Guinness Atkinson

Dividend Builder Fund

Quality Dividends Matter – May 2020

UPDATE - June 8, 2020

Since this bulletin was published in May we have had one of the Dividend Builder holdings reduce their dividend. Imperial Brands PLC reduced their dividend by one-third.

So far this year, our portfolio of holdings in the Dividend Builder Fund, consisting of 35 holdings, has had 22 dividend increases and the one dividend cut.

Readers are encouraged to read our more recent analysis which is contained in our June Update.

We believe that we're in an era where income is at a premium and that going forward dividend stocks will be in demand. In particular, we believe investors will seek to invest in companies that grow their dividend over time rewarding investors and keeping pace with inflation.

In matters of dividends, quality matters. The Guinness Atkinson Dividend Builder Fund has, from inception, maintained a focus on quality; we prefer investing in high quality dividend paying companies over seeking high dividend yields. Our view is that quality companies are more likely to grow their dividend and, importantly, quality companies have a greater chance to maintain their dividends when times get difficult. Quality is objective; we look at a company's balance sheet and income statement to determine quality. We prefer companies with low debt to equity and with high and persistent cash flow. Our screening process for the Dividend Builder Fund is looking for companies that have generated a 10% cash flow return on investment for the previous 10 *consecutive* years, or 10 Over 10™. Approximately 95% of companies worldwide fail to achieve this hurdle.[1]

Given the current environment we are also making assessments regarding the ability of our current portfolio holdings to generate cash flow and maintain or grow dividends. The table below provides a look at each of the 35 holdings for the Dividend Builder Fund offering a look at certain key metrics and our qualitative assessment of the likelihood of the company maintaining its current dividend. We also provide a comment on each of the Fund's holdings detailing our assessment.

To date, none of our holdings have reduced or eliminated their dividend. That does not mean that some won't do so. Our assessment identifies three companies which we label as "uncertain," meaning we believe it is difficult to forecast a good or high likelihood of maintenance of the dividend for 2020 for these three holdings. Interestingly, part of the uncertainty of these companies dividend prospect is political or PR related

[1] Dividends are not guaranteed.

and not completely financial. More details on these companies is below. Further, there can be no guarantee that some of our "good" or "high" likelihood assessments will turn out to be correct. At the moment it is very difficult to say how the COVID-19 pandemic will play out or how long it will last, and it is equally difficult to predict how the global economy will be impacted. But this uncertainty underscores our commitment to quality.

From a macro perspective, our 10 Over 10™ process tends to disfavor certain industries. The Fund has zero exposure to airlines, banks, energy, travel, restaurants and homebuilding. Fully 50% of the portfolio is in consumer staples and health care vs. 21% for our benchmark (MSCI World).

It is instructive to look at the portfolio during the last crisis, the financial crisis of 2007 – 2009. During that period only one of our current holdings (Schneider Electric in 2009) cut its dividend. Six of our holdings did not grow their dividends during this period. The balance of our holdings grew their dividends during this period by an average of 14%.[2] On average, our current holdings grew their dividends by 53% from 2007 to 2010, while the MSCI World saw dividends fall by 16% over that period.[3] This explains why we prefer quality and dividend growth over high yield.

The table below has details for each of the Fund's current holdings. To summarize: To date none of our holdings have announced cancellations or reductions. Four have paid their 2020 dividend in full (or are trading ex-dividend)[4]. We believe 24 have a high probability of full payment; four a good probability of full payment and three we view with some uncertainty.

[2] Note that Abbvie did not exist in 2007; it was part of Abbot Labs and later spun off. Broadcom and Cisco did not start paying dividends until 2011.
[3] Source: Guinness Atkinson Asset Management and Bloomberg.
[4] Normal practice in some parts of the world is to pay a single annual dividend rather than the US practice of quarterly dividends.

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Fund holdings listed are as of 04/30/2020, are subject to change at any time and are not recommendations to buy or sell any security.

Company	Sector	Our Probability Estimate of Continued Dividend Payment	Comment
ABB Ltd	Industrials	2020 Paid	Industrial with exposure to robotics and automation – both weak in quarter. But paid full dividend (flat year-on-year) and committed to buyback using proceeds of cash from power grids sale (expected in June) which will represent significant proportion of shares outstanding. New CEO assessing 17 divisions and further transformation possible to improve growth and margins.
AbbVie Inc	Health Care	High	Generally positive results for healthcare companies through the crisis. Abbvie grew dividend 10.3%.
Aflac	Financial	High	Potential increase in COVID-19 related claims, and slowdown in sales due to prevention of face-to-face meetings short-term headwinds, along with lower interest rates. But very well capitalized even in very conservative scenario. Q1 results April 30th management committed to "defending and extending our 37-year track record of annual dividend increases" and dividend grew 3.7%.
ANTA Sports Products Ltd	Consumer Discretionary	High	Declared final dividend in late March representing a 29% increase year-on-year and an approximately 30% pay-out. 2020 Interim dividend to be declared in late August. April earnings update showed good recovery in revenues (up to 70%) and strong online sales.
Arthur J Gallagher & Co	Financial	High	Management were relatively optimistic on property and casualty rates and organic growth and highlighted significant cost savings they could enact in the short term to protect margins if necessary. Grew dividend 4.7% in first quarterly dividend in March.
BAE Systems PLC	Industrials	Uncertain	Deferred decision on the proposed 13.8p/share Final dividend (which normally goes ex- in mid-April) to July half year results. No discussion of October interim dividend. Trading update on April 3rd stated "We recognize the importance of the dividend payment to our shareholders and whilst it remains our intention to pay a dividend, the timing of any payment will be contingent on prevailing macro-economic and social conditions over the

			coming months." Defense companies well placed in current environment with long term contracts and resilient demand, but social and political pressure coming to bear on the decision.
BlackRock Inc	Financial	High	The size and diversity of the company led to results much better than average peers. As previously announced in late-January, dividend increased by 10% and management have "…no plans to reduce our dividend during the remainder of the year." Buybacks of $400m in Q1 and guided to further $300m in each quarter for rest of the year.
British American Tobacco	Consumer Staple	High	Seen limited impact to date on consumer demand for cigarettes. Maintained guidance "and are confident of another year of high single figure constant currency adjusted diluted EPS growth"
Broadcom Inc	Information Technology	High	Continued the regular dividend at level declared in September 2019 (which represented a 22.6% increase year-on-year), next growth in dividend announced in September 2020. Debt levels remain high (but not extreme) but company has high margins due to business model and has been grown by acquisition. On earnings call management stated "…we are quite comfortable with the current dividend and our ability to generate excess cash beyond the dividend throughout the fiscal year. As a result, our capital allocation plan for the year remains unchanged." Will also pay down $4bn of debt in 2020.
Cisco System Inc	Information Technology	High	Grew dividend by 3.7%, but noted some slow down due to COVID-19, which was thought to be temporary. Continuing move towards software subscription model.
CME Group	Financial	High	CME reported strong results in April on increased volumes. Grew first quarterly dividend by 13.3% in early April.
Danone SA	Consumer Staples	Uncertain	April 28^{th} AGM postponed (will be held before end June but no confirmation of date yet) – thus dividend also postponed. Company proposed a dividend of 2.10euro/share in late Feb (representing growth of 8% year-on-year). On recent call, management ducked direct question on dividend. Pressure from French state to 'show solidarity' and cut dividend by 30%. Danone has the ability to pay the initial proposed dividend (Q1 2020 results sales grew 3.7%), and not all large French companies have succumbed to government pressure to do so, but risk is political pressure leads to a reduced dividend payment for 2020.
Deutsche Boerse AG	Financials	High	Deutsche Boerse reported strong results in April on increased volumes. Deutsche Boerse's single, full year dividend confirmed on April 28^{th} AGM, representing a growth of 7.4%.

Diageo PLC	Consumer Staples	Uncertain	Interim dividend announced at semi-annual results went ex- in late February (representing a 5.0% growth year-on-year). On April 9th company withdrew guidance and cancelled buyback. Has not committed to Final dividend. Company has stated that in China it is beginning to see a very slow return of on-trade consumption, whilst most bars are shut in US and Europe. Some peers cutting dividends.
Eaton Corp PLC	Industrials	Good	Multi-industrial conglomerate with exposure to aerospace and automotive industries. Grew first dividend payment for the year by 2.8%, but pays quarterly. Q1 results taken positively (but withdrew guidance) and asset disposals confirmed to be continuing, raising cash and strengthening already good balance sheet. Share buybacks in Q1 and management maintained optionality to continue in 2020 (and even M&A).
Henkel AG Co KGaA	Consumer Staples	Good	Proposed dividend of 1.85euro/share on March 5th, but postponed April 20th AGM due to COVID-19. Subsequently withdrew guidance for 2020 on April 7th. New AGM date announced for June 17th with 1.85euro dividend still proposed. Henkel family have 33% share ownership.
Illinois Tool Works Inc	Industrials	Good	Industrial with exposure to automotive, but well diversified across industries and products. Q1 results better than expected but full year guidance withdrawn and Q2 revenues guided down. Higher than average margins vs peers give some stability. 95% of manufacturing capacity currently operational. Good liquidity and can stop buybacks – but management looking at strategic opportunities in light of current valuations. Pay quarterly dividend (growth announced in September).
Imperial Brands PLC	Consumer Staples	Good	Final dividend (related to 2019 profits) went ex- in February. First Interim dividend for 2020 (which is when company has historically declared the growth in the dividend) declared at semi-annual results on May 19th. Company has moved away from continuously growing the dividend at 10% per annum, but have committed to maintaining a progressive dividend policy. Sale of cigar business raised £1bn and will be used to reduce debt (to <3X net debt/EBITDA). Update in late March company stated "…there has been no material impact on Group performance to date and current trading remains in-line with expectations."
Johnson & Johnson	Health Care	High	Generally positive results for healthcare companies through the crisis. Johnson & Johnson declared dividend growth of 6.3% for May dividend.

Medtronic	Health Care	High	Generally positive results for healthcare companies through the crisis. Medtronic will report results later in May when the next dividend will be declared.
Microsoft Corp	Information Technology	High	Very strong quarter on back of cloud growth with no material impact from COVID-19 seen across the business. Maintained dividend with growth declared in November dividend.
Nestle SA	Consumer Staple	2020 Paid	Maintained guidance for 2020 (>3.5% organic sales growth) in Q1 earnings call, grew dividend by 10.2%. Strong sales in pet care (but from 'stocking up').
Novo Nordisk A/S	Health Care	High	Generally positive results for healthcare companies through the crisis. Novo Nordisk final dividend went ex- March 27th and grew 3.9%.
Otis Worldwide Corp	Industrials	High	Lift and elevator business spun out from United Technologies in April. Included in Dividend Aristocrats. High recurring service revenue (accounting for 80% of operating profit). Management guided dividend equating to a yield of approximately 2.5%.
Paychex Inc	Information Technology	High	Declared May dividend flat year-on-year (vs growth of 10.7% last year). In-line with company through 2009/2010. On earnings call management stated "We have $900 million in cash. We have an undrawn revolver. We have the highest cash generation of our peer group. We have the highest dividend and we have confidence that we will weather the storm for both our clients, our employees and our shareholders."
PepsiCo	Consumer Staple	High	Generally strong results across the consumer staples with well covered dividends. Pepsi declared a 7.0% increase in dividend on May 5.
Procter & Gamble	Consumer Staple	High	Generally strong results across the consumer staples with well covered dividends. P&G grew dividend 6.0% in April.
Raytheon Technologies Corp	Industrials	High	Industrial company with exposure to aerospace and defense. Created through merger of United Technologies and Raytheon in late April (we previously held United Technologies in the portfolio). Defense business of Raytheon set to offset the commercial aerospace business of United Tech. Included as part of Dividend Aristocrats has grown dividend >25yrs and strong balance sheet post-merger. Declared May 15th dividend will represent an approximately 10% increase (an adjusted basis vs United Technologies historic dividend).
Reckitt Benckiser Group	Consumer Staple	High	Generally strong results across the consumer staples with well covered dividends. Reckitt grew dividend 1.4% in April and reported record sales in late April sales update.

Roche Holding AG	Health Care	2020 Paid	Grew dividend 3.4%, confirmed 2020 outlook and said would continue to increase the dividend into 2021. High exposure to oncology provides stability in current environment.
Schneider Electric SE	Industrials	2020 Paid	Paid full dividend and grew 8.5% (vs 2009 when it cut). Different business today. Short-term impacts, but very well placed in secular growth themes (industrial automation, for example). Sees crisis as a "massive fast forward in digitization."
Sonic Healthcare Ltd	Health Care	High	Generally positive results for healthcare companies through the crisis. Sonic Healthcare final dividend went ex- in early March (growth announced in July interim dividend), the pathology testing business has gained from COVID-19 testing but standard testing has fallen near term.
Taiwan Semiconductor Manufacturing Co Ltd	Information Technology	High	Has moved to quarterly dividend payments (so year-on-year comparisons not valid). Q1 earnings saw strong revenue growth of 30% - suggesting resilient demand for advanced semiconductors despite downturn. Increased capex for 2020. And committed that dividend would be maintained at a level of at least current dividend.
Unilever	Consumer Staple	High	Generally strong results across the consumer staples with well covered dividends. Unilever held dividend flat (with 2% boost from FX) for May dividend declared in late April on back of EM sales declines reported at earnings.
VF Corp	Consumer Discretionary	High	Consumer discretionary (Vans, North Face) with sales hit from shutdowns. Cancelled buybacks but committed to pay dividend. Strong balance sheet, 30% revenues online, no debt refinancing until 2023, low fixed and high variable costs. 10% founder/family shareholding.

About the Guinness Atkinson Dividend Builder Fund (GAINX)

The Guinness Atkinson Dividend Builder Fund (symbol: GAINX) invests in high quality dividend paying companies from around the world. The Fund seeks to invest in companies that are likely to increase their dividend payments over time and does not generally seek to maximize the current yield.

Our Dividend Builder Fund uses an innovative 10 over 10 strategy in an effort to invest in objectively quality companies:

- First, we look for companies that have generated an inflation adjusted cash flow return on investment of at least 10% in each of the last 10 years. We also only look at companies with a market capitalization of over $1 billion and a debt to equity ratio of less than 1. (This process reduces the potential field from 15,000 companies to about 500).
- Next we look for companies that have a history of paying growing dividends and are attractively valued.
- Each of the remaining candidates is thoroughly scrutinized using our fundamental individual security analysis, taking into account both macro and company business metrics.
- The Fund typically invests in 35 different dividend-paying companies from around the world and weights these holdings equally.
- The expense ratio for the Fund has been capped.

More information is available at www.gafunds.com/our-funds/dividend-builder-fund.

Important Information

Top 10 Holdings as of 04/30/2020:

1.	Nestle SA	3.78%
2.	Reckitt Benckiser Group PLC	3.25%
3.	Novo Nordisk A/S	3.19%
4.	Johnson & Johnson	3.17%
5.	Roche Holding AG	3.14%
6.	Microsoft Corp	3.14%
7.	ANTA Sports Products Ltd	3.01%
8.	Cisco Systems Inc	3.01%

9.	Otis Worldwide Corp	3.00%
10.	BlackRock Inc	2.96%

Mutual fund investing involves risk. Principal loss is possible.

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 performance current to most recent month end please visit www.gafunds.com or call 1-800-916-6565. Total returns reflect a fee waiver in effect and in the absence of this waiver, the total returns would be lower.

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. The Fund invests in small- or mid-cap companies, which involve additional risks such as limited liquidity and greater volatility than larger companies. When inflation rate is greater than expected, that markets may respond differently to changes in the inflation rate than the Advisor expects, or inflation may manifest in such a way that the Fund is unable to provide reasonable protection against inflation.

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

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