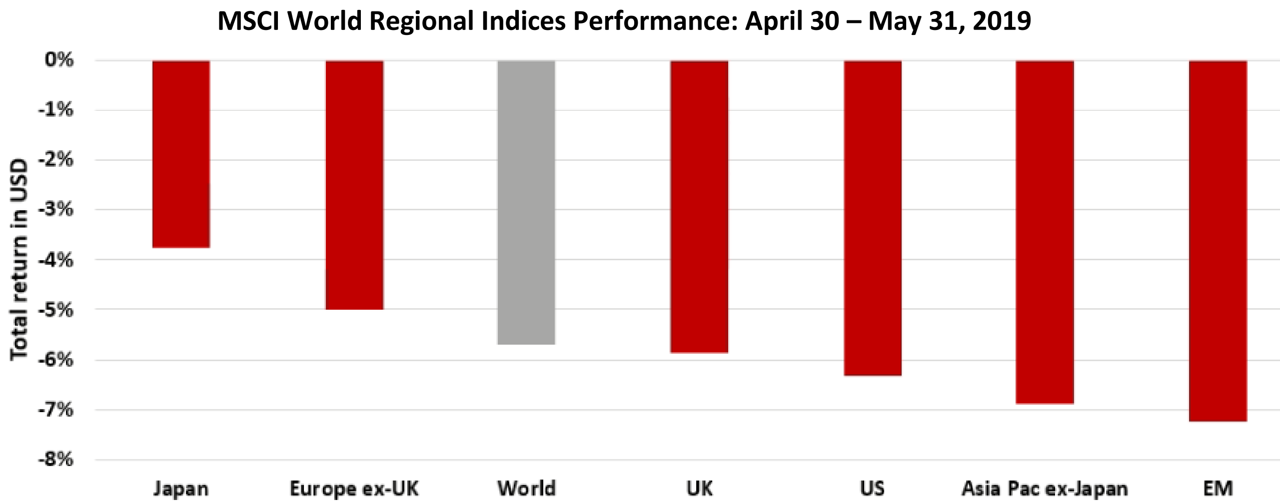
Guinness Atkinson
Dividend Builder Fund
Managers Update – June 2019

May in Review

With US-China trade talks breaking down, the UK prime minister resigning, North Korea firing missiles, and the US expanding the tariff war to Mexico, May was an eventful month for equity markets. The MSCI World Index fell 5.8% (in USD), making the last month the worst so far in 2019.



Source: Bloomberg, as of May 31, 2019

In the US and Asia, markets were significantly weaker after US-China trade talks broke down. The US government increased the tariff rate on $200 billion of Chinese goods from 10% to 25%, and China responded by hiking tariffs on $60 billion of imports from the US. To further fuel the conflict, the US blacklisted high-profile Chinese company, Huawei, thus preventing American companies from selling their products to the smartphone and telecoms giant without a license. The news particularly affected US semiconductor suppliers, and in the Fund we saw Broadcom's share price decline 21% as a result. In terms of geographic allocation, the Fund benefitted from being underweight in the US versus the benchmark.

Further on trade, President Trump – who self-proclaims himself as "Tariff Man" – threatened to impose a 5% tariff on all Mexican goods from June 10th, in an effort to control immigration coming from Central America and Mexico. The move threatens to upheave the efforts made last year to revamp the NAFTA agreement signed by the US, Mexico and Canada.

On a more positive trade note, the US did lift import taxes on Canadian and Mexican steel and aluminum, and also delayed potential tariffs on cars from Europe, Japan and other countries. The news left Japan and Europe as the best performing regions. A further contribution to Europe's performance also came from market-friendly European Parliament election results, which came through towards the end of the month.

Although populist and Eurosceptic parties gained seats compared to the last election in 2014, they underperformed expectations, and this was seen as supportive for the outlook of the European Union. The Fund currently has an overweight exposure to Europe, and this contributed positively to overall asset allocation.

In the UK, the end of May saw the end of (Theresa) May, as she announced her resignation after parliament refused to back her Brexit deal. She officially stepped down on June 7th, and the market interpreted the news as increasing the likelihood of either a hardline Conservative Brexiteer leading the UK towards a "no deal" exit from the European Union, or a general election that could pave the way for a potentially less market-friendly Labour government.

The return of global political instability saw the return of higher volatility – a contrast to what has characterized 2019 so far. The VIX index – a measure of expected market volatility – rose sharply in May and in fact was beneficial to the financial exchanges we hold in the Fund: CME Group and Deutsche Boerse, which were the two best performing companies in the Fund in May.

VIX Index - a measure of implied market volatility

Source: Bloomberg, as of May 31, 2019

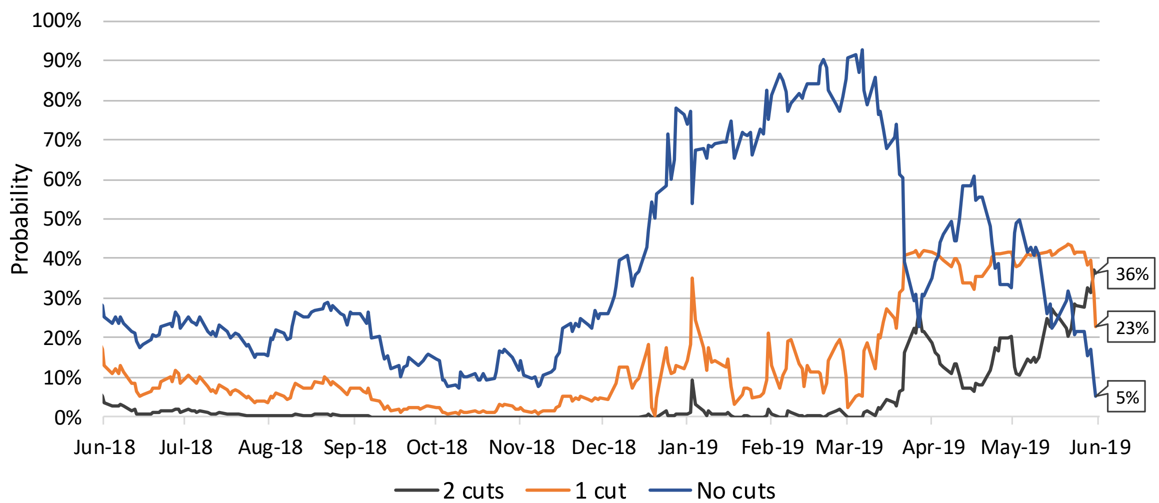
CME Group (+7.4% in USD), the operator of various global financial exchanges, benefited from the increased volatility in the market while reporting quarterly EPS above market expectations. We view CME Group as a good play on market volatility, benefitting from the geopolitical tensions that have grabbed headlines over the past year. CME is an asset-light business with returns on capital above 60%, net margins at 46% and growing, while exhibiting a debt-to-equity ratio of 17% as the company has historically adopted an organic growth strategy.

Deutsche Boerse (+5.5% in USD), the portfolio's other financial exchange, also benefited from increased volatility and uncertainty deriving from geopolitical tensions. The company is two years into its three-year business plan "Roadmap 2020", focusing on three strategic areas: organic growth; targeted acquisitions; and investment into new technologies. Indeed, the company has been able to deliver free-cash-flow growth of 9% on average over the last 5 years, improving margins, while maintaining debt-to-equity levels below 50%.

DEUTSCHE BÖRSE GROUP

With trade fears reigniting volatility in the market, analyst consensus seems to now predict two US interest rate cuts over the rest of the year – this is in stark contrast to the tone undertaken at the end of 2018 in which rates were set to autopilot and be on a path of consistent increases.

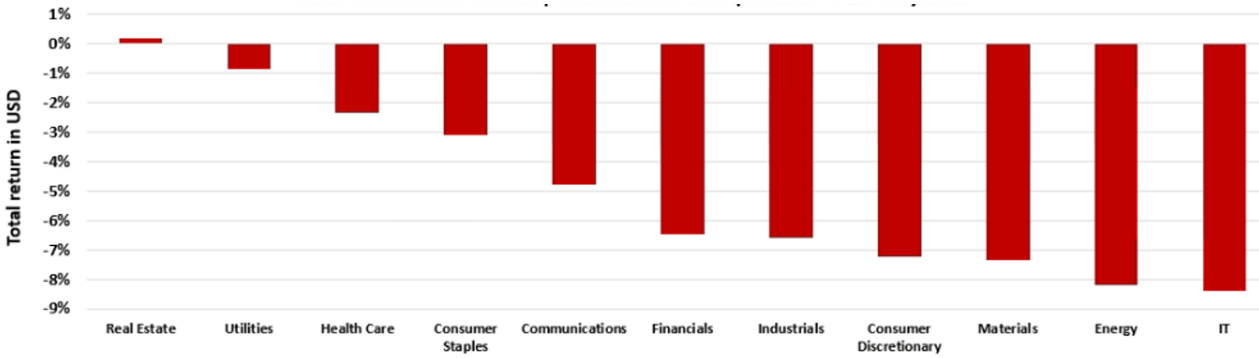
Market implied probability of number of cuts to Fed Funds rate in 2019



Source: Bloomberg, as of May 31, 2019

With an increasingly "risk-off" backdrop, investors turned their attention in favor of the more defensive sectors. This was particularly beneficial to the Fund's performance due to our overweight positioning in Consumer Staples and Healthcare. The IT, Energy and Materials sectors were among the weakest performers in May as investors became nervous about the prospects for global growth. This boded well for the Fund, due to its underweight exposure in these sectors.

MSCI World Sector Indices Performance: April 30 – May 31, 2019



Source: Bloomberg, as of May 31, 2019

In terms of stock selection, individual companies that underperformed over the month were Imperial Brands (-22.7% in USD) and Broadcom (-21.0% in USD).

Imperial Brands, the traditional tobacco company which has been developing its alternative e-cigarette business, reported results during the month that missed expectations after slower than forecasted e-cigarette sales, particularly in the US where the FDA has been increasing its scrutiny on the fast-developing industry. Imperial Brands has been divesting non-core assets including its premium cigar business, while investing in the fast-growing alternative tobacco industry as the company looks to offset falling demand for its traditional tobacco products. The company continues to trade at a significant discount to its peers, while recently offering the 12th largest dividend among UK companies which has been growing at an average of 10% per year for the last 5 years.

Broadcom, the fabless producer of semiconductor chips predominately used in wireless and broadband communications, was one of the largest underperformers over the month as the US antitrust department continued looking into the company's dominant position, while the blacklisting of Huawei and more general trade tariffs are set to have an adverse effect on Broadcom's bottom line. From our long-term prospective, Broadcom continues to offer excellent value for money, trading on a forward PE ratio of 10.1 – significantly below its long-term averages – while exhibiting over 50% net margins, a free cash flow yield of 8.3% and a dominant position in the semiconductor industry likely to benefit from developing technologies such as the 5G smartphone roll out.

We made no changes to the portfolio in May.
Thank you for your continued support.

Performance

In May, the Guinness Atkinson Dividend Builder Fund produced a total return of -5.50% (TR in USD), compared to the MSCI World Net Return Index return of -5.77%. The fund therefore outperformed the Index by 0.27%.

Standardized Performance

As of 5/31/2019	YTD	1 Year	3 Year	5 Year	Since Inception (3/30/12)
Dividend Builder Fund	9.28%	4.06%	9.18%	5.42%	9.13%
MSCI World NR Index	9.75%	-0.29%	9.00%	5.62%	8.57%

As of 3/31/2019	YTD	1 Year	3 Year	5 Year	Since Inception (3/30/12)
Dividend Builder Fund	11.89%	6.20%	10.50%	6.74%	9.74%
MSCI World NR Index	12.48%	4.08%	10.70%	6.78%	9.17%

All returns over 1 year annualized. Source: Bloomberg, Guinness Atkinson Asset Management
Expense Ratio: 0.68% (net); 2.00% (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, 2020. 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.

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 5/31/2019:

1.	Paychex Inc	3.27%
2.	Unilever PLC	3.16%
3.	CME Group Inc	3.04%
4.	Aflac Inc	3.02%
5.	Microsoft Corp	3.01%
6.	Nestle SA	3.00%
7.	Cisco Systems Inc	2.99%
8.	Reckitt Benckiser Group PLC	2.98%
9.	Roche Holding AG	2.97%
10.	Japan Tobacco Inc	2.96%

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.

Debt-to-equity is calculated by dividing a company's total liabilities by its shareholder equity. A high debt/equity ratio is often associated with high risk.

Free cash flow yield represents the cash that a company is able to generate after laying out the money required to maintain or expand its asset base.

Forward Price/earnings (P/E) differ from trailing earnings, which is the figure quoted more often, as they are a projection and not a fact.

Risk-off environment is when an investor becomes more risk-averse and sell assets, sending prices lower.

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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