Guinness Atkinson

Global Innovators Fund

Managers Update – November 2018

October in review

Economics:

In the US, positive data continued to flow with unemployment dropping to its lowest level since 1969, GDP growth beating expectations up to 3.5% (however down from 4.2% last quarter) and more recent data indicating wages are finally starting to pick up. However, with the benefits of the tax cuts on corporate earnings diminishing, the US has been left with a widening fiscal budget deficit, growing 17% year-on-year to 3.9% of GDP. Additionally, President Trump's use of trade tariffs has come into question with no breakthrough in talks with China and the US trade deficit rising to the highest level on record ($76bn).

In Europe, Eurozone GDP growth was below expectations (0.2%) with the EU as a whole also falling to 0.3% growth. The soft data has been indicative of a struggling German economy – the largest economy in the EU – and continued issues surrounding the Italian budget, which was rejected by the EU. Germany has been struggling with car emission scandals and softening demand for automotives from the likes of China, the largest automotive market in the world. More recently, Angela Merkel has announced she will be stepping down as the leader of the Christian Democratic Union (CDU) after her term in 2021, raising questions of a Germany without Angela Merkel.

In China, the Renminbi fell to its lowest level against the dollar since 2008 and official figures showing GDP growth slowing to 6.5% - the slowest rate since the 2008 crash. However, in an unusual move, Chinese officials released a statement in an attempt to reassure investors, pointing to an easing of M&A approvals and the facilitation of private investments. This comes after a series of actions China has taken including the lowering of the required reserve rate for the fourth time this year in a push to increase liquidity in the market.

In the UK, the pound rose as talk of a finalized Brexit agreement increased with Brexit secretary Dominic Raab signaling he expected a deal before November 21. Additionally, there were reports indicating the EU and Britain had reached an agreement on financial services post-Brexit. The UK released its final budget before the Brexit deadline, with the UK chancellor declaring the era of austerity was finally coming to an end. The NHS budget has been given a boost by stronger than expected tax receipts, while the UK is also implementing a digital tax on large tech companies if there is no international agreement to tackle the issue.

Earnings season:

According to FactSet, over half of the S&P 500 companies have reported earnings this quarter by the end of October, of which 77% have reported earnings-per-share (EPS) figures above forecasts. Contrary to history, for which positive earnings surprises have been rewarded with an average 1% share price increase, this quarter's earnings beating companies have experienced an average 1.5% *decrease* in share price. This possibly reflects lower future guidance given by management on issues surrounding rising interest rates, trade tensions and increasing input costs, but could also suggest lower confidence from investors in economic growth in general.

Within the portfolio, 19 companies have reported Q2 earnings thus far, with 79% showing positive earnings surprises.

Company	Revenue Surprise (%)	Earnings Surprise (%)
INTERCONTINENTAL EXCHANGE	0.46%	6.25%
BAIDU	1.56%	13.64%
COGNIZANT	-0.14%	4.98%
EATON	-1.50%	-0.17%
FACEBOOK	-0.55%	19.43%
FANUC	-2.00%	-13.39%
KLA-TENCOR	1.75%	11.23%
ROPER TECHNOLOGIES	0.62%	5.10%
ABB	-1.40%	-7.61%
COMCAST	1.38%	7.37%
ALPHABET	-0.64%	13.53%
SCHNEIDER ELECTRIC	2.05%	8.41%
CHECK POINT SOFTWARE	1.03%	1.55%
NEW ORIENTAL	2.24%	-2.11%
DANAHER	1.05%	2.30%
PAYPAL	0.43%	7.17%
SAP	0.54%	4.40%
LAM RESEARCH	0.90%	4.47%
SAMSUNG	0.65%	5.84%

Source: Bloomberg as of October 31, 2018

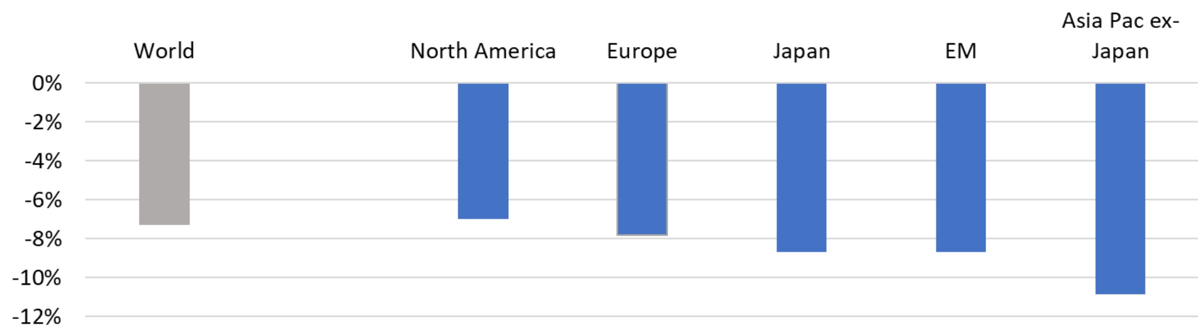
The notable negative earnings surprises came from Fanuc and ABB, our two robotics/automation companies, citing slowdowns in orders from a weaker macro environment. ABB and Fanuc now trade on 1-year forward PEs of ~15x and ~21x, below their respective 5-year averages. Over the long-term, we view these companies as key beneficiaries to the global demand for industrial automation - increasing workplace efficiencies, reducing defects, and decreasing labor costs.

Performance drivers

Neither region nor sector escaped the worst month for stocks since October 2011. All regions experienced negative returns, with Asia-Pacific ex-Japan weakest returning -11% (in USD). The portfolio's overweighting to the IT sector was the main contributor to the underperformance relative to the MSCI World. However, the portfolio underweight asset allocation to financials – the largest sector exposure in the MSCI World - was a positive contributor. Regionally, the portfolio suffered from an overweighting to Asia Pacific stocks –

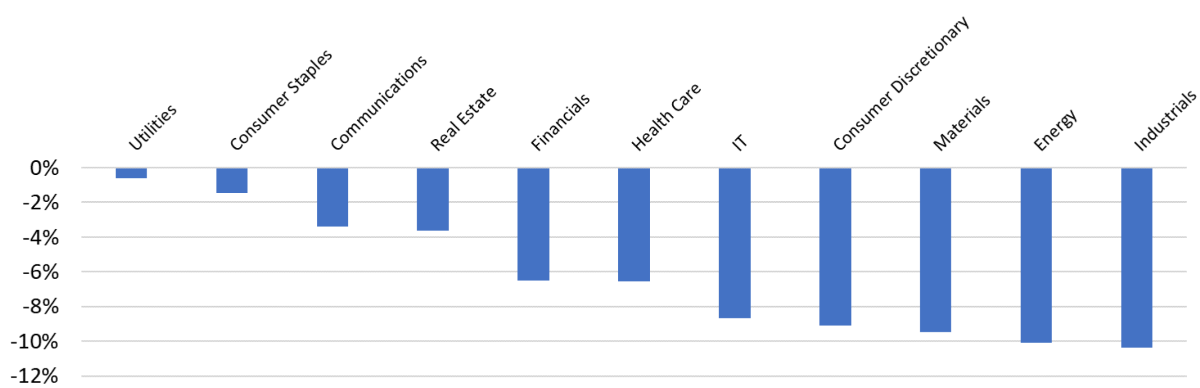
specifically, the portfolio is overweight to Chinese stocks which was a large underperformer over the month (down ~20% in USD).

MSCI World Index regional performance: September 30 – October 31, 2018



Source: Bloomberg as of October 31, 2018

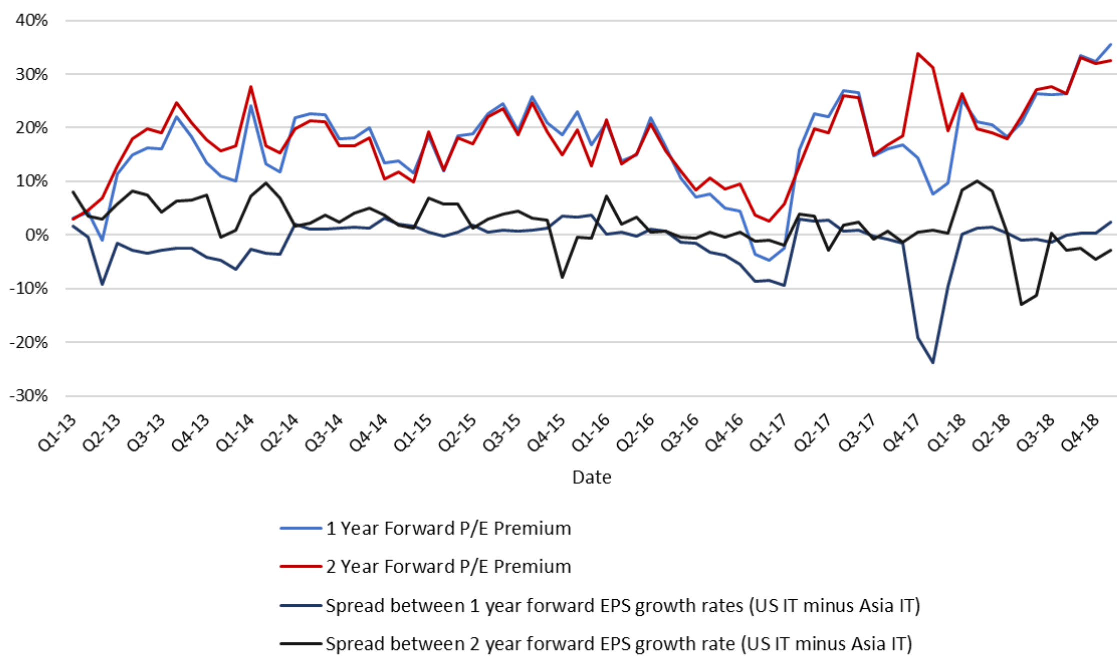
MSCI World Index sector performance: September 30 – October 31, 2018



Source: Bloomberg as of October 31, 2018

Our overweighting to Asia Pacific equities, and in particular Asia Pacific IT stocks, has been a drag on the portfolio over the recent period. However, as per the graph below, the premium paid for US IT stocks over Asian IT is at all-time highs at around 30-35% (based on 1 and 2-year forward P/E ratios). However, the 1-year forward EPS growth rate for US IT implies only a 3% higher growth above that of Asia, with 2-year EPS growth rates for Asia Pacific IT actually pricing in higher rates than their US counterparts. In our view, we believe Asian stock have been overly sold and are now trading at even more attractive multiples given the implied growth rates relative to global peers.

MSCI USA IT Index against MSCI AC Asia Pacific IT Index



Source: Bloomberg as of October 31, 2018

Portfolio Update:

Individual companies that performed well over the month included Comcast Corp (8.28% in USD) and Intercontinental Exchange Inc (2.87% in USD).

Comcast, the American telecommunications conglomerate which offers streaming, television channels and high-speed internet, experienced the largest total return of the portfolio over October. While users in pay-tv continue to decline, Comcast has been buoyed by renewed momentum in broadband - a contrast to competitors such as AT&T and Disney who are investing heavily in content to take on Netflix. Upgraded ratings from Credit Suisse helped compound a strong month citing sustained marketing in satellite TV while others cut costs, which should reduce competitiveness and increase margins. With the stock trading around 1 standard deviation below its 10-year P/E average, Comcast looks like it has more upside potential.

Intercontinental Exchange has been embarking on a wave of acquisitions as it focuses on pricing and financial data revenue streams. Despite recent outcries from the SEC over the 'unjust' pricing of data fees charged by exchanges to the likes of brokers and traders, Intercontinental performed strongly in the most recent earnings period, beating forecasts by 6.25%. With the VIX index, an indicator of expected market volatility, increasing in recent months and uncertainty around the future of trade tariffs and interest rate movements, we view Intercontinental as a strong beneficiary to this increased volatility in the market as investors reallocate capital.

Individual companies that underperformed over the month were AAC Technologies Holdings Inc (-26.78% in USD) and NVIDIA Corp (-24.98% in USD).

Nvidia, a market leader in semiconductor chips, specifically Graphics Processing Units (GPUs), traditionally used in video games, has been a long-term outperformer due to the more recent use of GPUs in AI and machine learning technologies. However, Nvidia has experienced recent headwinds due to fears surrounding the slowdown in demand for crypto-mining chips and more general semiconductor demand cycle fears. We expect Nvidia has potential to continue to benefit from increased revenues from data centers and more diverse use of their GPUs, particularly as autonomous vehicles become a reality in modern transportation.

AAC technologies, a key supplier of smartphone components including acoustics, haptics and optics, has experienced continued downward pressure over the year from slowing smartphone demand and fears of increased competition. AAC continues to produce innovative products including the use of smartphone screen surfaces as speakers and the increased use of haptics for user feedback. The rising demand for premium smartphones, leads to the necessity for premium components, and as such, AAC's high quality products should be able to regain any temporary loss in market share to new entrants. AAC currently trades on a 1 year forward P/E of around 13x, a figure we believe is not reflective of the company's potential future growth but is more in line with compression in Asian IT multiples in general.

Thank you for your continued support.

Performance

For the month of October, the Guinness Atkinson Global Innovators Fund's Investor Class provided a total return of –10.41% (USD) against the MSCI World Index return of -7.32% (USD). Hence the fund underperformed the benchmark by -3.09% (USD).

As of 10.31.2018 (in USD)	YTD	1 Year	3 Years	5 Years	10 Years	Since Inception
Global Innovators, Investor Class[1]	-10.49%	-9.04%	8.48%	9.03%	14.21%	7.28%
Global Innovators, Institutional Class[2]	-10.31%	-8.82%	8.74%	9.18%	14.29%	7.32%
MSCI World Index	-2.31%	1.16%	7.91%	6.80%	10.02%	5.02%

As of 9.30.2018 (in USD)	YTD	1 Year	3 Years	5 Years	10 Years	Since Inception
Global Innovators, Investor Class[1]	-0.09%	6.15%	16.61%	12.55%	13.13%	7.91%
Global Innovators, Institutional Class[2]	0.09%	6.41%	16.88%	12.70%	13.21%	7.95%
MSCI World Index	5.43%	11.24%	13.53%	9.28%	8.55%	5.45%

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

[2]Institutional class (GINNX) Inception 12.31.2015 | Expense ratio* 0.99% (net); 1.17% (gross)

All returns after 1 year annualized.

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/#fund_performance or call (800) 915-6566.

[2]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 reimburse 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 absorbs expenses to satisfy this cap, it may recoup a portion or all of such amounts absorbed at any time within three fiscal years after the fiscal year in which such amounts were absorbed, subject to the expense cap in place at the time recoupment is sought, which cannot exceed the expense cap at the time of waiver. The expense limitation agreement may be terminated by the Board of the Fund at any time without penalty upon 60 days' notice.

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 10/31/18:

1. Comcast Corp - A Shares	3.94%
2. Roper Industries Inc	3.73%
3. Facebook Inc	3.65%
4. Catcher Technology Co Ltd	3.65%
5. Continental AG	3.65%
6. SAP SE	3.61%
7. Check Point Software Technologies Ltd	3.58%
8. Samsung Electronics Co Ltd	3.57%
9. NIKE Inc	3.55%
10. FANUC Corp	3.54%

For a complete list of holdings for the Global Innovators Fund, please visit https://www.gafunds.com/our-funds/global-innovators-fund.

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 Fund, and it may be obtained by calling 800-915-6566 or visiting gafunds.com. Read it carefully before investing.

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

Price-Earnings (P/E) ratio is a valuation ratio of a company's current share price compared to its per-share earnings. Forward earnings differ from trailing earnings, which is the figure quoted more often, as they are a projection and not a fact.

MSCI World Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed markets.

MSCI AC Asia Pacific IT Index is a free float-adjusted market capitalization index which captures large and mid-cap securities across Developed Markets countries and Emerging Markets countries in the Asia Pacific region in the IT sector as per GICS®.

MSCI USA IT Index is designed to capture the large and mid-cap segments of the US equity universe. All securities in the index in the IT sector as per GICS®.

One cannot invest directly in an index.

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