GUINNESS ATKINSON FUNDS

# Alternative Energy *brief*

Ed Guinness

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**Commentary and Review by portfolio manager Edward Guinness**

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*Recent upheaval in the middle east and the latest climate change report highlight reasons for continued political support for alternative energy sources.*



## First Quarter Review

The first quarter has been an interesting one for the alternative energy sector. The sector has outperformed the broad markets, but many of the stocks are digesting the share price increases of 2013, and now need to deliver on their growth potential.

The macro environment is also interesting. With economies in the US and Europe deemed to be recovering there is potential for pressure to increase fossil fuel pricing and there is likely to be better availability of financing for projects. However, government budgets are stretched and despite the scientific consensus on climate change, there is not unanimous political support for subsidies. Weakness in China is a concern as China is the most supportive country for alternative energy and the potential for interest rate rises creates a headwind for alternative energy project returns.

The continuing civil war in Syria is a constant reminder of how fragile the Middle East is, and Putin's annexation of Crimea and interference in the rest of Ukraine highlights Europe's reliance on Russia for Natural Gas supplies. Even the US with its new supplies of shale gas has seen price spikes through the winter as a result of strong demand caused by unusually cold weather.

Global weather patterns have been unusual this winter, and while the period is too short to make any statistically meaningful relationship with man-made climate change, there has been popular and political interest in making the connection.

The Intergovernmental Panel on Climate Change's (IPCC) latest report on mitigation has just been published, which paints a favorable picture for alternative energy. With the tagline that it won't cost the earth to save the world, it highlights the increasing maturity of several alternative energy technologies. This will hopefully provide scientific support for continued political backing for alternative energy.

The solar industry remains the most exciting from a growth perspective. Solar module prices have stabilised over the last 18 months and polysilicon prices have bounced from their lows. While there is some pressure on pricing as subsidies degress and the US attempts to review anti-dumping legislation against Chinese and Taiwanese manufacturers, growth in installations is strong and the companies are continuing to execute on their cost reduction plans. This has resulted in higher gross margins in the first quarter, although volumes for some companies have been slightly lower than expected. The key growth markets for 2014 are China, Japan and the US and the first indications are that expected installation levels for 2014 may be exceeded.

We believe that some of the more interesting holdings in the wind industry are asset plays, where inflation linked returns will become increasingly valuable as more years of operating data become available. We are already seeing high prices being paid by the yieldcos[1] for assets that implies potential for further uplift in prices of our wind asset holding investments, even ignoring the better growth profiles these typically have. The wind turbine manufacturers have been benefiting from cost reductions made over the last five years and improving sales pipelines. However, they still face the prospect of uncertain regulation in the US which has been a problem for the wind industry for a long time.

We continue to think 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 potential of the sector.

1. A YieldCo is generally defined as a company that predominantly distributes its cash flows from owned operating assets as dividends or other payments to investors.

## Fund Performance (Q1 2014)

The Guinness Atkinson Alternative Energy Fund was up 5.76% for the first quarter of 2014. The fund and sector have outperformed the MSCI World Index, which was up 1.42% for the quarter but underperformed the two indices who benefited from holdings in fuel cell companies and Tesla, which are not held in the fund and performed well

**Total Returns as of 03/31/14**

| | Q1 2014 | YTD 2014 | 1 Year | 5 Year | From Inception |
|---|---|---|---|---|---|
| Guinness Atkinson Alternative Energy Fund (inception 03/31/06) | 5.76% | 5.76% | 62.31% | -0.70% | -11.22% |
| WilderHill New Energy Global Innovation Index | 11.45% | 11.45% | 57.94% | 6.31% | -2.19% |
| Wilderhill Clean Energy Index | 10.53% | 10.53% | 65.34% | -0.30% | -12.54% |
| MSCI World Index | 1.42% | 1.42% | 19.83% | 19.07% | 5.79% |

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

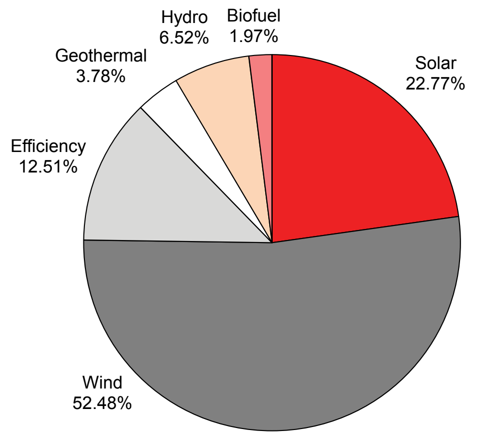
The Advisor has contractually agreed to reduce its fees and/or pay fund expenses in order to limit the Fund's Total Operating Expenses to 1.98% through 06/30/2014.

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

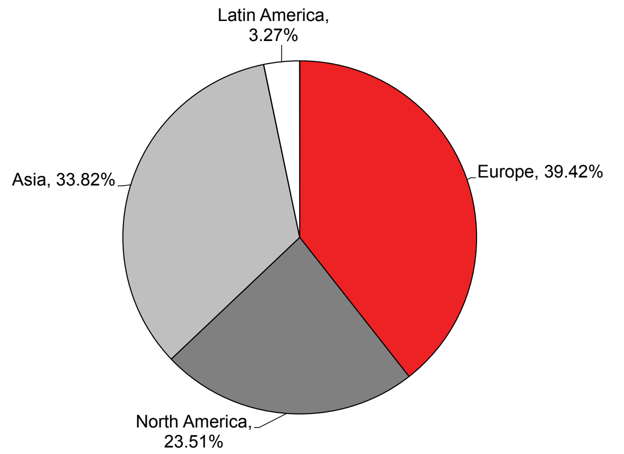
*Performance data quoted represents past performance; past performance does not guarantee future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance of the 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 the first quarter were China Singyes (+57.13%), Acciona (+50.92%), Vestas (+36.65%), Carmanah (+34.52%) and EDP REnovaveis (+25.57%).

Poorer performers were Maple Energy (-43.62%), RB Energy (-32.26%), Huaneng Renewables (-29.05%), China Datang (-25.02%) and China Longyuan (-21.84%).

| Top Ten Holdings as of 03/31/14 | % of Assets |
|---|---|
| CHINA SINGYES SOLAR TECH | 5.07% |
| MYTRAH ENERGY LTD | 4.49% |
| ACCIONA SA | 4.21% |
| EDP RENOVAVEIS SA | 4.06% |
| THEOLIA SA - REGR | 4.02% |
| VESTAS WIND SYSTEMS A/S | 3.97% |
| ENEL GREEN POWER SPA | 3.92% |
| BORALEX INC -A | 3.92% |
| GOOD ENERGY GROUP PLC | 3.81% |
| ORMAT TECHNOLOGIES INC | 3.78% |

Commentary for our views on Global Energy, Dividends 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.

*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 investment 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.

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