Guinness Atkinson

Dividend Builder Fund

Managers Update – July 2017

Quarter in review

Global equity markets posted their eighth straight monthly gain in June and their best first half since 2007. June also marked the 100-month anniversary for the current bull market, defined as a period where there have been no price declines greater than 20%, across any two consecutive months. Overall the year so far has seen a growing optimism for the world economy amidst a political climate that has turned out to be less fractious than initially feared. Equity markets have been described as "climbing a wall of worry" with a backdrop of surprisingly low volatility.

In the quarter, in the U.S., we saw further attempts to disengage from the strictures of unconventional monetary policy, namely zero interest rates and quantitative easing which were introduced in many economies in the aftermath of the financial crisis. Although widely accepted that eventually interest rates were to rise, the huge increase of dollar-denominated debts in recent years adds to the uncertainty as to whether the FED can engineer a successful exit from its "emergency" monetary policy stimulus', which have helped to support markets since 2008. Greater signs of a global recovery has led the Federal Reserve Bank to raise interest rates by 0.25% again in June, having also raised rates in December 2016 and March of this year. Historically, a cumulative rise of 0.75% in 7 months may not sound significant, but previous to these 7 months, there were no rate rises in the last decade. The S&P 500 recorded a total return of 3.1% (in USD) over the quarter and the economy looks healthy with unemployment lower than it has been 96% of the time since 1970. Compared to the first quarter, however, the U.S. market was less buoyant; it has been a story of two halves whereby we first saw markets price in all the possible benefits of President Trump's stimulus plans before pricing most of them out again as he struggled to pass any legislation in Congress.

In Europe, at the beginning of the second quarter, markets were still processing Article 50, which triggered the start of two years of negotiations to roll out a deal for Britain's exit from the European Union (EU). Alongside this, the EU was faced with existential worries based on the outcome of the French election. By the end of the quarter, Marine Le Pen's anti-euro campaign in France had been rejected, with pro-euro and pro-reform candidate Emmanuel Macron elected as president, with a majority in parliament. As a result, Mario Draghi noted recently that "political winds are becoming tailwinds" in Europe; positive economic news, reduced political uncertainty and robust corporate earnings all led to the MSCI Europe ex UK index posting gains of 2.0% (in EUR). This was, however, hampered slightly in the last week of the quarter after Draghi's speech at the ECB Forum was interpreted to mean that monetary stimulus measures could soon be withdrawn in Europe. Interest rates were kept unchanged and warnings were given regarding subdued inflation.

In the UK, Theresa May called a snap general election and subsequently weakened both the strength and stability of her government at a crucial time for the country, as it embarks on Brexit negotiations. Prime Minister May had gambled on securing a landslide majority, but instead she is left nursing a fragile minority government with the support of Northern Ireland's Democratic Unionist Party. She is also faced with an electorate that favors a "softer" form of Brexit. Despite the uncertainty, the FTSE 100 Index posted gains of 1.0% (in GBP). With around three-quarters of revenues generated overseas, companies in the FTSE 100 remain beholden to influences beyond the UK. However, that also means that the level of the British pound is important. The large capitalization index tends to do better when sterling is weak, so the pound's recovery this year has represented a headwind. Smaller, more domestically oriented companies have fared better, although they now face some pressure from a slowing UK economy.

Asia ex Japan equities continued their strong run in 2017 to record another period of solid gains in the second quarter. These came on the back of improving data for the Chinese economy and a broader risk-on approach from global investors. Chinese stocks saw robust gains over the period as better economic data and a landmark decision in mid-June, by index provider MSCI, to include Chinese A-shares in a range of its benchmark indices was greeted positively.

Performance Drivers

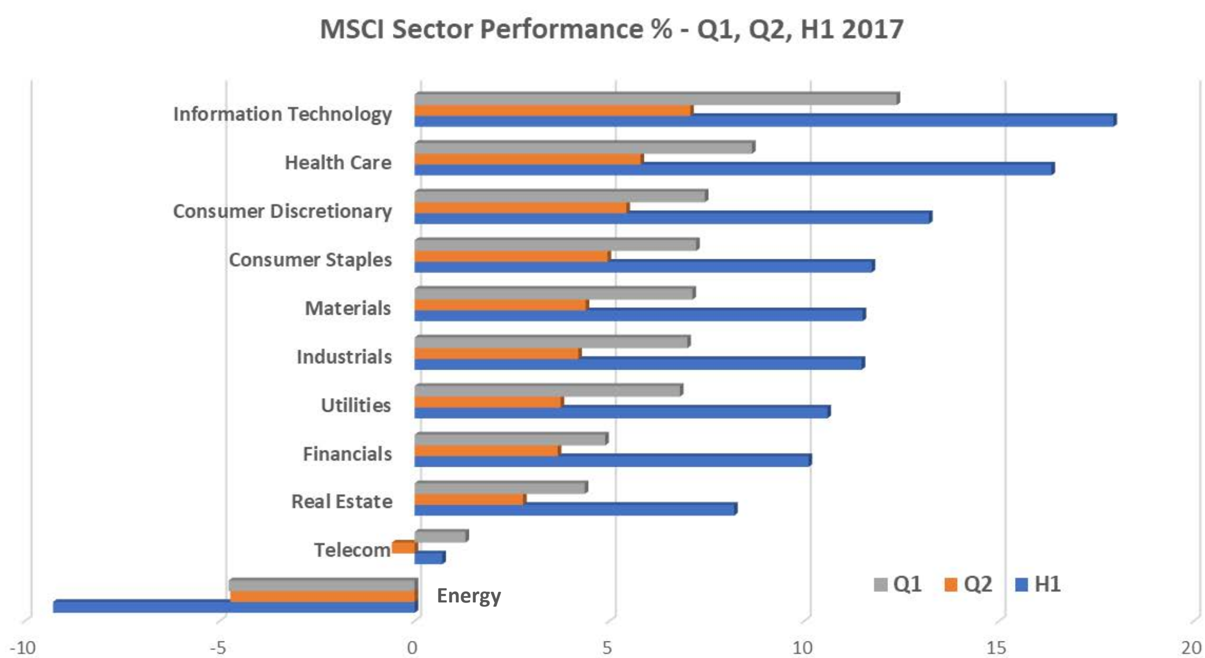
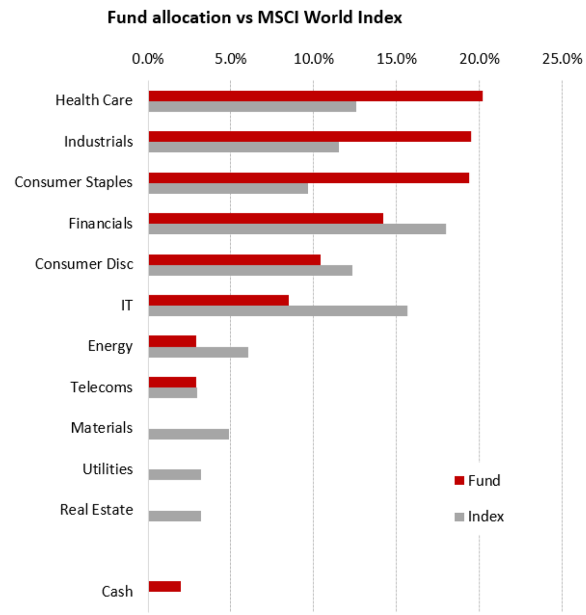


Chart 1: MSCI World Index sector performance breakdown for Q1, Q2 and H1 2017. Source: Bloomberg



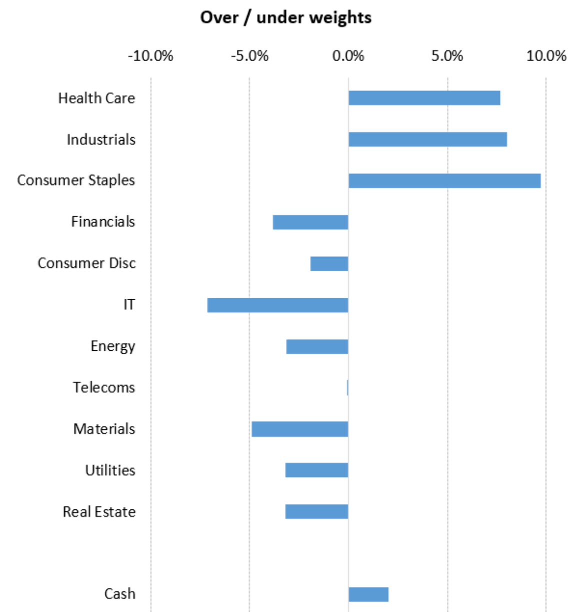


Chart 2: Sector breakdown of the fund versus MSCI World Index. Guinness Atkinson Asset Management, Bloomberg (data as at 06.30.2017)

At the sector level, Technology was one of the strongest performers in the second quarter. In June, however, we saw share prices fall more than any other sector as IT came under increasing pressure amid concerns about valuations, and suggestions that the sector was "over-owned". At one point, in June, more than US$250bn was erased from equity values in the sector. Saying this, IT stock have overall been strong and our underweight position here did not help the portfolio.

Further, the quarter saw the price of crude oil tumble on concerns that a global supply glut would persist. This then dragged down the share price of energy stocks amid concerns that continuous production from U.S. shale oil fields was overwhelming OPEC efforts to ease the global supply glut. We have one holding in the Energy sector, Royal Dutch Shell, which fared relatively well year to date compared to its peers; it has never cut its dividend since WW2 and has one of the highest free cash flows of all the energy stocks. Its divestiture program, acquisition of BG Group last year, and continuation of downstream operations have given the company a boost at a time when core oil exploration and production revenues have seen losses industry wide.

In June, while the share prices of technology and energy stocks remained under pressure, financials, and banks in particular, were supported in the wake of higher interest rates to become the strongest performing sector. Financial stocks also got a boost after all 34 of the largest banks in the US passed the stress tests from the Federal Reserve. The news that most banks are able and planning to return billions in cash to investors by raising dividends or buying back shares pushed their stock prices higher. However, overall for the quarter, our underweight in financials – and the fact that we hold no banks – did not deter fund performance. We also benefitted from overweight positions in Healthcare and consumer staples, possibly as a result of defensive sectors bouncing back as bond yields began to move sideways, rather than downwards, as has been the case for much of early 2017. Value stocks could also stand to benefit further from a rising rate and yield environment.

The so-called "reflation rally", as illustrated by the yield on US 10-year Treasuries in the chart below, started when Donald Trump won the U.S. presidential election. It was based on optimism surrounding his pledges on deregulation, cutting taxes and increasing infrastructure spending. As investors' hopes about Trump's policies have faded, so too has the surge in bond yields.

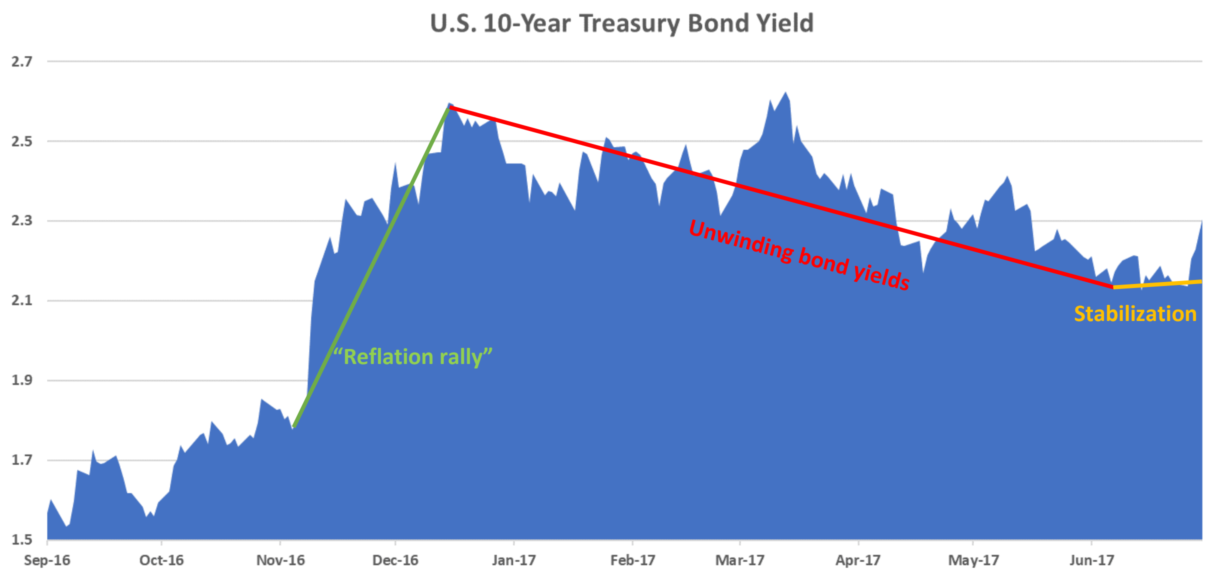


Chart 3: U.S. 10-year treasury bond yields. Source: Bloomberg

In terms of geographic exposure, the largest difference between the fund and the benchmark is our exposure to the US (as measured by country of domicile). The fund over the quarter had on average about a 50% weighting to North America which compares to the index at approximately 60%. This was beneficial to the portfolio in the second quarter after the U.S. market lagged the others. The largest geographic overweight remains Western Europe (including the UK) which was about 10% larger position than the benchmark over the quarter and contributed the most to the portfolio's active return.

Small caps outperformed large caps which was a drag for the fund, as the fund only invests in mid to large-cap companies. There was also no differentiation between growth and value stocks.

Individual companies that performed well over Q2 were Novo Nordisk (up 24.4% in USD), NEX Group (up 19.1%), and Deutsche Boerse (up 16.4% in USD). Companies that had weaker performance over Q2 were Mattel (down 14.5%), Imperial Brands (down 6.7%), and Cisco Systems (down 6.6%).

Novo Nordisk is one of our newest positions from last quarter so it was encouraging to see its stellar performance in Q2. The Danish pharmaceutical company is a leader in the global insulin market and has maintained a concentrated, yet market leading, portfolio of drugs targeting diabetes – a growing disease especially in less developed countries. We like the fact that CFROI has been consistently growing over the last 10 years and currently stands at 25% with a small growth projection for 2017. Dividends per share have also been growing very quickly with a five year dividend growth rate of over 20% per annum. The company has a very strong balance sheet with very little debt compared to its peers and has considerably more cash than debt.

Changes to Portfolio

In the quarter we made one change to the portfolio, whereby we bought ANTA Sports and sold TOTAL.

TOTAL, the global oil and gas company, was one of our two energy sector holdings. In recent times we have grown increasingly worried at the company's falling cashflow return on investment and this has been accompanied by stagnant dividend growth and capital growth. In our opinion, the company's inability to sustain healthy margins have put us out of favor with the stock, especially at a time where industry-wide factors are hampering the performance of energy stocks. We believe that the stock is currently overvalued versus its history, based on its P/E multiple, and with an increasing amount of long-term debt maturing in the next few years, it was deemed a good time for us to sell our entire position in TOTAL.

We bought ANTA Sports to replace TOTAL, sticking to our one-in, one-out policy. ANTA Sports is based in China and has a stellar cashflow return on investment over 10%, over the last 15 years. The company generates revenue through the manufacture and trading of sporting goods, including footwear, apparel and accessories. Its brand portfolio includes ANTA, ANTA KIDS, FILA, FILA KIDS and NBA, and the company is looking to new brands too, such as South Korea's Kolon. Looking at the financials, ANTA Sports has very solid margin growth alongside a surge in sales in recent years. The company is well positioned to benefit from the growing wealth in China, and recovering economy, and has maintained low debt. We have conviction that the stock has potential to maintain its significant earnings growth.

Positioning

The below chart highlights the geographic weighting of the portfolio both in terms of where the companies held in the portfolio are domiciled (as you will see listed in our Factsheets, for example) and where their revenues come from – which can often be more illuminating.

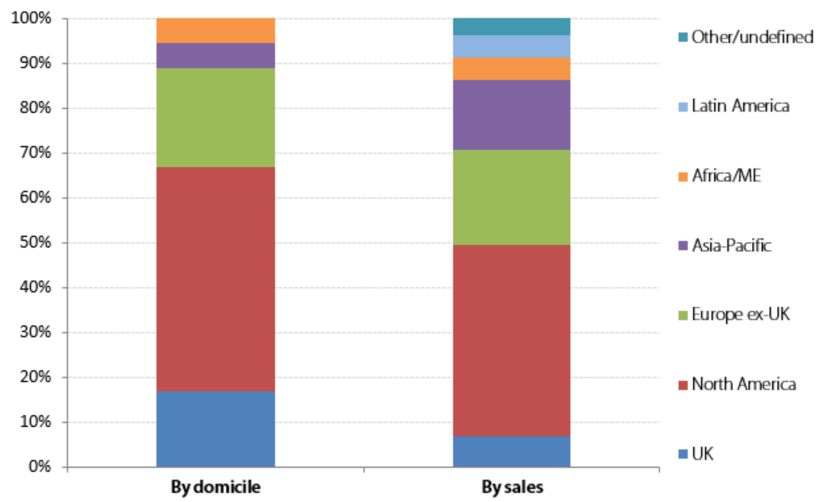


Chart 4: Geographic breakdown of the fund. Guinness Atkinson Asset Management, Bloomberg (data as at 06.30.2017)

We would note two main points; (i) the fund has a lower exposure to the UK when considered in revenues (approximately 6%) versus by domicile (approximately 17%). This is because we have favored UK domiciled companies with a more global exposure (such as Unilever and Imperial Brands); and (ii) there is a larger exposure to Asia and emerging markets by revenues (about 28%) than the equivalent statistic as measured by domicile (approximately 10%).

In terms of sector weightings, the fund continues to have a zero weighting to utilities, materials, and real estate. The largest overweight positions are to consumer staples, industrials and healthcare.

The below two charts show how the exposure of the fund has evolved since we launched the strategy back in 2010.

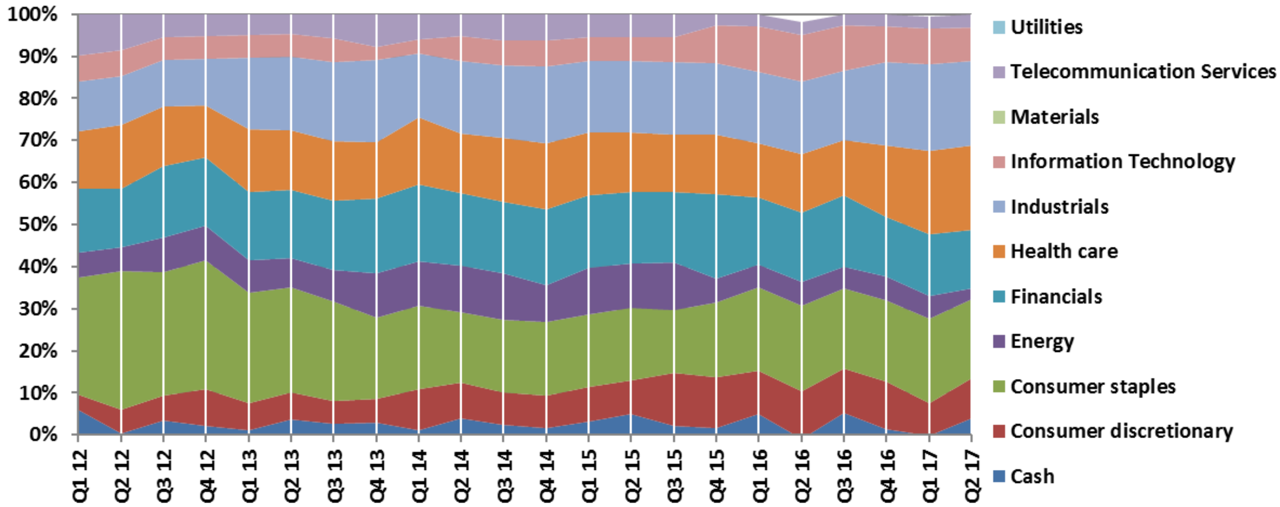


Chart 5: Sector breakdown of the fund since launch. Guinness Atkinson Asset Management, Bloomberg (data as at 06.30.2017)

From a geographic point of view we have reduced our European exposure slightly, with the sale of TOTAL, and added to our Asia-Pacific exposure with the purchase of ANTA Sports. Overall, our U.S. exposure remains the largest, albeit we are still about 11% underweight versus the benchmark.

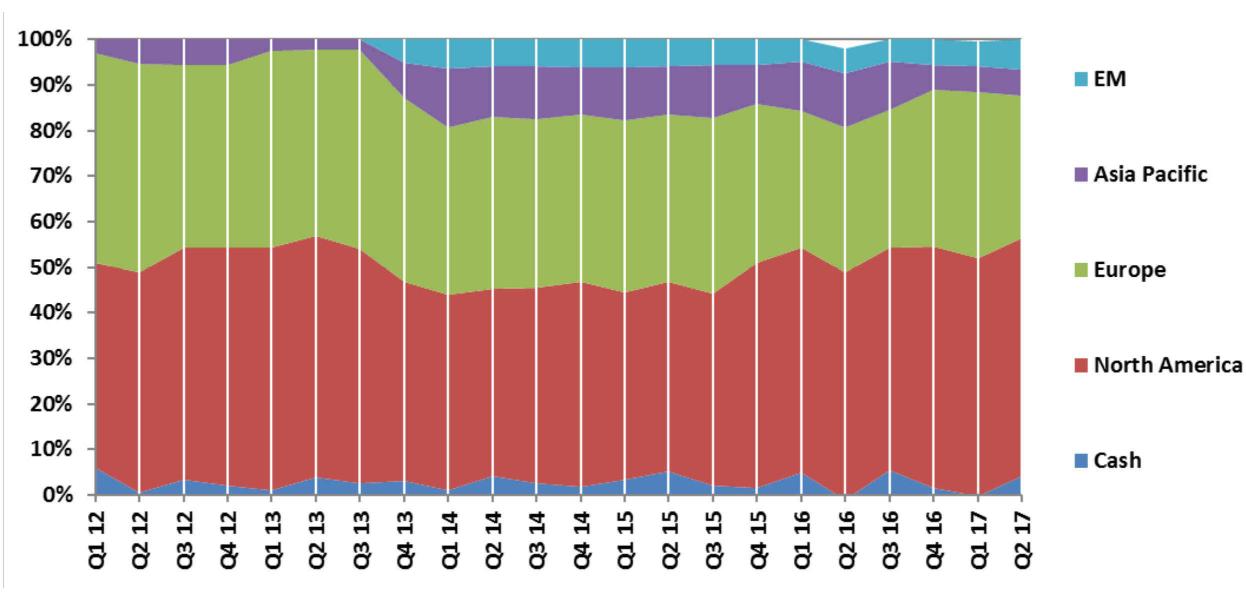


Chart 6: Geographic breakdown of the fund since launch. Guinness Atkinson Asset Management, Bloomberg (data as at 06.30.2017)

Key Fund Metrics Today

The four key tenets to our approach are: quality, value, dividend, and conviction. We follow these metrics at the portfolio level to make sure we are providing what we say we will. Based on the measures, holistically, the high-conviction fund has companies which are on average better quality yet also better valued verses the index.

At the quarter end, we are pleased to report that the portfolio continues to deliver on all four of these measure relative to the benchmark MSCI World Index.

		Fund	MSCI World Index
Quality	Average 10 year CFROI	19%	10%
	Weighted average debt / equity	59%	140%
Value	PE (2017e)	16.6	17.3
Dividend	Yield (LTM)	2.91%	2.43%
	Weighted average payout ratio	69%	56%
Conviction	Number of stocks	35	1650
	Active share	94%	-

Chart 7: Portfolio metrics versus index. Guinness Atkinson Asset Management, Credit Suisse HOLT, Bloomberg (data as at 06.30.2017)

Outlook

The fund at the end of the quarter was trading on 16.7x 2017 expected price to earnings, and 15.4x 2018 expected price to earnings; a discount of 3.7% and 1.9%, respectively to the broad market. We therefore see the portfolio as still providing good value to our investors on these simple metrics. With interest rates set to rise and heighted geopolitical uncertainty expected around the globe, our perpetual approach of focusing on the quality of the underlying companies we own should stand us in good stead in our search for rising income streams and long term capital growth.

We thank you for your continued support.

Guinness Atkinson
Dividend Builder Fund
Managers Update – July 2017

Performance

In June, the Dividend Builder Fund produced a total return of 0.83% versus the MSCI World Index return of 0.42%. The fund therefore outperformed the index by 0.41%.

as of 6.30.2017	YTD	1 YR	3 YR (ann.)	5 YR (ann.)	Since inception (3.30.2012) (ann.)
Dividend Builder Fund	12.34%	14.47%	4.02%	11.07%	10.06%
MSCI World Index	11.01%	18.89%	5.87%	12.05%	10.39%

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

Expense Ratio: 0.70% (net); 2.11% (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, 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 waives or absorbed, subject to the 0.68% expense cap.

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

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.

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 6/30/17

1	Teva Pharmaceutical	3.2%	6	Eaton Corp PLC	3.0%
2	Vodacom Group	3.1%	7	BAE Systems PLC	2.9%
3	Illinois Tool Works	3.0%	8	AbbVie Inc	2.9%
4	Sonic Healthcare	3.0%	9	NEX Group PLC	2.9%
5	Danone	3.0%	10	Johnson & Johnson	2.9%

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

Cash flow return on investment (CFROI) is a metric developed by Credit Suisse HOLT that seeks to calculate cash flow return on investment adjusted for inflation and on a standardised global/industry basis.

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.

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.

Distributed by Foreside Fund Services, LLC.