GUINNESS ATKINSON FUNDS

Asia brief

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Commentary and Review by
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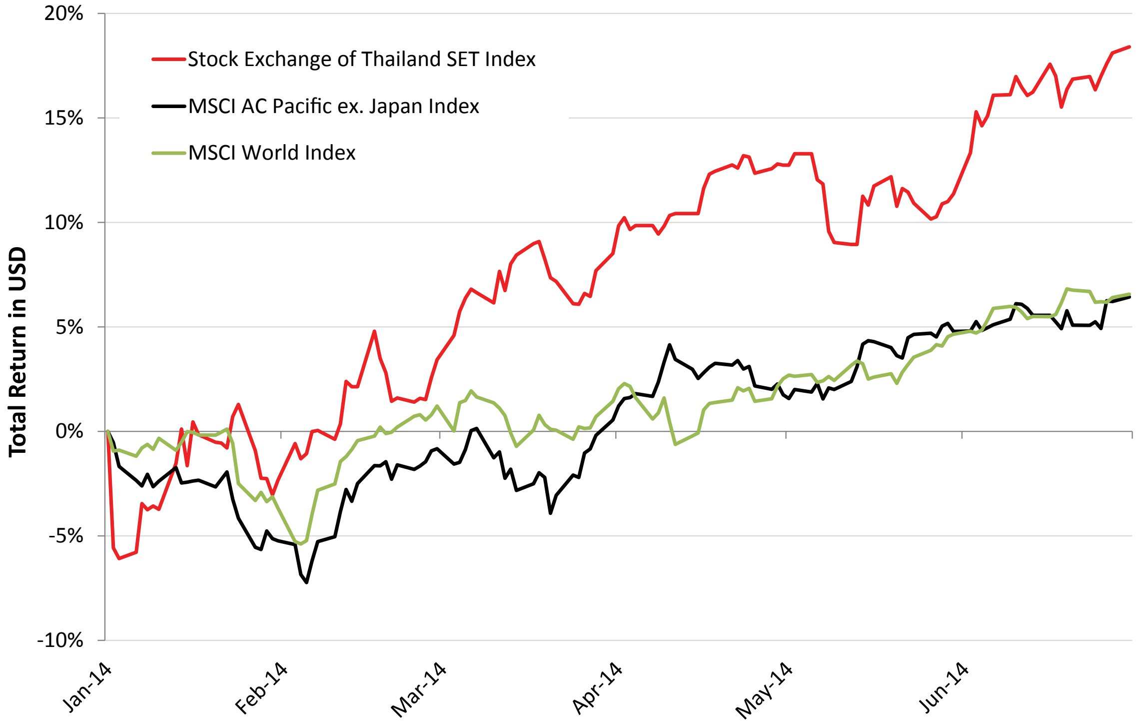
The recent coup in Thailand has removed some economic uncertainty and produced positive economic developments, as a result. The rising adoption of smartphones and 4G technology in China has impacted some portfolio holdings, as well. These issues are explored in greater detail in this month's brief.

Thailand

In May, the Thai military launched the country's 12th coup in 82 years, and took control of power. The coup, which happened shortly after the announcement of martial law in the country, follows six months of protests against the government by the 'yellow shirt' demonstrators who opposed the Prime Minister, Yingluck Shinawatra. The protests have centered on the political influence of Thaksin Shinawatra – the former prime minister whose policies have been popular with those in rural areas. Thaksin, whose supporters are known as the 'red shirts', was overthrown in the country's 2006 coup. Since that time, there has been considerable uncertainty over the political situation in Thailand, as many of the issues that were identified in the uprising were left unresolved.

Since these latest developments were announced, the stock market has reacted positively. In the month of June, following the announcement of the coup on May 22nd, the main index in Thailand, the SET (Stock Exchange of Thailand), rose by 6.3% in USD terms, outperforming overall Association of Southeast Asian Nations (ASEAN) markets, which rose by 0.6%. We believe this positive reaction reflects relief in the market that order and centralized control (albeit by the military) has been re-established in the country.

The recent gains continued the strong performance of the SET year to date, which returned 18.4% in USD terms in the first six months of 2014, outperforming the MSCI AC Pacific ex. Japan index, which returned 6.4%, as the following chart shows:



Source: Bloomberg, Guinness Atkinson Asset Management

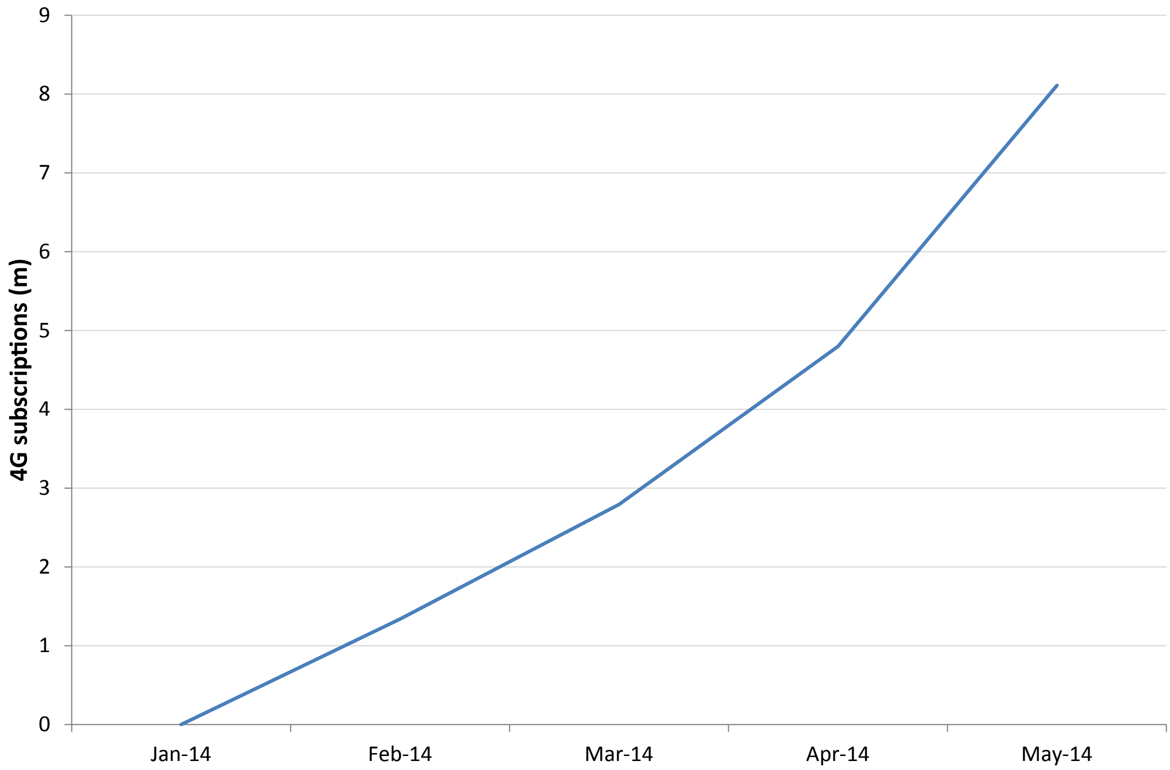
We have direct exposure to Thailand with four of our holdings in the Asia Pacific Dividend Fund portfolio: Delta Electronics Thailand (electronic equipment manufacturer), LPN Development (real estate developer), PTT (oil and gas) and Thai Tap Water (water utility). The Thai Baht moved little against the dollar in response to political events, implying a positive outlook for export oriented companies (Delta and PTT). Domestic demand indicators have also been positive recently, with private consumption up 0.5% month-on-month in May. The military leadership's economic policies, which include payments under the rice-pledging scheme and maintaining the diesel subsidy, seem to have been well received. Continued consumer confidence should be a positive factor for LPN.

As at the end of June, the four companies traded at an average forecast P/E ratio of 12.2x, which we do not think is particularly demanding. The average dividend yield of the group is also attractive at 4.5%. We continue to assess the valuations of these companies, in light of the strong performance of the Thai market year to date.

China smartphones

The rising adoption of smartphones in China was highlighted in April when Apple announced sales of iPhones that significantly exceeded expectations, with a large contribution coming from sales of the iPhone 4S in China. Our Asia Pacific Dividend portfolio, can benefit in two ways from this growth in popularity. First, we have exposure to China Mobile, who is rolling out the installation of a 4G network. Second, we hold component manufacturers Catcher and Qualcomm, who supply the handset manufacturers.

While rolling out its 4G network, China Mobile has grown 4G subscriber numbers this year at a rapid rate (albeit from a low base), as the following chart shows:



Source: China Mobile website, Guinness Atkinson Asset Management

The growth in 4G subscriptions has a number of implications for the company. First, it is an opportunity to grow revenues by selling data and subscriptions revenues. Though some of the new subscribers are existing customers switching from 2G and 3G plans, the quantity of data sold to these early 4G adopters is considerable, with average data per user figures of 700MB/month. Second, the company incurs expenditure from subsidizing handsets. As is typical of mobile phone operators around the world, China Mobile provides up front incentives in the form of free or subsidized handsets in order to secure subscription revenue and data revenues from customers. Third, the capital expenditure of upgrading network infrastructure is considerable – the company is forecast to spend RMB 222 billion(bn) ($36bn) on capital expenditure this year. The cost of rolling out the network, however, must necessarily be incurred upfront in order to attract users to the service. What's more, China Mobile is far ahead of rival operators in the process of rolling out a 4G network. Last, there is the negative effect on existing voice and text revenues, as services such as Skype and WeChat (similar to WhatsApp), which offer voice and text over internet connections, draw users away from conventional services that have been very profitable for the operator in the past.

All of these factors need to be weighed carefully in order to assess the overall impact on the company. However, we think that the opportunity that 4G networks represent, and the corresponding growth in the use of mobile data, will bring significant benefits to the company in the long term.

Component suppliers have also benefited alongside handset manufacturers. Catcher is a manufacturer of metal casings for smartphones, including the Apple iPhone. The company has a focus on the high-end section of the smartphone market, where metal cases are combined with plastic and glass components to produce a product, for example, the iPhone 5S, with a high quality finish. These models are particularly popular with customers in developed markets where customers are willing to spend more on smartphones with superior specifications.

We also have exposure in the Asia Pacific Dividend portfolio to component manufactures via Qualcomm, Samsung's main chip supplier. Again, the company produces parts for high-end smartphones, and attracts significant pricing power as a result. Qualcomm's Snapdragon 800/801 processors are advanced 4G chips for smartphones and tablets, and are capable of producing impressive 3D graphics. This strategy of targeting the high-end section of the market is in contrast to that of competitors Mediatek, whose focus on cheaper products provides greater exposure to emerging markets sales volumes. The company also faces greater pricing pressure in this segment of the market, where there is considerable competition between suppliers.

We are optimistic that Qualcomm and Catcher will continue to benefit from their common strategy of targeting the high-end smartphone market, and we think the Asia Pacific Dividend portfolio is well positioned to benefit from consumer demand in developed markets.

Commentary for our views on Dividends, China 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.

Dividend Yield is calculated by annualizing the last quarterly dividend paid and dividing it by the current share price. The dividend yield is that of the securities held in the portfolio; it is not reflective of the yield distributed to shareholders.

The MSCI Ac Pacific Ex Japan 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 MSCI World Index with net dividends is an unmanaged, free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed markets. The MSCI World Index consists of 24 developed market country indices. This index includes dividends and distributions net of withholding taxes, but does not reflect fees, brokerage commissions, or other expenses of investing.

The Price to Earnings multiple reflects the multiple of earnings at which a stock or group of stocks in an index, sells. It is equal to the market capitalization of a stock, or group of stocks in an index, divided by the after tax earnings for that stock or index.

SET Index definition is a composite economic indicator which is calculated from the prices of all common stocks (including unit trusts of property funds) on the main board of the Stock Exchange of Thailand (SET)

One cannot invest in an index.

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

Click for a list of current holdings for the Guinness Atkinson Asia Pacific Dividend Fund.

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.

Opinions expressed are subject to change, are not guaranteed and should not be considered invest

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