GUINNESS ATKINSON FUNDS

Asia brief

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Commentary and Review by Portfolio Manager Edmund Harriss

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This month China announced an extensive reform program which, if even half implemented, could very likely transform China as radically over the next twenty years as it has over the past twenty. We also saw that China's currency has overtaken the Euro in its use as the currency of choice for trade finance. Over the last 2-3 years the renminbi (RMB) exchange rate and its usage outside China has been a rare visible sign of commitment to significant change. The news of the extent of China's reform plan and this milestone in renminbi internationalization should put investors on notice that China has no intention of sliding back into debt-laden economic obscurity.

- Renminbi Yuan's Staggering Growth
- Asian Market Review

On the news that the Renminbi is now the second most used currency in trade finance surpassing the Euro, Tim Guinness our Chief Investment Officer writes:

Renminbi Yuan News from Guinness Atkinson

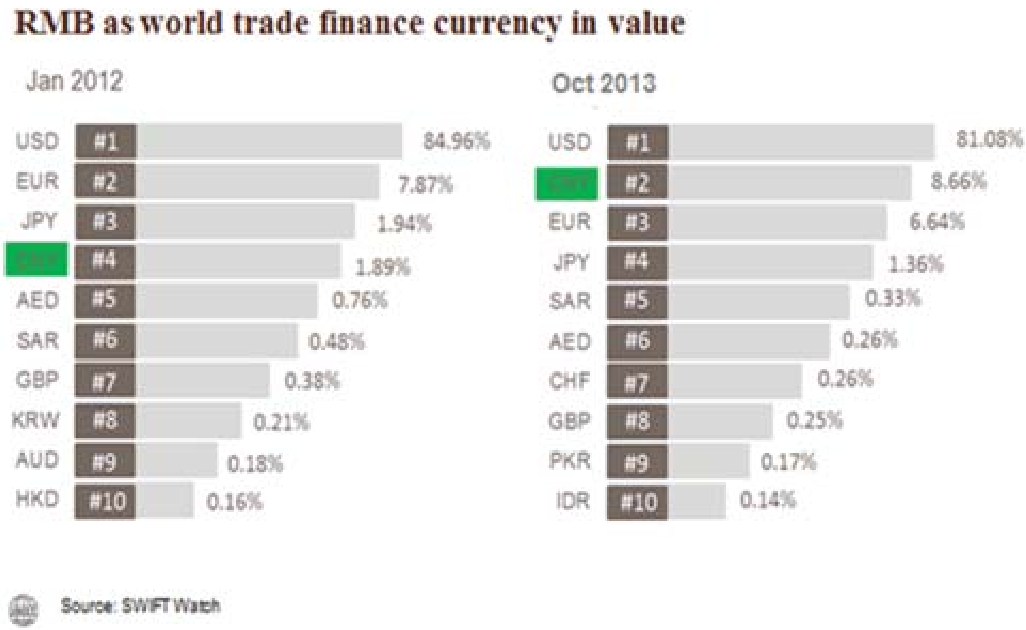
The renminbi is the official currency of China. The yuan is the basic unit of the renminbi, and is the historic name of the Chinese currency. The yuan means round, after the shape of coins. Renminbi means "people's currency" and was brought into use by the Chinese government in 1949.

A recent economic data item underlines the rise in importance of the renminbi (or yuan).

The use of the renminbi in trade finance is growing at a staggering pace.

In October the yuan surpassed the euro as second most-used currency in trade finance. It now accounts for 8.7% of global trade finance versus the euro at 6.6% and has become the world's second-most-used trading currency behind the dollar, according to SWIFT (the Society for Worldwide Interbank Financial Telecommunication). In January 2012, the yuan had only 1.9% versus the euro's then 7.9% share of global trade.

The U.S. dollar is the leading currency with a share of 81.08%. The top five countries using the yuan for trade finance in October were China, Hong Kong, Singapore, Germany and Australia, SWIFT reported.



We believe the implication is that the Chinese authorities "managing" the currency will have to pay more attention to underlying demand and supply. If China continues to run a large trade surplus the pressure on them to allow it to float upwards should be significant. Of course, we think they will seek to smooth the adjustment and prevent a spike in the exchange rate, but we think their best outcome is to run a steady but not excessive surplus, and in our view, this implies an inexorably rising RMB.

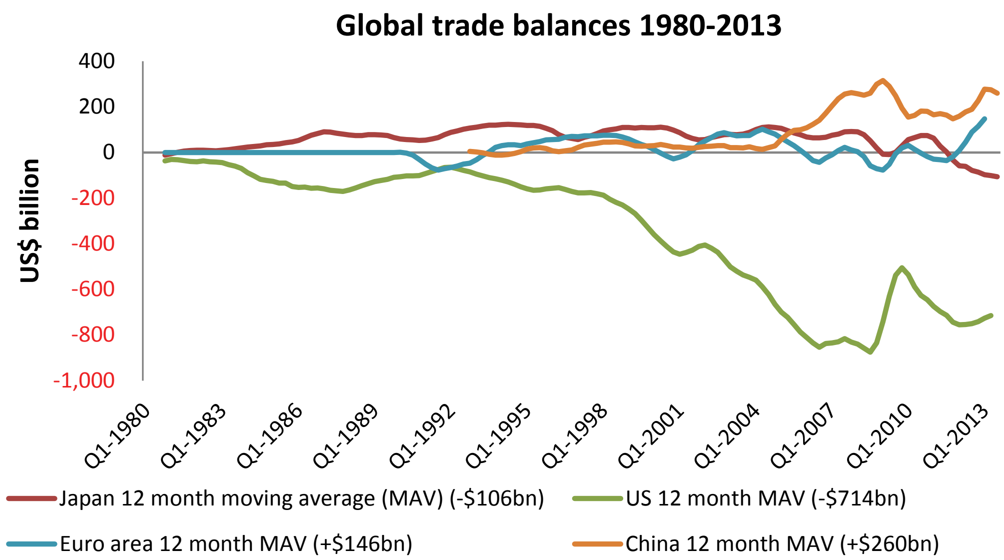
Here is last 10 years' data with the red line showing the rolling 12 month average trade balance. In the 12 months leading up to September 30, 2013 China was running a trade surplus of $260.37 billion(bn).

Source: OECD statistics

Three factors should continue to drive the renminbi exchange rate up – world economic recovery; weakening investment commodity prices – iron, copper, aluminium – as China's investment-led growth phase transitions into consumption-led growth; and down the road, a trade surplus from China vehicle exports. We think that in 10 years China's export trade in vehicles could be 4-8 million (5%-10% global ex-China vehicle sales) and at $20,000 per vehicle (note US car prices this year are averaging $30,000). This would give an extra export trade surplus of $80-160bn per annum (pa)!

Two factors should hold it back. First, growing energy imports, which in our estimation could by 2025 be $220bn more than today. (We assume extra imports of oil and natural gas of circa(c) 6 million barrels of oil equivalent (boe) per day at an average cost of $100 per barrel.) But basically, vehicle exports and weakening investment commodity prices should pay for most of the extra energy import bill. And secondly, rising Chinese labor costs. However, we doubt labor could alter the currency's trajectory much, as it could still be less than 50% of Organization for Economic Co-operation (OECD) levels and likely be more than offset by extra demand from world trade recovery.

Current world trade imbalances are unsustainable. These are shown below. In our view, the US trade deficit cannot persist, and one of the mechanisms for eliminating it could be a rising renminbi.



Source: OECD Statistics

Market Performance Ending November 29, 2013

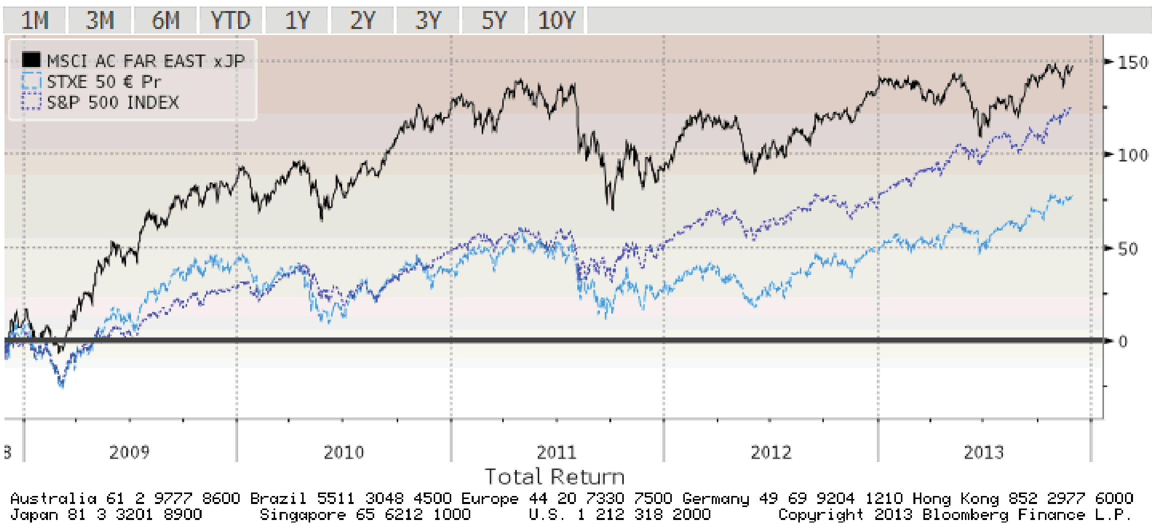
	Nov 2013	Year to date	2012	2011	2010	2009
Australia	-4.74%	5.71%	22.25%	-10.77%	14.69%	73.87%
China	4.87%	7.34%	22.69%	-18.36%	4.59%	62.06%
Hong Kong	1.11%	10.98%	28.26%	-15.78%	23.28%	60.48%
Indonesia	-10.76%	-21.30%	6.11%	5.19%	35.47%	136.12%
Korea	1.75%	4.67%	20.99%	-13.55%	25.84%	74.44%
Malaysia	-1.68%	7.18%	14.54%	0.11%	37.67%	51.26%
New Zealand	-5.59%	12.79%	31.54%	5.90%	8.73%	49.89%
Philippines	-5.77%	4.79%	47.52%	0.04%	35.24%	67.34%
Singapore	-1.53%	2.54%	30.98%	-17.54%	22.03%	73.18%
Taiwan	-1.35%	8.20%	17.43%	-20.18%	23.14%	80.23%
Thailand	-8.52%	-7.00%	35.01%	-2.72%	56.67%	76.59%
MSCI AC Far East Free ex Japan	0.48%	5.48%	22.06%	-14.75%	19.41%	68.56%
MSCI AC Pacific ex Japan *	-0.80%	6.06%	22.72%	-13.59%	17.95%	71.51%

*MSCI AC Pacific includes Australia & New Zealand
(MSCI Indices were used for regional & individual market performance)

Major Indices total returns for the five years ending November 29, 2013

Range 11/28/2008 - 11/29/2013 Period Daily No. of Period 1827 Day(s)

	Security	Currency	Price Change	Total Return	Difference	Annual Eq
1.	MXFEJ Index	USD	115.71%	147.39%	69.72%	19.84%
2.	SX5P Index	USD	43.70%	77.67%		12.17%
3.	SPX Index	USD	101.49%	124.83%	47.17%	17.57%



Source: Bloomberg

Commentary for our views on Alternative Energy and Energy markets is available on our website. Please click here to view.

Performance data quoted represents past performance and does not guarantee future results. Index performance is not illustrative of Guinness Atkinson fund performance and an investment cannot be made in an index. For Guinness Atkinson Fund performance, visit gafunds.com.

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. Non-diversified funds concentrate assets in fewer holdings than diversified funds. Therefore, nondiversified funds are more exposed to individual stock volatility than diversified funds. Investments in smaller companies 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. Funds concentrated in a specific sector or geographic region may be subject to more volatility than a more diversified investment. Investments focused in a single geographic region may be exposed to greater risk than investments diversified among various geographies.

The MSCI All Country Far East Free ex-Japan Index (MSCI AC Far East free ex-Japan Index) is a free float-adjusted, capitalization-weighted index that is designed to measure equity market performance in the Asia region excluding Japan. The Index is made up of the stock markets of China, Hong Kong, Indonesia, Korea, Malaysia, Philippines, Singapore, Taiwan and Thailand.

The MSCI All Country Pacific Free ex-Japan Index (MSCI AC Pacific Index) is a free float-adjusted, capitalization-weighted index that is designed to measure equity market performance in the Pacific region. The Index is made up of the stock markets of Australia, China, Hong Kong, Indonesia, Korea, Malaysia, New Zealand, Philippines, Singapore, Taiwan and Thailand.

The S&P 500 Index is a broad based unmanaged index of 500 stocks, which is widely recognized as representative of the equity market in general.

The STOXX Europe 50 Index (STXE 50), Europe's leading Blue-chip index, provides a representation of supersector leaders in Europe. The index covers 50 stocks from 18 European countries: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Iceland, Ireland, Italy, Luxembourg, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland and the United Kingdom.

One cannot invest directly in an index.

This information is authorized for use when preceded or accompanied by a prospectus for the Guinness Atkinson Funds. The prospectus contains more complete information, including investment objectives, risks, fees and expenses related to an ongoing investment in the Funds. Please read the prospectus carefully before investing.

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