Guinness Atkinson

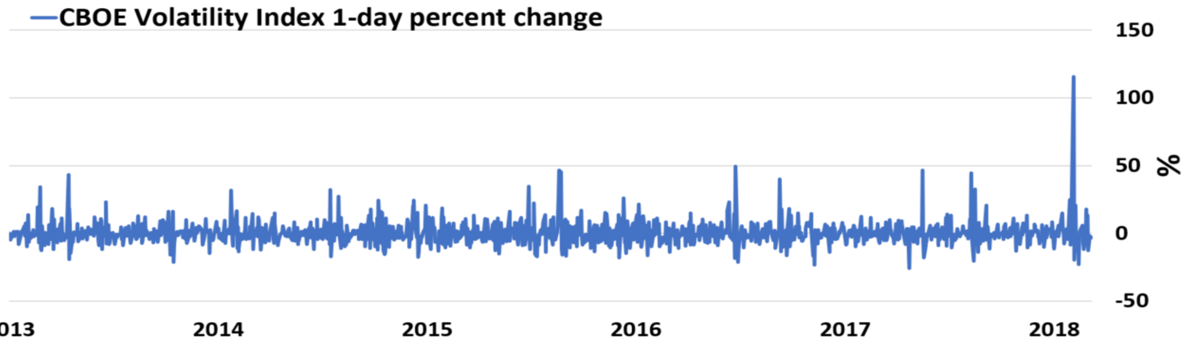
Dividend Builder Fund

Managers Update – March 2018

GUINNESS ATKINSON FUNDS

February in Review

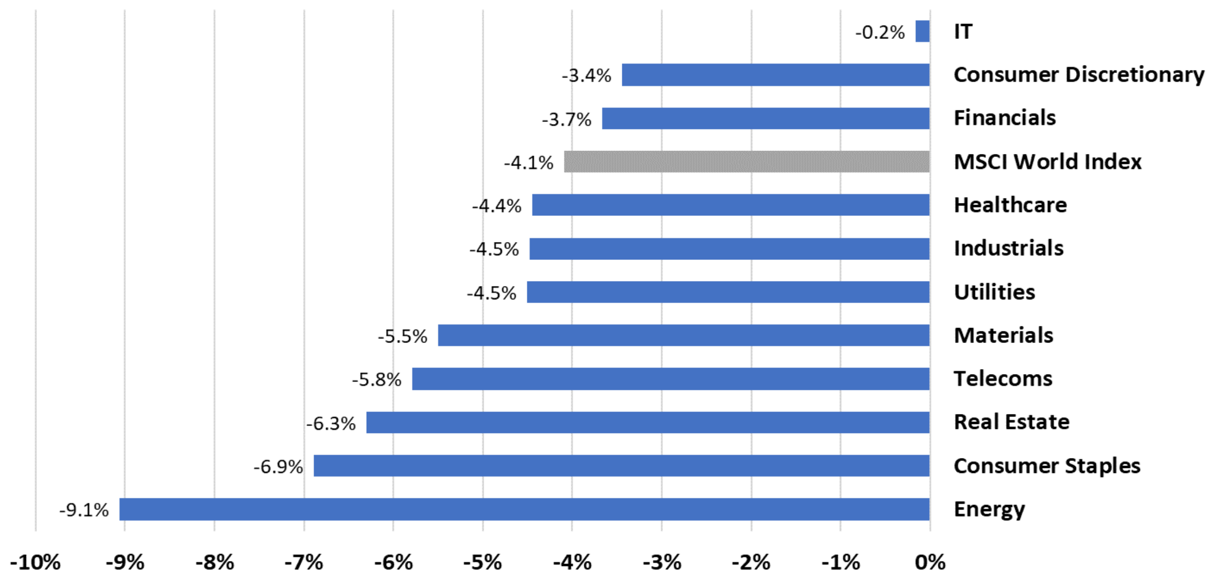
After saying goodbye in August 2015, volatility returned to equity markets this month. The CBOE Volatility Index spiked 116%, from a period of laying low, and this was the index's largest ever 1-day jump.



Source: Bloomberg (From 01/02/2013 to 02/28/2018) (VIX Index spike seen on January 29, 2018.)

Firstly, concerns arose after the January U.S. jobs report indicated wages were rising faster than expected. A tightening labor market was viewed as a sign that the synchronized global growth would finally feed into higher inflation levels. Jerome Powell's inauguration as FED Chair thus came alongside an increasing probability of four interest rate hikes in 2018, versus the initial market expectation of only three. This prompted investors to consider the implications for bond markets – 10-year U.S. treasury yields rose sharply to 2.7%, raising speculation that the long-term downward trend in yields had been broken. This has caused a sell-off in equity markets, hitting the so-called 'bond-proxy' sectors (utilities, materials, telecoms, real estate, consumer staples) the hardest.

Performance of MSCI World Sectors during February (% total return in USD):



Source: Bloomberg (From 01/31/2018 to 02/28/2018)

Secondly, Keynesian economics warns against a major fiscal stimulus (such as tax cuts) to an economy close to full employment (such as the US economy); it brings with it a concern of inflation, which in turn could lead a central bank (such as the FED) to hike interest rates faster than it would otherwise, raising the possibility of an economic slowdown. In February, we saw this very concern spread amongst investors and the S&P500 Index closed 3.7% lower (in USD) over the month, ending a 15-month streak of gains, tying the record from 1959.

It's important to stress that while markets can be volatile and "correct" in the near term, over the long term, they reflect the underlying fundamentals of companies. At the corporate level, earnings and revenues are rising at rates above analyst expectations – the first U.S. earnings season of 2018 saw 78% of companies beat on earnings, and 76% beat on sales (out of the 460 that have reported till end of February). Looking at the trailing and expected earnings per share (EPS) both pre and post-tax cut announcement, we note that they have contributed 33% to overall EPS growth. (Trailing 12m EPS for 2017, for the S&P500, was $124. 2018 expected EPS was $146 and rose to $156 after the tax cut announcement.)

In Europe and Asia, equity markets took lead from the US, and also delivered negative returns over the month, albeit with some recovery during the second half of the period. Macroeconomic fundamentals in Europe remain strong with unemployment trending downwards, and wage and price pressures feeding through to inflation expectations. The European Commission revised up its economic growth forecasts, now expecting GDP increases of 2.3% in 2018 and 2.0% in 2019. In Asia: India, China, and Korea were the worst performing regions, whilst the ASEAN countries relatively outperformed. Chinese GDP growth was however stronger than expected, at 6.8% year on year, for the fourth quarter, and trade data also showed a notable surge in imports and solid export growth. The fact that China has maintained rapid growth despite a renewed push by the authorities to reign in loan growth has eased some concerns about the country's ability to grow out of the debt it has accumulated in recent years.

In the UK, the Monetary Policy Committee (MPC) voted unanimously to maintain the interest rate at 0.5%, but noted that, should the economy evolve in line with its projections, there would need to be an earlier and greater increase than previously anticipated to return inflation to the 2% target. Also, over the month, mid cap equities outperformed large caps with the FTSE 250 ex Investment Trusts index falling 2.8% over the month (in GBP) versus a 3.4% retreat in the FTSE 100. Much of this is attributable to the fact that around 70% of the FTSE 100's earnings are derived overseas, and the recent strength of Sterling verses the US Dollar has been unfavorable.

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Market Update

At a sector level, IT proved to be the strongest performer. This surprised many analysts who expected it to be a casualty in any correction, given relatively high valuations and strong recent relative performance. Instead, amid the prospect of higher interest rates and rising debt costs the technology firms were relatively favored given their strong cash positions. By contrast, the Energy sector was the weakest performer. Rising shale oil production in the U.S. continues to concern investors who worry about the outlook for the oil price. Brent crude oil fell towards US$65 a barrel; natural gas and precious metals also retreated as the US dollar gained ground against a basket of emerging market currencies. In general: Telecoms, Materials, Real Estate and Consumer Staples underperformed IT, Consumer Discretionary and Financials, given their long-duration (high sensitivity to a change in interest rates) and bond-like characteristics.

The Guinness Atkinson Dividend Builder fund holds no companies in Materials, Real Estate and Utilities sectors – and only one Energy (Royal Dutch Shell) and Telecoms (Vodacom) company – so has fared relatively well compared to its peers and market. Our screening process involves looking for companies with high and consistent cashflow returns on investment, which often these more regulated industries do not allow for. Although many of these sectors tend to be the highest dividend paying ones, the recent correction gives testament that chasing the largest dividend yielders possesses greater interest rate risk as well as the fact that often these companies can be destressed and prone to large drawdowns. Instead, we focus first on business quality and then look for companies that are persistent, long-term dividend growers. This, we believe, is a more sustainable approach to generating risk-adjusted returns.

Portfolio Update

In terms of individual holdings in February, the strongest performer in the fund was NEX Group (+10.0% in USD). The financial technology firm provides electronic trading platforms and has recently benefitted from increased market activity and greater trading volumes. The company’s CEO Michael Spencer explicitly mentioned foreign exchange transactions as a key driver for NEX Markets and a more upbeat earnings guidance for 2018. Revenues in NEX's optimization business, which streamlines company processes, rose by 10% amid cost-cutting, while NEX's new regulatory reporting product in response to MIFID II has signed up 380 new contracts, and is expected to bring in £10m in revenues per year. Share prices also jumped as the firm is set to receive a boost from U.S. tax cuts – the effective tax rate for 2018 is set to be 22-24%, compared to 35% for 2017.

CME Group (+8.3% in USD) also performed very well. Return of volatility has been key for the world's leading derivatives exchange and it reached an all-time high monthly average daily volume (ADV) of 27.3 million contracts during February 2018, up 48% from February 2017. This came from a diverse set of products as volumes for equity indices, options, interest rate products, foreign exchange derivatives and metal derivatives all spiked. CME is particularly well-placed to benefit from increased interest-rate hedging around FED rate hikes and rising U.S. oil exports thanks to its dominant FED Funds and WTI futures contracts. The company has largely opted to pursue an organic growth strategy, and this has meant low debt-to-equity at 10% with cashflow returns on investment increasing every year for the last five. CME is also a major beneficiary of U.S. tax reform, with its effective tax rate likely to drop to 24.5% in 2018 vs. just over 35% in prior years.

The worst performing stock in February was **Reckitt Benckiser** (-17.7% in USD). The British producer of health, hygiene and home products, with 'Powerbrands' – as Reckitt Benckiser likes to call them – such as Nurofen painkillers, Durex condoms and Dettol disinfectant has sold off due to concerns regarding sales growth after guidance for 2018 was only 2-3%. The company has looked to transform itself in 2017 via the $18 billion acquisition of Mead Johnson Nutrition and the $4.2 billion disposal of its French's food business, with both transactions moving management toward a goal to become a global leader in consumer health. The company is now one of two potential bidders for Pfizer's Consumer Healthcare (PCH) business. Though still integrating its previous acquisitions, Reckitt Benckiser announced it is ready for another deal, and management has said it's prepared to lose its single A credit rating for a "spectacular" acquisition.

We made no changes to the portfolio in February.

Thank you for your continued support.

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Performance

In February, the Guinness Atkinson Dividend Builder Fund produced a total return of -3.47% (TR in USD), compared to the MSCI World Index return of -4.09%. The fund therefore outperformed the Index by 0.62%.

as of 02/28/18	YTD	1 YR	3 YR	5 YR	10 YR	Since inception (3/30/12)
Dividend Builder Fund	1.49%	17.75%	6.88%	10.54%	N/A	10.58%
MSCI World Index	0.99%	18.02%	8.82%	11.44%	N/A	11.28%

as of 12/31/17	YTD	1 YR	3 YR	5 YR	10 YR	Since inception (3/30/12)
Dividend Builder Fund	21.34%	21.34%	7.70%	11.24%	N/A	10.61%
MSCI World Index	23.10%	23.10%	9.91%	12.30%	N/A	11.42%

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.

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 2/28/18

1	Microsoft Corp	3.38%
2	Cisco Systems	3.34%
3	CME Group Inc	3.28%
4	AbbVie Inc	3.28%
5	VF Corp	3.17%
6	Deutsche Boerse AG	3.16%
7	WPP PLC	3.04%
8	Novo Nordisk A/S	3.04%
9	Arthur J Gallagher & Co	3.03%
10	Vodacom Group Ltd	3.02%

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.

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

CBOE Volatility Index (VIX Index) is a key measure of market expectations of near-term volatility conveyed by S&P 500 stock index option prices.

One cannot invest directly in an index.

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