Guinness Atkinson
Dividend Builder Fund
Managers Update – March 2017

GUINNESS ATKINSON FUNDS

February in review

Being the shortest month of the year did not stop February being just as eventful. Global equity indices hit new highs, the FED interest rate hike expectations reached ever higher, and the political drama across the US and Europe continued to dominate headlines.

The "Trump rally" led equity markets to have a very positive start to the year, and this was paired with significant, yet perhaps surprising calmness, evident by the low volatility across the VIX and VSTOXX (tracking US and European markets respectively). Supportively, the S&P 500 consistently closed within 1% of the previous day across January and February, making the start to 2017 the most tranquil in 50 years.

The month also saw a swing favoring the higher yielding defensive sectors: utilities, real estate, consumer staples and healthcare were the strongest areas, whereas materials and energy were the worst performing. This boded well with regards to the fund's large active weights in consumer staples and healthcare, and underweight positions in energy and materials. Energy stocks' underperformance can be attributed mainly to falling oil prices after reports of higher US production, offsetting OPEC's move to reduce output.

The gains in the portfolio were balanced by the outperformance in Asia and emerging markets, where the fund currently has a lower exposure. Asia had a stronger than expected earnings season generally while Brazil was the best performing market globally, as the central bank unexpectedly cut interest rates by 0.75%.

From a sectoral perspective, the sharp rotation into cyclicals that we saw at the end of last year has stalled in line with lessening hysteria from the Trump victory. In our previous commentary, we concluded that President Trump seems likely the same as Candidate Trump, and although this was somewhat challenged towards the end of February – when he appeared more measured in his speech to Congress – his fiscal agenda is still blurry and his tweets controversial. We see positives for equity markets from the idea of tax reform and deregulation, but also negatives from protectionist trade policies and immigration controls. Investors rightly remain wary as the FED looks likely to raise rates in March, potentially further strengthening the dollar and adding inflationary pressures to a North American economy already close to full employment.

Portfolio update

In February, we saw positive total returns from 28 out of our 36 current holdings (all in USD). The largest gain was seen by Unilever (+17.74% in USD) after the consumer goods manufacturer rejected a takeover bid from Kraft Heinz. Unilever claimed the $143 billion valuation – which was 18% above the undisturbed share price – was too low and that it saw "no merit, either financial or strategic, for shareholders".

The second largest gain was from Cisco Systems (+11.26% in USD) after it reported positive quarterly earnings (57 cents per share vs analyst expectations of 56 cents (Bloomberg)). The seller of routers, switches, software and services posted revenue of $11.68 billion for Q2 January, surpassing analyst forecasts of $11.55 billion, and it declared a raise in its dividend to 29 cents from 26 cents the previous year. This represents the seventh straight yearly growth in the dividend since the company initiated payments in 2011. Over the last five years the dividend growth has been an impressive 34% annualised.

The worst performer of the portfolio was Deutsche Boerse, which fell 4.62% (in USD). After rallying towards the end of January off the back of analyst upgrades and its proposed acquisition of LSE, this was almost a correction, and began with the allegations towards the CEO of insider trading. The stock price fell further as the stock exchange facilitator's deal, worth $31 billion, looked to have collapsed after LSE refused to bow to EU competition concerns and opposed offloading its 60% stake in the Italian trading platform MTS. The stock is still up 5.54% (in USD) year to date, however.

Looking further at the portfolio, 18 companies reported earnings in February, with 14 showing positive surprises, reiterating the strengthening corporate earnings environment.

Company	Date of announcement	Frequency of Release	Period	Estimated earnings (Local currency)	Actual earnings (Local currency)	Surprise
Total	09-Feb	Quarterly	Q4 2016	0.85	0.89	5.07%
Deutsche Boerse	15-Feb	Quarterly	Q4 2016	0.93	0.97	4.30%
CME Group	02-Feb	Quarterly	Q4 2016	1.11	1.14	3.17%
Japan Tobacco	06-Feb	Quarterly	Q4 2016	38.82	40.03	3.13%
Bae Systems	23-Feb	Semi-annual	H2 2016	0.22	0.23	2.23%
Randstad	14-Feb	Quarterly	Q4 2016	0.99	1.01	2.23%
Teva Pharmaceutical	13-Feb	Quarterly	Q4 2016	1.35	1.38	2.00%
Eaton Corp	02-Feb	Quarterly	Q4 2016	1.10	1.12	1.82%
Danone	15-Feb	Semi-annual	H2 2016	1.55	1.58	1.74%
Cisco Systems	15-Feb	Quarterly	Q2 2017	0.56	0.57	1.42%
Coca-Cola	09-Feb	Quarterly	Q4 2016	0.37	0.37	0.82%
Wal-Mart	21-Feb	Quarterly	Q4 2017	1.29	1.30	0.78%
VF Corp	17-Feb	Quarterly	Q4 2016	0.97	0.97	0.21%
Merck & Co	02-Feb	Quarterly	Q4 2016	0.89	0.89	0.11%
Roche	01-Feb	Semi-annual	H2 2016	6.89	6.79	-1.51%
Schneider Electric	16-Feb	Semi-annual	H2 2016	2.29	2.12	-7.51%
Royal Dutch Shell	02-Feb	Quarterly	Q4 2016	0.34	0.22	-34.91%
Sonic Healthcare	15-Feb	Semi-annual	H1 2017	No Est	0.484	-
Earnings releases expected in March						
WPP	03-Mar	Semi-annual	H2 2016	0.731	-	-
H&R Block	07-Mar	Quarterly	Q3 2017	-0.525	-	-
TP ICAP	14-Mar	Semi-annual	H2 2016	0.136	-	-

Table 1: Portfolio holdings that went ex-dividend in February (Source: Bloomberg)

Out of the 10 companies from the portfolio which went ex-dividend in February, 7 showed positive dividend growth compared to the equivalent period one year ago, and none cut their dividend. Mattel, Royal Dutch Shell, and Teva all maintained their prevailing dividend levels.

Company	Dividend Ex-date	Dividend amount (Local currency)	Frequency	YoY same period growth
Unilever	09-Feb	27.68	Quarterly	20%
Imperial Brands	16-Feb	54.10	Quarterly	10%
United Technologies	15-Feb	0.66	Quarterly	9%
Johnson & Johnson	24-Feb	0.80	Quarterly	9%
Microsoft	14-Feb	0.39	Quarterly	8%
Aflac	13-Feb	0.43	Quarterly	5%
CA Inc	14-Feb	0.26	Quarterly	4%
Mattel	14-Feb	0.38	Quarterly	0%
Royal Dutch Shell	16-Feb	0.47	Quarterly	0%
Teva Pharmaceutical	28-Feb	0.34	Quarterly	0%

Table 2: Portfolio holdings that reported earnings in February (Source: Bloomberg)

Looking forward, it is questionable as to whether the rallying equity markets can continue with such low volatility. An impressive earnings season can certainly buoy markets and add to the increasingly positive sentiment but it will be interesting to see whether this environment can be maintained through the political elections to come in Europe. Dutch elections take place in March, followed by France in May, and Germany in September.

As ever, rather than trying to pick which way the macro winds will blow in the near term we maintain our focus on companies that we think can deliver a sustainable, rising income stream alongside capital growth over the long term.

Thanks for your continued support.

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Performance

In February, the Dividend Builder Fund produced a total return of 2.83% versus the MSCI World Index return of 2.83%. The fund therefore performed in line with the index in the month.

as of 2.28.2017	YTD	1 YR	3 YR (ann.)	5 YR (ann.)	10 YR (ann.)	Since inception (3.30.2012) (ann.)
Dividend Builder Fund	4.58%	13.96%	4.13%	N/A	N/A	9.18%
MSCI World Index	5.34%	21.97%	5.82%	10.06%	4.92%	9.94%

as of 12.31.2016	1 YR	3 YR (ann.)	5 YR (ann.)	10 YR (ann.)	Since inception (3.30.2012) (ann.)
Dividend Builder Fund	6.83%	2.63%	N/A	N/A	8.48%
MSCI World Index	8.18%	4.43%	11.08%	4.46%	9.11%

All returns over 1 year annualized. Source: Bloomberg, Guinness Atkinson Asset Management

Expense Ratio: 0.68% (net); 1.77% (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/dividend-builder-fund/#fund_performance or call (800) 915-6566. 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 (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 0.68% 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 waives or absorbed, subject to the 0.68% expense cap.

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Opinions expressed are subject to change, 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 Dividend Builder 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.

Mutual fund investing involves risk and loss of principal is possible. The Fund's strategy of investing in dividend-paying stocks involves the risk that such stocks may fall out of favor with investors and could reduce or eliminate the payment of dividends in the future or the anticipated acceleration of dividends could not occur. The Fund invests in foreign securities which will involve greater volatility and political, economic and currency risks and differences in accounting methods. This risk is greater in emerging markets. Medium- and small-capitalization companies tend to have limited liquidity and greater price volatility than large-capitalization companies.

Top Fund Holdings as of 2/28/17

1	Unilever PLC	3.13%
2	Merck & Co Inc	3.12%
3	Cisco Systems Inc	3.05%
4	Roche Holding AG	3.03%
5	Illinois Tool Works Inc	3.02%
6	Eaton Corp PLC	3.00%
7	Arthur J Gallagher & Co	2.99%
8	BAE Systems PLC	2.99%
9	General Dynamics Corp	2.98%
10	Vodacom Group Ltd	2.96%

Current and future fund holdings and sector allocations are subject to change and risk, and are not recommendations to buy or sell any security.

Growth stocks typically are more volatile than value stocks; however, value stocks have a lower expected growth rate in earnings and sales.

Dividend yield is calculated by annualizing the last quarterly dividend paid and dividing it by the current share price.

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

VIX is the ticker symbol for the CBOE Volatility Index, a measure of the implied volatility of S&P 500 index options, calculated and published by the Chicago Board Options Exchange (CBOE).

VSTOXX is the Euro Stoxx 50 Volatility Index, a measure of the implied volatility of near term options on the EuroStoxx 50 index (Eurozone blue chip stock index).

S&P 500, the abbreviation for the Standard & Poor's 500, is an American stock market index based on the market capitalizations of 500 large companies having common stock listed on the NYSE (New York

Stock Exchange) or the NASDAQ (National Association of Securities Dealers Automated Quotations System). It is designed to measure the equity market performance of the U.S. stock market.

Ex-dividend is a classification of trading shares when a declared dividend belongs to the seller rather than the buyer.

One cannot invest directly in an index.

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