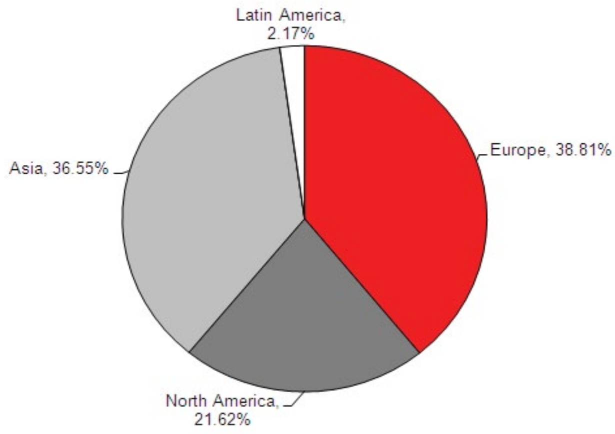
All return figures represent average annualized returns except for periods of one year or less, which are actual returns.

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 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.

Sector breakdown	Geographic breakdown





Fund Holdings

Better performers over July were Renesola (+118.7%), Greentech Energy (+52.8%), Theolia (+50.1%), Vestas (+42.6%) and Suntech (+39.8%). Poorer performers were Good Energy (-13.4%), Acciona (-11.0%), Thermal Energy International (-8.8%), China Singyes (-4.3%) and Ormat Technologies (-2.1%). Theolia received a takeover offer which drove performance and we saw strong performance from selected solar and wind stocks in the month.

Top Ten Holdings as of 07/31/13	% of Assets
RENESOLA LTD-ADR	6.36%
SUNPOWER CORP	5.97%
VESTAS WIND SYSTEMS A/S	5.61%
GAMESA CORP TECNOLOGICA SA	5.02%
JA SOLAR HOLDINGS CO LTD	4.31%
GOOD ENERGY GROUP PLC	3.98%
WATERFURNACE RENEWABLE ENERGY INC.	3.48%
CANADA LITHIUM CORP	3.44%
GREENTECH ENERGY SYSTEMS	3.28%
TRINA SOLAR LTD	3.22%

Commentary for our views on global energy 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.

References to other funds should not to be interpreted as an offer of these securities.

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 investments 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.

Distributed by Quasar Distributors, LLC