Guinness Atkinson
Dividend Builder Fund
Managers Update – June 2020

GUINNESS ATKINSON FUNDS

Summary: Performance

Underperformance in May comes as a result of the market's continued sharp rebound, led by growth stocks and cyclical sectors. IT, Industrials and Consumer Discretionary were the best performing sectors in the month, with much of the recent optimism in equity markets driven by easing lockdowns and signs of progress towards a COVID-19 vaccine. Being overweight Consumer Staples and underweight IT was a drag on Fund performance in May, whereas zero exposure to Banks, Real Estate, Utilities and Energy proved positive.

Summary: Dividends

Dividend payments have been top of mind in the current market environment where we have seen significant demand shocks across many sectors of the equity market, leading to a significant proportion of companies suspending or reducing their dividend payments.

In the Fund, so far, 22 companies (out of 35 holdings) have announced **dividend increases**. Our current expectation is that the 2020 fund distribution will be similar to 2019 – but we note there are some moving parts to this analysis (e.g. Foreign Exchange rates or portfolio changes). We are carefully monitoring the income received for the portfolio and will update our view as the year progresses. To summarize our outlook for the fund so far, out of our 35 holdings:

- 5 companies have **paid their full dividend** for the year (or gone ex-dividend)

- 25 companies where we see fairly **high probability** of full payment

- 2 companies where we see **good probability** of full payment
  - *Eaton*: Multi-industrial conglomerate with exposure to aerospace and automotive industries. Eaton grew its first dividend payment for the year by 2.8%. Guidance was withdrawn in Q1 results, though asset disposals were confirmed to be continuing, raising cash and strengthening an already good balance sheet. Share buybacks were announced in Q1 and management maintained an optionality to continue with more in 2020.

  - *Illinois Tool Works*: Industrial with exposure to automotives, but well diversified across industries and products. Q1 results were better than expected but full year guidance was withdrawn and Q2 revenues guided down. Higher than average margins (vs peers) gives some stability and 95% of manufacturing capacity is currently operational. Good liquidity and option to stop buybacks – but management looking at strategic opportunities in light of current valuations. ITW pays quarterly dividends and any growth is typically announced in September.

- 2 with some uncertainty
  - *Diageo*: Interim dividend announced at semi-annual results went ex- in late February (representing a 5.0% growth year-on-year). On April 9th, Diageo withdrew guidance and cancelled buybacks; the company has not committed to a final dividend yet. Management stated that China is beginning to see a slow return of on-trade consumption, while most bars are still shut in US and Europe. Some peers are cutting their dividend.

  - *BAE Systems*: Deferred decision on the proposed 13.8p/share Final dividend (which normally goes ex- in mid April) to July half year results. No discussion on 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 seem well placed in the current environment due to long term contracts and resilient demand, but social/ political pressure bears on any dividend decisions.

- 1 dividend cut announced for portfolio holdings to date
  - *Imperial Brands*: Final dividend (related to 2019 profits) went ex- in February. First Interim dividend for 2020 (which is when the company has historically declared the growth in the dividend) was announced at the semi-annual results on May 19th and was rebased by 33%. Thereafter, management committed to a progressive dividend policy.

  - The lower dividend saves about £650mn in the current year, which alongside the £1bn cigar business sale, will be used to strengthen the balance sheet by reducing debt (to <3X net debt/EBITDA).

  - This decision to lower the dividend payout was partly due to the delayed expectations of reduced-risk-product profitability. Potential incoming regulation lowers revenue growth expectations and forced management to scale back investment in new products.

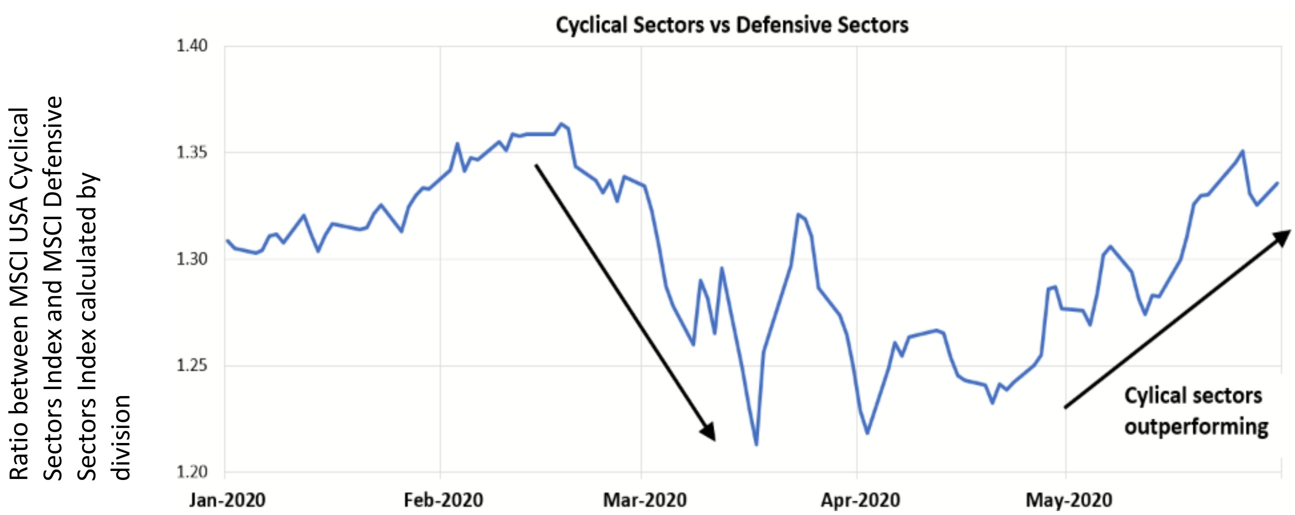
  - Although vapor offerings only represent about 3.5% of Imperial Brands' sales globally, such products, along with new reduced-risk offerings, are seen as an increasingly important solution to offset falling cigarette sales.

  - Imperial Brands was the worst performer in the portfolio in May, down -13.3% (TR, in USD).

  - Interim CEO, Dominic Brisby, insisted that the dividend cut was not related to coronavirus. He said: "COVID-19 has only had a small impact on trading but we expect this to be more pronounced in the second half due to continued pressures to our duty free and travel retail businesses". With airports largely shut, smokers are missing out on bulk buying cheap duty-free cigarettes. It means that fewer packs are being bought, but customers are having to spend more on their habit in the shops, so the value of sales has held up.

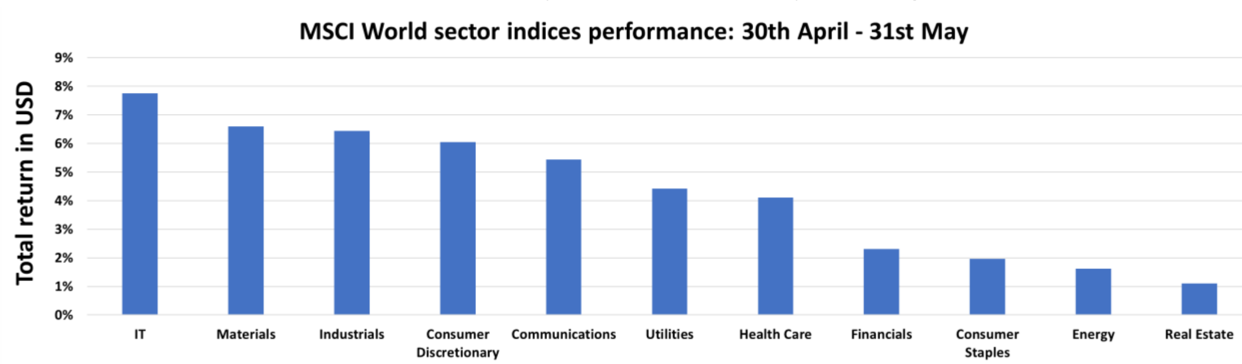
May in Review

After the severe sell-off seen in March, global equity markets recovered impressively in April and May. While April's rally was a rebound led by large-caps and sectors that previously sold off most (e.g. Consumer Discretionary and Energy), May's rally was broader based and led by cyclical stocks:



Source: Bloomberg. As of May 31, 2020.
MSCI USA Cyclical Sectors Index / MSCI Defensive Sectors Index

Cyclicals have in fact outperformed their defensive counterparts since the Global Financial Crisis; the trend continued at the start of this year, and after a short hiccup, returned in May. This is further reflected in the charts below which show the more economically sensitive sectors outperforming.



Source: Bloomberg. As of May 31, 2020.

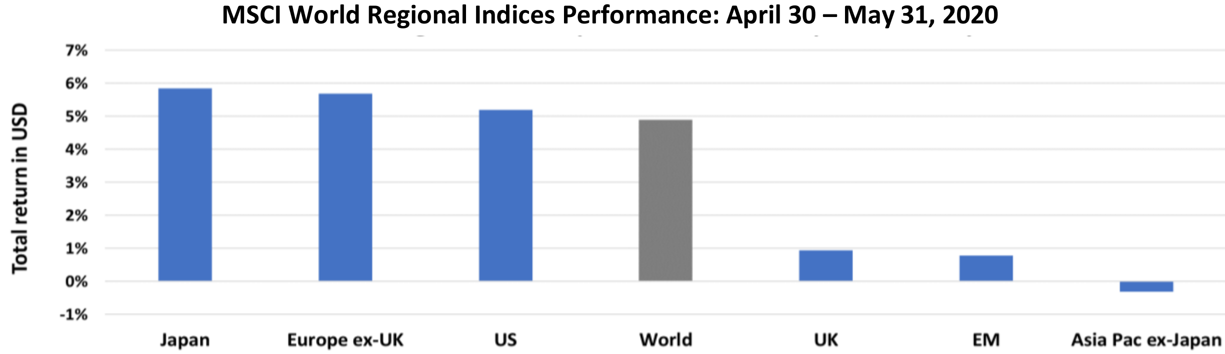
The Fund currently has 50% of the portfolio in Consumer Staples and Healthcare companies (vs 21% in MSCI World Index). These are sectors that tend to be more defensive and so earnings and dividends are less sensitive to the economy. Despite Consumer Staples relatively underperforming in May, the sector was the best performing during the drawdown (February 19 – March 23, peak to trough) and is in line with market performance year-to-date.

While the defensive names in the Fund tend to have lower beta and hold up better when markets are falling, the cyclical holdings allow the Fund to maintain performance when markets are rebounding and rising. We currently have a good balance of defensive vs cyclical exposure in the Fund, and within these more cyclical sectors we are owning the "quality" businesses. All the companies we seek to invest in have strong balance sheets and a history of performing well in difficult market environments. Within financials, for example, we do not own any Banks, but we do own exchange groups such as CME and Deutsche Boerse (which do well in periods of market volatility as volumes tend to increase during these times resulting in higher revenues).

As the US corporate earnings season drew to a close in May, Consumer Staples, Healthcare, IT and Utilities saw positive earnings growth in Q1 2020, whereas Financials, Energy and Consumer Discretionary were the worst hit sectors. Overall, first quarter US earnings contracted 14% compared to Q1 2019, while second quarter earnings are expected to fall in excess of 40% year-on-year.

Regionally, the strongest performer in May was Japan, where cyclicals accounted for over 75% of the market. Europe ex UK and the US also led, whereas the UK, EM and Asia Pac ex Japan were relatively weaker.

MSCI World Regional Indices Performance: April 30 – May 31, 2020



Source: Bloomberg. As of May 31, 2020.

The Fund has no Japanese holdings and is overweight UK – this dragged on performance in May. All regions, bar Asia Pac ex Japan, posted positive gains in the month and the rise in optimism came despite weak economic readings. In the US, real GDP for Q1 was revised down to an annual rate of -5.0%, a bigger decline than the 4.8% drop first estimated. This marked the largest quarterly drop since the 8.4% fall in Q4 2008, and much of the weakness was due to a sharp fall in consumer service spending.

In Europe, equity markets were supported by news of the EU's plans for post-coronavirus recovery. European Commission president, Ursula von der Leyen, called to borrow €750 billion for a recovery fund to support those EU regions that have been worst affected by COVID-19. This would be in addition to the €540 billion rescue package agreed in April. She also proposed a new suite of taxes to pay back the debt. The plan still needs the approval of member states, with the recovery fund expected to be on the agenda for the next European Council summit in June. In addition, comments from European Central Bank (ECB) board members suggested that the ECB's asset purchase target could be increased at the June meeting.

Asia Pac ex Japan equities bucked May's global market trend by posting a loss. Hong Kong, where a new national security law was proposed, was the worst-performing market in the region, while China and Taiwan also posted losses as Beijing's relationship with the US became strained once again. Concerns grew amid talk of delisting Chinese companies from US markets and imposing compensatory tariffs for COVID-19. The Fund has low direct exposure to China; we have one Chinese domiciled company, ANTA Sports, which rose 6.12% (TR, in USD) in May as apparel stores began to reopen and see consumer traffic build. We have one other holding in Asia: Taiwan Semiconductor Manufacturing (TSMC), which fell 2.71% (TR, in USD). TSMC in fact got caught in the US-China crossfire; national security concerns, geopolitical unrest and the COVID-19 pandemic have all underscored the shortfalls of relying on foundries located abroad and international supply chains. This led TSMC – the world's largest foundry – to announce it would plan to spend billions of dollars building an advanced chip foundry in Arizona with support from the state and US federal government.

As markets continue their ascent up the wall of worry, it is currently evident that there is a disconnect between "main street" and "wall street", in that stock markets have brushed aside political tensions, social unrest, weak economic readings and the possibility that the recovery from the COVID-led recession may well not be V-shaped.

In today's environment, the stock market seems to be high on "hopium" with regard to the expected success of a reopened economy and also with regard to finding therapeutics and/or a vaccine for the virus itself. Case in point: since mid-April, the four best-performing periods for the MSCI World Index came on days there was a significant announcement associated with the virus:

- April 17th – Gilead's drug Remdesivir showed effectiveness in treating COVID-19
- April 29th – Positive data about Remdesivir's trials
- May 18th – Moderna announces early-stage human trials for its COVID-19 vaccine
- May 26th/27th – Novavax announces phase one clinical trial for vaccine; Merck announces plan to work on vaccine alongside IAVI

Monetary and fiscal stimulus – and more recently news on virus treatments/vaccines – have fueled an epic rally from March lows, though ultimately there is a risk that the stock market is not accurately reflecting second-order and longer-term economic impacts of the virus and attendant economic shutdown (including bankruptcies and temporary layoffs becoming permanent job losses). There is also a risk that the stock market is not accurately reflecting the weakness yet to be fully felt in corporate earnings.

Given the uncertainty, we believe that our perpetual approach of focusing on good quality companies, with strong balance sheets and historically persistent higher return on capital should stand us in good stead in our search for rising income streams and long-term capital growth.

Thank you for your continued support.

Performance

In May, the Guinness Atkinson Dividend Builder Fund produced a total return of 2.84% (TR in USD), compared to the MSCI World Net TR Index return of 4.83%. The Fund therefore underperformed the Index by 1.99%.

as of 05/31/20	YTD	1 YR	3 YR Annualized	5 YR Annualized	Since inception Annualized (3/30/12)
Dividend Builder Fund	-8.75%	5.81%	6.48%	6.12%	8.72%
MSCI World Net NR Index	-8.20%	6.81%	5.92%	5.84%	8.35%

as of 03/31/20	YTD	1 YR	3 YR Annualized	5 YR Annualized	Since inception Annualized (3/30/12)
Dividend Builder Fund	-18.55%	-7.77%	4.25%	4.30%	7.38%
MSCI World Net NR Index	-21.05%	-10.39%	1.92%	3.25%	6.51%

All returns over 1 year annualized. Source: Bloomberg, Guinness Atkinson Asset Management
Expense Ratio: 0.68% (net); 1.98% (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, 2021. 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 investment company, 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. 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.

Top Fund Holdings as of 5/31/2020:

1. Johnson & Johnson	3.55%
2. Deutsche Boerse AG	3.51%
3. Schneider Electric SE	3.27%
4. Unilever PLC	3.26%
5. Reckitt Benckiser Group PLC	3.09%
6. Cisco Systems Inc	3.08%
7. Raytheon Technologies Corp	3.04%
8. Novo Nordisk A/S	2.95%
9. Paychex Inc	2.95%
10. Microsoft Corp	2.92%

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. Dividends are not guaranteed.

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

Active share measures the extent of active management in a portfolio compared to the corresponding benchmark listed.

A cash flow return on investment (CFROI) is a valuation metric that acts as a proxy for a company's economic return.

One cannot invest directly in an index.

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