Guinness Atkinson
Global Innovators Fund
Managers Update – February 2019

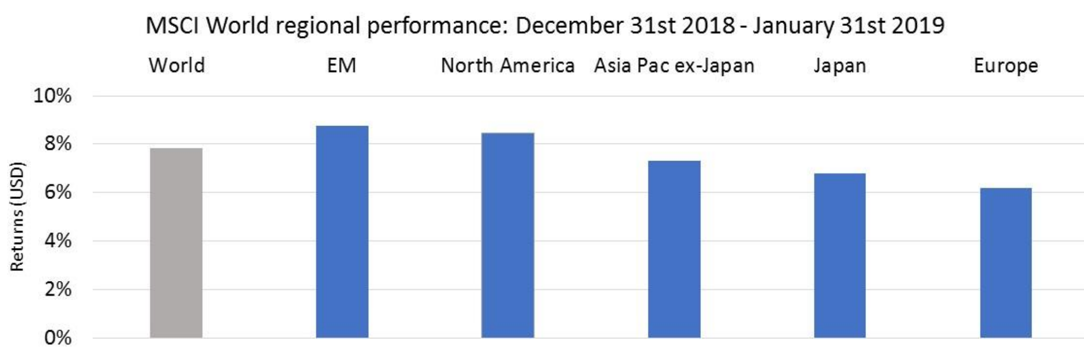
Guinness Atkinson Global Innovators Fund – Manager's Update February 2019

January in review:

During January, dovish tones from the US FED on future interest rate hikes and a lack of deterioration in trade tariff talks, gave some welcome relief to global markets. Indeed, the Guinness Atkinson Global Innovators Fund, which at the end of 2018 was trading at a discount to the MSCI World, performed strongly over the month as the fund's most notable overweight exposures – IT and Chinese stocks – produced strong returns having experienced significant multiple contraction over the last year.

The fund's overweight position to Asia Pacific and more specifically China, which was a drag on the portfolio over the fourth quarter, rebounded strongly as positive – or a lack of completely negative - noise from US-China trade talks emerged. With investors looking for signals to try and ease worries and dampen volatility, any concrete agreement on Washington's main sticking points still seems some way off. There was some relief as China pledged to buy significant amounts of agricultural, manufacturing and other US products to begin rebalancing the trade deficit. However, since the meeting, mixed messages have been released from either side with the US rejecting a meeting for further talks from two Chinese vice-ministers and US commerce secretary stating the trade deal with China was "miles apart".

The news comes as economic data coming out of China shows a continued slowdown with real GDP for the fourth quarter down to 6.4% and export growth falling 4.4%. The slowdown has been cited as a reason for corporate earnings slowdown with Apple reporting a 27% fall in Chinese revenues in the most recent quarter.

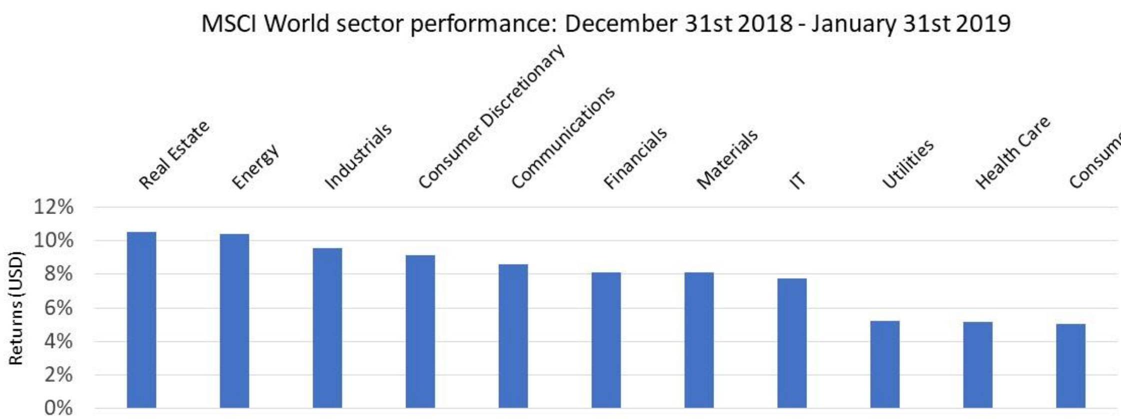


Source: Bloomberg, as of January 31st 2019

In what was an unexpected reversal, Jerome Powell, the US FED Chairmen, signaled that slowing growth from China and Europe as well as the US government shutdown was enough to warrant the possibility of no further interest hikes this year. This comes in stark contrast to the tone set by the FED only a few months ago, whereby the interest rate path was set to 'autopilot'. The news, coupled with China trade commentary, enabled the US equity market to rise some 8.5% over the month with the portfolio benefiting as a result – the US is the fund's largest regional exposure.

Within Europe, mixed data continued to be released as manufacturing Purchasing Managers' Index (PMIs) for the Eurozone came in below expectations, Italy experienced its second consecutive quarter of GDP contraction – moving Italy into a technical recession – and slowing momentum from the 'yellow vests' in France was not enough to stem its composite PMI falling further to 47.9. However, unemployment in Europe continued to fall to 7.9% and the European Central Bank signaled they would continue to re-invest the proceeds from maturing investments as part of their quantitative easing program while also implying any interest rate hike would be further out than previously expected.

The slowing data points did have an effect on ABB Ltd, the fund's industrial robotics manufacturer, over fears that slower capex (capital expenditure) spending would lead to a deterioration in demand.



Source: Bloomberg, as of January 31st 2019

Much of the outperformance over the month was a result of the fund's overweight position to IT, and in particular semiconductor stocks such as LAM Research (up 24.5% in USD) and KLA-Tencor (up 19.0% in USD), which rallied strongly on upbeat outlooks going into the second half of 2019. Additionally, strong stock selection within the consumer discretionary sector resulted in the fund's biggest outperformance on a sector by sector level as New Oriental Education, a Chinese private tutoring company, beat earnings forecasts, sending the stock price up 40.6% (in USD) over the month.

Semiconductor companies look to 2H 2019:

Semiconductor companies experienced strong returns over the month as the majority reported strong top and bottom-line surprises coupled with management commentary pointing to a possible 'bottoming-out' in demand going into the second half of the year.

Looking at earnings calls from several semiconductor companies that reported over the month, we note the following commentary from management:

Samsung: "*in the second half of this year, we are expecting there to be server DRAM demand recovery together with the introduction of the new CPU. Also, we're seeing that there will be a strong server memory demand because there are companies that are preparing to adopt Edge servers in advance to prepare for the 5G network rollout after year 2020."*

Intel: "*consistent with kind of historical patterns, we do expect the purchasing to start picking up again in the second half of the year."*

"While the first half in the cloud will be a little bit tougher, we do expect that cloud continues to grow as they start to move and to build out again in the second half."

LAM Research: "*we expect the first half of the year is going to be weighted towards foundry and logic. It will be stronger in the first half than the second half. And memory is may be a little bit stronger in the second half than the first half"* – for context, LAM's revenue is 80% weighted towards memory.

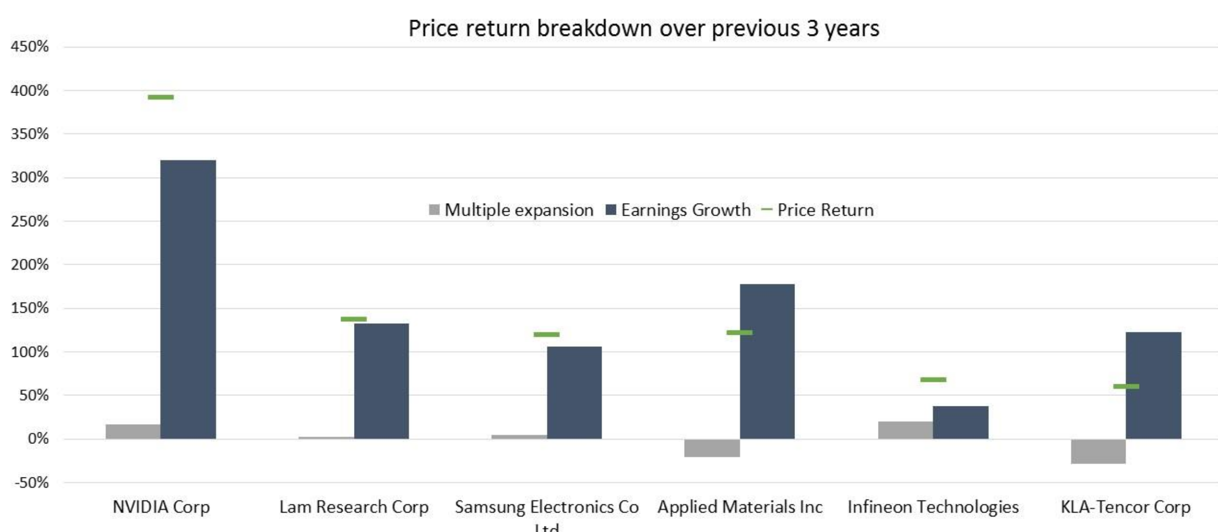
KLA-Tencor: "*Though visibility in the industry today is challenging and customer plans remain fluid, particularly in memory, our current view is for the second half 2019 shipments to be greater than the first half."*

ASML: *"All this has resulted in some push-outs of planned shipments by Memory customers in the first half of 2019. Customers have indicated that they believe there will be a recovery in the second half of the year, as they expect that the inventory levels will be managed down swiftly. In Logic, while we see some softening in Deep UV demand, which is primarily driven by the mobile market, we still expect strong demand in support of the ramp of 10 and 7-nanometer nodes."*

"We reiterate that we see market demand that supports yet another year of growth for ASML in 2019 with significantly stronger demand in the second half of the year."

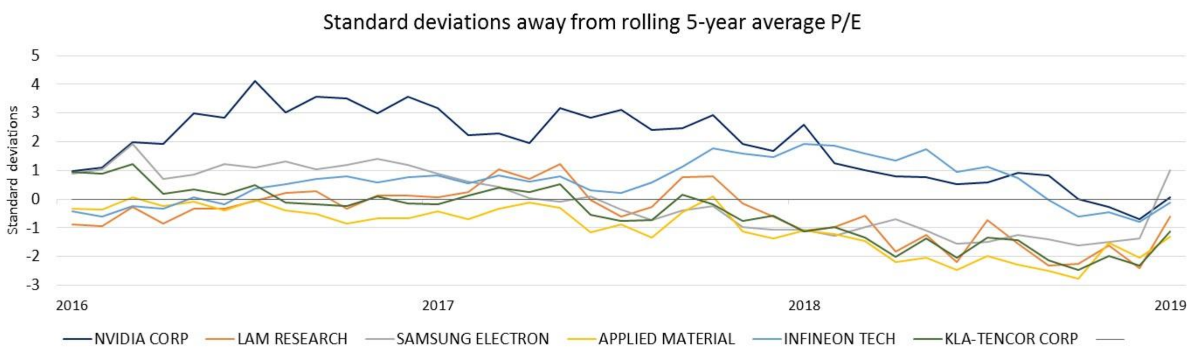
Within the Global Innovators fund, we currently hold 6 semiconductor companies: Nvidia; LAM Research; Samsung; Applied Materials; Infineon; and KLA-Tencor. Over the month, 5 out of the fund's 10 highest performing stocks were semiconductor companies with Nvidia the only outlier.

As the figure below depicts, over the past three years semiconductor returns have been driven by substantial earnings growth as opposed to multiple expansion. In fact, when calculating the proportion of price return derived from multiple expansion across the 6 companies held in the fund, on average 0.4% of price returns came from PE expansion over the last 3 years.



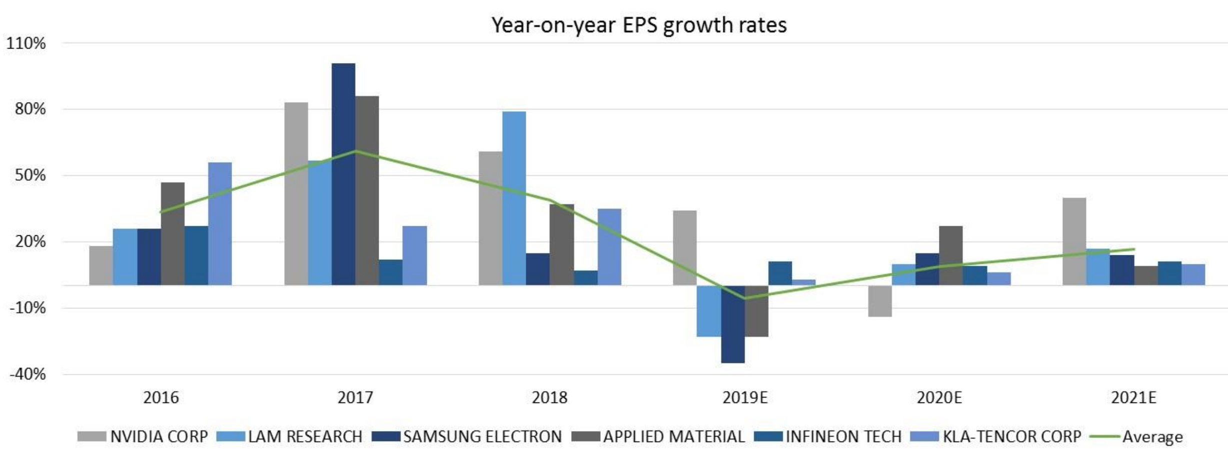
Source: Bloomberg, as of January 31st 2019

Indeed, when looking at how the firms' 1-year forward P/Es have evolved over the last few years, the semiconductor names have experienced continued downward pressure on multiples despite reporting strong earnings growth. The figure below shows that, relative to their respective rolling 5-year average 1FY PE ratio, the majority of the companies now trade below their 5-year average, having reached lows of 2-3 standard deviations below averages during 2018.



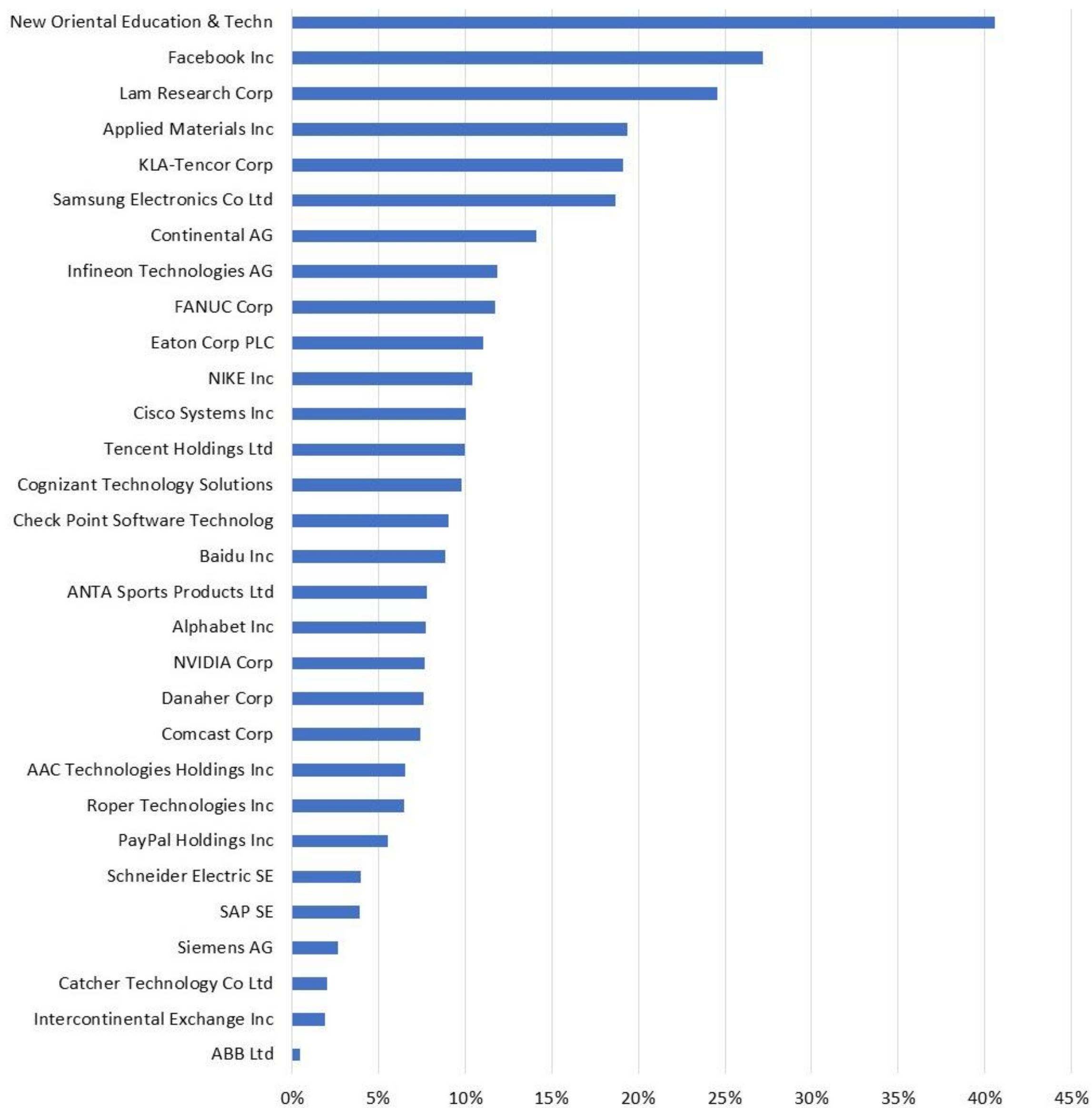
Source: Bloomberg, as of January 31st 2019

Considering the cyclical nature of these companies and the significant growth they have experienced over recent years, a slowdown is not unordinary. Having said that, part of our investment thesis for semiconductor names was that, due to their innovative nature and the increasing number of applications demanding more advanced semiconductor chips, a slowdown would be less pronounced than history would suggest. Following on from this, as the figure below shows, along with commentary from management, a sizable portion of semiconductor companies are now predicting increasing demand going into the second half of 2019, which is reflected in the increasing EPS (earnings per share) growth figures going forward from 2019.



Source: Bloomberg, as of January 31st 2019

Individual stock performance over January (total returns USD):



Source: Bloomberg, as of January 31st 2019

Individual companies that performed well over the month included New Oriental Education (40.6% in USD) and Facebook Inc (27.2% in USD).

New Oriental Education, the provider of private tutoring services in China, reported top and bottom-line figures that beat analysts' forecasts, propelling its stock price higher. The stock had been one of the fund's largest underperformers of 2018, mainly on increased regulation in private tutoring services within China – a move we felt was overdone, given increased regulation and standardization of the industry should stand to benefit the larger players in the long-term as smaller players are phased out. New Oriental Education last year announced an expansion effort to gain a greater share of the largely fragmented private tutoring market. In the latest earnings report, the company reported expansions efforts were on-track with total schools and learning centers up 20% year-over-year (YoY), while announcing a new initiative named "3S" – Standardization, Streamlining and Systematization – dedicated to improving the efficiency of the company. The fund's equal-weighting strategy, which ensures we periodically trim the overperforming stocks and top-up the underperformers, has meant we were able to lock in profits as the stock fell during 2018 and similarly when the stock subsequently rose during January.

Plenty of eyes were on **Facebook's** latest earnings report released in January. The company which owns the 'family of services' Facebook, WhatsApp and Instagram has faced significant scrutiny over the last year surrounding data privacy. However, Facebook posted results that beat estimates across the board, citing revenue growth of 28% YoY and EPS growth of 56% YoY. Mark Zuckerberg, Facebook's founder and CEO, also announced proposals to increase payment services through WhatsApp, build out Instagram's shopping capabilities and link the messaging technology behind Facebook Messenger, WhatsApp and Instagram. We believe the monetarization capabilities of Facebook continue to grow as connectivity between apps better enables Facebook to target more specific advertising and increasing capabilities within the apps makes consumers more reliant on its ecosystem.

Individual companies that underperformed over the month were ABB Ltd (0.45% in USD) and Intercontinental Exchange Inc (1.90% in USD).

ABB, the provider of power and automation technologies**,** announced in December the splitting off of its power grid business to Hitachi in order to streamline the business as it looks to focus its efforts on industrial automation via the production of robotics. Over the last month, analysts have continued to downgrade their estimates over worries of slow late cycle capex spending. ABB currently derives around 37% of its revenues from Asia, Middle East and Africa and 35% from Europe – regions which are currently experiencing slowing manufacturing PMIs. While we acknowledge these short-term headwinds, we believe the company will benefit from the longer-term secular shift toward automated production lines, whist the splitting off of its power grid business leaves ABB with a more focused platform.

Intercontinental Exchange (ICE), the operator of global commodity and financial security exchanges, returned 1.9% over the month, underperforming the market. This came after an announcement from Morgan Stanley, Fidelity and Citadel Securities, among others, that they have plans to form their own exchange. The new exchange, named Members Exchange, aims to be a low-cost alternative after complaints over high data fees. However, we believe ICE's continued move to diversify its business away from purely traditional exchange listings and trading and more into market data – which now represents 33.7% of total revenue up from 19% in 2015 – provides the company with robust future growth. The company now trades at 19.6x its 19Y earnings – average when compare to its 10-year history even though its business model has evolved into more recurring revenue - representing the potential for re-ratings.

Thank you for your continued support.

Summary performance

For the month of January, the Guinness Atkinson Global Innovators Fund Investor Class provided a total return of 10.78% (USD) against the MSCI World Index net return of 7.78% (USD). Hence the fund outperformed the benchmark by 3.00% (USD).

as of 01.31.2019 (in USD)	YTD	1 year	3 years annualized	5 years annualized	10 years annualized
Global Innovators, Investor Class [1]	10.78%	-12.58%	13.57%	8.65%	16.25%
Global Innovators, Institutional Class [2]	10.80%	-12.34%	13.85%	8.83%	16.34%
MSCI World Index Net Return	7.78%	-6.54%	11.25%	6.94%	11.50%

as of 12.31.2018 (in USD)	YTD	1 year	3 years annualized	5 years annualized	10 years annualized
Global Innovators, Investor Class1	-16.80%	-16.80%	7.08%	6.03%	14.00%
Global Innovators, Institutional Class2	-16.59%	-16.59%	7.35%	6.19%	14.09%
MSCI World Index Net Return	-8.71%	-8.71%	6.30%	4.56%	9.66%

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.

[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.

[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.
As of November 2018, the MSCI World Index Net return was used instead of the Gross Return. MSCI World Index Net Return reflects deduction for withholding tax but reflects no deduction for fees and expenses. Net Return is net of local withholding taxes that any investor would typically pay.

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 1/31/19:

1. KLA-Tencor Corp	3.67%
2. Facebook Inc	3.63%
3. Applied Materials Inc	3.58%
4. Tencent Holdings Ltd	3.57%
5. Eaton Corp PLC	3.54%
6. Danaher Corp	3.53%
7. Alphabet Inc - A Shares	3.51%
8. ANTA Sports Products Ltd	3.43%
9. Check Point Software Technologies Ltd	3.43%
10. Lam Research Corp	3.40%

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.

Capital Expenditure (CAPEX) is an amount spent to acquire or upgrade productive assets (such as buildings, machinery and equipment, vehicles) in order to increase the capacity or efficiency of a company for more than one accounting period.

Standard Deviation is a statistical measure of the volatility of the fund's returns. In general, the higher the standard deviation, the greater the volatility of the return.

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