Guinness Atkinson
Dividend Builder Fund
Managers Update – May 2018

April in Review

Global equity markets made a modest gain in April, bringing the year to date return for the MSCI World into positive territory (+0.05% in USD). The protectionist rhetoric that dominated headlines in March seemed to soften last month, though there were also numerous other tailwinds: broadly encouraging economic news, strong company earnings releases, elevated levels of corporate activity, continued central bank support, and lessening political risk in the Korean peninsula. Alongside expressing optimism on a trade deal with China, President Trump also hinted that the US may re-join the Trans-Pacific Partnership free-trade deal that he pulled out of shortly after taking office.

Most corporate headlines in April revolved around earnings releases and M&A activity. 85% of the S&P 500 companies (by market cap) reported their first quarter earnings, of which 80% beat analysts' consensus EPS expectations (which is a better beat rate than the historical trend of 67%). Average beat margin stood at 7.7%, which – to give a sense of magnitude – is above the historical median of 4.2%. On the revenue front, 74% of companies surprised positively, beating expectations by 1.1%. The releases highlighted that corporate profitability remains robust, driven still by tax benefits and economic growth. However, despite the figures illustrating a strong showing, a company notably needed to positively surprise on the top and bottom line to outperform the S&P 500. Even then, the market reaction was relatively muted – 242 companies that beat on earnings and sales outperformed the market by 0.7% on earnings day. Meanwhile, those companies that missed EPS and only beat on sales were punished and underperformed by -4.0% on average (in USD).

We wrote in our October 2017 manager's update: "markets have been able to tune out the noise and maintain a focus on economics and company fundamentals". The current market paints a somewhat different picture. Investors seem to be treading with caution amid geopolitical concerns, interest rate expectations, and a lingering trade war threat.

Turning to economics, US GDP growth in Q1 was confirmed at 2.3%, which was slower than growth in Q4 but ahead of expectations. Inflation – both with and without fuel costs – was also confirmed as higher in March and close to the target range. The March unemployment rate was steady at 4.1% but is still expected by the Federal Reserve (FED) to drop below 4% by the end of the year. These factors led to renewed speculation over the pace of FED rate hikes this year, in turn increasing bond yields and souring market sentiment. 10-year US Treasuries rose above 3% for the first time in four years, and rising oil prices and increasing wages continue to add inflationary pressure.

In Europe, April saw equity markets post their best monthly return of 2018 (MSCI Europe ex UK Index rose 4.0% in EUR terms). Purchasing Manager Indices (PMIs) stabilized and beat expectations, with readings remaining firmly in expansionary territory (mid-50s). On the monetary policy front, the European Central Bank (ECB) did not announce any changes to its existing policies – it remained committed to the bond-buying program at a pace of €30bn per month until September 2018, with

Mario Draghi reiterating that interest rates are to be kept on hold "well past" the end of quantitative easing.

The UK was the best performing region in April; the FTSE 100 rose 7.2% over the month (in GBP). M&A activity remained an important theme and the market was further supported by renewed weakness in Sterling against a resurgent US Dollar. This plays a particularly significant role due to the international nature of the companies within the FTSE 100 Index – ~70% of all companies' sales come from abroad. Nonetheless, economic data releases sent mixed messages regarding the overall health of the economy. Unemployment fell to 4.2% in March, with wage growth accelerating slightly to 2.8%. UK headline and core inflation fell by more than expected (to 2.5% and 2.3% respectively). Rising wages and falling inflation led market expectations for a May interest rate hike to fall from 100% at the end of March to 20% at the end of April.

In Asia, equity markets were positive (MSCI Asia rose 1.3% in USD), supported by an easing in global trade concerns after China's somewhat appeasing announcements. These included: greater openness in the financial sector, intellectual property protection, a relaxation of requirements for joint ventures and a reduction in imports duty on certain products. The inter-Korea summit towards the end of the month gave markets a little boost too, as Moon Jae-in (South Korea) and Kim Jong-un (North Korea) announced that they plan to sign a peace treaty in 2018 and formally bring about an end to military conflict. This precedes President Trump's meeting with Kim Jong-un next month, but the latter's interest in pursuing prosperity and economic development raised the prospect of a controlled opening-up of North Korea's economy. This led to a strong rally in the share prices of Korean construction, cement, steel and rail companies.

Elsewhere, Taiwan was dragged lower by the technology sector, with weaker than expected 2018 second quarter guidance from Taiwan Semiconductor Manufacturing impacting sentiment towards other companies in the Apple supply chain. Emerging market equities also posted a negative return in April, largely due to a strengthening Dollar. In contrast, Japan's equity market benefited from the Yen weakening relative to the Dollar and ended the month higher.

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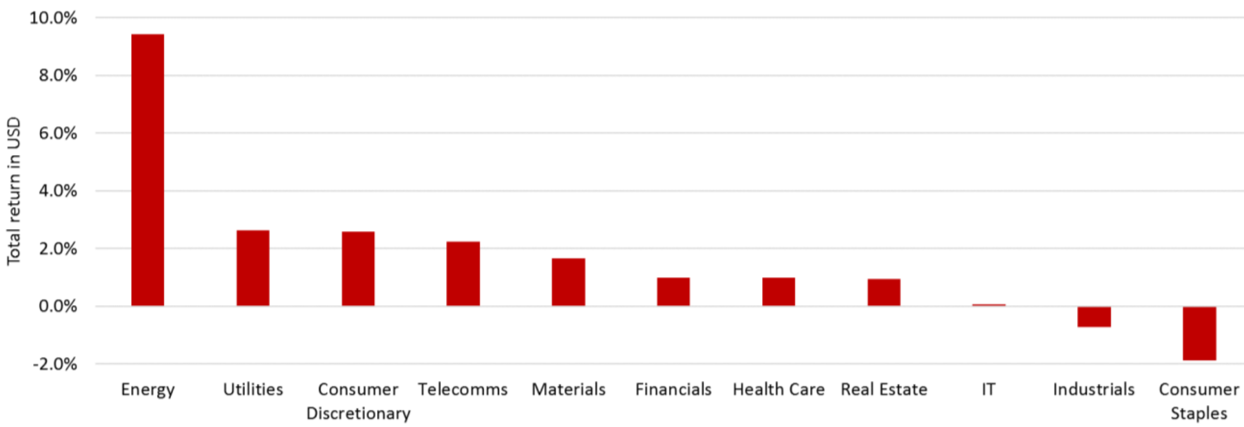
Market Update

MSCI World sector performance: March 31 – April 30, 2018



Source: Bloomberg

The strongest sector in April was energy. The price of crude oil climbed to its highest since 2014 – moving above US$75 a barrel – after declines in US stockpiles of oil, gasoline, diesel and jet fuel signaled increasing scarcity in supplies. Production cuts by OPEC (Organization of Petroleum Exporting Countries) and Russia over the past 16 months have also helped crude oil prices rally.

Going forward, geopolitics may sustain this rally if OPEC decides to extend the deal to cut oil output or if concerns escalate that the U.S. might pull out of the 2015 Iran nuclear deal. On the other hand, potential headwinds for the oil market could be a strengthening US dollar and increased oil supply from other countries, including the US. In the Guinness Atkinson Dividend Builder fund, we are underweight Energy and as previously mentioned, have only one position in this space (Royal Dutch Shell). Other sectors that we are underweight, and in fact have never had any positions in, include Materials, Utilities and Real Estate. These tend to be more regulated areas of the market, and we see less persistency in high cashflow returns on investment.

In April, we also saw Utilities and Consumer Discretionary sectors perform well, driven respectively by commodity prices and robust results from major online consumer firms, Netflix and Amazon. Consumer Staples performed the worst over the month. The prospect of higher interest rates, the impact of a rising Dollar on the global nature of businesses in the sector, and individual industry issues weighed on performance. Disappointing earnings reports over the month from industry giants such as Philip Morris, Procter & Gamble, and Kimberly-Clark negatively impacted the sector. Out of these companies we only hold Proctor & Gamble, though it's results, alongside Kimberly-Clark, impacted peer companies that we hold: Unilever and Johnson & Johnson. Philip Morris' results indicated that the alternative tobacco products may take more time to be embraced by consumers, and this also impacted some of our tobacco names: British American Tobacco, Imperial Brands and Japan Tobacco.

Finally, the technology sector also showed lackluster performance even as big tech companies largely reported better than expected earnings, and industrials – particularly airlines – were hindered by the oil price rally and subsequent fuel price pressures. Investors had a small preference towards small cap stocks and were generally indifferent over style during the month, though this had negligible impact on the fund's performance.

Portfolio Update

In terms of individual holdings in April, the strongest performer in the fund was **ANTA Sports** (+15.4% in USD). The company, based in China, generates revenue through the manufacture and trading of sporting goods, including footwear, apparel and accessories. They have a stellar cash flow return on investment of over 10%, over the last 10 years. Its brand portfolio includes ANTA, ANTA KIDS, FILA, FILA KIDS and NBA. ANTA Sports' share price rallied mid-month after Q1 retail sales of Anta branded products increased by almost 25% from a year ago.

Royal Dutch Shell (+10.5% in USD) also performed very well as the price of crude oil climbed. Earnings climbed to $5.3bn in the first quarter of this year, 42% higher than the same period last year and exceeded analyst expectations. In addition to rising oil price optimism, Shell's upstream business has seen steady growth, Shell's cost base has been reduced and disciplined capital spending have led to significant free-cash-flow growth.

The worst performing stock in April was **Illinois Tool Works** (-9.4% in USD). Towards the end of the month Illinois Tool Works released their Q1 earnings and forecast earnings per share for the full year. With regards to the forecast earnings, the guidance midpoint matched the average analyst estimate. They also reported a Q1 2018 EPS of $1.90 which was at the high end of their guidance range and above consensus analyst estimates. However, Q1 organic revenue growth was lower than expected. The market reacted negatively to the earnings release and guidance and the share price fell over the month, despite some positive news in the results.

We made no changes to the portfolio in April.

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Performance

In April, the Guinness Atkinson Dividend Builder Fund produced a total return of 2.04% (in GBP) versus the MSCI World Index return of 3.12% (in GBP). The fund therefore underperformed the index by 1.08% in the month.

Year-to-date, the fund has produced a total return of -0.98% (in GBP) versus the MSCI World Index return of -1.74% (in GBP). The fund has outperformed the index by 0.76%.

Underperformance in the month can be attributed to impressive performance from the Energy sector, whereby supply concerns helped the price of crude oil reach its highest since 2014 – moving above US$75 a barrel. The Guinness Atkinson Dividend Builder Fund is underweight Energy (relative to the MSCI World Index) and currently only has 1 position in the sector – Royal Dutch Shell. The oil and gas "supermajor" performed very well in April as earnings grew more than expected.

Being overweight in Consumer Staples also dragged on performance in the month as this sector lagged. The prospect of higher interest rates, the impact of a rising Dollar on the global nature of businesses in the sector, and individual industry issues weighed on performance. These factors have in-fact been affecting the sector for much of the year so far, though currently pose an attractive entry opportunity given that valuations are depressed.

The upside in the fund, in the month, came from good stock selection particularly within the IT and Consumer Discretionary sectors. Versus it's Lipper peer group, the Guinness Atkinson Dividend Builder fund continues to rank very strongly and outperformed the average both in the short and long run.

Standardized Performance

as of 04/30/18	YTD	1 YR	3 YR	5 YR	10 YR	Since inception (3/30/12)
Dividend Builder Fund	1.11%	13.54%	6.46%	8.81%	N/A	10.21%
MSCI World Index	0.06%	13.87%	8.19%	9.93%	N/A	10.78%

as of 03/31/18	YTD	1 YR	3 YR	5 YR	10 YR	Since inception (3/30/12)
Dividend Builder Fund	1.00%	15.66%	8.02%	9.56%	N/A	10.34%
MSCI World Index	-1.21%	14.14%	8.59%	10.33%	N/A	10.71%

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All returns over 1 year annualized. Source: Bloomberg, Guinness Atkinson Asset Management
Expense Ratio: 0.68% (net); 2.06% (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, 2019. 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.

Investors should consider the investment objectives, risks, charges and expenses carefully before investing. For a prospectus with this and other information about the Fund, please call (800) 915-6566 or visit our website at gafunds.com. 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 04/30/2018:

1. NEX Group PLC	4.46%
2. VF Corp	3.50%
3. ANTA Sports Products Ltd	3.47%
4. Microsoft Corp	3.44%
5. Cisco Systems Inc	3.36%
6. Deutsche Boerse AG	3.25%
7. CME Group Inc	3.18%
8. Arthur J Gallagher & Co	3.13%
9. Schneider Electric SE	3.07%
10. Aflac Inc	3.01%

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.

One cannot invest directly in an index.

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