Guinness Atkinson

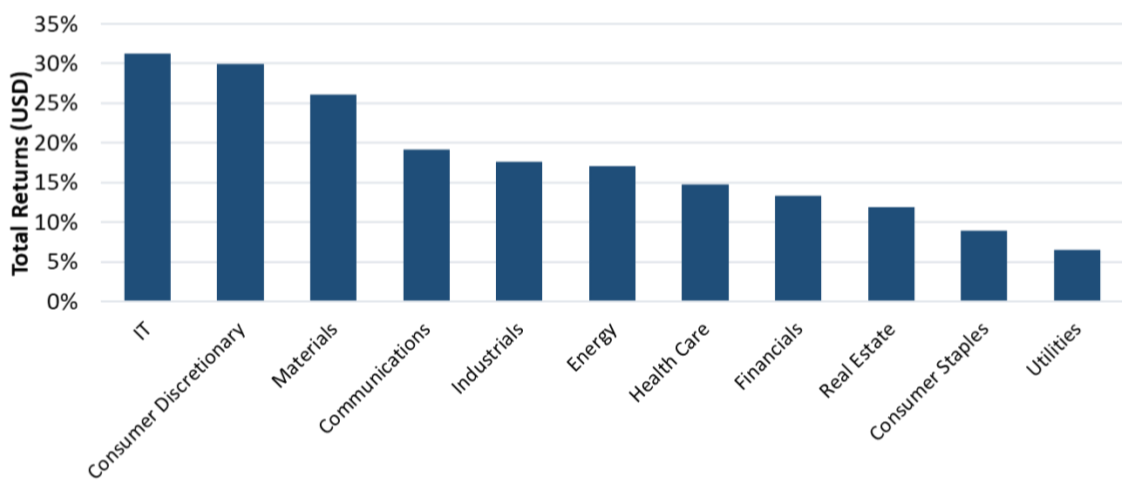
Global Innovators Fund

Managers Update – July 2020

Quarter in review:

While Q1 saw the initial outbreak in COVID-19 cases, leading governments to subsequently lock down countries to halt the spread the virus, Q2 saw sharp equity market rallies as investors looked to the gradual easing of lockdown measures, as well as substantial stimulus packages governments continued to introduce. This led to some sector rotations with generally known defensive sectors Health care and Consumer Staples, towards the bottom end of the spectrum having been some of the best performers over Q1. Consequently, Medtronic, the largest pure-play medical technology in the world, and Bristol-Myers Squibb, one of the largest oncology businesses in the world, were the fund's two worst performers over the quarter (although both still produced positive total returns for the quarter). With lockdown in many regions easing, manufacturing PMIs across major regions rebounded sharply, helping labor-intensive industrials begin their recovery, while high street shops opening helped consumer discretionary businesses perform strongly over the quarter.

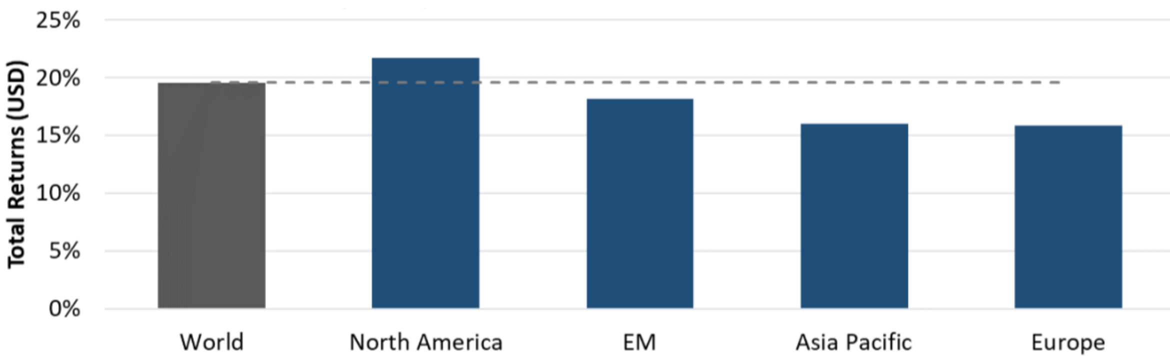
MSCI World Sector Performance: March 31, 2020 – June 30, 2020



Source: Bloomberg (data as of 06.30.2020)

IT remained an outlier somewhat, as the top performer in the second quarter and 2nd best performer over the first quarter. This comes down to the "mission critical" status of technology in many businesses, including cloud computing, as well as in helping consumers cope with more free time while in lockdown: video streaming and gaming have both seen substantial increases in active users (Netflix, for instance, reported 16mn new viewers in Q1 – double its target). This led to IT as the fund's largest contributor to outperformance versus the MSCI World, with semiconductor businesses such as Infineon (up 63.4% USD) and Nvidia (up 44.2% USD) in particular driving performance. In fact, five of the fund's top 10 performing stocks were semiconductor companies. It has been particularly pleasing to see this strong performance given that historically, semiconductors have underperformed in recessionary periods. We continue to believe that semiconductors are a growing and critical component in our innovation themes and as such may be less susceptible to cyclical pressures.

MSCI World Regional Performance: March 31, 2020 – June 30, 2020



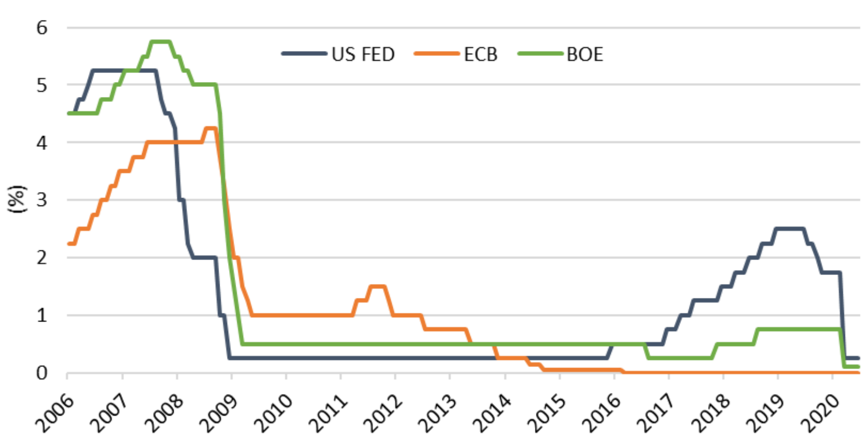
Source: Bloomberg (data as of 06.30.2020)

Regionally, the US was the best performer despite the resurgence in COVID-19 case numbers towards the end of the quarter. Numbers for May showed the US unexpectedly added 2.5mn jobs, reducing the unemployment rate from 14.7% to 13.3%. Additionally, retail sales in the US rose 17% month-on-month, while the manufacturing PMI jumped to 52.6 from the April's figure of 41.5 (figures below 50 indicate contraction while figures above 50 show expansion). Stock selection was the main contributor to the fund's performance with US technologies companies in particular, driving the performance.

However, growth continues to outperform value, with earnings still relatively difficult to predict and valuations spiking back up to historic highs for many companies, many believe markets have now become overly stretched. We believe there may be a few reasons why the market is correct to price in historically high multiples today:

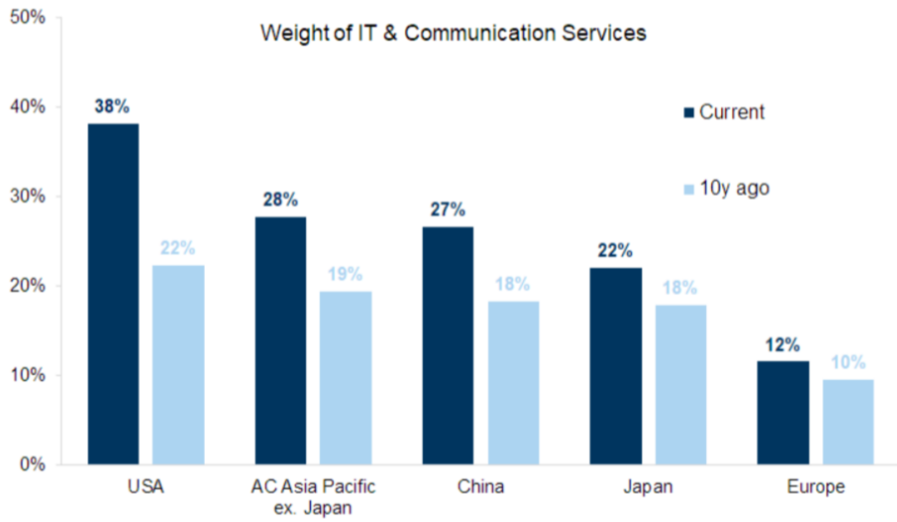
1. **The discount rate has fallen dramatically.** Central banks have slashed interest rates, are creating huge amounts of money through quantitative easing, and are guiding that interest rates will remain low for a long period of time. This is different to the financial crisis where it took much longer for central banks to act.

Central bank interest rates



Source: Bloomberg (data as of 06.30.2020)

2. **Information Technology makes up a larger proportion of the global index today** and is dominated by companies that are able to grow through this period (e.g. FAANGS+).



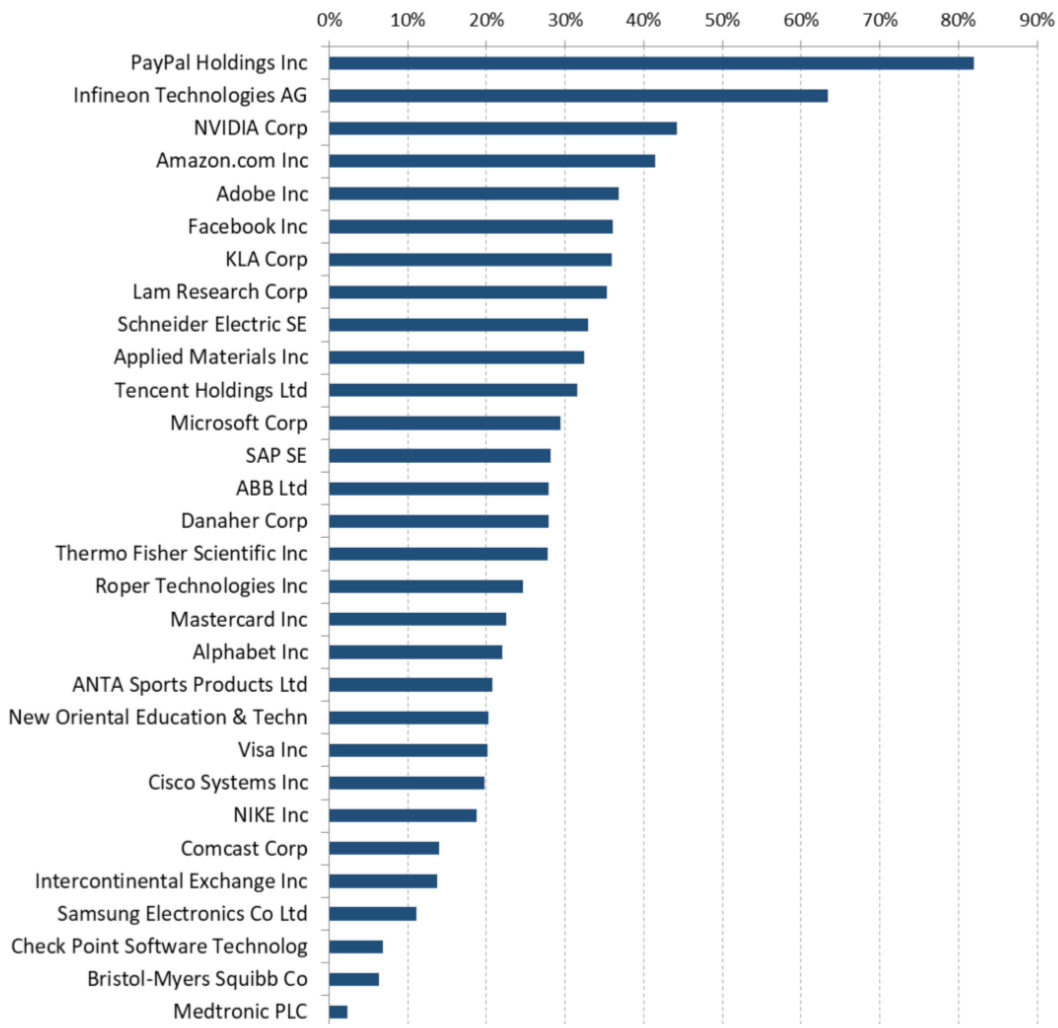
Source: Goldman Sachs Investment Research, DataStream, Worldscope

3. **A fall in the discount rate justifies a proportionally higher multiple for a company that is growing compared to a company that is not.**

Either way it is going to be difficult to see how the multiple will expand considerably from here and therefore the next equity market rally will need to be driven by companies that can grow their earnings. These are going to be harder to find and therefore will justify a premium multiple.

To this end, we believe growth will remain scarce and as such, **growth companies will likely continue to prosper**, while debt levels will be higher and consequently, **strong balance sheet companies may prosper**. With the fund's focus on businesses with strong balance sheets (fund net debt/equity 9% vs MSCI World 90%), and companies exposed to innovative themes transforming industries, whether that be artificial intelligence, cloud computing, clean energy or the internet of things, we believe this fund is well positioned to find those scarce sources of growth.

Stock performances over Q2 2020 (total returns USD):



Individual performances of fund constituents.

Source: Guinness Atkinson Asset Management, Bloomberg (data as of 06.30.2020)

PayPal:

PayPal's headline sales and EPS figures (released early May) missed estimates for the first quarter after slowing consumer spending and large credit loss reserves which were driven by higher unemployment. However, PayPal finished the quarter as the fund's best performing stock as investors looked to better than estimated guidance and accelerating new users. Indeed, management pointed to a 20% growth in revenues for April along with a surge in user growth with 7.4M net new adds in April versus a typical full quarter addition of ~9M. PayPal has benefitted from the acceleration in the shift to digital payments as ecommerce surges and the use of physical cash has been discouraged.

Infineon:

Semiconductors were a bright spot in general over the quarter, showing more robust resilience to drawdowns than history might have suggested as these products become more prevalent in everyday technologies. Indeed, with consumers working from home and streaming more online content, semiconductor companies owned in the fund, particularly in cloud computing data centers, have remained relatively robust as vendors strengthen their infrastructure in order to cope with new demand. While Infineon will have benefitted from this demand, the primary reason for its strong performance over the quarter was the rebound in car sales from the world's two largest markets - China and US. Infineon produces power management chips and is a direct beneficiary of the transition to Electric and Autonomous Vehicles with 43.6% of 2019 revenue derived for the automotive segment. Indeed, in China, a V-shaped recovery in car sales looked evident as car sales rose to 4.4% YoY in April and 14.5% in May, having slumped to a decline of 42.4% YoY from January to March.

Facebook:

Facebook was in the top half of performers over the quarter, however, headlines of large businesses boycotting the business' advertising services made for a cautious read. During June, several high-profile brands announced the boycotting of Facebook's advertising service as part of the Stop Hate for Profit campaign. The brands, which include Unilever, Ford, and Coca-Cola, argue a failure to tackle hate speech on the platform, demanding more transparency and controls over what content their adverts appear alongside. Facebook has since held several calls with their biggest advertisers while announcing new policies on content moderation. From a revenue impact viewpoint, we note that of Facebook's ~$70bn ad revenue in 2019, their top 100 advertisers only contribute around 25%, with thousands of medium and small-sized businesses providing the bulk of revenues. While this remains an on-going risk, especially from an ESG perspective, we continue to review the situation.

Medtronic:

Medtronic underperformed during the quarter with its latest figures (reported in May) below estimates on both sales and EPS. While the company has significantly ramped up ventilator production (revenues from this product were up almost double compared to last year), the deferral of elective procedures has hampered the company's growth with management pointing to a reduction in bulk orders. However, it is important to note that while many competitors have quarter ends in March, Medtronic's quarter finishes at the end of April which meant its numbers were more negatively impacted by COVID-19 than some other peers. We continue to see good long-term growth for the world's largest pure-play medical technology company, with many near-term procedures *deferred* as opposed to cancelled. In addition, Medtronic has been working hard to combat the outbreak, making its PB560 ventilator design specifications available at no cost, so other manufacturers can use these specs in manufacturing, while it has also partnered with Intel to develop a solution to adjusting ventilator settings remotely.

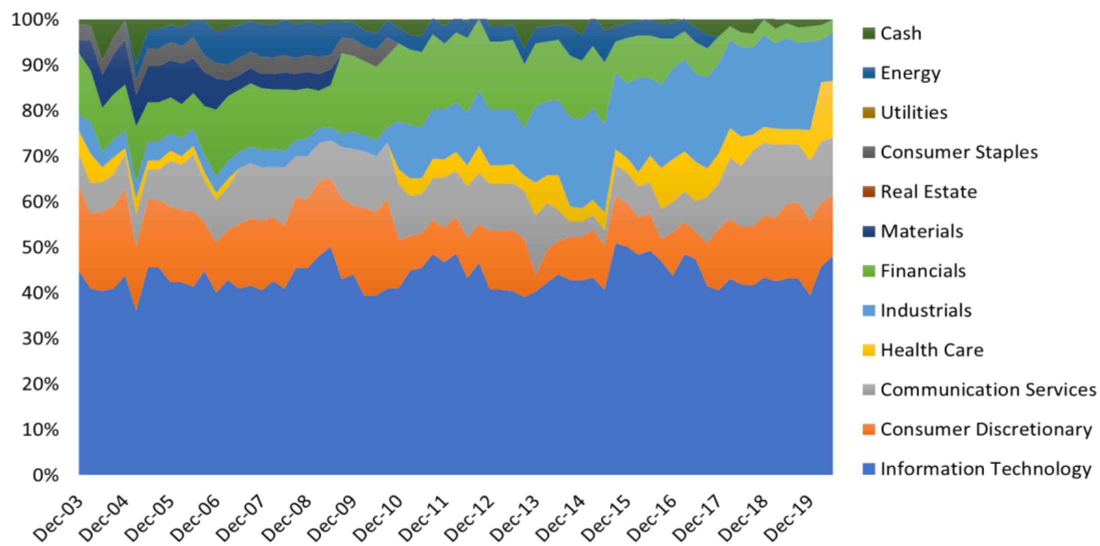
Changes to the portfolio:

We made no changes to the portfolio over Q2.

Portfolio characteristics

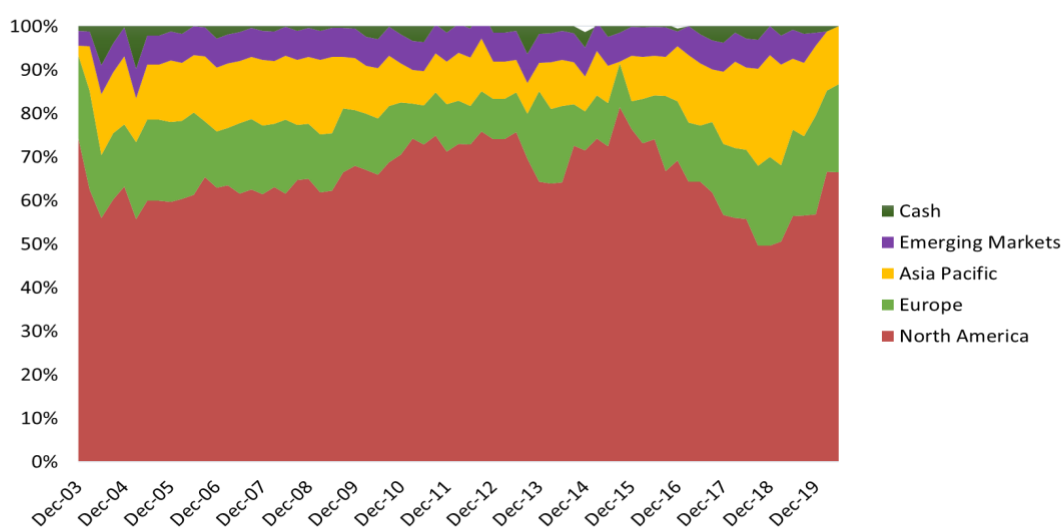
The two charts below show how the exposure of the fund has evolved since we launched the strategy back in 2003. We continue to hold no exposure to Real Estate, Energy, Materials, Consumer Staples, and Utilities. Technology remains our largest exposure, split between three sub-sectors: semiconductors; software and services; and technology hardware. On a regional basis, North America continues to be the largest exposure (67%), with Europe (20%) and Asia Pacific (13%) sharing similar exposures.

Portfolio Sector Breakdown



Source: Guinness Atkinson Asset Management, Bloomberg (data as of 06.30.2020)

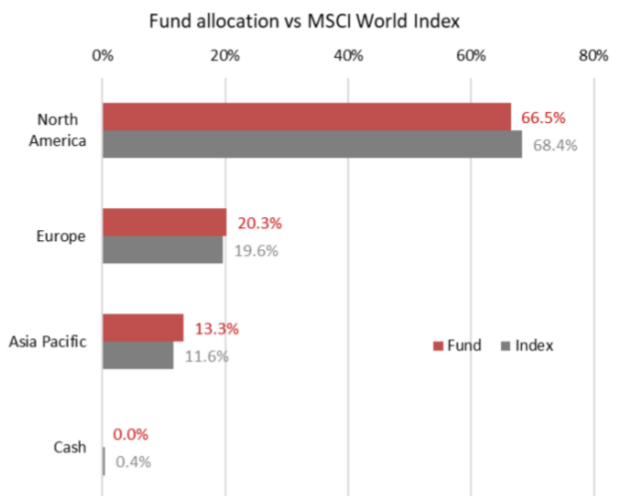
Portfolio Sector Breakdown

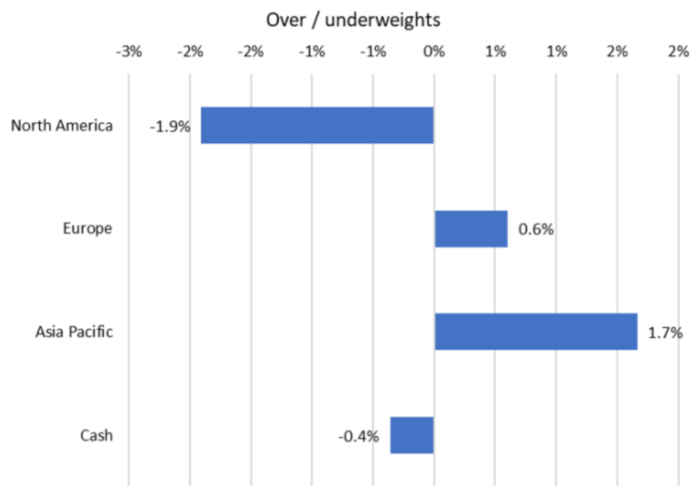


Source: Guinness Atkinson Asset Management, Bloomberg (data as of 06.30.2020)

As we made no changes over the quarter, the regional and sector exposures are broadly in line with that of Q1.

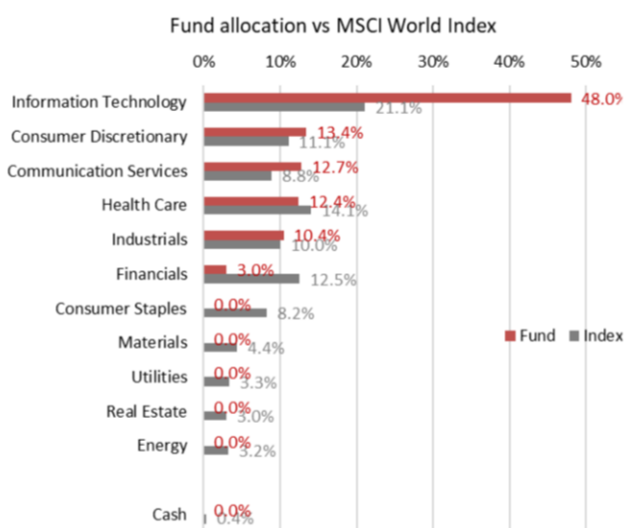
The fund's allocation to regions are now similar to that of the MSCI World. However, this was a result of bottom-up stock picking and not a "top down" decision.

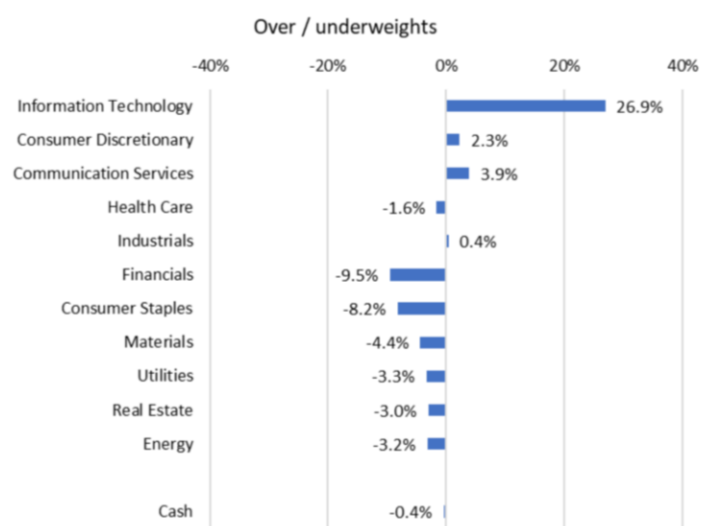




Source: Guinness Atkinson Asset Management, Bloomberg (data as of 06.30.2020)

On a sector level, the fund continues to have a large overweight to IT (26.9%), while the fund's 0% exposure to Real Estate, Energy, Materials, Consumer Staples, and Utilities leaves these areas underweight relative to the benchmark.





Source: Guinness Atkinson Asset Management, Bloomberg (data as of 06.30.2020)

Key fund metrics today

Innovation: We seek companies that are exposed to secular growth themes, which should therefore be more insulated to cyclical growth cycles. We have thus far seen good evidence of this, such as for semiconductor companies as demand for chips enabling technologies from cloud computing to video streaming continue to increase in response to more consumers working from home.

Quality: We only invest in companies with historically good (and ideally growing) returns on capital and strong balance sheets. In the recent sell off, a clear distinction was seen between businesses with strong vs weak balance sheets – companies which have taken on too much debt have been "propped up" by low interest rates but a shock to revenues has the potential to alter this balance and the market quickly discounted this scenario.

Growth and valuation: We look to buy good growth companies at reasonable valuations and specifically we try to avoid paying too high a premium for expected future growth – as this is inherently less predictable. While valuations have optically become stretched, we believe companies that are able to continue growing, such as those exposed to our innovation themes, will justify a greater premium.

Conviction: Although we run a concentrated portfolio of typically 30 stocks, we equally weight each position. This caps stock specific risk to approximately 3.3% thereby limiting the impact to the overall portfolio of a single company performing particularly poorly.

The four key tenets to our approach are innovation, quality, growth, and conviction.

		Fund	MSCI World Index
Innovation	R&D / Sales	10%	8%
	CAPEX / Sales	5%	8%
Quality	CFROI (median 2020)	18%	8%
	Return-on-Equity	16%	10%
	Weighted average net debt / equity	9%	90%
Growth (& valuation)	Trailing 3-year sales growth (annualized)	14%	11%
	Estimated earnings growth (2021 vs 2020)	20%	28%
	FCF yield	3.9%	5.5%
	PE (2020e)	26.2	23.0
Conviction	Number of stocks	30	1190
	Active share	85%	-

Source: Guinness Atkinson Asset Management, Credit Suisse HOLT, Bloomberg (data as of 06.30.2020)

We thank you for your continued support.

Portfolio Managers

Matthew Page, CFA

Dr Ian Mortimer, CFA

Summary performance

For the second quarter of 2020, the Guinness Atkinson Global Innovators Fund provided a total return of 27.4% (USD) against the MSCI World Index net total return of 19.4% (USD). Hence, the fund outperformed the benchmark by 8.0%. Having outperformed during the first quarter, including the drawdown beginning in February, the fund has since extended its outperformance in the subsequent equity market rally.

By quarter end, the MSCI World has recovered around three-quarters of the losses sustained in the drawdown versus the Guinness Atkinson Global Innovators Fund which has since recovered all of its losses. Consequently, year-to-date, the fund is now up 6.8% (USD) against the MSCI World net total return of -5.8% (USD).

During the quarter, the fund's performance can be attributed to:

- Positive asset allocation from the fund's largest absolute and relative overweight exposure, Information Technology (IT). Additionally, good stock selection within IT aided performance with 7 of the fund's top 10 performers (led by PayPal, up 82.0% in USD) from the sector. A slight drag, however, was not owning Apple - the largest position in the MSCI World - which returned 43.8% (in USD) over the quarter.
- The fund's exposure to Industrials, which is at a slight underweight relative to the MSCI World, was a minor drag on performance from an asset allocation perspective. However, positive stock selection more than offset this, with our 3 positions, Schneider, ABB and Roper Technologies, all showing robust performance as many regional manufacturing PMIs bounced back strongly after a poor few months: China's manufacturing PMI now stands at 51.2 from lows of 40.3 in February, while the manufacturing PMI in the US rose to 52.6 from lows of 41.5 in April .
- From a regional viewpoint, positive stock selection from our US stocks was the main contributor to our outperformance, led primarily by IT names within the region.
- The COVID-19 pandemic has accelerated growth prospects in the near-term for companies in a number of our themes such as Advanced Healthcare, Payments & Fintech, Cloud Computing, and Next Gen Consumer, while also improving the long-term growth prospects for companies in the Clean Energy & Sustainability and Robotics & Automation themes as fiscal stimulus packages are rolled out in Europe and other countries and as companies seek to increase resilience in their operations and supply chains.

as of 06.30.2020 (in USD)	1 year	3 years annualized	5 years annualized	10 years annualized
Global Innovators, Investor Class[1]	20.65%	12.03%	11.78%	15.33%
Global Innovators, Institutional Class[2]	20.97%	12.32%	12.03%	15.46%
MSCI World Index NR	2.82%	6.69%	6.89%	9.94%

All returns after 1 year annualized.

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, 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); 1.35% (gross)

[2] Institutional class (GINNX) Inception 12.31.2015 Expense ratio* 0.99% (net); 1.21% (gross)

[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 0.99% for the Institutional class and 1.24% for the Investor class 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 waiver. The expense limitation agreement may be terminated by the Board of the Fund at any time without penalty upon 60 days' notice.

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's focus on the technology, internet and communications sectors are extremely competitive and subject to rapid rates of change.

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 6/30/2020:

1.	Tencent Holdings Ltd	4.13%
2.	Adobe Inc	3.81%
3.	NVIDIA Corp	3.81%
4.	Microsoft Corp	3.64%
5.	PayPal Holdings Inc	3.64%
6.	Schneider Electric SE	3.63%
7.	Infineon Technologies AG	3.60%
8.	Applied Materials Inc	3.58%
9.	SAP SE	3.55%
10.	KLA-Tencor Corp	3.52%

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 prospectuses contain this and other important information and can be obtained by calling 800- 915-6565 or visiting www.gafunds.com. Read and consider it carefully before investing.

Earnings growth is not representative of the Fund's future performance.

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

One cannot invest directly in an index.

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

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