

# Guinness Atkinson Asia Pacific Dividend Builder GAADX

Review of Q3 2016



# Asia investment team



## **Edmund Harriss, Portfolio Manager**

- Managed Asian Funds since 1994 both from London and from Hong Kong
- Worked for ten years from 1993 for Guinness Flight, which became Investec after the merger in 1998. After joining the Far East Investment Desk in 1994, he served as a member of the investment team managing the China & Hong Kong Fund (now the Guinness Atkinson China & Hong Kong Fund, for US investors). He moved to Hong Kong and became the Fund's lead manager in 1998.
- Managed the Guinness Atkinson Asia Focus Fund (for US investors) since 2003, and the Guinness Atkinson Asia Pacific Dividend Fund (for US investors) since its inception in 2006
- Graduated from Christ Church, University of Oxford, with a Master's degree in Management Studies and has a Bachelor's degree in History from the University of York
- Associate of the Society of Investment Professionals



## **Mark Hammonds, CFA, Analyst**

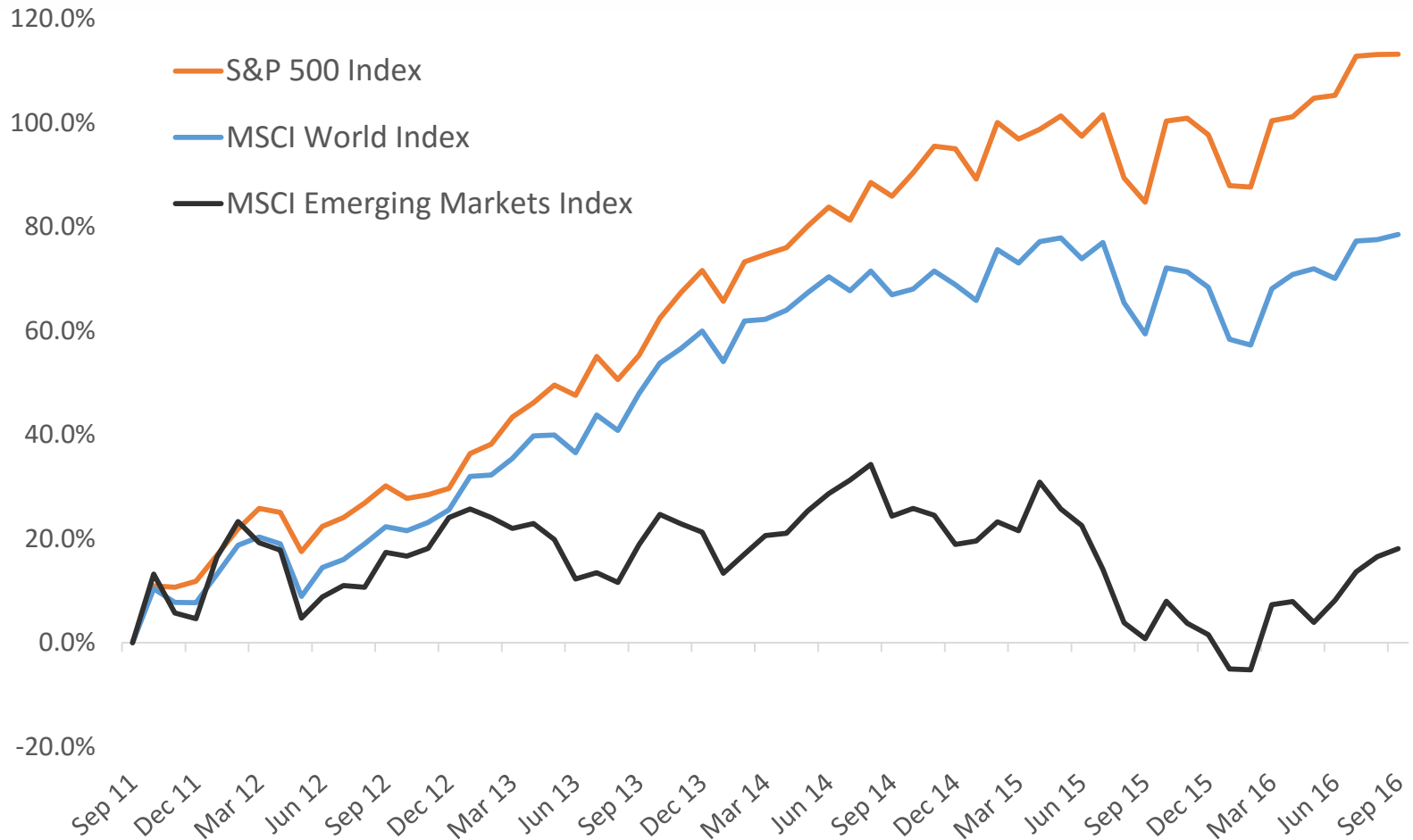
- Joined Guinness Atkinson Asset Management in September 2012
- Previously worked for three years at Ernst & Young
- IMC holder and CFA charterholder
- Chartered Accountant
- Graduated from Corpus Christi College, Cambridge with a First Class degree in Management Studies in 2007



## **Sharukh Malik, Analyst**

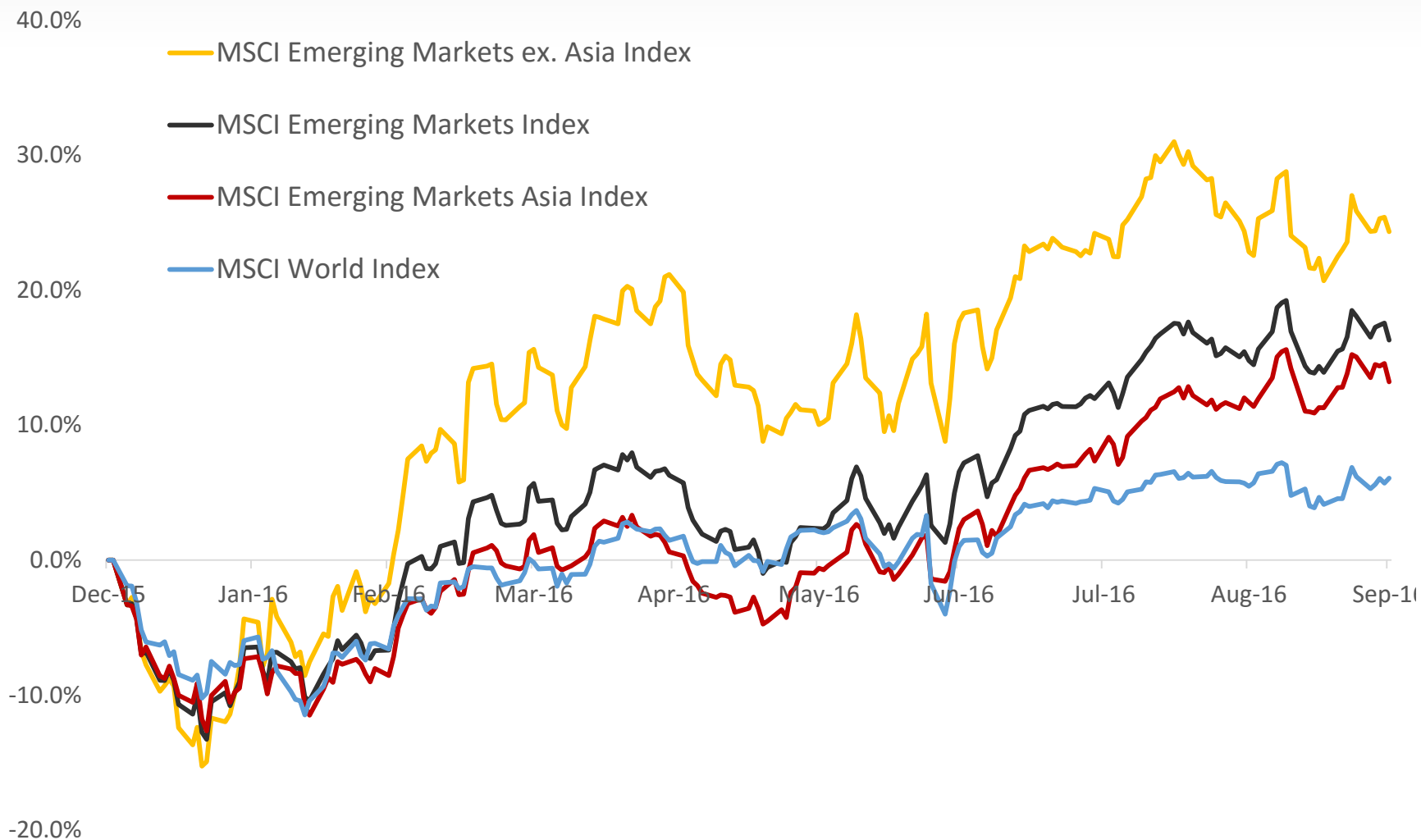
- Joined Guinness Atkinson Asset Management in October 2015.
- Graduated from Fitzwilliam College, Cambridge with a degree in Economics in 2014

# Five year market returns to 30 September 2016



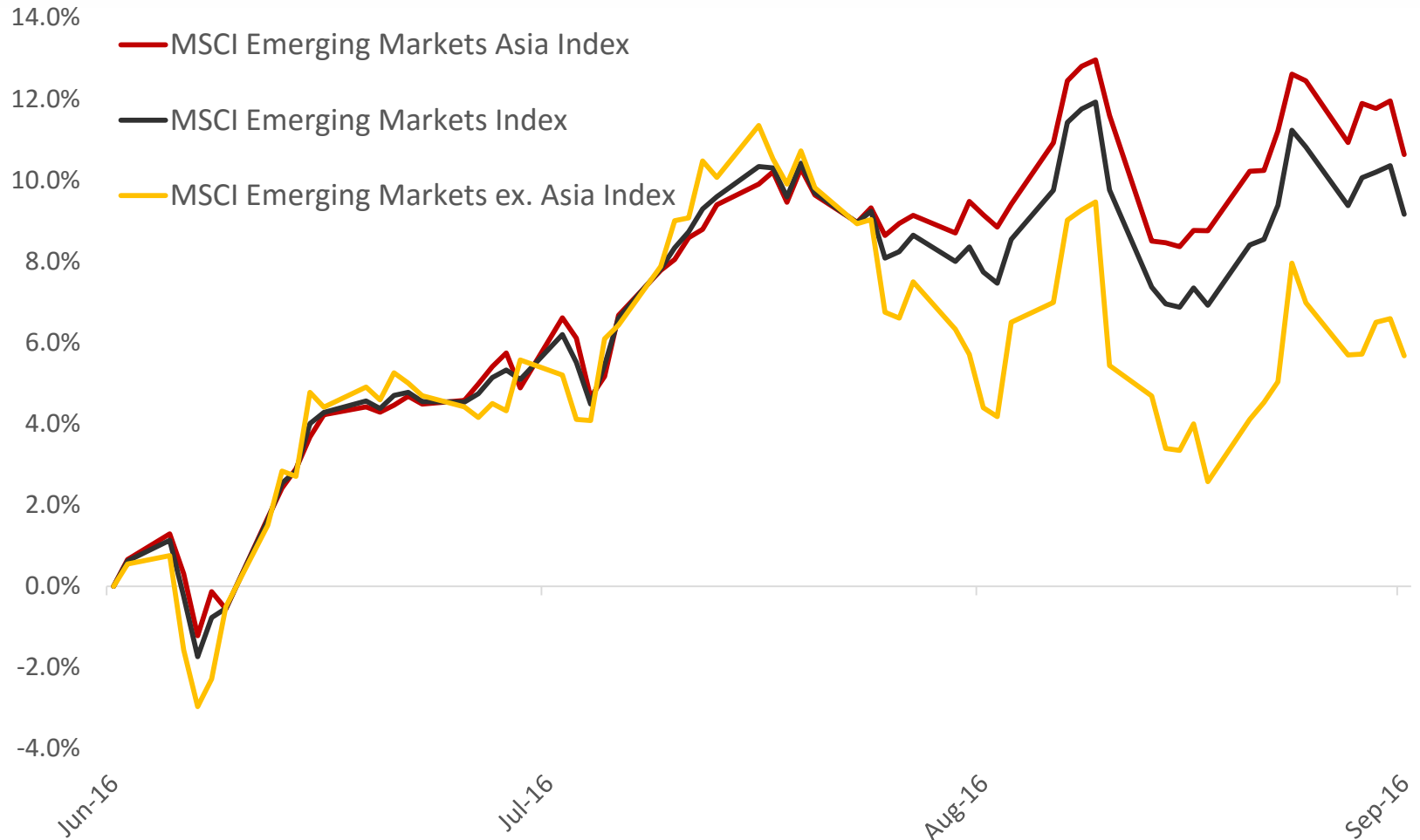
Source: Bloomberg, Guinness Atkinson Asset Management. Total returns in US dollars to 30 Sept 2016

# Year to date market returns to 30 September 2016



Source: Bloomberg, Guinness Atkinson Asset Management. Total returns in US dollars to 30 Sept 2016

# Third quarter market returns to 30 September 2016



Source: Bloomberg, Guinness Atkinson Asset Management. Total returns in US dollars to 30 Sept 2016

# China Producer Price Index



Source: Bloomberg, Guinness Atkinson Asset Management.

# Commodities returns

Bloomberg Commodity Index Total Return

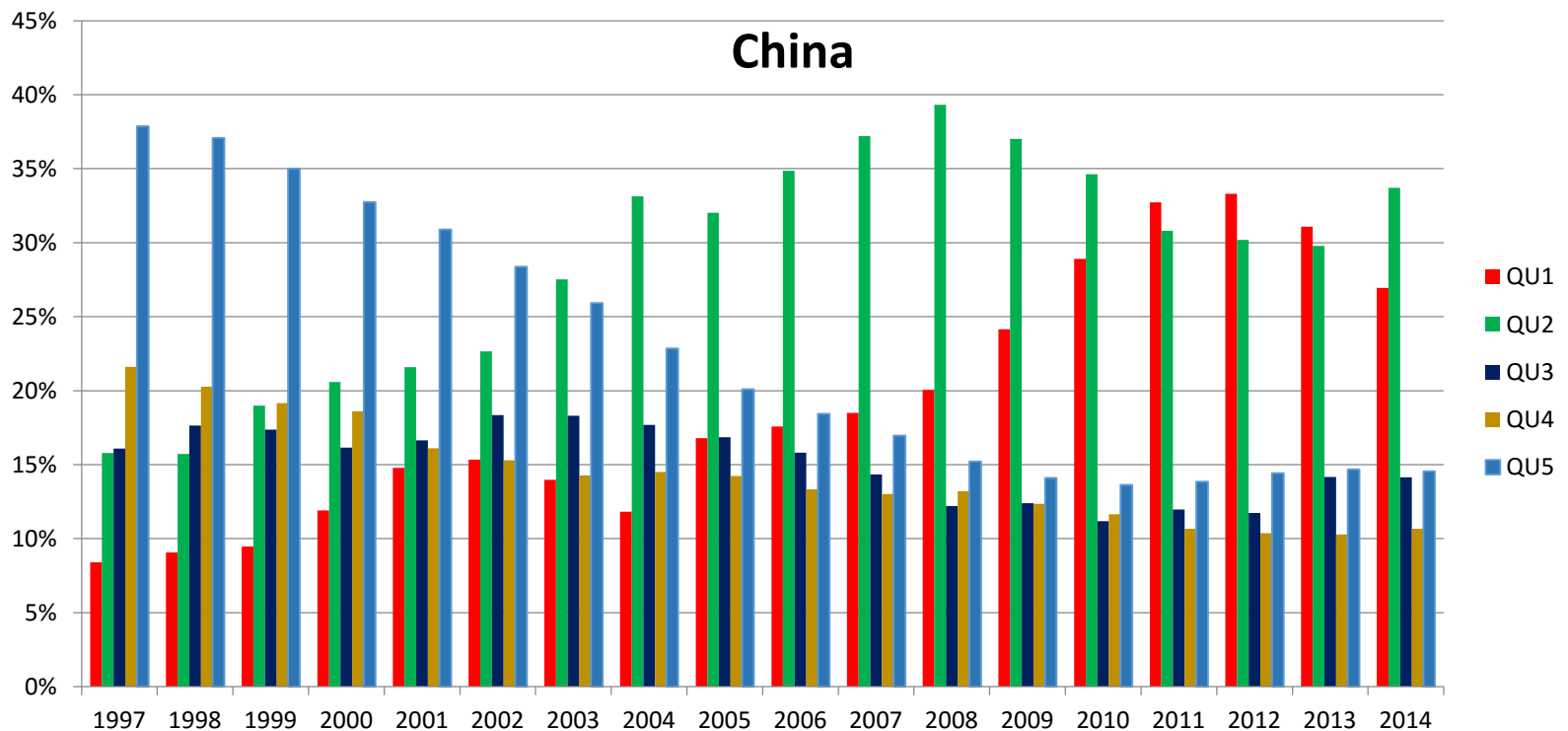


Source: Bloomberg, Guinness Atkinson Asset Management.

# Trade complexity in China

Complexity is a function of diversification and uniqueness. Complexity in the chart below is divided into quintiles. Quintile 1 'QU1' is most complex group of export products, 'QU5' the least.

Higher complexity = more specialized economic attributes.



Source: Observatory of Economic Complexity. Guinness Atkinson Asset Management calculations.



# China Industrial Profits



Source: Bloomberg, Guinness Atkinson Asset Management.

# China Current Account Surplus



Source: Bloomberg, Guinness Atkinson Asset Management.

# Malaysian infrastructure



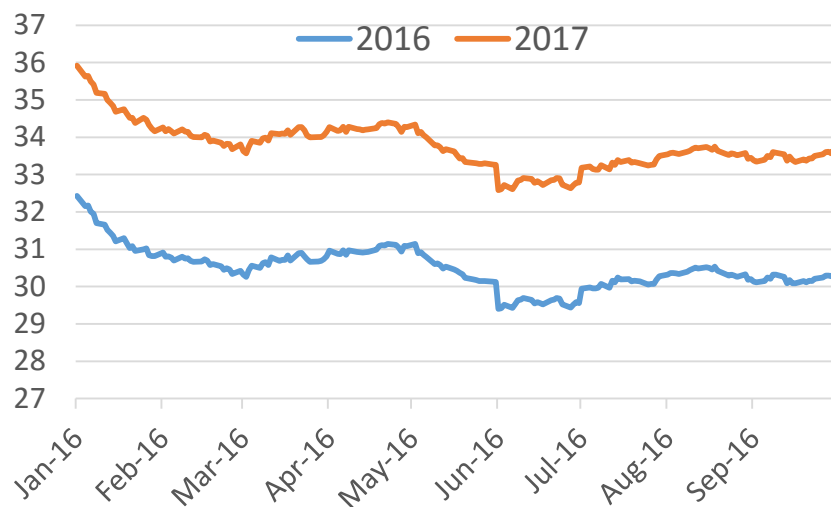
Source: MRT Corp, Guinness Atkinson Asset Management.

# Summary Asia view

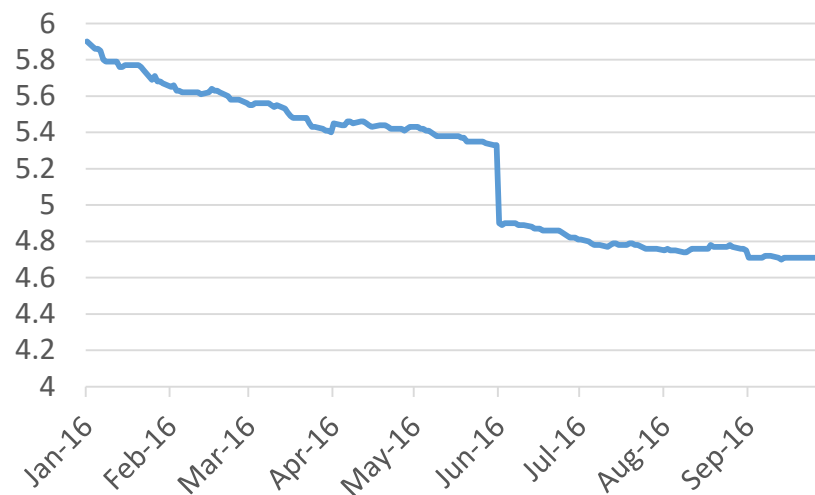
- China economic and corporate profits data pointing upwards
- South Korea and Taiwan are driven more by external demand while domestic conditions are comparatively weaker
- Thailand economic growth is looking brighter on external demand growth and tourism. Further government spending in 2017 could lend further support.
- Malaysia economic growth is looking brighter as government infrastructure projects are implemented but the market is not cheap.
- Singapore faces structural headwinds through a loss of competitiveness. Its stance on immigration on foreign workers for the past few years is now hurting.
- Earnings forecast revisions have stabilised in the region – China downgrades have moderated while those for Korea and Thailand have turned decisively into upgrades
- Key regional exposures
  - The US dollar
  - US/EU trade policies

# Asia Pacific earnings revisions

MSCI AC Pacific ex. Japan Index  
earnings revisions

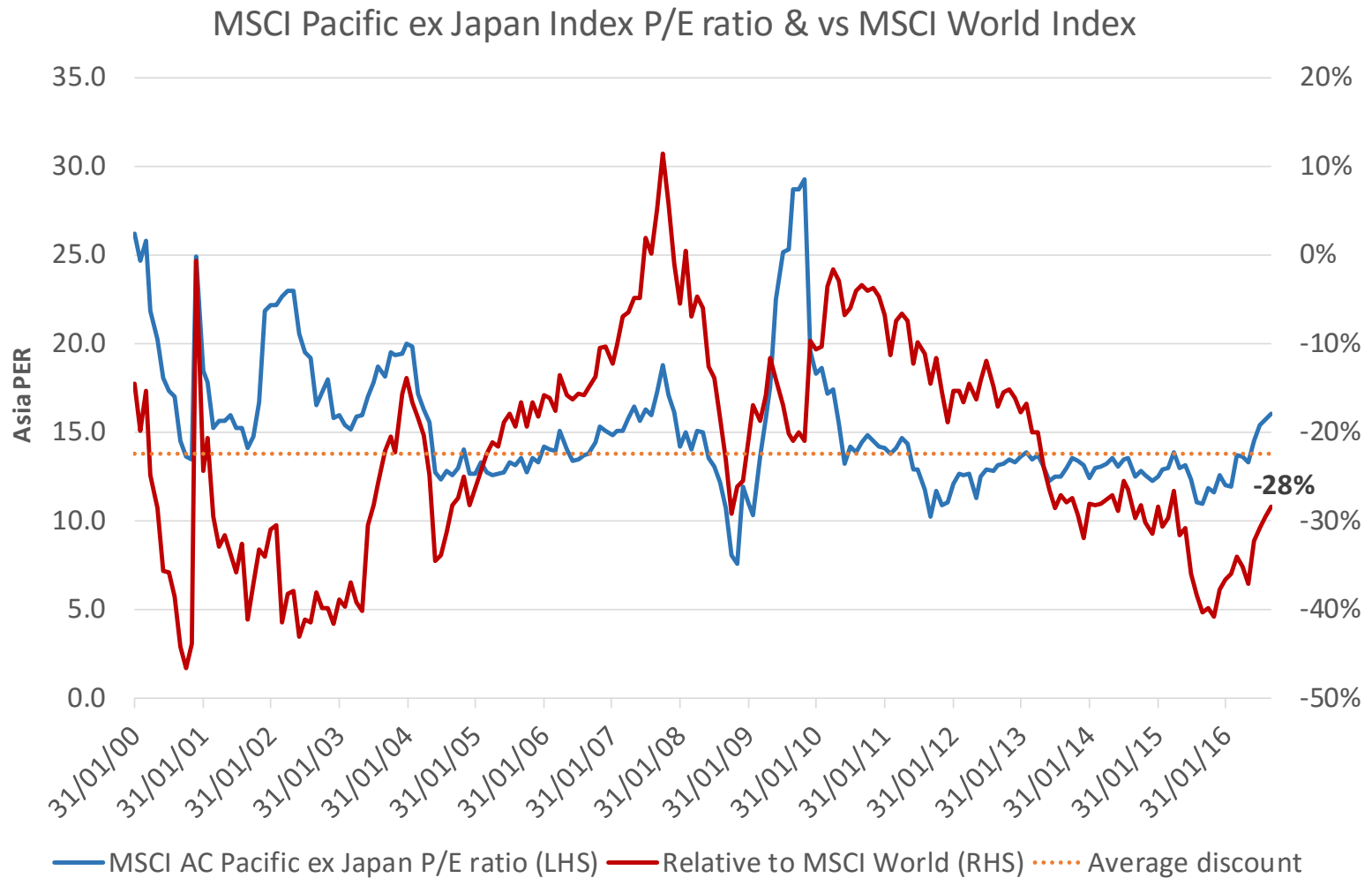


MSCI China Index  
2016 earnings revisions



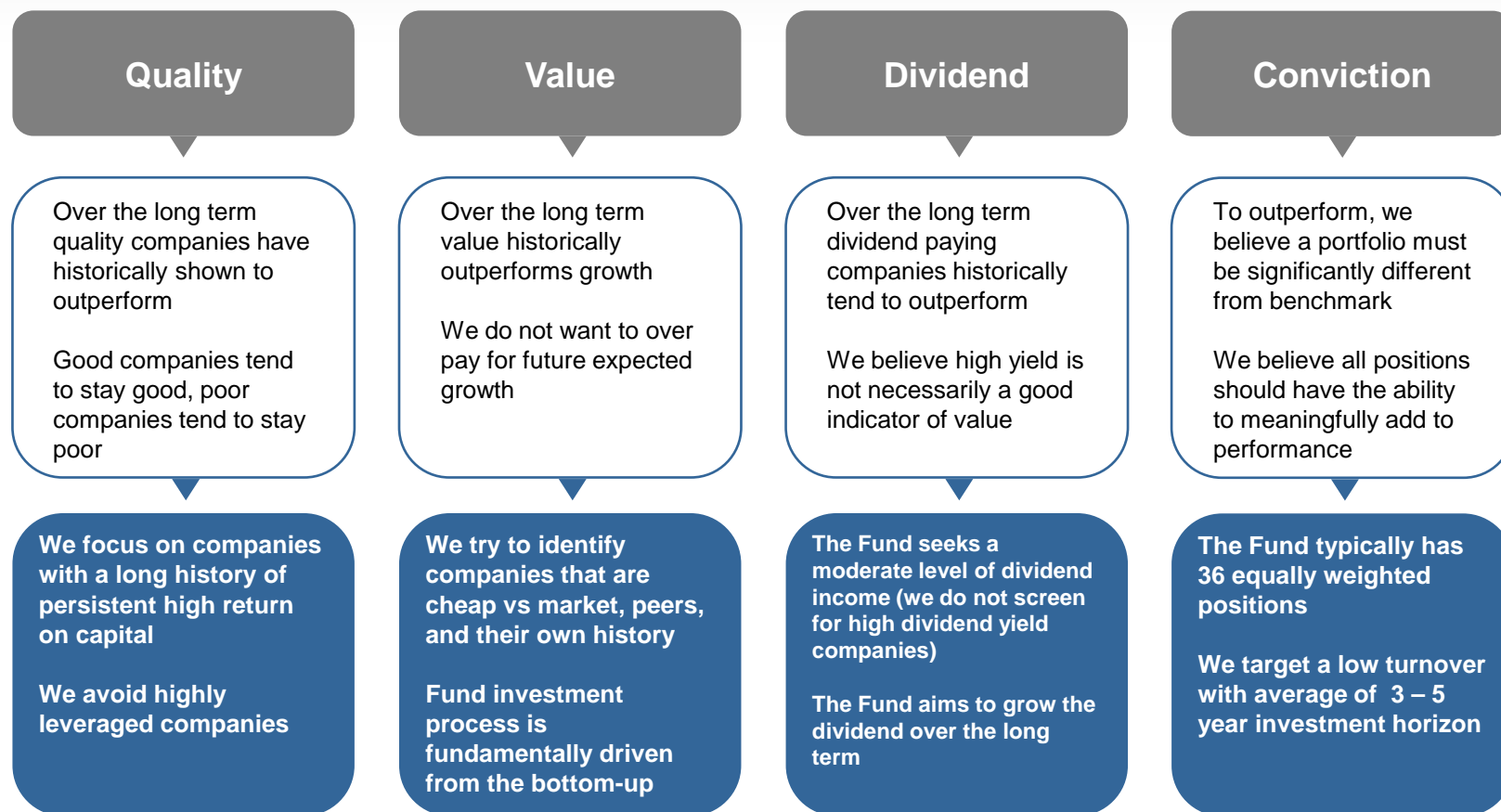
Source: Bloomberg, Guinness Atkinson Asset Management.

# Asia Pacific equities at a substantial discount to the World



Source: Bloomberg, Guinness Atkinson Asset Management.

# Fund philosophy



**Seeking a concentrated portfolio of good quality companies, at attractive valuations, with a moderate dividend yield but retaining capacity to invest, creating a good potential for dividend growth**

Past performance is not indicative of future results.



# Performance

Investment Objective: Dividend income and long-term capital appreciation by primarily investing in dividend-producing stocks of Asian Pacific companies.

Total returns % (USD)	3m 6/30/2016 to 9/30/2016	6m 3/31/2016 to 9/30/2016	YTD 12/31/2015 to 9/30/2016	1yr 9/30/2015 to 9/30/2016	3yr 9/30/2013 to 9/30/2016 (annualized)	5yr 9/30/2011 to 9/30/2016 (annualized)	10yr 9/30/2006 to 9/30/2016 (annualized)
<b>Guinness Atkinson Asia Pacific Dividend Builder Fund</b>	<b>9.00%</b>	<b>12.57%</b>	<b>16.18%</b>	<b>16.82%</b>	<b>6.04%</b>	<b>9.36%</b>	<b>6.17%</b>
<b>Benchmark: MSCI AC Pacific ex Japan Index</b>	<b>10.22%</b>	<b>10.64%</b>	<b>13.24%</b>	<b>19.88%</b>	<b>2.41%</b>	<b>7.54%</b>	<b>6.65%</b>
<b>Morningstar Pacific/Asia ex-Japan category</b>	<b>8.98%</b>	<b>11.27%</b>	<b>11.35%</b>	<b>16.92%</b>	<b>4.46%</b>	<b>8.17%</b>	<b>6.99%</b>
<i>Difference with benchmark: MSCI AC Pacific ex Japan Index in period</i>	-1.22%	1.93%	2.94%	-3.06%	3.63%	1.82%	-0.48%
<i>Difference with Morningstar Pacific/Asia ex-Japan category in period</i>	0.02%	1.30%	4.83%	-0.10%	1.58%	1.19%	-0.82%
Percentile rank in Morningstar category over period	—	—	—	46	11	26	70
Quartile	—	—	—	2	1	2	3

Percentile rank is out of 79 (1 yr), 66 (3 yr), 56 (5 yr) and 21 funds (10 yr). Morningstar ranking is based upon total returns.

Expense Ratio 1.10% (net), 3.87% (gross)

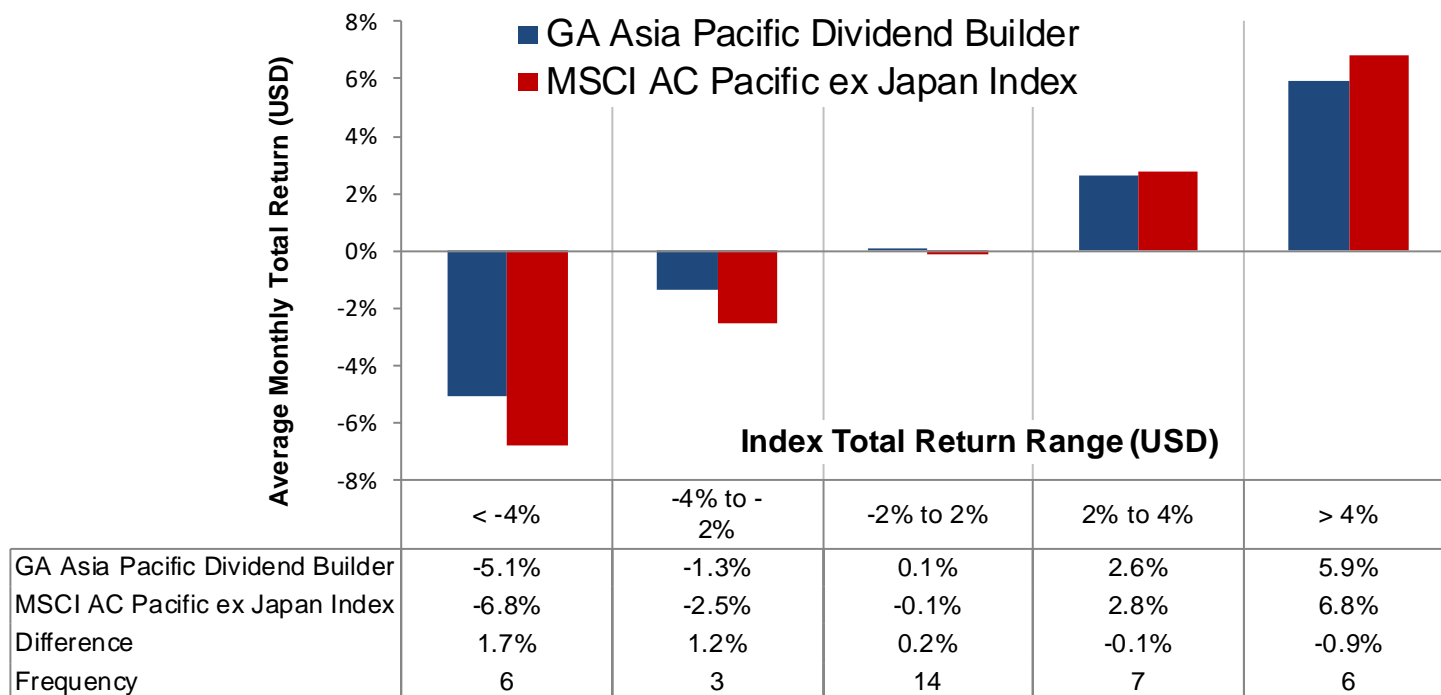
*Performance data quoted represents past performance; past performance does not guarantee future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance of the Fund may be lower or higher than the performance quoted. Performance data current to the most recent month end may be obtained by calling 800-915-6566 and/or visiting [www.gafunds.com](http://www.gafunds.com). Performance data does not reflect the 2% redemption fee for shares held less than 30 days and, if deducted the fee would reduce the performance noted. Total returns reflect a fee waiver in effect and in the absence of this waiver, total returns would be lower. The Advisor has contractually agreed to reduce its fees and/or pay Fund expenses (excluding Acquired Fund Fees and Expenses, interest, taxes, dividends on short positions and extraordinary expenses) in order to limit the Fund's Total Annual Operating Expenses to 1.10% through June 30, 2017. To the extent that the Advisor waives its fees and/or absorbs expenses to satisfy this cap, it may seek repayment of a portion or all of such amounts at any time within three fiscal years after the fiscal year in which such amounts were waived or absorbed, subject to the 1.10% expense cap.*

Source: Guinness Atkinson Asset Management, Bloomberg, Morningstar



# Performance characteristics over 3 years

Average monthly returns over the past 3 years to September 30 2016 in different market conditions:



*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 calling 800-915-6566 and/or visiting [www.gafunds.com](http://www.gafunds.com). Performance data does not reflect the 2% redemption fee for shares held less than 30 days and, if deducted the fee would reduce the performance noted. Total returns reflect a fee waiver in effect and in the absence of this waiver, total returns would be lower.*

Source: Guinness Atkinson Asset Management, Bloomberg

# Attribution (all in USD)

## Top 5 performing stocks

	Q3 return
Largan Precision	34.42%
Qualcomm	28.95%
JB Hi-Fi	27.41%
China Minsheng	21.49%
Belle International	18.84%

## Bottom 5 performing stocks

	Q3 return
Yangzijiang Shipbuilding	-17.09%
LPN Development	-8.10%
China Lilang	-7.27%
Relo Group	-5.43%
KT&G	-4.03%

*Holdings are subject to change*

Source: Bloomberg, Guinness Atkinson Asset Management.

# Fund analysis

Consumer allocation (%)	
Consumer	63.45%
Non-consumer	39.43%
Sector allocation (%)	
Information Technology	26.73%
Financials	25.30%
Consumer Discretionary	16.74%
Real Estate	14.33%
Health Care	5.59%
Telecommunication Services	5.58%
Consumer Staples	3.03%
Energy	2.92%
Industrials	2.66%
Materials	0.00%
Utilities	0.00%
Cash	-2.88%
Total	100.00%

Geographic allocation (%)	
Emerging	66.03%
Developed	36.84%
Country allocation (%)	
China	28.04%
Taiwan	20.68%
Thailand	11.59%
Hong Kong	11.31%
Australia	8.60%
Singapore	8.19%
United States	5.82%
South Korea	3.03%
Japan	2.93%
Malaysia	2.70%
Cash	-2.88%
Total	100.00%

Source: Guinness Atkinson Asset Management. Data as of 09/30/2016

# Roundup

- Stock market leadership has switch from developed to emerging markets and in the last quarter Asia has taken the lead
- We believe Asia leadership to be well supported by multiple growth drivers – commodities, exports and consumption.
- The emerging market region ex-Asia is dominated by markets whose economic underpinnings are less complex; it was currency rather than fundamentals behind the earlier market strength and this helps explain why earlier momentum has faded.
- China's economic growth remains obstinately at 6.5% - 6.8% for 2016, in defiance of market opinion at the start of the year. Now with producer price deflation coming to an end and industrial profits up we could soon see revisions to earnings forecasts move higher
- No one is arguing for a roaring growth in Asia but economic stability and some recovery in earnings could easily be sufficient to unlock the value we see.
- An aggressive trade stance from a new US president or sharply higher US interest rates would be negative for Asia (and for developed markets too)
- In an uncertain world, quality underpinned by cash flows combined with value is a sound investment strategy, in our opinion.

# Definitions

While the Fund is no-load, management and other expenses still apply. Please refer to the prospectus for further details. **The Fund invests in foreign securities which will involve greater volatility and political, economic and currency risks and differences in accounting methods. 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.** *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 Fund. Please read it carefully before investing.* The **MSCI AC Pacific Ex-Japan Index** is a market capitalization weighted index that monitors the performance of stocks from the Pacific region, excluding Japan. One cannot invest directly in an index. All return figures represent average annualized returns except for periods of one-year or less which are actual returns. **R-Squared** is a statistical measure that represents the percentage of a fund or security's movements that can be explained by movements in a benchmark index. **Beta** measures the volatility of the fund, as compared to that of the overall market. **Alpha** is an annualized return measure how much better or worse a fund's performance is relative to an index of funds in the same category, after allowing for differences in risk. **Standard deviation** is a statistical measure of the historical volatility of a mutual fund or portfolio and is an independent measure of volatility; it is not relative to an index. Information ratio (IR) is a ratio of portfolio returns above the returns of a benchmark to the volatility of those returns. Maximum drawdown measures the percentage drop in cumulative return from a previously reached high. **Sharpe ratio** measures risk-adjusted performance and is calculated by subtracting the risk-free rate from the rate of return for a portfolio and dividing the result by the standard deviation of the portfolio returns. Sortino ratio is a modification of the Sharpe ratio that differentiates harmful volatility from general volatility by taking into account the standard deviation of negative asset returns, called downside deviation. **Upside/downside (Up/Down) capture ratio** shows you whether a given fund has outperformed--gained more or lost less than--a broad market benchmark during periods of market strength and weakness, and if so, by how much.

# Contacts

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# Disclosure

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 Fund. Please 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 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**

Fund holdings and/or sector allocations are subject to change at any time and are not recommendations to buy or sell any security

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