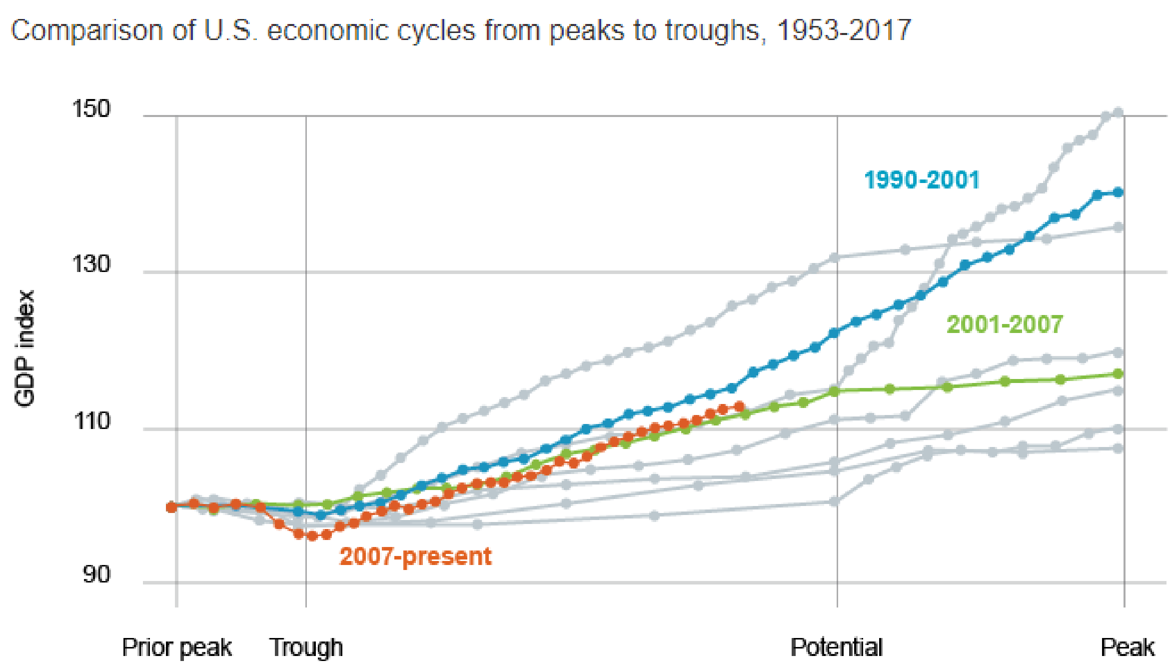
Guinness Atkinson
Dividend Builder Fund
Managers Update – August 2017

July in Review

As we head into the summer months, market returns – like the weather – have been pleasant. The global economy is growing almost everywhere and attention is sharply turning to economic data, in particular, inflation; wage growth and unemployment. In July, the U.S. Federal Reserve (FED), the European Central Bank (ECB) and the Bank of Japan (BoJ) all kept rates on hold and economists and investors alike will no doubt be zooming in on central bank rhetoric for the rest of the year.

There was good news in the U.S. as GDP figures showed 2.6% growth for the second quarter of 2017, up from 1.2% for the first quarter. U.S. Payroll figures for June showed 220,000 new jobs created and unemployment remained low at 4.4%. Coupled with inflation falling to 1.6%, this led many commentators to speculate that a future rise in interest rates would be postponed. In equity markets, the S&P 500 reached another record high in July – over 2,400 – and returned over 2% (in USD) in the month. With many questioning how long the current economic recovery and stock market rally can still last, it is interesting to look historically at the "quantity of recovery" rather than the "time of recovery". The red line in the chart below suggests that there may be plenty more to come from the current cycle, based purely on absolute growth of GDP.



Comparison of U.S. economic cycles from peaks to troughs, 1953-2017

Sources: BlackRock Investment Institute, with data from U.S. BEA, Congressional Budget Office, National Bureau of Economic Research (NBER), July 2017.
Notes: This chart compares real U.S. GDP with other cycles. Each line begins with the previous cycle's peak, as determined by the NBER.

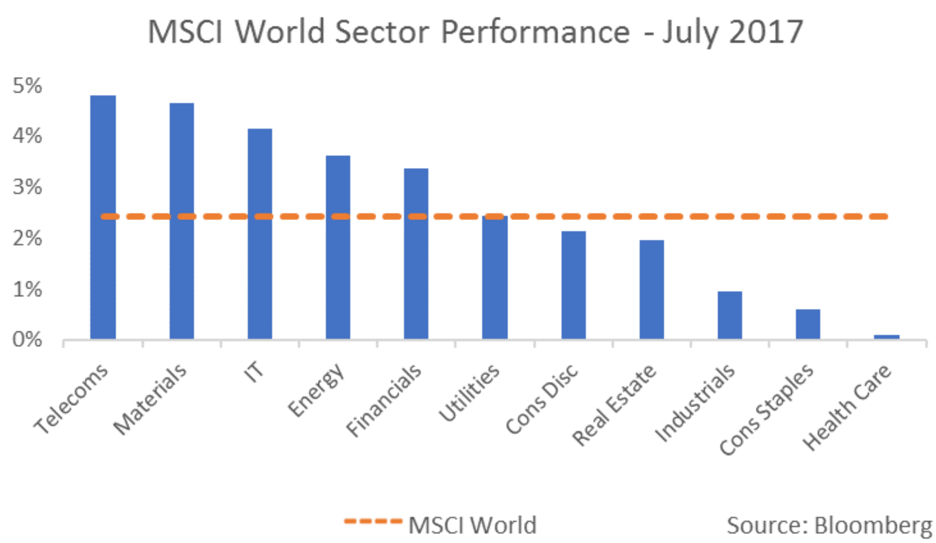
In Europe, the unemployment rate has fallen to 9.1% – the lowest level since February 2009 – and inflation at 1.3% continues to fall short of the ECB's 2% target. Expectations of when the first ECB interest rate rise may occur have also shortened from 30 months at the beginning of the year to 17 months today, as seen by the graph below. Though this is still some time away, there is a growing sentiment that the central bank will announce its tapering plan for quantitative easing (QE) in the coming months.

Equity earnings season in both the U.S. and Europe has been off to a strong start in quarter two. 78% of S&P 500 companies have so far reported to have beaten consensus earnings expectations. The historic average is 63% and this is set to be the most positively surprising earnings season since the third quarter of 2009 when 79% of companies managed to surprise the Street amid the first rebound from the crisis.

During July, the MSCI Emerging Markets Index was the best-performing equity index globally, returning 5.0% (in USD), closely followed by the MSCI Asia ex Japan Index, which returned 4.7% (in USD). Sentiment towards China was boosted by encouraging news that second quarter GDP grew by 6.9% year-on-year, which was above consensus estimates, and puts the economy on track for its first year-on-year acceleration since 2010. Commodities ended the month up 2.3% (in USD) and oil has been moving back above USD$50/barrel – for the first time since May. Price fluctuations have very much been dependent on supply with U.S. shale production figures falling and inventories dropping by 10.2 million barrels. OPEC also reiterated its commitment to controlling supply by limiting its exports to the U.S.

In terms of sectors, telcoms, IT and materials were the best performing in the month. While the IT sector experienced a steep and sudden sell-off towards the end of July – for example, Alphabet and Amazon share prices fell on disappointing corporate results – it did little to dent its overall upward trajectory, and remains the strongest performing sector year-to-date. Amazon's market value hit the half-a-trillion dollar mark for the first time on 26 July, joining an elite group of companies valued north of US$500bn. The other US members are Apple, Alphabet and Microsoft.

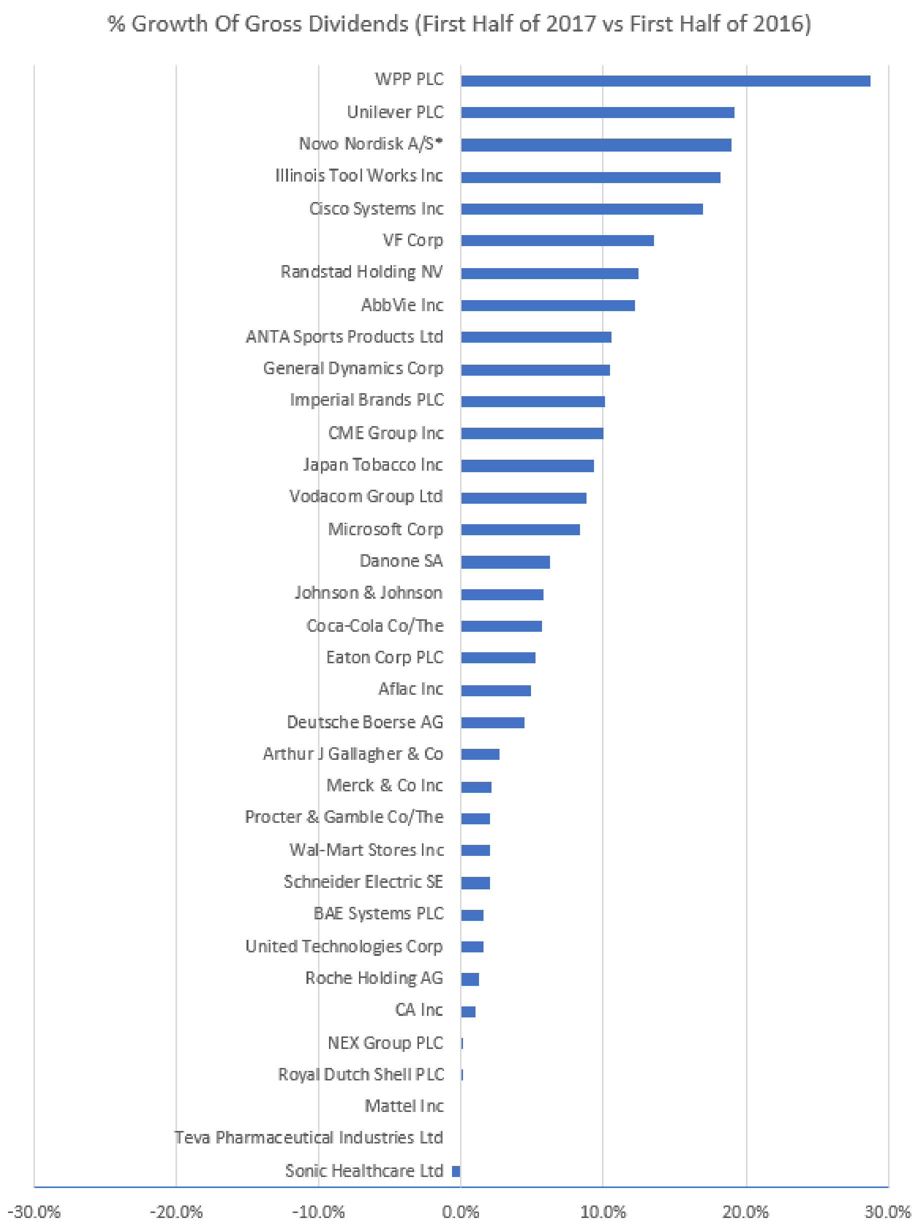
The healthcare sector was among the weaker performers over the month. The share price of healthcare stocks slipped when President Trump's health-care reform bill ended in failure. Furthermore, the White House's inability to enact healthcare legislation undermined faith in the Trump administration's capacity to pass plans for tax cuts and fiscal stimulus.



With regards to style, large cap stocks outperformed small and mid-caps, benefitting the portfolio, however the continuation of growth outperforming value was a drag. With bond yields rising – as interest rate expectations rise – there is a shift towards the cyclical sectors. The fund's underweight positions in Materials, IT and Financials were a drag on performance, with overweight positions not adding significantly over the month.

In terms of individual holdings, the strongest performer in the fund was NEX Group (+8.38% in USD). The company provides electronic trading platforms and reported a positive sales surprise. This gave indication that financial markets were starting to move towards more "normalized" conditions despite the low volatility environment that characterised the start of the year. VF (+7.97% in USD) also performed well; the global apparel company beat earnings estimates, raised guidance and reported much improved gross margins as a result of selling more directly to consumers and expanding in overseas markets. The worst performing stock in July was CA (-9.95% in USD). The computer software company has seen falling revenues and a reported deal to go private with BMC fell through towards the end of July. CA's high free cash flow from the mainframe business made it an attractive target for private-equity buyers. The company has about $1 billion in net cash and has relied mostly on inorganic sales growth in the past few years for growth. The secular shift to the cloud remains a headwind.

Looking further at the portfolio, we see from the graph below that almost every company we currently own has increased dividends in the first half of 2017 versus the first half of 2016. Our screening process for the fund begins by looking at companies that have maintained a Cashflow Return on Investment of 10% every year for 10 years; the fact that the companies we own are largely characterised by progressive dividend policies then gives us confidence that these companies are able to generate cash, use cash effectively and then also be able to return profits to shareholders.



*Novo Nordisk moved from paying dividends annually to semi-annually in 2016, so this growth represents the equivalent, based on our estimates. Source: Bloomberg

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We made no changes to the portfolio in July.

We thank you for your continued support

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Performance

In July, the Dividend Builder Fund produced a total return of 0.41% versus the MSCI World Index return of 2.43%. The fund therefore underperformed the index in the month by 2.02%.

as of 7.31.2017	YTD	1 YR	3 YR (ann.)	5 YR (ann.)	Since inception (3.30.2012) (ann.)
Dividend Builder Fund	12.80%	10.73%	5.31%	10.76%	9.98%
MSCI World Index	13.71%	16.81%	7.28%	12.30%	10.71%

as of 6.30.2017	1 YR	3 YR (ann.)	5 YR (ann.)	10 YR (ann.)	Since inception (3.30.2012) (ann.)
Dividend Builder Fund	14.47%	4.02%	11.07%	-	10.06%
MSCI World Index	18.89%	5.87%	12.05%	4.60%	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 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.

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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. Please 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 7/31/17

1	Vodacom Group Ltd	3.28%
2	ANTA Sports Products Ltd	3.20%
3	NEX Group PLC	3.14%
4	Teva Pharmaceutical Industries Ltd - ADR	3.11%
5	Eaton Corp PLC	3.02%
6	Danone SA	2.99%
7	Illinois Tool Works Inc	2.98%
8	VF Corp	2.92%
9	Microsoft Corp	2.90%
10	Sonic Healthcare Ltd	2.90%

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.

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.

One cannot invest directly in an index.

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