Guinness Atkinson
Dividend Builder Fund
Managers Update – July 2018

Quarter in review

"We're not in a trade war with China, it's a trade dispute."
- US Treasury Secretary, Steve Mnuchin, on *Fox Business*, June 29, 2018

This "trade dispute" has driven much of the narrative explaining second quarter volatility and cautiousness. President Trump's decision to impose tariffs on $50bn (in USD) of Chinese imports was followed by new signals that it would target an additional $200bn (in USD) in goods if China retaliated. Based on regional equity markets and currency performance, the US appears to be "winning" the dispute so far, with the MSCI US Index gaining 3.6% for the quarter (in USD) versus a loss for MSCI Europe ex-UK, Asia Pac ex-Japan, and Emerging Markets (as seen in Chart 1 below). Emerging markets felt most of the brunt of the trade war rhetoric, although early second quarter weakness could also be attributed to local issues across Turkey, Argentina, South Africa, and Brazil.

MSCI Regional Performance: March 31 – June 30, 2018

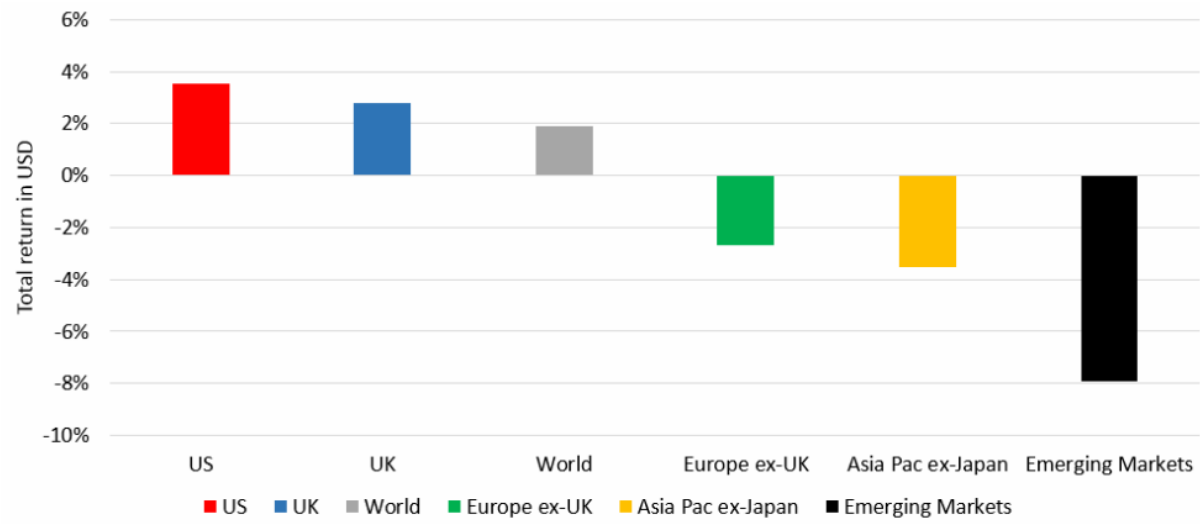

Chart 1: MSCI World Index geographic total return breakdown for Q2 2018, in USD.
Source: Bloomberg

Looking at currency performance, the trade-weighted Dollar has gained 5.0% for the quarter and is now up 6.6% from its lows reached towards the start of the year (Chart 2). The Dollar rally has important implications for equity markets: strength against Sterling has helped the FTSE 100 as foreign revenues are repatriated, whereas in Asia and Emerging Markets, a stronger Dollar has proved to be a forceful headwind. Looking forward, the direction of the Dollar remains important for relative regional equity performance. In the short-term, the outperformance of US growth and interest rates may support the currency, though at some point rising levels of government debt and a large current account deficit will likely weigh in.

Chart 2: DXY Index. Data from June 30, 2017 to June 30, 2018. DXY Index – US Dollar Index measuring the value of USD relative to a basket of foreign trade-partner currencies.

Source: Bloomberg

For the US economy, data confirmed that first-quarter weakness in consumption was temporary. A stronger showing in Q2 saw the unemployment rate reached 3.8% – the lowest since 2000 – and gave the Federal Reserve (FED) the confidence to raise interest rates in June (by 0.25%), and give signals supporting two further hikes to come this year. The current base rate now stands at a level of 1.75-2%. In contrast, after disappointing economic data releases and still low core inflation, the European Central Bank (ECB) announced that interest rates will not be going up until at least the summer of next year, although they did confirm that Eurozone quantitative easing would come to an end in late-2018.

In Europe, political issues have been prominent. There were concerns that Italy could need fresh elections following the inconclusive outcome of the March vote. Markets feared that this would turn into an effective referendum on Italy's membership of the EU. However, a governing coalition was eventually formed between populist parties, the League and the Five Star Movement. Spain also saw a change of government, although this was largely greeted with calm by markets. Late in the quarter, German Chancellor Angela Merkel clashed with sister party, the CSU, over immigration policy. The European Union meeting at the end of June struggled to find an agreement re immigration, and there are also decisions still to be made regarding retaliatory tariffs against the US. These tensions provide a tense backdrop to markets, which ended June broadly flat. Looking at the Purchasing Managers' Index (PMI) for the Eurozone, June saw a rise to 54.8, from 54.1 in May. This was better than the small

reduction expected and provided some reassurance that the softness recorded so far in 2018 is not the start of a sustained downturn.
In the UK, the efforts to leave the European Union appear to have made little progress. The cabinet is divided, and the continued uncertainty has had an impact on business confidence. At the end of last quarter, markets were convinced that the Bank of England would raise rates in May. This never happened, though the combination of record low unemployment and rising wage pressures suggest that rates will rise this year unless Brexit negotiations prove disruptive. The Monetary Policy Committee (MPC) voted 6-3 in favor of maintaining the current interest rate at its June meeting; the result suggests that momentum is building for a hike in the near future. Positive news for the UK, in the quarter, included a 3.9% increase in UK retail sales for June, boosted by the Royal Wedding, unusually warm weather, and an on-going optimism brought about by the coming home of football.

Most Asian and Emerging market equities ended the month lower as several global factors negatively impacted investor sentiment. These included concerns over an increase in trade war tensions, a US interest rate hike and weaker Chinese economic data.

Performance Drivers

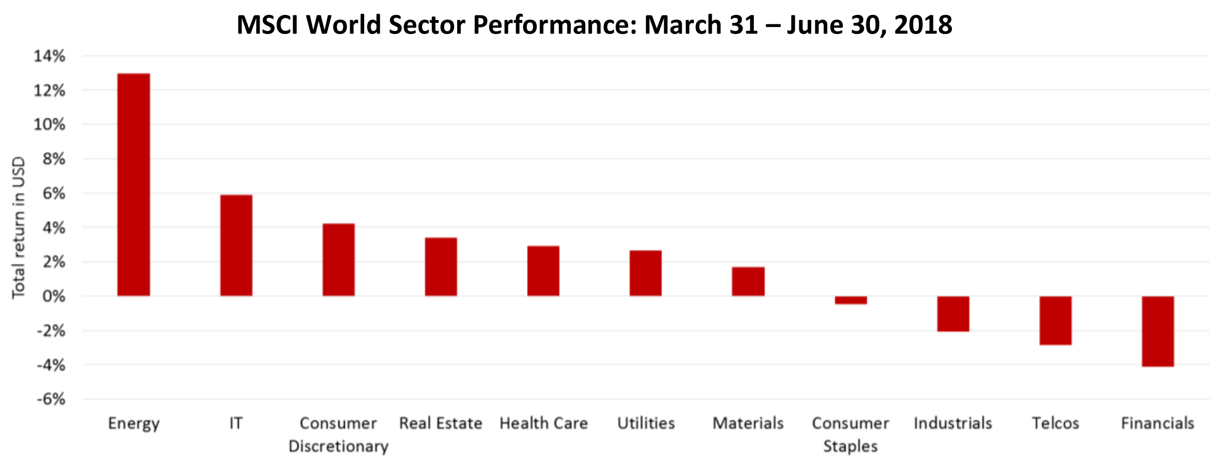

Chart 3: MSCI World Index sector total return breakdown for Q2 2018, in USD.
Source: Bloomberg

Over the quarter, Energy, IT and Consumer discretionary stocks performed well, while a rotation into more traditionally defensive areas supported Real Estate and Utilities. Industrial stocks were weaker given the discussions surrounding trade sanctions and the direct impact of tariffs on the aerospace, industrial machinery, raw materials, and automobiles industries.

Financials were weaker due to a flattening of the yield curve and this led to an underperformance from both European and US banks. The Guinness Atkinson Dividend

Builder fund currently has no exposure to banks in the portfolio and this was a positive last quarter when compared to the MSCI World Index benchmark.

Within Telecoms, although there is rising demand for wireless services, competition in the sector is also intensifying. The Telecoms sector has the highest debt-to-equity ratio of any non-financial sector, declining net profit margins and rising expenses creating further tailwinds for the industry. The European Union agreed a major regulatory overhaul of the Telecom sector, which while supported by politicians and consumer groups, was not supported by the region's top carriers, who complained that the Electronic Communications Code is an added burden and will not spur the necessary spending on networks. The Guinness Atkinson Dividend Builder fund currently holds one company in the sector, Vodacom, which was the worst performing stock in the quarter.

Energy was the strongest performing sector after the price of crude oil climbed to its highest level since 2014 – rising above US$80 a barrel – mainly as 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 initiated the crude oil price rally, and this has been aided by the US's refusal to recertify the nuclear accord with Iran. This prohibits Iran selling oil to US entities, further restricting global supply. Furthermore, the political crisis in Venezuela has worsened, reducing oil production even further. 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 well, in the quarter, as earnings grew more than expected.

IT continued its stellar climb upwards, driven by strong corporate earnings releases. Out of the three industry groups which make up the IT sector, Software (+8.5%, all total returns in USD) led both Technology Hardware and Equipment (+4.9%), and Semiconductors (-1.2%) over the quarter. The Guinness Atkinson Dividend Builder fund's underweight to the sector was a drag on performance in the quarter.

Positioning

In terms of geographic exposure (Chart 4), the largest difference between the fund and the benchmark is our exposure to the US (as measured by country of domicile). The fund over the quarter had on average c.40% weighting to North America which compares to the index at c.63%. The largest geographic overweight remains the UK which had a c.15% larger position than the benchmark over the quarter.

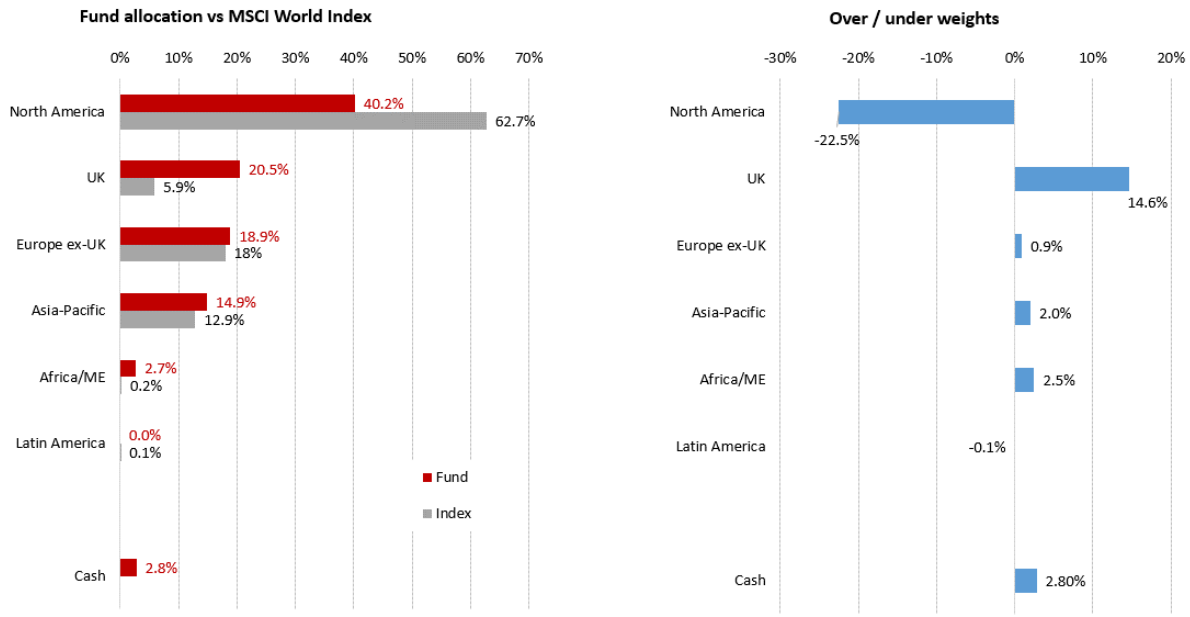

Chart 4: Regional breakdown of the fund versus MSCI World Index.
Source: Guinness Atkinson Asset Management, Bloomberg (data as of 06.30.2018)

We would however note two main points, referring to Chart 5; (i) the fund has a lower exposure to the UK when considered in revenues (c.6%) versus by domicile (c.20%). This is because we have favored UK domiciled companies with a more global exposure (such as Unilever and Imperial Brands); and (ii) there is a larger exposure to Asia-Pacific by revenues (c.22%) than the equivalent statistic as measured by domicile (c.15%).

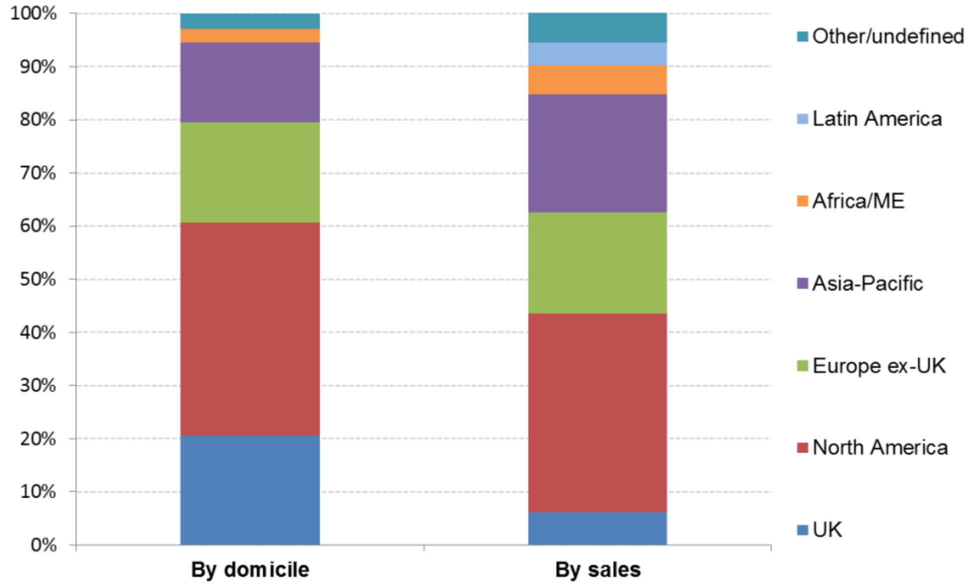

Chart 5: Geographic breakdown of the fund.
Source: Guinness Atkinson Asset Management, Bloomberg (data as of 06.30.2018)

In terms of sectors, the fund continues to have a zero weighting to utilities, materials, and real estate, which in the last quarter proved to be a drag on performance. Underweight IT and Energy also did not benefit the fund, though was partially offset by good stock selection.

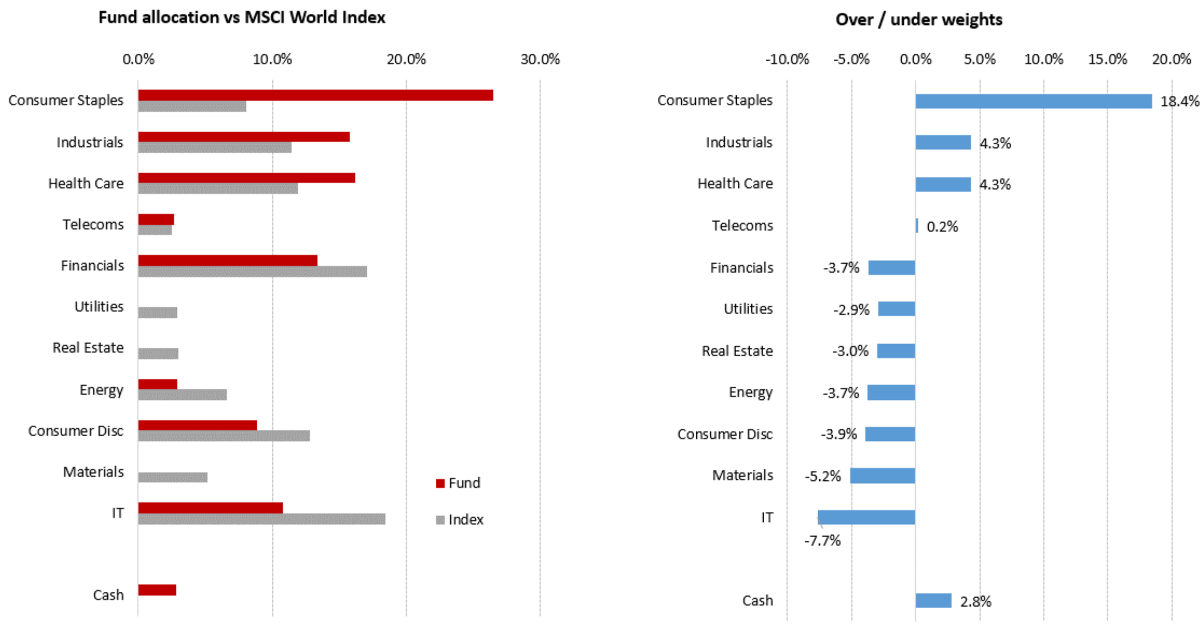

Chart 6: Sector breakdown of the fund versus MSCI World Index.
Source: Guinness Atkinson Asset Management, Bloomberg (data as of 06.30.2018)

The below two charts show how the exposure of the fund has evolved since we launched the strategy back in 2010.

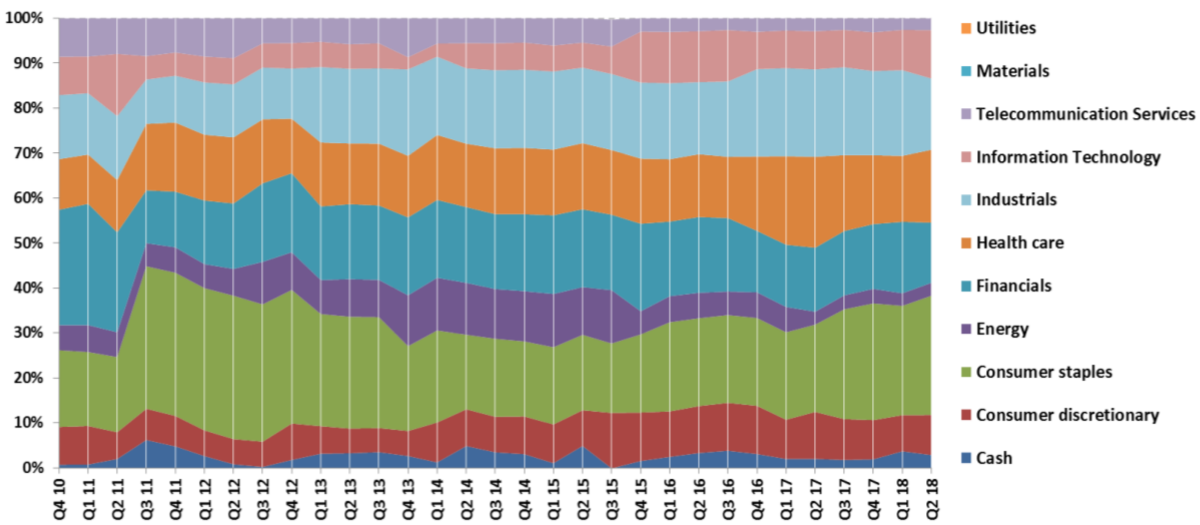

Chart 7: Sector breakdown of the fund since launch.
Source: Guinness Atkinson Asset Management, Bloomberg (data as of 06.30.2018)

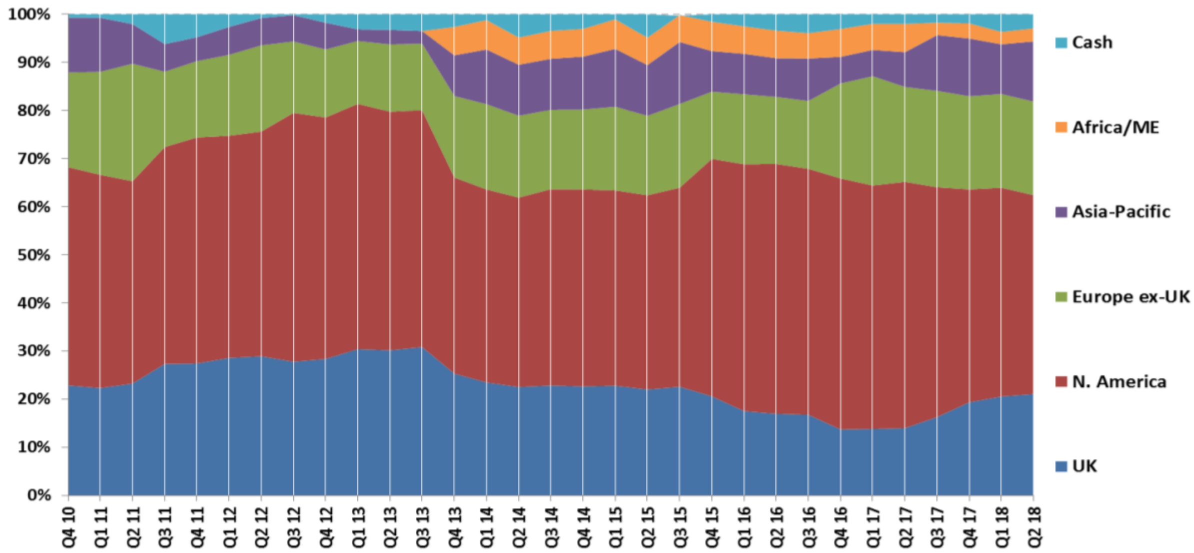

Chart 8: Geographic breakdown of the fund since launch.
Source: Guinness Atkinson Asset Management, Bloomberg (data as of 06.30.2018)

Individual companies that performed well over Q2 were Merck, Royal Dutch Shell and Imperial Brands. Companies that had weaker performance over Q2 were Vodacom and General Dynamics.

Merck (+12.3% in USD), the global healthcare company, was the best performer in the quarter. Best-selling drugs in the Pharmaceutical segment include type 2 diabetes drug Januvia, which brings in about $4 billion in revenues annually. Other products earning more than $2 billion include diabetes drug Janumet, HPV vaccine Gardasil, and cholesterol medication Zetia. Meanwhile, $1 billion top sellers include cholesterol medication Vytorin, skin antibiotic treatment Cubicin, HIV therapy Isentress, inflammatory treatment Remicade, cancer drug Keytruda, and chickenpox vaccine ProQuad. Strong performance in the quarter came after Merck's lung cancer drug, Keytruda, won a string of clinical trials and place it in the top spot for treating lung cancer. Estimates suggest that Keytruda could bring in $12.5 billion by 2022, and in the quarter the drug beat earnings estimates after seeing 142% year-on-year growth. The clinical trials proved a huge positive for Merck, as it continues to expand its drug portfolio with its R&D efforts.

Royal Dutch Shell (+11.1% 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. Shell's 2018 financial framework shows an encouraging scenario; in addition to rising oil price optimism, Shell's upstream business has seen steady growth, its cost base has been reduced and disciplined capital spending has led to significant free-cash-flow growth. Q1 2018 was the sixth consecutive quarter of free cash flow more than covering cash dividends. This suggests significant capacity for debt reduction and/or a possibility for share buybacks.

Imperial Brands (+10.7% in USD) is a global tobacco manufacturer. Share prices recovered after Q1 weakness which came about due to falling cigarette volumes and the increasingly regulatory pressure on tobacco companies. However, the company's fundamentals remained strong and there is an active effort from management to refocus business to key brand franchises. This initially lead to a fall in cigarette volumes, as a range of tobacco products are disposed, however, the goal is to maximize profitability and cash generation which seems to now be coming through. This is to be reinvested in faster-growing next-generation products, which would form the basis of future growth. The company's cashflow return on investment trends upwards and the dividend has attractively been grown nine consecutive times by 10%. Currently trading at a 1-year forward P/E multiple of 10.5 and a dividend yield of 6.9%, we believe the company offers an attractive valuation and income, with further growth opportunities still to be recognized.

Vodacom (-28.5% in USD) was the worst performer in the quarter. The South African company provides a cellular telephone network with operations also in Tanzania, Mozambique, Lesotho and the Democratic Republic of Congo. The company has been able to take advantage of its large market share (~60% in South Africa) and expand its active subscriber base by 13% over the year, to 73.6 million. Initiatives to cut the cost of mobile data increased smartphone penetration and led to both customer growth and increased mobile usage. Gross margins have remarkably been increasing year on year for a decade, and the company has been able to generate a consistent cashflow return on investment of above 14.6% for the past 18 years. The Group has a strong balance sheet and attractive dividend yield of 5.1%. Capital expenditure has been directed to better the company's network, which has reached 78% 4G population coverage and 99% 3G population coverage. It's recent sell-off points to new regulation which prohibits service providers instilling out-of-bundle charges on mobile phone contracts and ensures that customers must be notified when their internet data is running low. Vodacom CEO, Shameel Joosub, claimed that average revenue per user declined 4% in the past year "as a result of higher roll over of unused data bundles as we continue to migrate customers to 'more value' contracts, with 43.4% of the base now signed up for these contracts". This highlights the importance of the regulation, though it is likely a one-off event that the company has been preparing for.

In the quarter we made one change to the portfolio, whereby we replaced General Dynamics Corporation with Taiwan Semiconductor Manufacturing Company (TSMC).

GD (-14.2% in USD in the quarter), the diversified military defense company, has been held in the fund since launch and been a stand-out performer with a holding period return of 217% (in USD). General Dynamics is a prime military contractor to the Pentagon (the US government accounts for about 60% of sales). The company's military operations include information systems, marine systems, combat equipment and an aerospace unit. Recently, GD acquired CRSA, a provider of information technology services to the federal government, for about $9.7 billion in cash and the assumption of debt. We have decided to take profits on GD after strong performance has led to a 1-year forward P/E Ratio of 16.7 (much higher than its historical 10-year average) and dividend yield has fallen to 1.9%.

TSMC is a pure-play foundry business and manufactures integrated circuits which are used in computers, communication equipment, consumer electronics, automotives, and industrial equipment. The company has a very low debt to equity ratio of 12%, and attractive dividend yield of 3% with double digit earnings and profit growth estimates. With a 2-year forward P/E Ratio of 14.5, we see the company as attractively valued given its above-market-average growth forecasts. Revenues and gross margins have increased every year for the last 8, and cashflow returns on investment have been maintained above 10% for the last 10 years.

Outlook

With an increasing influence of geopolitics on market returns and volatility, we believe that our approach to finding quality companies at attractive valuations is more important than ever. The Guinness Atkinson Dividend Builder Fund currently trades at an attractive valuation to the MSCI World on both a price-to-earnings and free-cash-flow-yield basis. We believe this provides good value to our investors and puts us in good stead in our search for long-term capital growth and a steady, growing income stream.

We thank you for your continued support.

Portfolio Managers

Matthew Page, CFA & Ian Mortimer, CFA

Key Fund Metrics Today

The four key tenets to our approach are: quality, value, dividend, and conviction. We follow these metrics at the portfolio level to make sure we are providing what we say we will. Based on the measures, holistically, the high-conviction fund has companies which are on average better quality at better value verses the index.

At the quarter end, we are pleased to report that the portfolio continued to deliver on all four of these measures relative to the benchmark MSCI World Index.

		Fund	MSCI World Index
Quality	Average 10 year CFROI*	18%	8%
	Weighted average debt / equity	56%	66%
Value	PE (2018e)	15.7	15.8
	FCF Yield (LTM)*	5.6	4.3
Dividend	Dividend Yield (LTM)*	2.7%	2.4%
	Weighted average payout ratio	49%	49%
Conviction	Number of stocks	35	1650
	Active share	93%	-

Chart 7: Portfolio metrics versus index.
Source: Guinness Atkinson Asset Management, Credit Suisse HOLT, Bloomberg (data as of 6.30.2018)
* Defined at end of commentary

30 Day SEC Yield (as of 6.30.2018): Subsidized 2.44% | Unsubsidized 1.15%

Guinness Atkinson
Dividend Builder Fund
Managers Update – July 2018

GUINNESS ATKINSON FUNDS

Performance

In June, the Guinness Atkinson Dividend Builder Fund produced a total return of -0.88% (TR in USD), compared to the MSCI World Index return of -0.01%. The fund therefore underperformed the Index by 0.87%.

Standardized Performance

as of 06/30/18	YTD	1 YR	3 YR	5 YR	10 YR	Since inception (3/30/12)
Dividend Builder Fund	-0.22%	7.78%	7.63%	8.48%	N/A	9.69%
MSCI World Index	0.74%	11.71%	9.12%	10.59%	N/A	10.60%

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.

This information is authorized for use when preceded or accompanied by a prospectus for the Guinness Atkinson Dividend Builder Fund. You can find the prospectus here.

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 June 30, 2018:

1.	NEX Group PLC	4.47%
2.	Microsoft Corp	3.64%
3.	VF Corp	3.54%
4.	CME Group Inc	3.32%
5.	Cisco Systems Inc	3.28%
6.	Deutsche Boerse AG	3.24%
7.	ANTA Sports Products Ltd	3.21%
8.	Royal Dutch Shell PLC – A Shares	2.95%
9.	Arthur J Gallagher & Co	2.93%
10.	Aflac Inc	2.86%

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.

SEC Yield is a standard yield calculation developed by the U.S. Securities and Exchange Commission (SEC) that allows for fairer comparisons of bond funds. It is based on the most recent 30-day period covered by the fund's filings with the SEC. The yield figure reflects the dividends and interest earned during the period after the deduction of the fund's expenses.

Unsubsidized Yield represents what the yield would have been in the absence of temporary expense waivers or reimbursements.

Subsidized Yield represents the yield including temporary expense waivers and reimbursements.

Cash Flow Return on Investment (CFROI®) is a valuation model that assumes the stock market sets prices on cash flow, not on corporate earnings. It is determined by dividing a company’s gross cash flow by its gross investment.

Free cash flow (FCF) yield is a financial ratio that standardizes the free cash flow per share a company is expected to earn against its market value per share. The ratio is calculated by taking the free cash flow per share divided by the share price.

One cannot invest directly in an index.

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