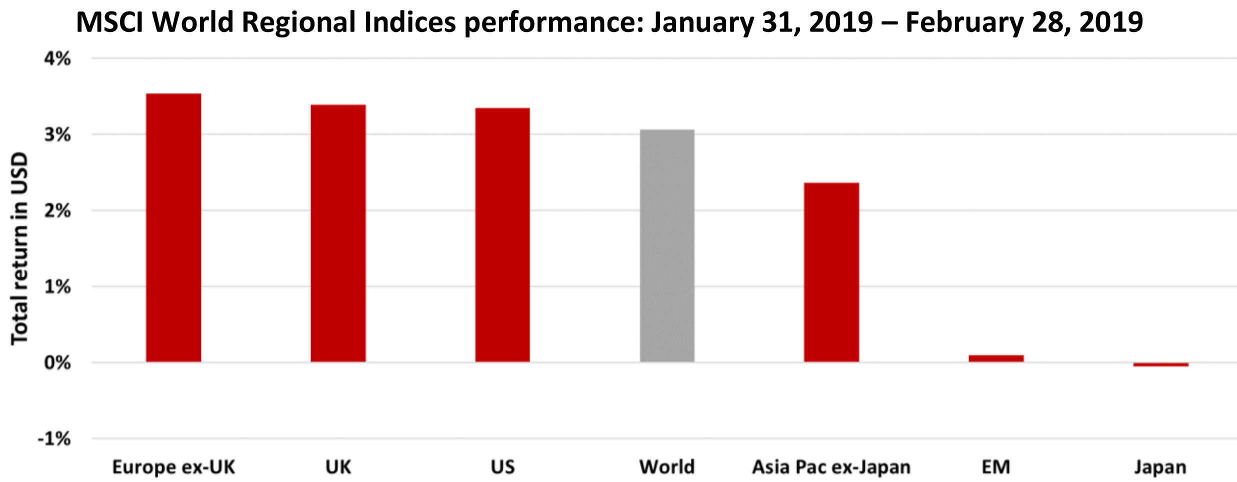
Guinness Atkinson
Dividend Builder Fund
Managers Update – March 2019

February in Review



Source: Bloomberg. As of February 28, 2019

Global equities rose for the second consecutive month in February, boosted by a combination of constructive US-China trade talks, a considerably more dovish stance from the US Federal Reserve and the implementation of Chinese stimulus measures. Most major regions posted gains as investor concerns eased, with developed regions benefitting the most. Europe, the UK and the US all posted similar, modest gains

In the US, fourth-quarter GDP growth, released later in February than usual, indicated quarter-on-quarter growth of 2.6% – higher than the expected 2.2%, though slower than the 3.4% growth posted for the third quarter of 2018. With major central banks seemingly on pause or turning less aggressive, investor attention now appears firmly focused on the outlook for global trade and the chances of progress at the next round of talks between the US and China. On this front, President Trump and his top economic advisers have sent a series of conflicting messages about the status of trade talks with China:

- “We’re heading for a historic deal,” Larry Kudlow, director of the National Economic Council, said in an interview on CNBC. “The outlook for a deal is very positive.”
- “We are well on our way to doing something special” with China, President Trump told news reporters.
- But “I am always prepared to walk. I’m never afraid to walk from a deal,” he added. “I would do that with China, too, if it didn’t work out.”
- And “much still needs to be done both before an agreement is reached and, more important, after it is reached, if one is reached,” Robert Lighthizer, President Trump’s top trade negotiator, told Congress.

On one hand, President Trump has proved he will "walk" if need be. After he abandoned peace talks with Kim Jong-un of North Korea, concerns that the President might settle for a poor deal appear diminished. If he does not like the terms of a China deal, the trade war could continue.

On the other hand, the enforced delay in increasing American tariffs on Chinese goods has buoyed investor sentiment that President Trump and President Xi Jinping could sign a trade deal in the near future. The trade tensions have hurt global equities and any deal would be a welcome relief for markets.

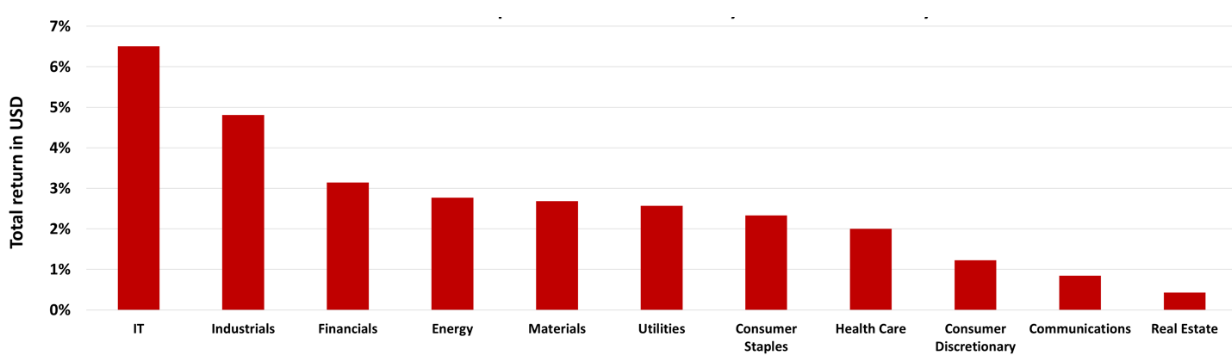
Anticipation of stronger future markets – or perhaps less weak markets – has meant February saw the continued outperformance of the cyclical sectors:

Cyclical Sectors vs. Defensive Sectors (%)

Y-axis: MSCI USA Cyclical Sectors Index / MSCI USA Defensive Sectors Index.
Source: Bloomberg. As of February 28, 2019

The MSCI Cyclical Sectors Index has been outperforming the MSCI Defensive Sectors Index since mid-December. This can also be seen in individual sector performance seen across February:

MSCI World Sector Indices performance: January 31, 2019 – February 28, 2019



Source: Bloomberg. As of February 28, 2019

IT was the standout performer in the month as earnings season brought with it a renewed interest in the sector. At the start of 2018, IT stocks were deemed to be expensive and strong positive performance was narrowly driven by the FAANGs (Facebook, Amazon, Apple, Netflix, Google). The share prices of these stocks were humbled towards the end of last year, though the tech sell-off was much broader based with many other IT stocks also negatively affected. Since the turn of the year, market pessimism towards the broader sector has eased and performance has thus been relatively strong. Notably, however, the FAANGs no longer correlate as closely; Amazon, Apple and Google have lagged the broader market year-to-date, whereas Facebook and Netflix have both significantly outperformed.

In the Guinness Atkinson Dividend Builder Fund, we hold five stocks within the IT sector: Paychex, Cisco, Microsoft, Taiwan Semiconductors, and Broadcom. As a group these have performed very pleasingly in 2019; good stock selection in this respect has offset the drag from being underweight the IT sector (versus the MSCI World benchmark).

Over the course of February, sector allocation added modestly to performance. The Fund avoided significant exposure to the worst performing sectors: we hold no positions within the Real Estate sector and are underweight within the Communications and Consumer Discretionary sectors. This was beneficial to the Fund’s active return.

The Fund is overweight in the Consumer Staples, Healthcare and Industrial sectors, which together produced returns in line with the broader market. The Fund’s outperformance in the month can therefore be attributed largely to good stock selection.

ANTA Sports was the best performing stock in the fund (+13.4% in USD, in February), and is also the best performer year-to-date (+22.2% in USD). The company generates revenue through the manufacture and trading of sporting goods, including footwear, apparel and accessories. ANTA is poised for greater market share in China as it seeks to woo affluent shoppers with pricier athletic gear. This includes popular brands such as Fila and Descente, as well as Salomon and Arc'teryx – both owned by Amer Sports, who ANTA is looking to acquire. Going premium should make up for less-robust gains at its lower-priced namesake brand, which sells at half the price of Nike and Adidas products. ANTA's sales growth is likely to accelerate if it acquires Amer, yet a profitability boost may not be likely for a couple years after the deal is completed. On the upside the move to acquire a European company gives ANTA Sports scale to expand geographically, as well as launch new products in China. The company’s growing product offering could fuel earnings and revenue growth and the shrewd move into winter sport clothing and equipment comes well-timed ahead of the next Winter Olympics in 2022 in Beijing.

Randstad (+10.6% in USD) also performed well. The Dutch recruitment firm's cost control and strong dividend increase have compensated for slower sales growth, and the market has responded positively to this. Fourth-quarter organic revenue growth confirmed the effect of tougher comparisons and economic slowdown, though margins remained resilient. Continental Europe slowed the most, with France and Germany contributing the most, though other key markets – North America and the Netherlands – were stronger. Longer term, Randstad aims for mid-single-digit growth and its integrated-technology focus is a key advantage versus rivals. Stronger performance in February can be attributed to a positive earnings surprise and a 22% increase in its dividend. Dividend yield, based on the latest announcement annualized, currently stands at 4.9%.

After being the best performing last month, **BAE Systems** was in fact one of the worst performers over February (-8.0% in USD). The company provides some of the world's most advanced defense, aerospace and security solutions, and the recent share price fall has largely been due to fears surrounding its future financial prospects. In its recent update it highlighted the potential threat to its business from the geopolitical risks which surround Saudi Arabia. Since the kingdom is one of its key customers, further negative news flow or trade sanctions could lead to additional volatility for the company's share price. Looking longer term, however, our conviction in the company's prospects remains strong. The wider defense industry is expected to deliver an improving growth rate in future years as continued geopolitical risks across a variety of regions mean that defense spending is forecast to increase at a faster pace. The US has already increased its defense budget, while other NATO members are expected to do likewise as they seek to meet their responsibilities and achieve the required military spending of 2% of GDP. This could act as a tailwind for defense-related companies and boost BAE's financial performance.

Vodacom (-9.1% in USD) was the worst performer in February, though a large proportion of the Dollar performance is due to an unfavorable currency headwind. Sharp appreciation of the South African Rand over the month (+6.3%) has meant that fewer Dollars are required to buy one share of Vodacom. This adds to the company's woes – which fell 3.7% in local terms (ZAr). Sub-Saharan Africa's largest telecom carrier has been battling headwinds facing the entire industry, specifically in the form of price reductions driven by competition and regulation.

Nonetheless, the company has been able to take advantage of its large market share (~60% in South Africa) and expand its active subscriber base year over year. Initiatives to cut the cost of mobile data has 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% for the past 18 years. Vodacom has a strong balance sheet and attractive dividend yield of 6.7%.

We made no changes to the portfolio in the month.

Performance

In February, the Guinness Atkinson Dividend Builder Fund produced a total return of 3.32% (TR in USD), compared to the MSCI World Net Return Index return of 3.01%. The fund therefore outperformed the Index by 0.31%.

Standardized Performance

as of 02/28/19	YTD	1 YR	3 YR Annualized	5 YR Annualized	Since inception Annualized (3/30/12)
Dividend Builder Fund	8.63%	2.61%	11.25%	6.41%	9.39%
MSCI World NR Index	11.02%	0.43%	12.64%	6.53%	9.08%

as of 12/31/18	YTD	1 YR	3 YR Annualized	5 YR Annualized	Since inception Annualized (3/30/12)
Dividend Builder Fund	-4.14%	-4.14%	7.50%	4.69%	8.29%
MSCI World NR Index	-8.71%	-8.71%	6.30%	4.56%	7.63%

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 reimburse 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 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 the 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.

Opinions expressed are subject to change, are not guaranteed and should not be considered investment advice.

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.

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 2/28/2019:

1.	ANTA Sports Products Ltd	3.55%
2.	Cisco Systems Inc	3.04%
3.	Randstad Holding NV	3.03%
4.	Paychex Inc	2.99%
5.	Taiwan Semiconductor Manufacturing Co Ltd	2.89%
6.	Imperial Brands PLC	2.88%
7.	Illinois Tool Works Inc	2.88%
8.	VF Corp	2.88%
9.	HengAn International Group Co Ltd	2.88%
10.	British American Tobacco PLC	2.85%

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.

One cannot invest directly in an index.

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