GUINNESS ATKINSON FUNDS

Dividend Builder *brief*

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Commentary and Review by co-portfolio managers Dr. Ian Mortimer, CFA and Matthew Page, CFA

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Guinness Atkinson Dividend Builder Fund – *3 year review*

March 30, 2015 marked the three year anniversary since the launch of the Guinness Atkinson Dividend Builder Fund, and we therefore thought it would be timely to review how we have managed the portfolio over the last three years and how we are positioned for the future.

Our approach to dividend investing

The Guinness Atkinson Global Dividend Builder fund invests in quality companies as defined by a long history of generating a consistently high return on capital. It is this consistent value creation that in our minds is the prerequisite for identifying companies with the ability to pay a sustainable and growing dividend over time. Valuation is also key to choosing the companies that finally make it into our portfolio having been through our due diligence process.

"Quality is not an act, it is a habit."
Aristotle

Quality, Dividend Growth, Value.

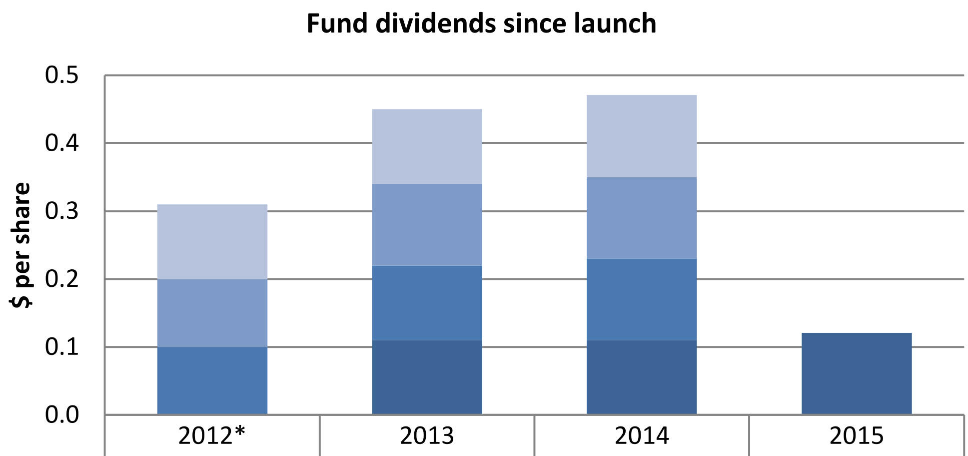
Although this fund is designed to invest in dividend paying companies, we do not start by screening for companies with a high yield. Instead, our starting point is to screen for high quality companies that have generated top quartile returns on capital consistently over the previous 10 years.

We then carefully select companies that we believe are best placed to continue to earn consistently high returns on capital, that can continue to grow their free cash flow and that have a robust history of returning that cash to shareholders. We create a balanced portfolio across sectors and geographies which may provide our investors with a steady dividend distribution, together with the potential for capital appreciation over the longer term.

The fund is a concentrated, equally weighted best ideas portfolio, typically with 35 positions.

Dividend history

Our focus on high return on capital companies that have the potential to grow their dividends means we managed to grow the dividend income distributed by the Fund by 4.7% in 2014 compared to 2013. It continues to be our aim to grow the dividend distributed by the fund each year.



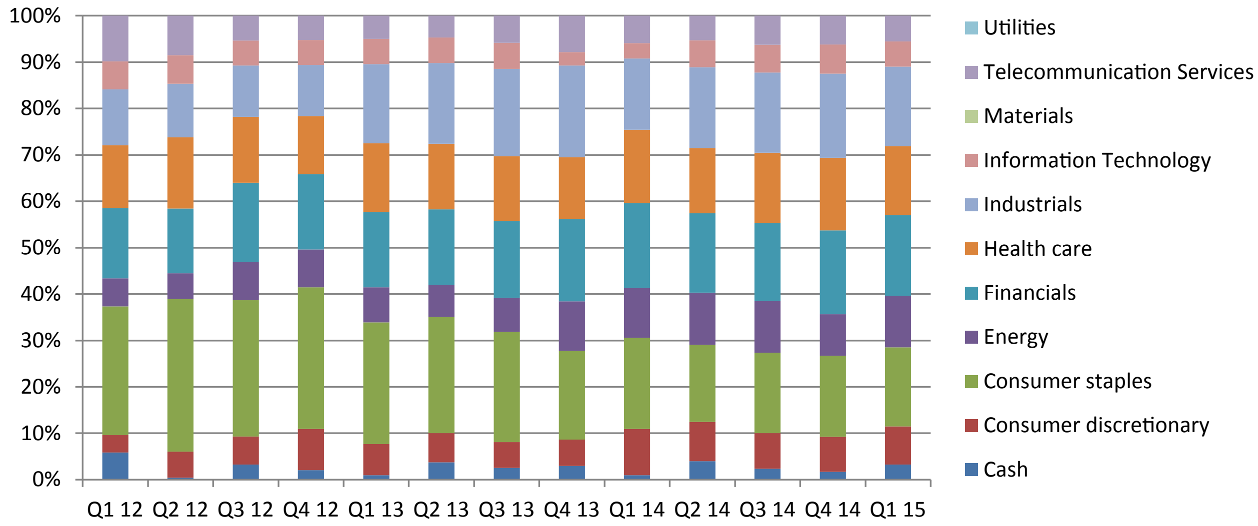
	2012*	2013	2014	2015
Q4	$0.11	$0.11	$0.12	
Q3	$0.10	$0.12	$0.12	
Q2	$0.10	$0.11	$0.12	
Q1		$0.11	$0.11	$0.12

*Fund launch date March 30, 2012

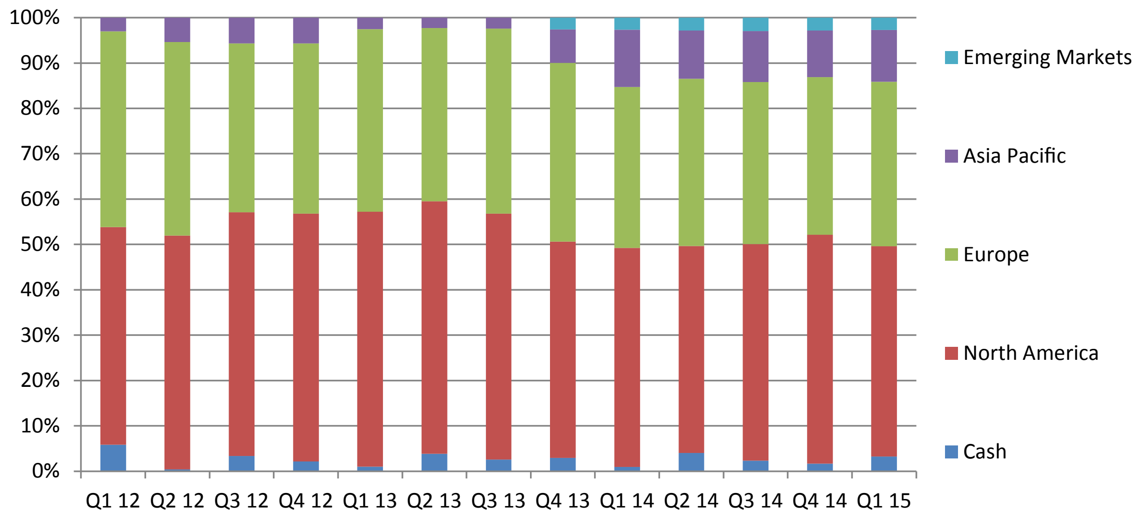
Changes to the portfolio over the last three years

Portfolio breakdown

Over the last three years we have been reducing gradually our exposure to consumer staples companies as valuations started to look high relative to historic levels. To offset that we have increased our exposure to the industrial sector, financials and energy companies. It is also worth noting that we have never owned a utility company or a company in the materials sector over this period.



In terms of a geographic allocation we have marginally reduced our weight to North America and Europe and increased our exposure to Asia.



We deliberately keep the turnover of the portfolio to a minimum in order to keep trading costs down. As you can see from the table below turnover of individual stock names has been low. Last year we only added two new names and sold three, while in 2013 we made seven new purchases and sold eight companies. So far this year we have not made any changes to the portfolio.

	2012	2013	2014	2015 YTD
Buys	4	7	2	0
Sales	3	8	3	0
Total holdings (year end)	36	35	34	34

The table below shows all the companies we have bought and sold over the three years.

	Buys	Sells
2012	MERCK, H&R BLOCK, eni, Gallagher	PEPSICO, SANOFI, Telefónica
2013	NORTHROP GRUMMAN, vodacom, SONIC HEALTHCARE, BAE SYSTEMS, TEVA, Schneider Electric, CNOOC, abbvie	Abbott, Kraft, Pfizer, Walmart, Metcash, vf, Mondelēz, AstraZeneca, HALMA
2014	LI & FUNG, CISCO	NORTHROP GRUMMAN, RAI, vodafone

The most recent change we made to the portfolio was to buy Cisco having continued to chip away at more expensive consumer staples holdings by selling Reynolds American. When we considered our 3-part mantra of where returns for the Fund can come from – Quality, Value, and Dividend growth – Cisco looked a much more attractive opportunity relative to Reynolds American.

In terms of valuation Reynolds was trading on a PE ratio of 18.7, versus Cisco on 11.4. Relative to historical levels, Reynolds' valuation was the most expensive it had been in the last ten years, while Cisco was trading at almost one standard deviation below its historical ten year average. Our own discounted cash flow analysis suggested Reynolds was priced by the market to grow its cash flow at 4.5% per year in perpetuity, which seemed far too optimistic. Cisco was priced as if its cash flow would decline by 1.5% per year in perpetuity, which seemed overly pessimistic.

Moving on to the dividend, Reynolds' dividend yield was higher at 4.3% compared to Cisco at 3.1%, but we are more interested in dividend growth. With Reynolds' payout ratio at 80% and tobacco volumes in continual decline, it looks fairly difficult for Reynolds to produce meaningful dividend growth over the next five years. Cisco, on the other hand, had a payout ratio of around 35%. This relatively low payout ratio in combination with a significant cash pile and modest amounts of debt suggested to us that the potential for good long-term dividend growth for Cisco was meaningful, and could be sustained even within this more economically sensitive business.

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We did not seek to identify any particular catalyst, industry dynamic or story to support the investment, as we think there will be other specialist investors focused purely on the communications equipment sector who are far more likely to identify these factors before us. If we did seek to identify factors such as these they would likely be already factored into prices before we would be aware of them. We also did not seek to visit the company or meet management as generally we believe the informational advantage from doing so is very limited when weighed against the time spent on such endeavours.

Instead we prefer to take a long-term and patient view and wait for sentiment to improve, confident in the knowledge that companies with a ten year history of generating consistently high return-on-capital are highly likely to continue doing so in the future.

Performance

Over the last three years, as of 3/31/2015, the Fund has produced an annualized total return of 12.71%. Pleasingly, this performance track record ranks the Fund as the #1 fund out of 96 funds within its Lipper Global Equity Income category. For the one year time period, the fund ranks 43 out of 143 funds. Rankings are based on total return.

as of 3/31/15	YTD	1 YR (annualized)	3 YR (annualized)	Since inception (3/30/12)
Dividend Builder Fund	0.12%	3.53%	12.71%	12.70%
MSCI World Index	2.47%	6.68%	12.95%	12.94%

Expense Ratio 0.68% (net); 2.96% (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 Funds may be lower or higher than the performance quoted. Performance data current to the most recent month end may be obtained by calling 800-915-6566 and/or visiting www.gafunds.com. Total returns reflect a fee waiver in effect and in the absence of this waiver, the total returns would be lower.
** The Advisor has contractually agreed to reduce its fees and/or pay Fund expenses through June 30, 2016.*

Our valuation discipline has been a key driver of delivering this performance. We constantly look for high quality companies that are temporarily undervalued by the market for reasons which we believe to be temporary in nature. We continually look for companies that are trading well below their historic average valuation multiple.

As a case in point a strong contributor to the performance of the fund has been our position in H&R Block which we initiated in October 2012. We like companies that have a diversified rather than concentrated customer base. A business that has 20 million customers each spending $100 every year is more attractive to us than a business that has 100 customers each spending $20 million, and far more attractive than a company with two customers each spending $1billion.

We had sold our position in Pepsico in order to buy H&R Block. Pepsico was trading on 18x projected earnings, which made it one of our more expensive holdings, analysts were reducing their earnings estimates, and it had taken on more debt; and while the company remained suitably robust we couldn't justify continuing to own it when we saw H&R Block trading on 10x earnings, 4.5% dividend yield, and a recent debt refinancing strengthening their balance sheet. The contrarian in us liked that the company was not well covered by the analyst community (only three analysts were covering the company) and unloved due to the threat of tax simplification in any potential budget deal to avoid the fiscal cliff.

We thought this company had the potential to double in value if we held it for 3-5 years. In fact we saw strong performance quite quickly and has produced just under a 100% return. While our investment process is not thematically driven, one theme which we find interesting is the media/analysts' love of using the word cliff, i.e. patent cliff, fiscal cliff. It's rather an emotive word and it potentially creates some attractive buying opportunities if everyone gets scared away from stocks associated with the idea.

At the end of 2013 the market was worried about the US fiscal cliff. The issue of the fiscal cliff had been looming for years, but the failure of policymakers in the US to avert the automatic budget cuts brought it into the spotlight. The market was particularly concerned that US government spending on defence was going to be significantly reduced and this was going to have a meaningful effect on the revenues and margins of defence companies. As a consequence, a number of companies in the sector were looking particularly cheap relative to their historic valuations, and relative to other companies in our investable universe, which suggested to us that negative sentiment had gone too far and an opportune entry point was emerging.

We consequently added Northrop Grumman to our holdings in the defence sector. Over the next 12 months the defence sector recovered very well and our defence holdings have been amongst the strongest contributors to the fund's performance.

Outlook

One question we have frequently been asked by investors so far this year is the issue of whether we can continue to find attractive opportunities in the US given the collective strong performance of US equities.

If our priority was to find companies with high dividend yields (i.e. above 4%), then the opportunity set in the US outside of highly regulated industries such as utilities and telcos, or Real estate investment trusts and Master limited partnerships, is somewhat slim. Indeed today there are only four US consumer staples companies with a dividend yield of more than 4% and a market cap of over $1 billion, one of which is Reynolds American which we sold in 2014.

It appears the market is willing to pay the highest valuation for ten years for Reynolds due to the level of its dividend yield. It also provides a diversification to a portfolio of high yielding assets due to the fact it is less sensitive to changes in interest rates than the utilities, telcos, REITs and MLPs.

Investors must also consider, will high yielding equities be a good place to be invested when US interest rates start to rise? We have never been convinced of the merits of investing primarily on the basis of a high dividend yield, but would be particularly cautious in a rising interest rate environment. On the other hand, companies that consistently earn economic profits and are able to reinvest those economic profits at a high rate of return are likely to be less negatively impacted by rising interest rates. Indeed these companies may even benefit from rising interest rates as they will likely occur when the US economy is returning to a stable footing for steady economic growth.

The opportunity set of companies that are consistently growing their dividends in the US remains an attractive pool from which to cherry pick opportunities for our global fund. Today there are 98 companies in the US with a market cap over $1bn, yielding more than 2%, and that have grown their dividend every year in each of the last ten years.

With years of quantitative easing adding pressure on the valuation of high dividend yielding equities we believe a focus on consistent high return on capital, over the magnitude of the dividend yield is a sensible approach for the present and foreseeable future. It's worth remembering the sage words of Ben Graham's:

"The risk of paying too high a price for good quality stocks – while a real one – is not the chief hazard... Observation over many years has taught us that the chief losses to investors come from the purchase of low quality securities at times of favourable business conditions."
Benjamin Graham

Thank you for you continued support.
Matthew Page, CFA
Dr Ian Mortimer, CFA

For more detail on our investment process and philosophy please read our white papers.

Why Dividends Matter
10 Over 10 Dividend Investment Strategy
Reinvesting Dividends: A Simple Alternative to Alternatives

Click here to view a list of top holdings.

Top 10 holdings for the Dividend Builder Fund, as of 3/31/15 are: 1. Teva Pharmaceutical Industries Ltd - ADR - 3.28% 2. Aflac Inc - 3.08% 3. Willis Group Holdings PLC - 3.02% 4. CNOOC Ltd - ADR - 2.98% 5. Johnson & Johnson - 2.98% 6. Arthur J Gallagher & Co - 2.94% 7. Merck & Co Inc - 2.94% 8. Illinois Tool Works Inc 2.92% 9. Deutsche Boerse AG - 2.91% 10. Meggitt PLC - 2.89%

Securities mentioned are not recommendations to buy or sell any security. Current and future portfolio holdings are subject to risk

Opinions expressed are subject to change, 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. Read it carefully before investing.

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.

Diversification does not assure a profit nor protect against loss in a declining market.

Dividend yield is a financial ratio that shows how much a company pays out in dividends each year relative to its share price.

Earnings Growth is a measure of growth in a company's net income over a specific period, often one year.

Payout Ratio is the proportion of earnings paid out as dividends to shareholders, typically expressed as a percentage.
Free cash flow represents the cash that a company is able to generate after laying out the money required to maintain or expand its asset base.

Market Cap is the market price of an entire company, calculated by multiplying the number of shares outstanding by the price per share.

P/E Ratio reflects the multiple of earnings at which a stock sells.

Standard deviation measures the degree to which a fund's return varies from the fund's mean return over a specified time period.

Earnings growth is not a measure of the Fund's future performance.
Lipper Analytical Services, Inc. is an independent mutual fund research and rating service. Each Lipper average represents a universe of Funds with similar investment objectives. Rankings for the periods shown are baded on Fund Total returns with dividends and distributions reinvested and do not reflect sales charges. **Past performance does not guarantee future results**

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