

# Dividend Builder Fund

Review of the 2nd Quarter 2017



For registered investment professional use only

- Introduction to fund
- Market performance
- Summary fund performance
- Performance drivers and attribution
- Changes to portfolio
- Sector allocation
- Geographic allocation
- Portfolio today and outlook
- Portfolio characteristics
- Market commentary



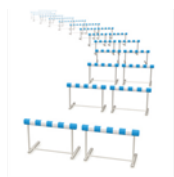
**Matthew Page, CFA**  
**Portfolio Manager**

- Joined Guinness Atkinson Asset Management in 2005
- Previously worked for Goldman Sachs as an analyst in Fixed Income Currencies and Commodities (FICC)
- Graduated from University of Oxford, with a Masters degree in Physics in 2004
- Manager of Dividend Builder since launch in 2012



**Dr Ian Mortimer, CFA**  
**Portfolio Manager**

- Joined Guinness Atkinson Asset Management in 2006
- Graduated from University of Oxford, with a D.Phil. in Physics in 2006
- Graduated from University College London, University of London, with a Masters degree in Physics in 2003
- Manager Dividend Builder since launch in 2012



Dividend Builder strategy

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
<b>Matthew Page</b>	-	-	-	-	-	-	-	Manager							
<b>Ian Mortimer</b>	-	-	-	-	-	-	-	Manager							
<b>Joshua Cole</b>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	Analyst
<b>Sagar Thanki</b>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	Analyst



**Joshua Cole**  
**Analyst**

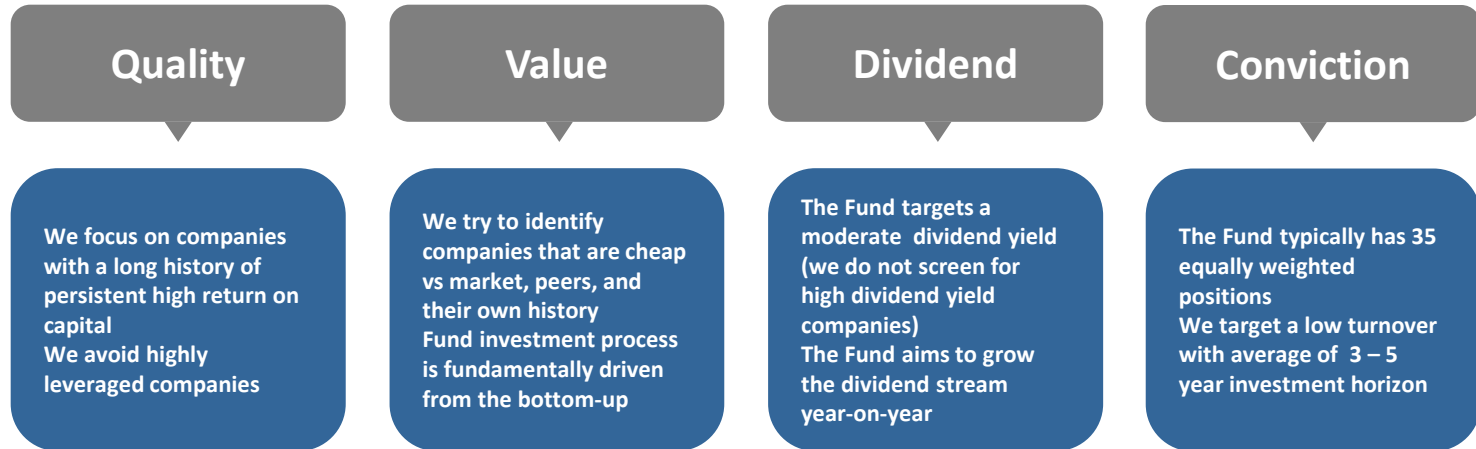
- Joined Guinness Atkinson Asset Management in 2017
- Previously worked at Castle Trust, a specialist finance firm in the City of London as a quantitative analyst
- Graduated from University of Bristol in 2013 with a Master's degree in Mechanical Engineering. In 2016, Joshua passed Level II of the CFA Program.



**Sagar Thanki**  
**Analyst**

- Joined Guinness Atkinson Asset Management in 2017
- Previously worked for Bloomberg as an equity specialist, within Financial Analytics and Sales
- Graduated from University of Cambridge, with a Master's degree in Economics, and has since completed Level I of the CFA Program.

# Guinness Atkinson Global Equity Income Fund philosophy



**The fund seeks a concentrated portfolio of good quality companies, at attractive valuations, with a moderate dividend yield and good potential for dividend growth**



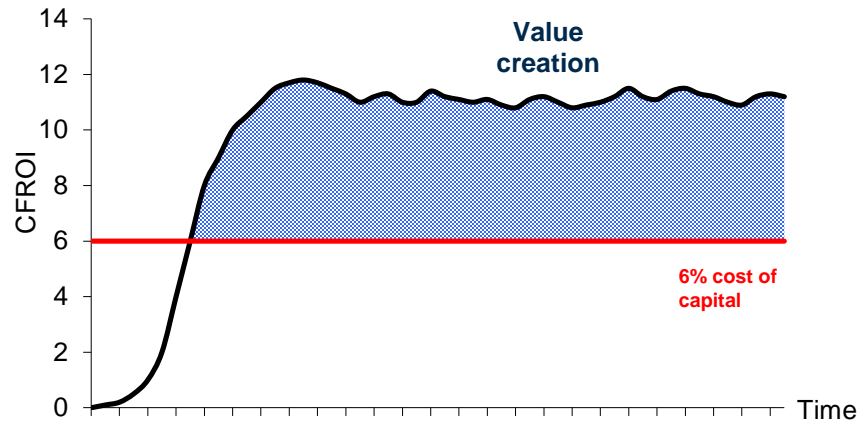
**1 Sustainable competitive advantage**  
Screened for 10 years of CFROI greater than 10%

**2 Strong balance sheet and critical mass**  
Debt to equity < 1. Market cap > \$1bn.

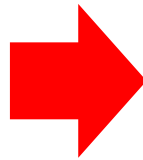
- **Our universe definition ignores yield - our focus is on quality, stable, profitable companies**

# Identifying consistent creators of shareholder value

**Our universe seeks to include companies like this...**

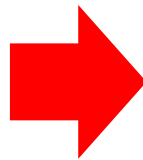


**Powerful indicator**

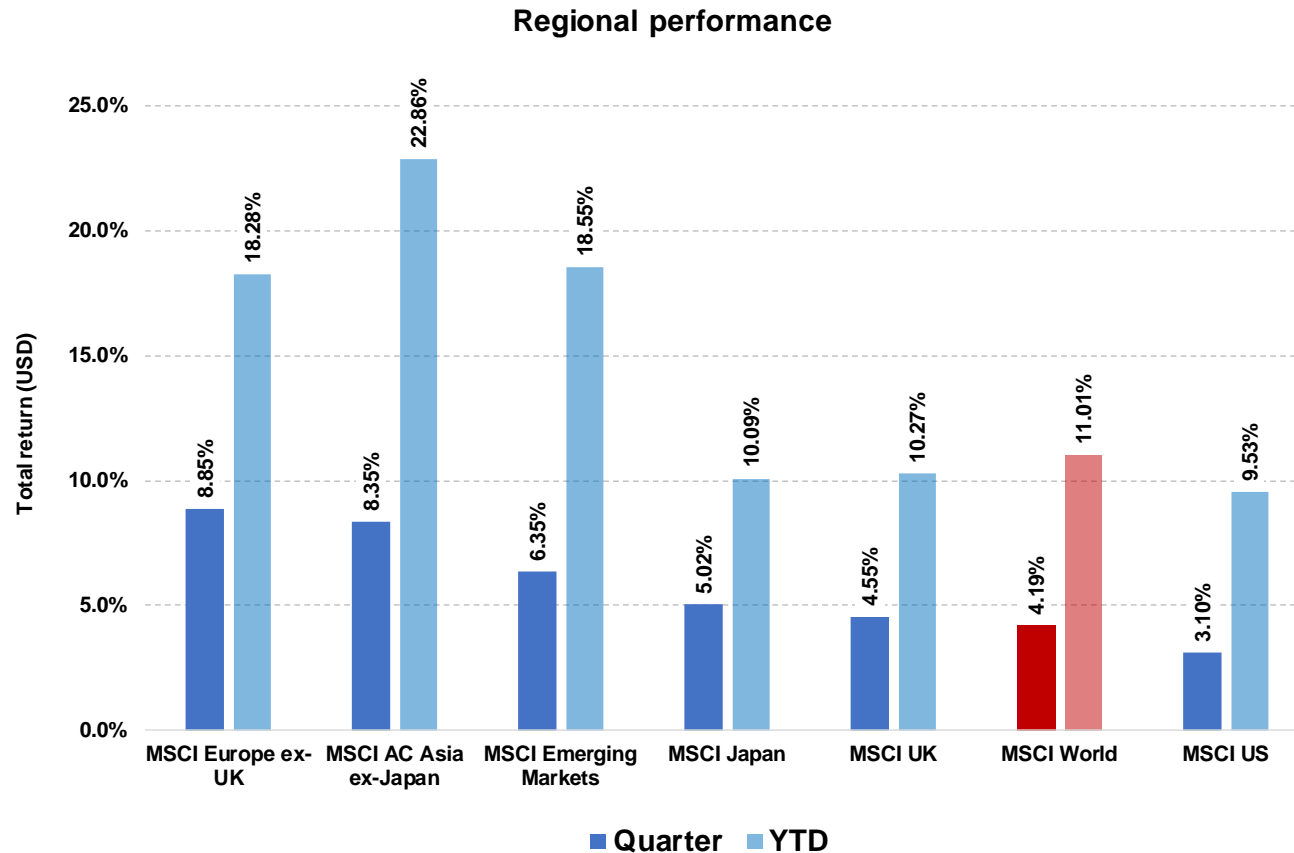


**Based on our analysis, if a company achieves a CFROI >10% for 10 consecutive years there is a 95% chance that the company will achieve it again the following year, and an 80% chance they will still be achieving it after four years**

**Market anomaly we are trying to capture**

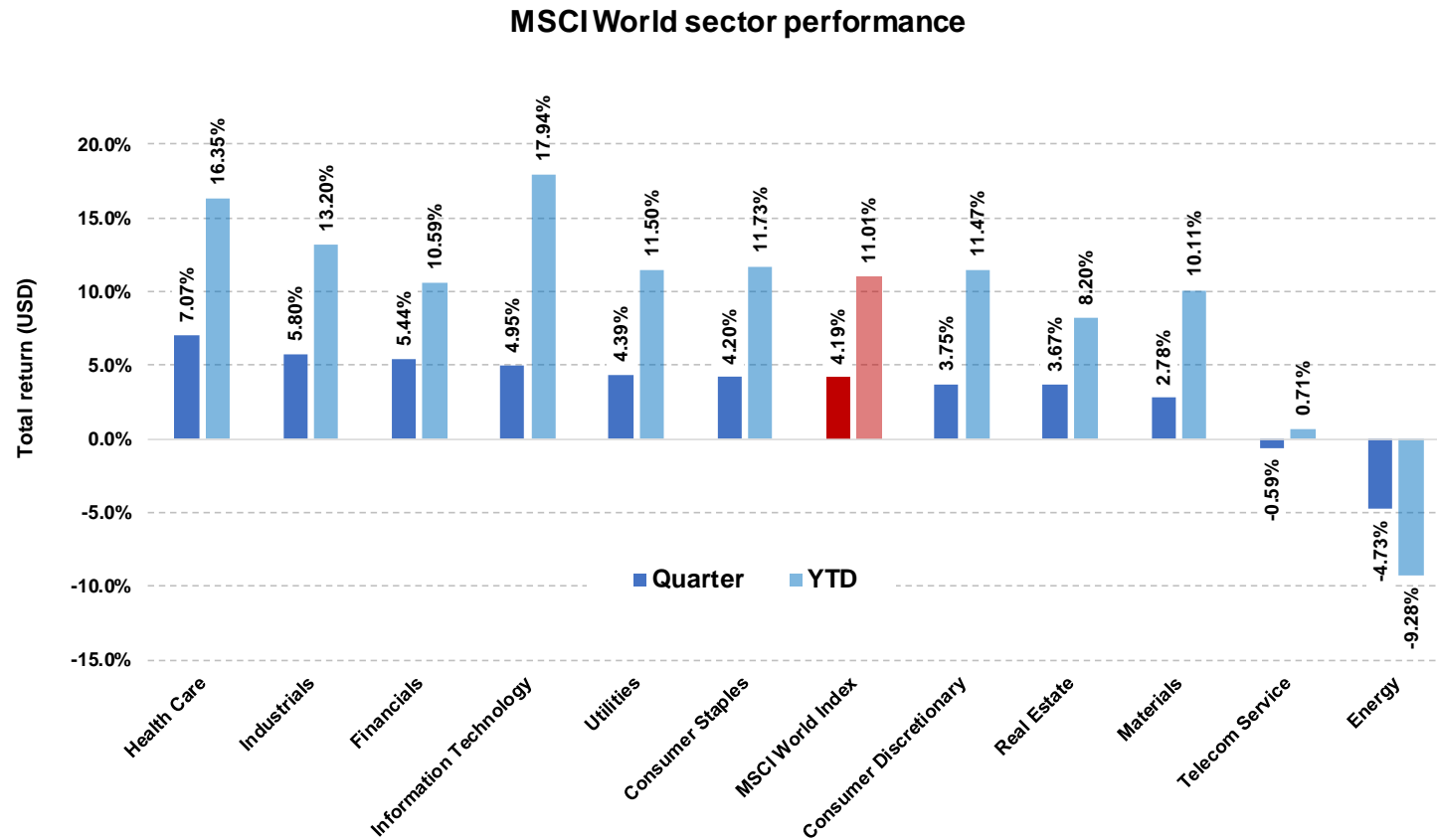


**At any given time the market can misvalue this high level of persistence – as company share prices often move on sentiment  
We therefore try to purchase those companies at low valuations in our universe of high quality companies and then benefit from their re-valuation over time as their returns do not degrade as fast as the market had expected**



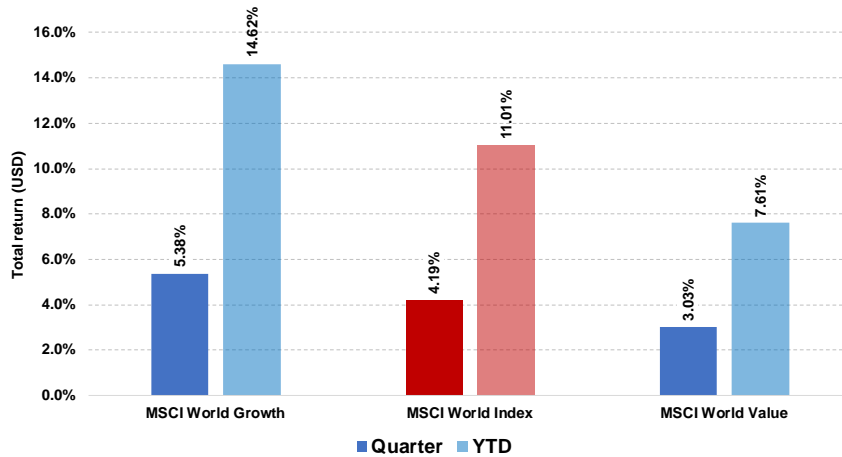
- Generally a strong quarter – MSCI World up 4.19% (total return in USD)
- Regional quarterly performance followed YTD trends; strong markets in Europe, Asia ex-Japan, and EM; US lagging in comparison
- Weaker US dollar boosted local currency returns of non-US markets



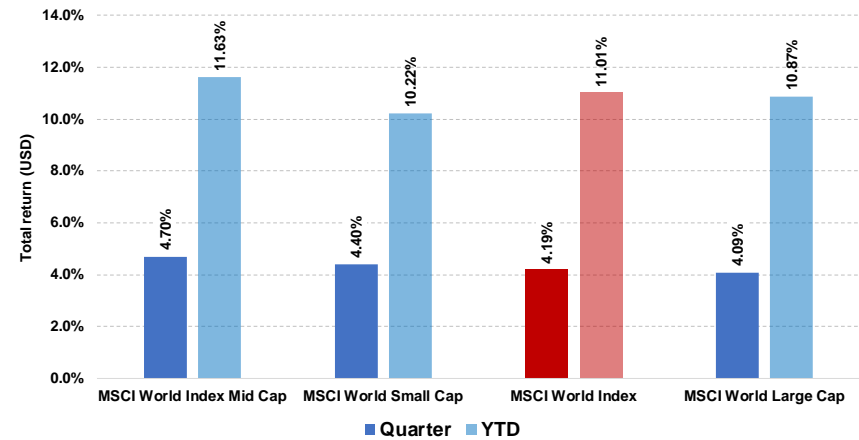


- Strong performance from health care, industrials, and financials in Q2
- Energy and Telecoms weakest in Q2
- Year to date: IT and healthcare very strong; energy the notable laggard; generally good performance across most sectors

MSCI World style performance



MSCI World market cap performance



- Growth outperformed value in the quarter
- Value significantly underperforming growth YTD

- Market cap. not a significant factor in performance over the quarter, or YTD

As at 6.30.2017 in USD	Q2 2017	YTD	1 year	3 years annualized	5 years annualized	Since inception** annualized
<b>Dividend Builder Fund*</b>	6.02%	12.34%	14.47%	4.02%	11.07%	10.06%
<b>MSCI World Index</b>	4.19%	11.01%	18.89%	5.87%	12.05%	10.39%

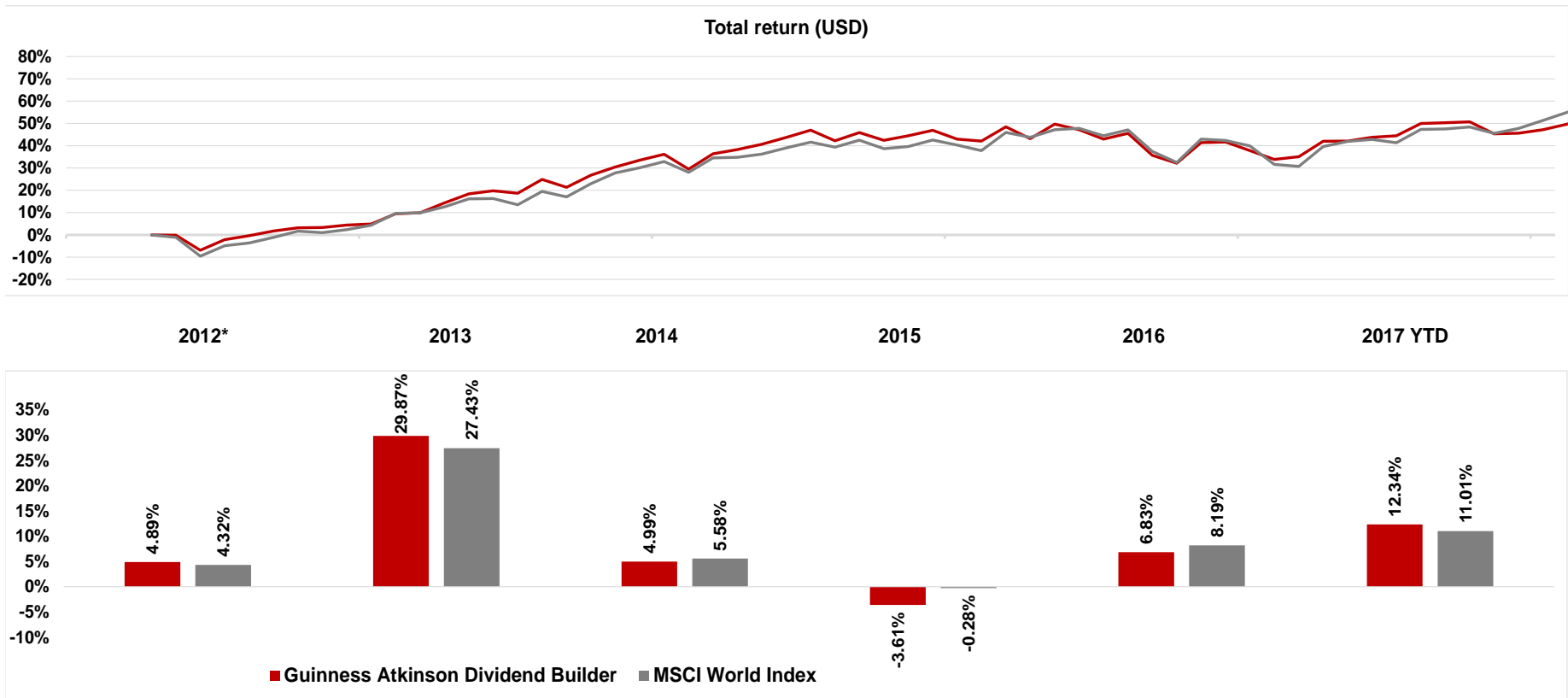
\* The expense ratio is 2.11% (gross), 0.70% (net) as of 5.3.2017

\*\* Inception on 3.30.2012

30 Day SEC Yield (as of 6.30.2017) Subsidized 2.38% | Unsubsidized 0.98%

*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 Funds may be lower or higher than the performance quoted. Total returns reflect a fee waiver in effect and in the absence of this waiver, the total returns would be lower. Performance data does not reflect the 2% redemption fee for shares held less than 30 days and if deducted the fee would reduce the performance quoted. For performance current to the most recent month end please visit [www.gafunds.com/our-funds](http://www.gafunds.com/our-funds) or call 800-915-6565.*

\*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.



\* Fund launched 30 March 2012

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Top 5 performing stocks	
	Total return (in USD)
Novo Nordisk	24.22%
NEX Group	18.88%
Deutsche Boerse	17.84%
Vodacom Group	13.94%
Danone	13.00%

Bottom 5 performing stocks	
	Total return (in USD)
Mattel	-14.49%
Imperial Brands	-6.85%
Cisco Systems	-6.59%
WPP	-2.28%
Procter & Gamble	-2.26%

- Good performance from new holding Novo Nordisk. Strong earnings reported for Q1 in May company call; revenue slightly ahead of expectations but operating expenses lower leading to improved operating income. Prospect of company maintaining high margin levels taken as positive for full year results.
- NEX Group continuing strong start to the year, post the sale of voice broking businesses at end of 2016, despite less volatile market conditions. Market looking to 7-10% CAGR revenue growth guidance from management at 40% operating margins. Declared 'final' dividend of £0.27 / shr in mid-May.
- Deutsche Boerse rallied after the LSE bid was formally blocked at the end of Q1. Management using excess capital for buy backs taken positively by the market.
- Continuing weak performance from Mattel. Company earnings released in April showed revenue declines and inventory overhang – suggesting worse than expected sales through the important Christmas period.

- Overweight in healthcare and industrials – the two best performing sectors in index over the quarter – added to overall performance
- Underweight energy – the worst performing sector in the index over the quarter – added to overall performance
- Overweight to consumer staples a small drag (relative to index) but good stock selection offset this – Danone, Japan Tobacco, Unilever
- Underweight to information technology also a small drag to overall performance, with stock selection adding to this – lower exposure to ‘high growth’ IT stocks

# Changes made in the quarter

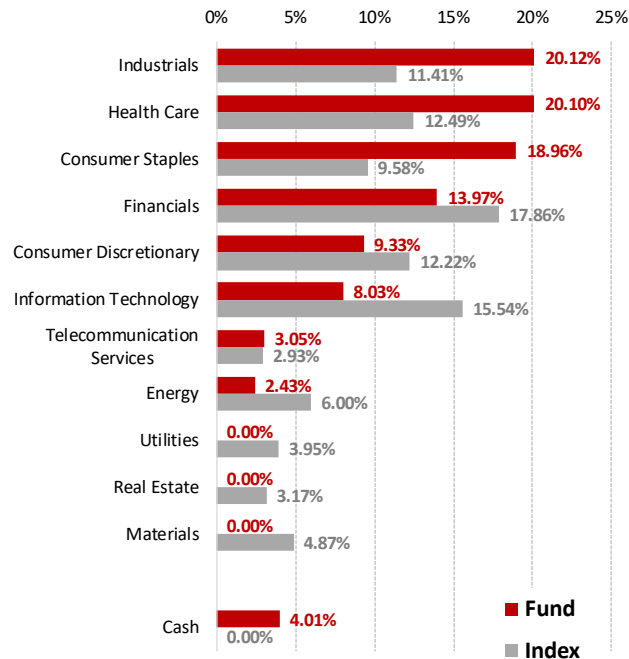
Buys
Anta Sports

Sells
Total

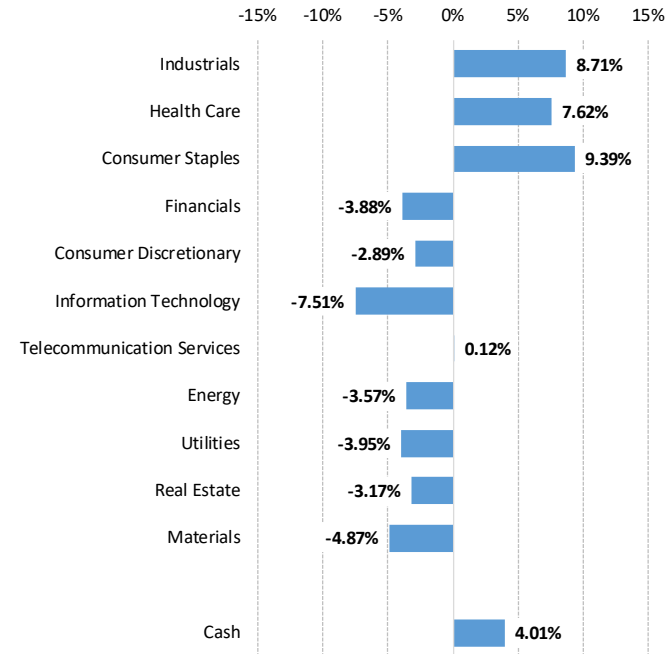
- Total sell
  - One of two energy companies held in the portfolio
  - Worries around falling cashflow return on investment and stagnant dividend growth
  - Industry-wide factors hampering the performance of energy stocks generally
  - Increasing amount of long-term debt maturing in the next few years
  - Shorter-term performance good relative to sector – risk of reversion
- Anta Sports buy
  - China-based footwear and apparel manufacturer and trader
  - Very strong cashflow return on investment over the last 15 years
  - Growth through own brand and adoption of western brand portfolios (e.g. Fila)
  - Solid margin growth
  - Well positioned to benefit from the growing wealth in China, and recovering economy, and has maintained low debt levels
  - 3% dividend yield with 3-year dividend growth 16%+

# Portfolio allocation: sector

Fund sector allocation vs MSCI World Index



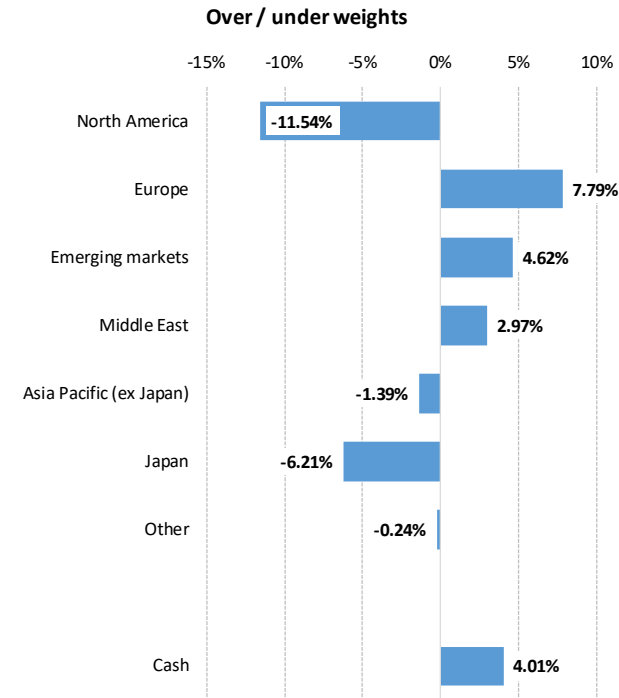
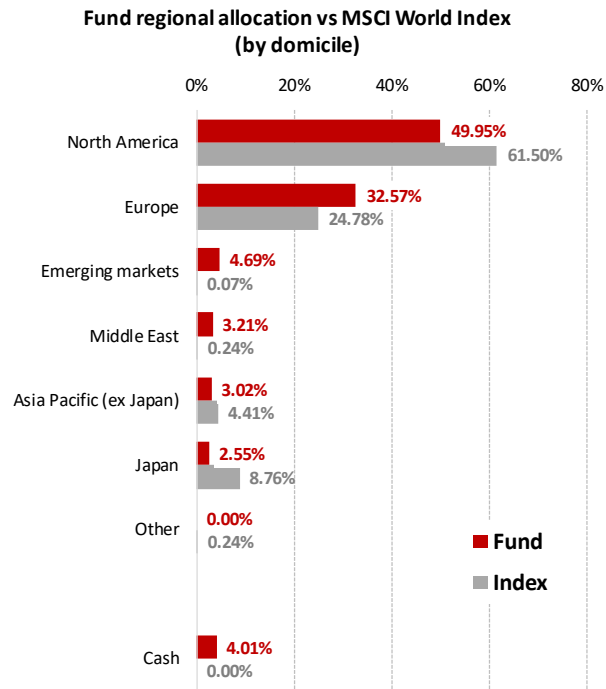
Over / under weights



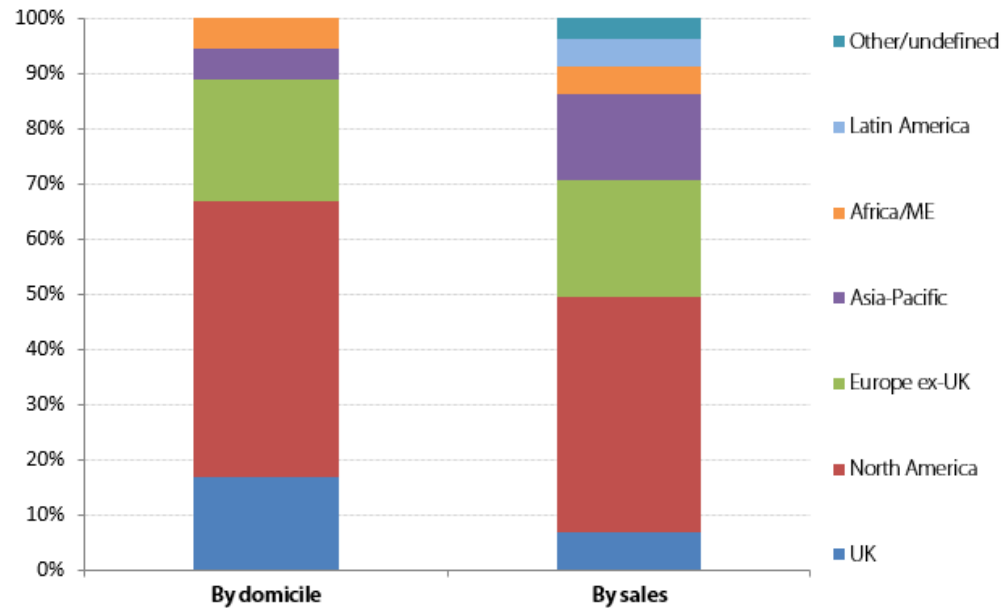
- Sale of Total reduced energy exposure, leaving the fund c.3% underweight vs the index
- Purchase of Anta Sports increased consumer discretionary exposure, leaving the fund slightly (c.2%) underweight vs the index in this sector
- Overall the fund maintains a higher weighting relative to the index in healthcare, industrials, and consumer staples. We continue to have a zero weight in materials, utilities, and real estate



# Portfolio allocation: geography



- Sale of Total reduced European exposure
- Purchase of Anta Sports increased Asia/EM exposure (listed in HK, business in China)
- Overall the fund maintains an underweight to the US of c.10%, which is offset by overweights to Europe and MENA (via Teva in Israel, and Vodacom in South Africa)
- The fund continues to hold only one company in Japan and is thus underweight this region by c.6%



- Fund has a lower exposure to UK when considered in revenues (c.6%) versus by domicile (c.17%)
- Fund has a larger exposure to Asia and emerging markets by revenues (c.28%) than by domicile (c.10%)

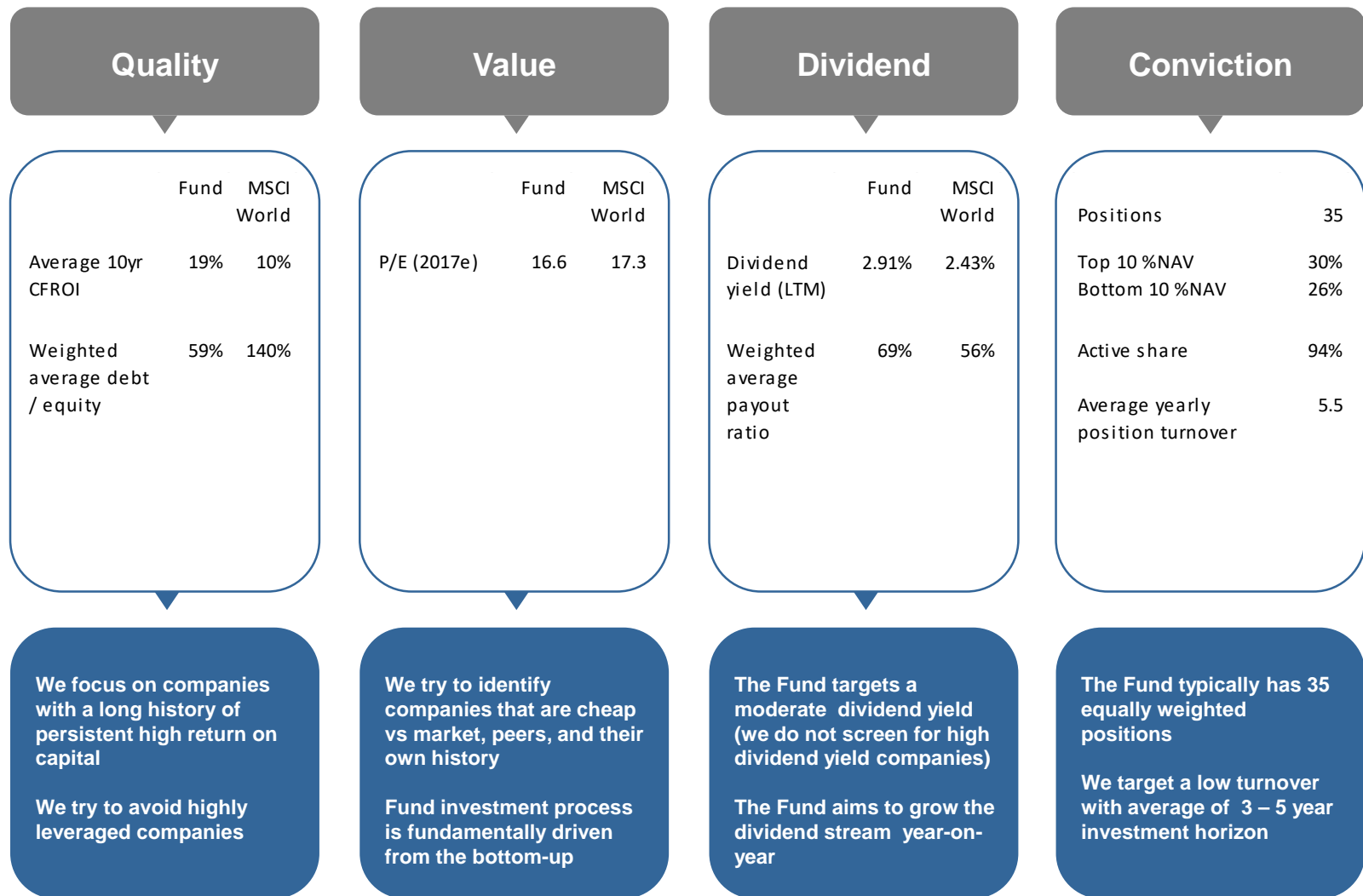
Name	Sector	Mkt. cap	Country of domicile	% NAV	PE	PE
					17Y	18Y
Mattel Inc	Consumer Discretionary	7.2	US	2.7%	20.9	17.1
VF Corp	Consumer Discretionary	22.5	US	2.8%	19.7	18.1
WPP PLC	Consumer Discretionary	25.8	GB	2.5%	13.0	12.1
ANTA Sports Products Ltd	Consumer Discretionary	9.0	CN	1.7%	20.7	17.9
Coca-Cola Co/The	Consumer Staples	191.2	US	2.8%	23.7	22.6
Imperial Brands PLC	Consumer Staples	43.1	GB	2.7%	13.0	12.5
Japan Tobacco Inc	Consumer Staples	68.1	JP	2.7%	17.0	15.8
Unilever PLC	Consumer Staples	168.6	GB	2.8%	21.6	19.5
Wal-Mart Stores Inc	Consumer Staples	231.2	US	2.8%	17.5	17.4
Danone SA	Consumer Staples	50.7	FR	3.1%	19.1	17.1
Procter & Gamble Co/The	Consumer Staples	223.2	US	2.7%	22.6	21.1
Royal Dutch Shell PLC	Energy	222.2	NL	2.5%	14.7	12.7
CME Group Inc	Financials	41.1	US	2.9%	25.8	23.7
Aflac Inc	Financials	30.8	US	2.9%	11.9	11.5
NEX Group PLC	Financials	3.2	GB	3.0%	25.1	22.3
Arthur J Gallagher & Co	Financials	10.3	US	2.9%	19.0	17.0
Deutsche Boerse AG	Financials	21.0	DE	2.9%	19.3	17.1
Novo Nordisk A/S	Health Care	107.9	DK	2.9%	18.2	16.5
Roche Holding AG	Health Care	219.9	CH	2.6%	16.0	14.9
Teva Pharmaceutical Industries Ltd	Health Care	32.3	IL	3.3%	6.9	7.0
AbbVie Inc	Health Care	116.6	US	3.0%	13.1	11.1
Johnson & Johnson	Health Care	355.8	US	3.0%	18.6	17.3
Merck & Co Inc	Health Care	172.5	US	2.9%	16.7	15.3
Sonic Healthcare Ltd	Health Care	7.5	AU	3.2%	23.1	20.6
General Dynamics Corp	Industrials	60.3	US	3.0%	20.2	18.8
Randstad Holding NV	Industrials	10.5	NL	2.8%	12.2	11.5
Schneider Electric SE	Industrials	46.7	FR	2.9%	17.2	15.6
Eaton Corp PLC	Industrials	35.9	US	3.1%	16.8	15.2
Illinois Tool Works Inc	Industrials	50.3	US	3.2%	22.6	20.4
United Technologies Corp	Industrials	98.8	US	2.9%	18.5	17.3
BAE Systems PLC	Industrials	25.6	GB	3.0%	14.5	13.8
Cisco Systems Inc	Information Technology	158.0	US	2.7%	13.1	12.8
CA Inc	Information Technology	14.5	US	2.8%	14.1	14.4
Microsoft Corp	Information Technology	563.7	US	2.9%	22.9	20.8
Vodacom Group Ltd	Telecommunication Services	20.1	ZA	3.2%	18.2	16.2

Average mkt. cap 99.0  
Median mkt. cap 46.7

**Total portfolio** 16.6 15.4

MSCI World Index 17.3 15.7  
Fund premium / (discount) -3.9% -1.9%

Source: Guinness Atkinson Asset Management, Bloomberg (data as of 6.30.2017)  
PE = Price to earnings; NAV = Net Asset Value  
Forecasts are inherently limited and cannot be relied upon. Holdings are subject to change.



Source: Guinness Atkinson Asset Management, Bloomberg, CS HOLT

*Performance data quoted represents past performance and does not guarantee future results.*

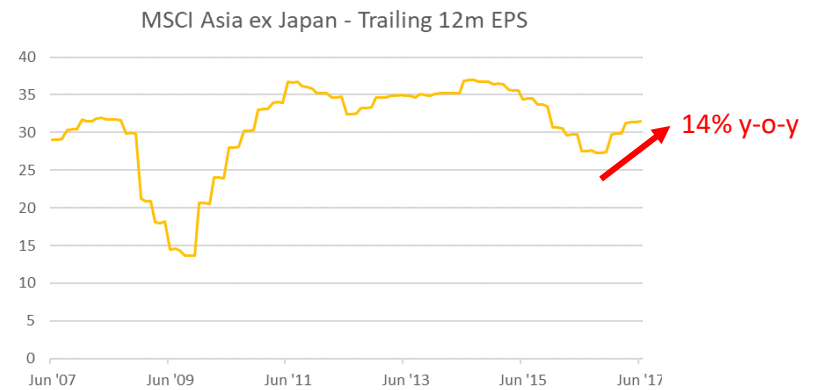
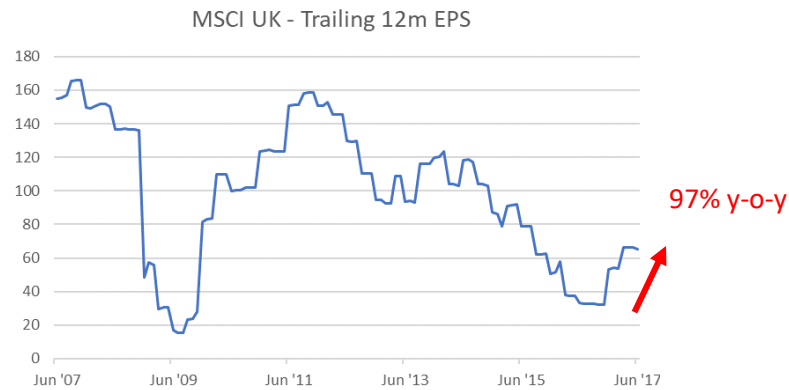
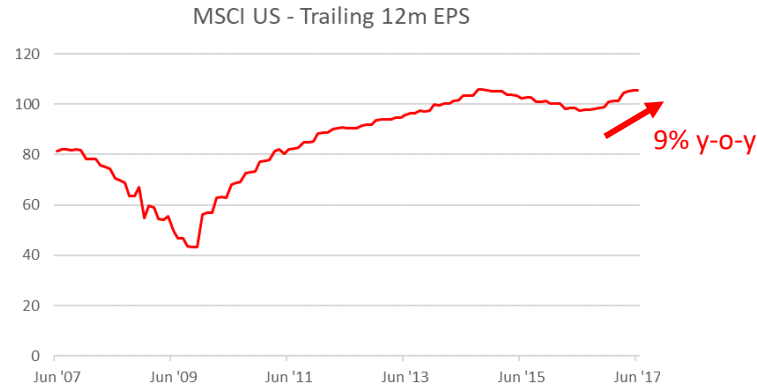
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- Earnings (trailing 12month) picking up – multiple expansion not driving performance as significantly in recent equity rally



- And can be seen across multiple regions



*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](http://gafunds.com). Please read it carefully before investing.*

\*The Advisor has contractually agreed to waive fees and reimburse expenses through June 30, 2018.

### **Diversification does not assure a profit or protect against loss in a declining market**

**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. The Fund also invests in smaller companies, which will involve additional risks such as limited liquidity and greater volatility. The Fund is non-diversified meaning its assets may be concentrated in fewer individual holdings than diversified funds. Therefore, the Fund is more exposed to individual stock volatility than diversified funds.**

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

Price to Earnings Ratio (P/E) is A valuation ratio of a company's current share price compared to its per-share earnings

The *MSCI World Index* captures large and mid cap representation across 23 Developed Markets (DM) countries. The 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 Europe ex UK Index captures large and mid cap representation across 14 Developed Markets (DM) countries in Europe. The index covers approximately 85% of the free float-adjusted market capitalization across European Developed Markets excluding the UK.

The MSCI AC Asia ex-Japan Index captures large and mid cap representation across 2 of 3 Developed Markets (DM) countries\* (excluding Japan) and 9 Emerging Markets (EM) countries in Asia. The index covers approximately 85% of the free float adjusted market capitalization in each country.

The MSCI Emerging Markets Index captures large and mid cap representation across 24 Emerging Markets (EM) countries. With 845 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

The MSCI Japan Index is designed to measure the performance of the large and mid cap segments of the Japanese market. With 320 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in Japan.

The MSCI UK Index is designed to measure the performance of the large and mid cap segments of the UK market. With 109 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in the UK.

The MSCI US Index is designed to measure the performance of the large and mid cap segments of the US market. With 635 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in the US. Markets excluding the UK.

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