Guinness Atkinson
Asia Pacific Dividend Builder Fund
Managers Monthly Update – May 2017

GUINNESS ATKINSON FUNDS

Markets

So far in 2017, Asia Pacific ex. Japan equities (including India) have recorded their best year-to-date performance since 2009, as measured by the MSCI Asia pacific ex Japan Index). Asian equities have continued the strength they witnessed for the most part of 2016, and have surpassed their highs from before the US election.

In the month of April, we saw a big divergence in the performance of individual sectors within Asia. Information Technology stocks were the best performing GICS sector, rising 5.4%. The Fund has a significant weighting to IT, including smartphone component manufacturers, consumer electronics manufacturers and semiconductors. Year-to-date, IT is also the best performing sector, having risen 24.2%. (All MSCI Pacific ex Japan Index sector returns.)

The weakest sector in April was Materials, which fell 2.6%. Commodities prices were weak during the month, with Brent crude and iron ore spot prices both declining. The Fund has no direct exposure to the Materials sector since the companies within it tend not to meet our requirement for persistent returns on capital. Telecom Services was also weak, falling 2.1%.

By country, southeast Asia was strongest during the month, with the Philippines (+5.6%), Malaysia (+3.9%) and Indonesia (+3.3%) leading the way. The Fund currently has no exposure to these countries, as we have not found sufficiently attractive individual stock opportunities. The focus of the Fund is on bottom-up stock selection within our universe of companies that have achieved persistent returns on capital. Our allocations to individual countries are thus a result of individual stock selections, rather than top-down macro allocations.

Looking at countries where the Fund has exposure, Hong Kong rose 3.1%, China rose 2.7% and Taiwan was up 2.0% over the month. Thailand was flat. The worst performing country in April, and the only country in the region to post a negative return, was Australia, which fell 0.9%. (All MSCI country index returns.)

China's economy in the first quarter was strong, as the GDP figures released in April show. In the first three months, the economy grew at 6.9% in real terms, a result that exceeded analyst expectations. An improvement in private investment and better industrial production both contributed to the strong economic performance. Nominal growth in China was at its highest level since March 2012, with the economy growing at 11.8%. We expected better growth in nominal terms, following the improvement in producer prices observed since the beginning of 2016. China's Producer Price Index (PPI) has risen over this period from around six percent deflation to more than seven percent inflation. This recovery in producer prices, which we have been writing about for some time, caused by improving commodity prices, has started to feed through into nominal growth figures.

However, more recent indicators for China suggest the cyclical rebound may be slowing. PMI readings in April fell, though they still indicate an economy that is in expansionary mode. Growth in the second quarter may not be quite as strong as the first. Along with weaknesses in commodity prices, higher interest rates may also be playing a part. Open market rates have been on the rise, as the authorities have sought to take the heat out of areas of the economy reliant on credit expansion. The ebb and flow of cyclical strength in China's economy further underlines why we do not invest in the region wholesale. We invest in companies that are not directly dependent on industrial growth, as this will suffer periods of weakness from time to time. We look primarily for sustainability of returns.

The overall improvement in economic conditions since the start of the year has started to be reflected in earnings forecasts for the region. For both Asia as a whole and for individual countries, notably Taiwan and Korea, earnings forecasts have been revised upwards as analysts incorporate stronger economic data. Not only have the forecasts moved up; many countries are expected to see double digit growth in earnings for 2017. We know that analysts' forecasts from the start of the year often turn out to be too optimistic and are revised downwards, but we nevertheless find the direction of travel encouraging, combined with the valuation discount that still exists (discussed below).

Portfolio

As with individual sector performance during the month, individual stock performance was dispersed. Our best performer was almost 36 percentage points ahead of the worst performer (discussed in detail below). This divergence in returns highlights the benefit of maintaining a tight rebalancing discipline over the portfolio. As stock rise, they are trimmed back to neutral weight (2.75%) and laggards are topped up. This process ensures that in markets where individual stocks can move quite dramatically, the portfolio retains the right balance between concentration and diversification.

The best performing stocks during the month were AAC (+25.5%), Luk Fook (+15.1%) and Tisco Financial (+10.6%). AAC Technologies has continued its very strong performance year-to-date, as investors look to the next iPhone upgrade cycle later this year as a source of growth for the company. To the end of April, the stock has returned 61.6% on a total return basis. Luk Fook rallied after signs that underlying retail demand in the markets it serves has improved. Tisco released results for the first quarter that beat expectations. The company has been the beneficiary of a strong auto market in Thailand.

The worst performing stocks during the month were Hanon Systems (–10.4%), China Minsheng (–7.8%) and Qualcomm (–6.3%). All three of these stocks were discussed in last month's update. Since then, we have seen for a deterioration in Qualcomm's relations with Apple, which has instructed its suppliers to suspend payments to Qualcomm. We note that this is not the first time the company has dealt with problems like this; several years ago, Qualcomm reached negotiated agreements with its Chinese customers, who had begun to withhold payments. There are signs that the market has begun to shrug off the most recent developments, and, as we follow our process, we will top up our holding in periods of weakness.

Other stocks that reported results in the month include Yangzijiang, the shipbuilder, which confirmed winning 13 new contracts during the first quarter. These additions will help bolster the company's order book. There are signs of a nascent recovery in the industry taking place this year – shares in Korean shipbuilders have also seen strength over the first part of 2017.

Outlook

Asia remains at a discount to global markets. At the end of the April, on a trailing Price/Earnings Ratio basis, this discount was 27% – around the same as at the end of November last year, following the US election. However, the risk environment is very different. The outcome of the meeting at the start of April between President Xi and President Trump in Florida was muted, to say the least. Both countries agreed to a 100-day plan to discuss trade, security and other matters. This result is far from the trade war that many people feared towards the end of last year. Trade barriers still remain a risk for Asia, but the anti-China rhetoric from the White House has abated.

China, of course, still faces many challenges as its economy transitions and the financial system reforms. We have seen recent action from policymakers to deflate bubbles emerging in the bond and housing markets. Capacity is being withdrawn from industries where oversupply exists, and industrial companies have gained breathing room as their selling prices and profits have recovered, which in turn has eased the strain on the banking sector. Far more needs to be done in all of these areas, but they are long-term projects – many of the required changes will take place over years.

Given the risks that exist, we believe a portfolio comprised of companies that have generated persistent returns on capital is well positioned. We look for companies that have achieved strong operating results, yet have been overlooked by the market. While we wait for the valuation anomaly to correct, we collect dividend income along the way. We have high conviction in our positions, and maintain our thirty-six stocks at equal weight. In a challenging economic environment, we believe this philosophy is a good one to adopt.

Edmund Harriss & Mark Hammonds (co-managers)
Sharukh Malik (analyst)

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The Fund's investment objectives, risks, charges and expenses must be considered carefully before investing. The statutory and summary prospectus contains this and other important information about the investment company, and it may be obtained by calling 800-915-6566 or visiting gafunds.com. Read it carefully before investing.

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. Non-diversified funds concentrate assets in fewer holdings than diversified funds. Therefore, non-diversified funds are more exposed to individual stock volatility than diversified funds. Investments in debt securities typically decrease in value when interest rates rise, which can be greater for longer-term debt securities. Investments in derivatives involve risks different from, and in certain cases, greater than the risks presented by traditional investments. Investments in smaller companies involve additional risks such as limited liquidity and greater volatility. Funds concentrated in a specific sector or geographic region may be subject to more volatility than a more diversified investment. Investments focused in a single geographic region may be exposed to greater risk than investments diversified among various geographies. Investments focused on the energy sector may be exposed to greater risk than investments diversified among various sectors.

Opinions expressed are subject to change, are not a guarantee and should not be considered investment advice.

MSCI AC Pacific Ex-Japan Index is a market capitalization weighted index that monitors the performance of stocks from the Pacific regions, excluding Japan. The MSCI AC Asia ex Japan Index consists of the following 10 developed and emerging market country indexes: China, Hong Kong, India, Indonesia, Korea, Malaysia, Philippines, Singapore, Taiwan, and Thailand.

You cannot invest directly in an Index.

The Global Industry Classification Standard (GICS) is a standardized classification system for equities developed jointly by Morgan Stanley Capital International (MSCI) and Standard & Poor's

Price/Earnings Ratio (P/E) is an equity valuation multiple. It is defined as market price per share divided by annual earnings per share.

Past performance is not indicative of future results.

Top Fund Holdings as of 04/30/17

1	AAC Technologies Holdings Inc	3.44%
2	Largan Precision Co Ltd	3.29%
3	Luk Fook Holdings International Ltd	2.96%
4	Tisco Financial Group PCL/Foreign	2.93%
5	Aflac Inc	2.83%
6	Delta Electronics Thailand PCL /Foreign	2.82%
7	CapitaMall Trust	2.79%
8	BOC Hong Kong Holdings Ltd	2.78%

9	Catcher Technology Co Ltd	2.78%
10	Novatek Microelectronics Corp	2.77%

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