GUINNESS ATKINSON FUNDS

January in review

Once again markets were dominated by President Trump as investors looked to his inauguration on January 20th and the potential for swift action on his campaign promises; trade, tax reform, infrastructure spending, immigration, and healthcare.

Markets began the year in positive mood buoyed by a good start to the US earnings season and signals of economic growth. Consumer confidence was up in Europe, China, and the US and the manufacturing purchasing managers indices (PMI) in Europe and the US both continued to strengthen. The Dow Jones Industrial Average finally closing above the 20,000 mark on January 25th was widely publicised as a mark of how far the equity markets had come since the financial crisis. The seemingly chaotic roll out of the new US administrations executive order essentially banning entry into the US from seven Muslim majority countries caused markets to pause, and in some cases retreat, into month end. Investors not only had to assess quickly the implication of this order but to try and infer what it may mean for the execution of future executive orders.

However, overall markets continued to support the ‘inflation trade’ with growth stocks outperforming value stocks and more economically sensitive sectors such as materials, information technology, and consumer discretionary outperforming more defensive sectors such as telecoms, consumer staples, and utilities. The one exception was the energy sector as oil prices stabilized and the market reassessed the response of US shale drillers to the improved oil price environment.

Going ‘against’ this narrative, however, emerging markets outperformed developed markets (MSCI Emerging Markets up 5.5% versus the MSCI World up 2.2%, both total return in USD) in January. However, this was from a lower base as emerging markets underperformed in December. It also coincided with the weakening dollar over the month as the sharp rally seen since the election result in early November retraced its peak from year end.

A keenly debated topic, and one that has significant implications for markets, is the outlook for the US dollar. Despite the myriad of changes mooted across all aspects of domestic and foreign policy it is arguably on trade where the new administration has been most consistent. Trump has already walked away from the Trans-Pacific Partnership and complained loudly about almost all trade agreements the US is currently party to. Whether this rhetoric plays out as a broad-based ‘trade war’ or more selectively against certain imports that compete directly with US production remains to be seen. Either way it is highly likely that any trade restrictions would be met with a response in kind or otherwise which would clearly have an effect on currencies.

House Republicans are also keenly debating a proposed destination-based taxation system which attempts to levy taxes with reference to the place of sale of goods, rather than their place of manufacture. This would be a boon for exporters and put importers at a distinct disadvantage. It has been suggested this would have the consequence of a sharp appreciation in the dollar, although this is hotly debated.

All of the above must also be put in context of a more hawkish Federal Reserve. Following Janet Yellen’s latest remarks markets have begun to price in just under three 25bps rate rises over the next twelve months. As unemployment continues to come down and wages have begun to rise alongside a proposal of significant fiscal stimulus the Fed has become more focussed on the prospect of sharply rising inflation and therefore how to manage that rise effectively.

The US debate has generally dominated headlines but we must not forget about Europe. Not least the political uncertainty but also the recurring issues of the capitalisation of the Italian banking system and the looming Greek debt repayment requirement. On the political front French election expectations have been thrown into turmoil because of the Francois Fillon 'fake job' scandal, the Dutch elections are due in mid-March and Germany is already looking towards their elections in September. And despite Theresa May's overwhelming majority in the most recent parliamentary vote on enacting Article 50 we still have the reality, and uncertainty, of Britain's exit from the European Union to contend with.

So how best to navigate? The Global Innovators fund is at heart a growth fund and as such is potentially more exposed to market movements, for better and for worse. However, we seek to invest in quality growth companies by which we mean companies that are reasonably asset light and thus do not require large amounts of outside to capital grow, companies that have strong and ideally growing return on capital, and companies that have good operating margins. These companies typically are at the forefront of their industries or have unique or innovative products that we think allow them to limit deterioration of their return on capital, which should mean they are better placed relative to peers to navigate different market environments. However, we recognize that these businesses are still more susceptible to the overall economic environment than compared to, say, consumer staples businesses, so we also try to the avoid those that have taken on too much debt or those trading at extreme valuations - as these factors can amplify significantly stock moves during any slowdown in growth, or worse a market selloff.

Portfolio update

We made no changes to the portfolio in January

Individual stock performance in the month broadly followed the market trends outlined above. Checkpoint (+16.9% total return in USD) the Israeli-listed cyber security company posted better than expected results mid-month and was up over 7% on the day; Fanuc the Japanese robotics company continued to benefit from an improvement in manufacturing sentiment; Samsung (+13.9%), AAC Technologies (+13.5%), and New Oriental Education (+12.9%) all benefitted from the rally in emerging and Asian equity markets.

Qualcomm (-18.1%) suffered as Apple accused it of monopolizing the market for chips and wireless devices; WisdomTree (-7.5%) sold off in unison with Japanese Yen strength as one of the ETF provider's largest products is a Yen-hedged equity fund; H&R Block (-6.7%) declined as the market continued to worry about prospects for the upcoming tax season; Cognizant (-6.1%) shares were sold as concerns mounted over the future use and availability of H1B professional services visas for the US for which Cognizant utilises for many of its workers ; Shire (-4.8%) shares weakened along with the wider healthcare sector mid-month as Trump said he thought there needed to be more competitive drug bidding.

We thank for you continued support.

Guinness Atkinson
Global Innovators Fund Update
February 2017

Performance

In January the Guinness Atkinson Global Innovators Fund produced a total return of +3.34% (investor class) vs the MSCI World Index +2.44%. The fund therefore outperformed the index by 0.90%.

as of 1.31.2017 (in USD)	YTD	1 year	3 years annualized	5 years annualized	10 years annualized	Since inception annualized
Global Innovators, Investor Class[1]	3.34%	21.88%	8.01%	14.79%	8.27%	7.09%
Global Innovators, Institutional Class[2]	3.36%	22.20%	8.12%	14.86%	8.31%	7.11%
MSCI World Index	2.44%	17.84%	6.59%	10.52%	4.59%	5.24%

as of 12.31.2016 (in USD)	YTD	1 year	3 years annualized	5 years annualized	10 years annualized	Since inception annualized
Global Innovators, Investor Class[1]	9.51%	9.51%	6.12%	15.80%	8.14%	6.93%
Global Innovators, Institutional Class[2]	9.81%	9.81%	6.22%	15.86%	8.17%	6.95%
MSCI World Index	8.18%	8.18%	4.43%	11.08%	4.46%	5.13%

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. Current performance of the Fund may be lower or higher than the performance quoted. For most recent month-end and quarter-end performance, visit https://www.gafunds.com/our-funds/global-innovators-fund/#fund_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.

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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 1/31/17, are: 1. AAC Technologies Holdings Inc 3.74% 2. Check Point Software Technologies Ltd 3.68% 3. Samsung Electronics Co Ltd 3.66% 4. Boeing Co/The 3.55% 5. Applied Materials Inc 3.51% 6. SAP SE 3.48 % 7. Intercontinental Exchange Inc 3.42% 8. Comcast Corp – A Shares 3.36% 9. Danaher Corp 3.32 % 10. FANUC Corp 3.32%

Click here for list of holdings for the Global Innovators Fund or visit www.gafunds.com/our-funds/global-innovators-fund/#fund_holdings.

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.

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 MSCI Emerging Markets Index is an index created by Morgan Stanley Capital International (MSCI) designed to measure equity market performance in global emerging markets. It is a float-adjusted market capitalization index that consists of indices in 23 emerging economies: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Peru, Philippines, Poland Qatar, Russia, South Africa, Taiwan, Thailand, Turkey and the United Arab Emirates.

One cannot invest directly in an index.

Basis Points (BPS) is a unit that is equal to 1/100th of 1%.

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