Guinness Atkinson
Global Innovators 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.

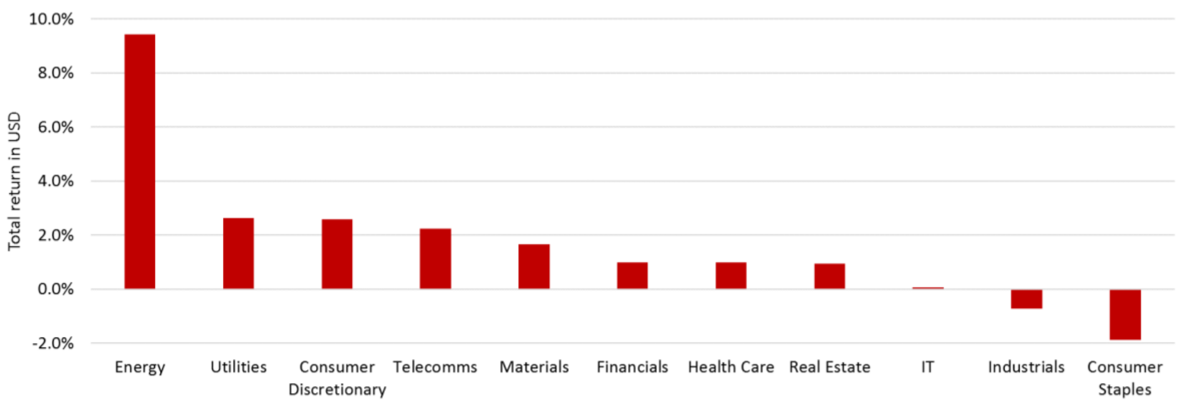
The UK was the best performing region in April; the FTSE 100 rose 7.2% over the month (in GBP). M&A activity remained an important theme and the market was further supported by renewed weakness in Sterling against a resurgent US Dollar. This plays a particularly significant role due to the international 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.

Market Movements

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



Source: Guinness Atkinson, Bloomberg
Data as of 4/30/2018

In April, the technology sector showed lackluster performance even as big tech companies largely reported better than expected earnings. Out of the three industry groups which make up the IT sector, Semiconductors (-4.4%, all total returns in USD) lagged behind both Technology Hardware and Equipment (-0.6%) and Software and Services (+1.7%). Industrials also largely beat earnings expectation, but posted weak performance over the month – airlines in particular were hindered by the oil price rally and subsequent fuel price pressures. In the Guinness Atkinson Global Innovators fund we are overweight Information Technology and Industrials, as previously mentioned.

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 Global Innovators fund, we are underweight Energy, having no positions in this space. Other sectors that we are underweight include Real Estate, Health Care, Materials, Consumer Staples and Financials. These tend to be less innovative areas of the market.

Finally, 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. 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, who are 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.

Baidu (+12.4% total return in USD), a Chinese based search engine internet company has been strengthening its core online marketing business using AI and big-data technology to enhance its search, news feed and video products. Baidu's quarterly earnings, released at the end of April, beat analyst expectations with earnings per share of $2.19. In addition, Baidu's quarterly revenues also grew by 24% YoY. The guidance for Q2 revenue was also revised upwards to a range of $3.97 to $4.17 billion.

AAC Technologies (-19.3% total return in USD), a smartphone lens and acoustics manufacturer, has been caught in the selloff that has affected Apple suppliers in April, amid signs of softening demand for high-end smartphones and a potential lackluster 2018 iPhone cycle. The share price fall is in context of a strong rally in the sector over 2017 (AAC total return of 100% in USD, the full year). We still see good value in AAC Technologies and will use any short-term weakness to rebalance the position back to equal-weight in the portfolio.

We made no changes to the portfolio in April.

Thank you for your continued support.

Portfolio Managers
Dr Ian Mortimer, CFA
Matthew Page, CFA

Analysts

Guinness Atkinson
Global Innovators Fund
Managers Update – May 2018

GUINNESS ATKINSON FUNDS

Joshua Cole, CFA
Sagar Thanki

Performance

In April, the Guinness Atkinson Global Innovators Fund produced a total return of -1.19% (TR in USD), compared to the MSCI World Index return of 1.20%. The fund therefore underperformed the Index by 2.39%.

as of 04/30/18	YTD	1 YR	3 YR Annualized	5 YR Annualized	10 YR Annualized	Since inception annualized (12/15/98)
Global Innovators, Investor Class[1]	-0.13	19.83	11.81	15.31	10.18	8.09
Global Innovators, Institutional Class[2]	-0.04	20.15	12.03	15.44	10.24	8.12
MSCI World Index	0.06	13.87	8.19	9.93	6.12	5.90

as of 03/31/18	YTD	1 YR	3 YR Annualized	5 YR Annualized	10 YR Annualized	Since inception annualized (12/15/98)
Global Innovators, Investor Class[1]	1.07	24.62	12.66	16.13	10.90	8.19
Global Innovators, Institutional Class[2]	1.13	24.94	12.88	16.27	10.96	8.22
MSCI World Index	-1.15	14.21	8.60	10.35	6.55	5.86

Investor class (IWIRX) Inception 12.15.1998 Expense ratio* 1.24% (net); 1.33% (gross)

Institutional class (GINNX) Inception 12.31.2015 Expense ratio* 0.99% (net); 1.17% (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/global-innovators-fund/ or call (800) 915-6566.

Performance data shown for Global Innovators, Institutional Class (GINNX), prior to its launch date on 12/31/15, uses performance data from the Global Innovators, Investor Class (IWIRX).

*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 .99% for the Institutional class and 1.24% for the Investor class 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 waived or absorbed, subject to the 0.99% for the Institutional class and 1.24% for the Investor class expense cap.

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. These risks are greater for emerging markets countries. The Fund also invests in medium and smaller companies, which will involve additional risks such as limited liquidity and greater volatility. The Fund may invest in derivatives which involves risks different from, and in certain cases, greater than the risks presented by traditional investments.

Securities mentioned are not recommendations to buy or sell any security. Current and future portfolio holdings are subject to risk

Top 10 holdings for Global Innovators Fund, as of 4/30/18:

1. ANTA Sports Products Ltd	4.19%
2. Cisco Systems Inc	3.98%
3. Samsung Electronics Co Ltd	3.87%
4. Cognizant Technology Solutions Corp - A Shares	3.82%
5. NIKE Inc	3.69%
6. PayPal Holdings Inc	3.49%
7. Baidu Inc	3.48%
8. Shire PLC	3.48%
9. Danaher Corp	3.47%
10. The Boeing Co	3.46%

Click **here** for list of holdings for the Global Innovators Fund.

Opinions expressed are subject to change at any time, 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 www.gafunds.com. Read the prospectus carefully before investing.

Earnings growth is not representative of the Fund's future performance.

Price to Earnings Ratio (P/E) is a valuation ratio of a company's current share price compared to its per-share earnings. Calculated as: Market Value per Share / Earnings per Share (EPS)

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 FTSE 100 Index is a stock index of the 100 companies listed on the London Stock Exchange with the highest market capitalization.

One cannot invest directly in an index.

Basis Points (BPS) is a unit that is equal to 1/100th of 1%.

Distributed by Foreside Fund Services, LLC