Guinness Atkinson
Asia Pacific Dividend Builder Fund

Why invest in Asia?

The Asia Pacific region includes both developed and emerging economies and is home to 54% of the world's population (4.1 billion people). Its population is still younger than the developed world, and it has continued to develop economically. While western economies struggle to sustain economic growth, Asia's dynamism, expanding population and increasing wealth should continue to enhance the world's economic future. If you believe successful investing is about recognizing areas of progress that identify value and opportunities for wealth creation, then Asia is the place to look.

We view Asia differently from 'Emerging Markets'. Asia is diversified, whereas traditional emerging markets rely on production of resources or a larger neighbor (or regional trading block). The region has mobilized its resources for the production not only of raw materials but also the full range of manufactured goods (from cheap clothing to top-of-the-range electronics), and is plugged into the global manufacturing network. In 2010 57% of Asia's labor force (nearly one billion people) was employed in industry or services, with the remainder working in agriculture. This was up from 510 million people of the labor force in 1990. It is this ongoing shift to industrialized labor that generates wealth, fuels rising wages and provides a vibrant Asian market for goods and services. The rise of the Asian consumer, growing more numerous with more money to spend year by year, is the economic force driving change.

Having learned from its own 1998 experience, the region did relatively well through the recent financial crisis. Governments, companies and the financial sector were not over-extended, while companies curbed their expansionary instincts and focused on cash flow generation and profit, leading to a step change improvement in companies return on investment.

Sources: 1) International Labour Organisation (ILO), World Bank, Guinness Asset Management calculations. 2) ILO, Labour & Socials Trends in ASEAN 2010, Sustaining Recovery and Development through Decent Work. 3) World Bank, in constant 2005 USD, Guinness Atkinson Asset Management calculations

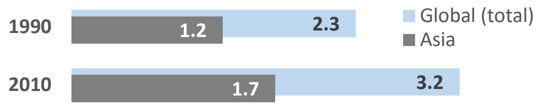
Why is Asia different?

Asia's economic growth is built on the mobilization of its workforce and its evolution to manufacturing and industry.

Asia has mobilized its workforce

Asia's workforce numbered 1.7 billion in 2010 (out of a global total of 3.2 billion), up from 1.2 billion in 1990.

Global & Asian workforce [1]

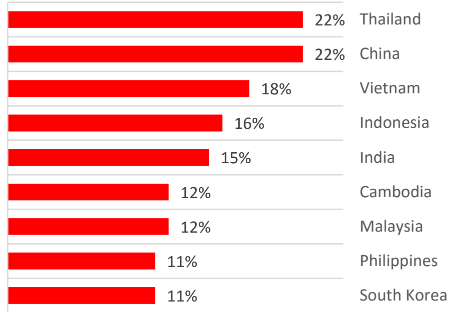


Asian workers are in higher value jobs

By 2010 57% of Asians were employed in industrialized labor (industry or services), up from 40% in 1990.[2] That's an annual growth rate of **3.3%**, more than double the 1.5% annual growth in Asia's total workforce.

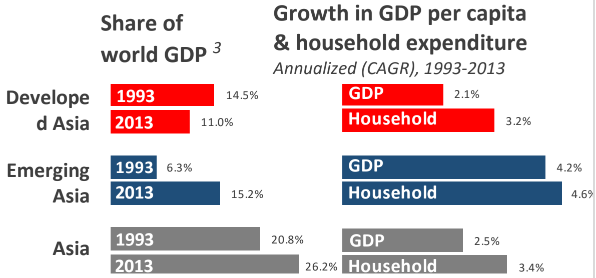
Increase in industry & services workforce

Emerging Asia, 1990-2010 [1]



GDP & consumption have grown rapidly

Emerging Asian countries' share of global GDP grew from **6%** in 1993 to **15%** in 2013. Their average household expenditure grew 4.6% per annum.



Asia's industrial and service-led growth and its domestic consumer markets are a significant difference from other resource-led emerging markets. Asia is a hub for economic growth.

Fundamental changes to government and society are most often propelled by economic forces. Asia's experience is no different. Increased individual wealth and economic participation has been followed by increased political engagement as people demand a voice in shaping their own and their children's future. A demand for government accountability has meant more intensely contested elections – sometimes won by an outsider (as in Indonesia), but all won with a commitment to long-term economic planning and reform. Stock market regulation, accounting and disclosure have improved as financial systems respond to market needs.

We see a long-term investment opportunity in Asia. But *opportunity* and *risk* go hand-in-hand; the key for investors is finding proven companies and constructing the right portfolio to manage that trade-off.

The importance of Asian Dividends.

Dividend investing requires us to establish whether a company is able (and willing) to pay and sustain a dividend over time. We focus on quality companies as the primary criterion for universe selection: companies that generate persistently high returns are more able to grow their business, increase their cash flows and sustain and grow their dividend. These businesses have demonstrated management skill, competitive advantage and/or an ability to allocate capital efficiently to generate these returns year after year. Companies' use of capital is important; we want to see a sustainable dividend stream, we do not want them to pay out all earnings (as would a high dividend stock) at the expense of growing the business.

Asia is a high growth region and the temptation to expand business operations is strong. Since 2000 there has been greater investment restraint and greater focus by management on working capital efficiency and cash generation. The highest quality companies in the region have improved the most; their returns on investment have been higher than the market as a whole, even while paying out more of their profits and growing dividends faster than the market average.

The persistency of the returns on investment, the growth of the region and the ability of these companies to exploit that growth without stretching their financial resources helps lower the risk profile against the higher volatility associated with the Asian region. Dividend investing also makes more likely an income stream that can be preserved in real terms and potentially grow faster than inflation, which is an important difference from the fixed income stream available from bonds.

The Guinness Atkinson Asia Pacific Dividend Builder Fund

The Fund is a concentrated, equally-weighted portfolio of 36 dividend-paying stocks that have achieved a persistently high return on invested capital, designed to deliver a combination of capital growth and dividend growth over time.

Stock selection

The Fund utilizes a similar methodology as the Guinness Atkinson Dividend Builder Fund in selecting stocks from a universe of quality companies. In Asia this means looking for companies that have generated a 'real' return on investment of at least 8% for each of the previous eight years.

Why 'real' return?	A 'real' return measure strips out variation in inflation rates across the region to give equivalence among returns on investment.
Why 8%?	By setting the threshold at 8% we can be confident the returns are above the average real cost of capital. These companies are truly creating value.
Why every year?	This excludes highly cyclical companies or those with high but declining or volatile earnings.
Why eight years?	Business cycles tend to last less than eight years. Eight consecutive years of success demonstrates a company's ability to grow through hard times as well as good.

We have found that good companies tend to stay good; 86% of companies that achieved a real return on investment of 8% or more in each of the previous 8 years will do so again the following year.

Balance sheet strength and critical mass

To foster strength, stability and liquidity in the companies is our universe, we apply debt and market capitalization constraints. For inclusion, a company's ratio of debt to equity cannot exceed

100% (for banks, the ratio of equity to total assets must be at least 5%), and the stock must have a market capitalization of at least $500 million. There are currently 280 companies in Asia Pacific that meet these criteria.

Constructing the portfolio

The portfolio is equally-weighted across 36 positions. This discipline means we invest in each position with high conviction. We do this because:

1. **We do not know when value will be realized.**

We cannot know with certainty how much value there is in a stock, just a range of probable outcomes. Variable weightings requires an overlaying of probable values with a probability set of timings which we think detracts from the process.

2. **It sharpens the purchase and sale discipline.**

A purchase of a new position must be accompanied by a sale of an existing position; a one in-one out approach forces us to maintain high conviction in our decision-making and in our portfolio.

Most investors are aware (and behavioral finance studies agree) that in the real world, 'rational economic man' does not exist and stock markets are not efficient. Loss aversion is one of the key behavioral biases that portfolio managers must confront. The discipline of equal weighting counteracts it. Sensible periodic rebalancing forces us to go against market movement and (assuming our original rationale still stands) buy more of a company that has underperformed, and trim our holdings in companies that have outperformed. If our longer-term conviction proves correct, the Fund will benefit materially.

An equally-weighted portfolio is efficient and ensures clarity and discipline:

1. The number of holdings is fixed, and manager conviction is maintained; we can never grow a long tail of "legacy losers" which we no longer have conviction in.
2. A high active share relative to a benchmark is a given, and the stock-specific risk of an individual position is capped (at 2.75% in a 36 stock portfolio).

Our focus, therefore, is on stock selection, which is based on a regular weekly screen of the 280 companies in our universe by quality, value, earnings forecasts revisions and price momentum. Value at this stage becomes the dominant factor.

"We see a long-term investment opportunity in Asia. But *opportunity* and *risk* go hand-in-hand; the key for investors is how to manage that trade-off."

Value bias: due diligence and stock research

Our research and due diligence work for potential purchases focuses on the gap between the value of the stock we believe is warranted by the company's current operations, its prospects and the value placed on it by the market today. A position may be sold when the dividend contribution to the portfolio is insufficient, when we think the stock is fully valued, if the company falls out of our universe, the balance sheet becomes stretched or, simply, if we find a better idea.

The design of the universe of stocks and the method of portfolio construction means the Fund differs significantly from the benchmark and has a high active share. Nevertheless, despite the Fund's concentrated portfolio, volatility has typically been lower than the benchmark index and the Fund has tended to perform better during periods of market weakness.* We attribute these defensive qualities to the operational strength of the companies held and also to their growing dividend streams.

The Fund is designed to give investors exposure to one of the world's fastest growing regions, which has a significant influence over the world's economic development and future. However, with change and opportunity comes risk. We aim to mitigate risk by investing in companies that have: a history of winning track records, generated sufficient cash to reinvest in their business, delivered sufficient returns to make that reinvestment worthwhile and committed to paying growing dividends to shareholders.

* As of 3/31/16, Asia Pacific Dividend Builder's 3-year volatility was 13.73 vs. 15.24 from the MSCI AC Pacific ex Japan Index benchmark

Guinness Atkinson Asia Pacific Dividend Builder Fund

The Fund is designed to provide investors with exposure to high quality dividend-paying companies in the Asia Pacific region. The Fund is designed to grow both income and capital and invests in:

- **profitable companies…**
- **that have generated persistently high return on invested capital over the last eight years…**
- **and that are well placed to be able to pay a growing dividend into the future.**

Portfolio

- Concentrated equally-weighted portfolio, which helps reduce stock-specific risk and instils a strong sell discipline
- Low turnover
- Minimum $500m market cap
- No benchmark-led limits on sector & regional weightings

Ticker	GAADX
Benchmark	MSCI AC Pacific ex Japan Index
Morningstar Category	Pacific/Asia ex-Japan Stk
Lipper Category	Pacific Region
Asset class	Equity (long-only)
Geographic focus	Asia Pacific
Fund launch date	3.31.2006
Dividend payments	Quarterly
Manager	Edmund Harriss
Analyst	Mark Hammonds

Holdings & Performance – for recent quarterly Fund performance, holdings, sector and geographic allocation visit gafunds.com.

Fund Manager

Edmund Harriss has managed Asian Funds since 1994 both from London and Hong Kong. He worked for ten years at Guinness Flight, which merged with Investec in 1998. He joined the Far East Investment Desk in 1994 as part of the team managing the China & Hong Kong Fund (now the Guinness Atkinson China & Hong Kong Fund). In 1998 he moved to Hong Kong and became the Fund's lead manager. Edmund now manages four Asia funds for Guinness Atkinson Asset Management. Edmund graduated from Christ Church, Oxford, with a Master's degree in Management Studies and has a Bachelor's degree in History from the University of York. He is an Associate of the Society of Investment Professionals.

Analyst

Mark Hammonds joined Guinness Atkinson Asset Management as an investment analyst in September 2012. Previously he qualified as a Chartered Accountant at Ernst & Young. Mark graduated from Corpus Christi College, Cambridge, in 2007 with a First Class degree in Management Studies.

Guinness Atkinson Asset Management

Guinness Atkinson offers eight no-load mutual funds that combine a forward-thinking worldview with the fundamental research of an experienced investment team. Investing in human progress is intrinsic to every Guinness Atkinson investment strategy, which are broadly grouped under four key themes:

Asia – Guinness Atkinson offers four Asia focused investment strategies including the Renminbi Yuan and Bond (GARBX), Asia Focus (IASMX), China & Hong Kong (ICHKX) and Asia Dividend (GAADX) strategies.

Energy – Covering the full spectrum of energy equity investing, the Global Energy (GAGEX) Fund focuses on traditional sources of energy and the Alternative Energy (GAAEX) Fund is a pure-play investment vehicle for solar, wind and other clean energy investments.

Innovation- Providing companies with a competitive edge, innovation has led to superior financial performance which the Global Innovators (IWIRX) Fund aims to capture.

Dividends - Wealth creation is a key component to growing dividends and a key screening element of the Dividend Builder Fund (GAINX).

ROIC –The return on invested capital gives a sense of how well a company is using its money to generate returns and is used to assess a company's efficiency at allocating the capital under its control to profitable investments.

Return on Investment is a performance measure used to evaluate the efficiency of an investment or to compare the efficiency of a number of different investments.