Guinness Atkinson
Global Innovators Fund Update
December 2016

Update

Unsurprisingly the US election dominated markets with Donald Trump being elected as the 45th President. There where sharp moves in both equity and bond markets in the aftermath of the unexpected result. We wrote a summary of how the fund performed in the weeks directly after the announcement of the election result in our November manager's update:

"Since the US election on 8th November the portfolio has weathered the markets well, comfortably outperforming the MSCI World benchmark over the course of November so far (to 23rd of November). The portfolio's exposure to more cyclical parts of the market, at the expense of defensive industries, means we have benefitted from the expectation of President-elect Trump's desire to kick start the American economy through fiscal stimulus. Indeed, since the election, we have seen a greater than 10% divergence in performance between the world Financial sector, which has benefitted, and the world Utilities sector, which has underperformed. Similarly, on a geographic basis US equities have outperformed Emerging Market equities by a similar margin. Our overweight to US equities has therefore certainly helped performance while our relatively small weight to emerging markets has had a relatively small impact."

In the final week of November the fund gave up some of the outperformance versus the benchmark as the large rotations in sectors moderated slightly as markets began to hear and subsequently digest the remarks emanating from the incoming administrations' transition team.

However, today it appears that the market is now pricing in US markets as a certainty numerous economic factors; higher inflation on the back of fiscal stimulus and infrastructure spending, a faster rate of interest rate rises, dollar strength, higher bond yields, weaker share prices for defensive sectors such as consumer staples and telcos, and stronger share prices for cyclicals and especially financials. Similarly the knock-on effect of US strength more generally and from a currency perspective specifically, have meant that emerging markets have given up a lot of the strong gains made in those regions through the first three quarters of the year. With the added uncertainty of how a Trump administration is going to deal with trade agreements and the more insular US-focussed policies being proposed only adding to investor worries.

'Certainty' is usually a dangerous word when investing, however, and we will continue to try and focus on the established process we have developed for the strategy over the past thirteen years, as we wrote in last month's update.

"Like many people, we did not expect a Trump victory and we certainly did not position our portfolio for that outcome. Even if we had predicted it, it would not have changed the long-established characteristics we look for in companies. That has not changed since the inception of this strategy in 2003. We believe the portfolio is well positioned in quality growth companies, in industries that will be driving economies forward for years to come. We have always looked for companies that can grow profitably."

Changes to the portfolio

We made a small number of changes to the portfolio during the month. We sold our positions in Li & Fung and Taiwan Semiconductor and bought a new position in Nike.

We decided to cut our losses on Li & Fung, a position we bought back in 2014 and where we ultimately got it wrong. We really liked the company's asset light business model as we could see how growth would translate into significant operational leverage. Growth had been weak for some time but we thought there was a reasonable chance that it would turn around. Unfortunately, that has not occurred and with the election of Donald Trump we felt the company's model of being a global outsourcing business was becoming more vulnerable. We also came to the conclusion that there is now a real risk of a dividend cut, which could also lead to further selling in the market.

Taiwan Semiconductor has been a very long term holding in the strategy (since 2003 in fact) and has performed extremely well over that period: providing a total return almost five times that of the MSC World Index. It is one of the highest quality businesses in its sector with very steady cash flow returns on investment despite the cyclical nature of its market. The company has more recently enjoyed good share price performance with the rotation from growth to value and from the re-rating of the semiconductor industry more generally. We noted, however, that the re-rating took the company's forward P/E multiple from a low of around 10X in late 2015 to around 15.5X, a high relative to where the company has traded historically. The speed and magnitude of this re-rating suggested to us that there was little further upside without significant earnings growth in the near term, which we felt was unlikely.

Nike is a company we have admired for some time and has all the characteristics we seek in terms of a business with a strong balance sheet, historically good returns, and good capital allocation discipline that in our opinion shows the company as selectively, and profitably re-investing cash flows. However, the market tended to over-reward the company for its growth in our view – with the company trading on over 30X forward P/E at its peak at the end of 2015. At such lofty valuations the market inevitably expects perfect execution and when (there are some 'ifs', but these tend to be few and far between) these are not met the share price reaction is usually stark and swift. This has been the case for Nike through 2016; slower growth has led to the share price falling 19.2% (total return in USD) from the end of 2015 to the end of November versus the S&P500 equivalent return of +9.8%, an almost 30% difference. The forward P/E multiple has fallen in unison from approximately 30X at the start of the year to just over 21X today. The threat of increased competition, inventory overhang, and whether future lines are well received remain but we believe the market has moved from overly optimistic to overly pessimistic – and this presented us with the opportunity to add the company to the portfolio.

The overall effect of these changes was to reduce our exposure to Asia and increase our exposure to the US slightly, whilst also decreasing our exposure to the IT sector.

Guinness Atkinson
Global Innovators Fund Update
December 2016

Performance

In November the Guinness Atkinson Global Innovators Fund produced a total return of +2.42% vs the MSCI World Index +1.51%. The fund therefore outperformed the index by 0.91%.

as of 11.30.2016 (in USD)	YTD	1 year	3 years annualized	5 years annualized	10 years annualized	Since inception annualized
Global Innovators, Investor Class[1]	7.69%	3.78%	6.97%	14.78%	7.96%	6.87%
Global Innovators, Institutional Class[2]	7.98%	4.06%	7.06%	14.84%	7.99%	6.88%
MSCI World Index	5.57%	3.75%	4.31%	10.52%	4.42%	5.01%

as of 9.30.2016 (in USD)	Q3 2016	1 year	3 years annualized	5 years annualized	10 years annualized	Since inception annualized
Global Innovators, Investor Class[1]	9.76%	15.29%	9.50%	17.21%	8.67%	6.90%
Global Innovators, Institutional Class[2]	9.85%	15.53%	9.57%	17.26%	8.69%	6.92%
MSCI World Index	4.99%	12.01%	6.46%	12.28%	5.10%	5.09%

Investor class (IWIRX) Inception 12.15.1998 — Expense ratio* 1.24% (net); 1.27% (gross)

Institutional class (GINNX) Inception 12.31.2015 — Expense ratio* 0.99% (net); 1.07% (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. Total returns reflect a fee waiver in effect and in the absence of this waiver, the total returns would be lower. Current performance of the Fund may be lower or higher than the performance quoted. For most recent month-end and quarter-end performance, visit http://www.gafunds.com/GIF_performance or call (800) 915-6566.

Performance data shown for Global Innovators, Institutional Class (GINNX), prior to its launch date on 12/31/15, uses performance data from the Global Innovators, Investor Class (IWIRX).

*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 .99% for the Institutional class and 1.24% for the Investor class through June 30, 2018. 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 0.99% for the Institutional class and 1.24% for the Investor class expense cap.

Guinness Atkinson
Global Innovators Fund Update
December 2016

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.

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

Top 10 holdings for Global Innovators Fund, as of 11/30/16, are:

1. Comcast Corp - A Shares	3.78%
2. Eaton Corp PLC	3.70%
3. Wisdom Tree Inv., Inc.	3.65%
4. Siemens AG	3.62%
5. Schlumberger Ltd	3.59%
6. Intel Corp	3.58%
7. Cognizant Technology Solutions Corp - A Shares	3.57%
8. Applied Materials Inc	3.47%
9. Boeing Co/The	3.44%
10. QUALCOMM Inc	3.43%

Click here for a complete list of holdings for the Global Innovators Fund.

Opinions expressed are subject to change at any time, 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 Global Innovators 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.

Earnings growth is not representative of the Fund's future performance.

Price to Earnings Ratio (P/E) is a valuation ratio of a company's current share price compared to its per-share earnings. Calculated as: Market Value per Share / Earnings per Share (EPS)

MSCI World Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed markets.

The Standard & Poor's 500 Index (S&P 500) is an index of 500 stocks seen as a leading indicator of U.S. equities and a reflection of the performance of the large cap universe, made up of companies selected by economists. The S&P 500 is a market value weighted index and one of the common benchmarks for the U.S. stock market; other S&P indexes include small cap companies with market capitalization between $300 million and $2 billion, and an index of mid cap companies.

One cannot invest directly in an index.

Distributed by Foreside Fund Services, LLC