Guinness Atkinson

**Dividend Builder Fund**

Managers Update – October 2020

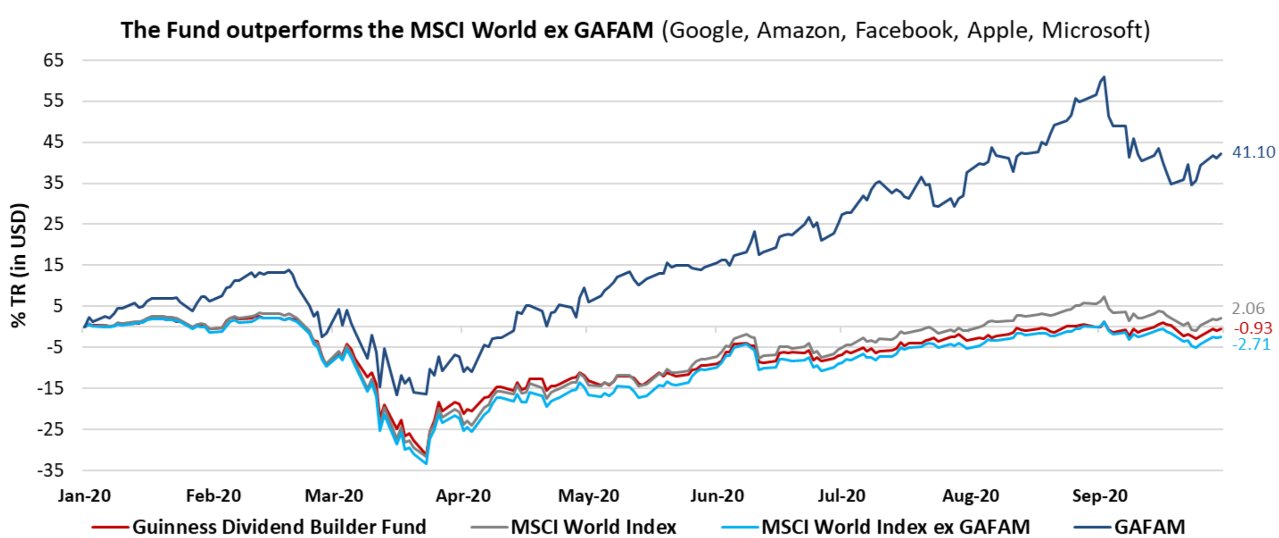
## Quarter Review

The tone was predominantly 'risk on' in markets over the quarter, underpinned by supportive central bank policy, the gradual reopening of economies and, to some degree, hopes of a Covid-19 vaccine. The Federal Reserve (Fed) announced a change to its inflation targeting regime in August, saying it would target an average 2% inflation rate, allowing periods of overshoot. This was well received by markets, and despite the decline in September, global equity markets rose overall in the third quarter.

The quarter began with the continuation of a strong market rally led by the US 'Big Tech' companies. The Fund's underexposure here largely explains the underperformance seen in July and August, and also goes some way in explaining the outperformance in September, when these names saw a sharp correction.

At quarter end, the five largest weighted companies in the MSCI World Index (Apple, Microsoft, Amazon, Facebook, Alphabet) made up 14% – the largest concentration the Index has ever seen in only five holdings. The performance of these stocks was therefore highly influential on the Index's overall performance, and also on the respective performance of the IT, Consumer Discretionary and Communications sectors.

The chart below compares the Fund's year-to-date performance to the MSCI World index including and excluding these five stocks; this visual highlights that the Fund's relative underperformance is somewhat explained by the Index's narrow leadership:

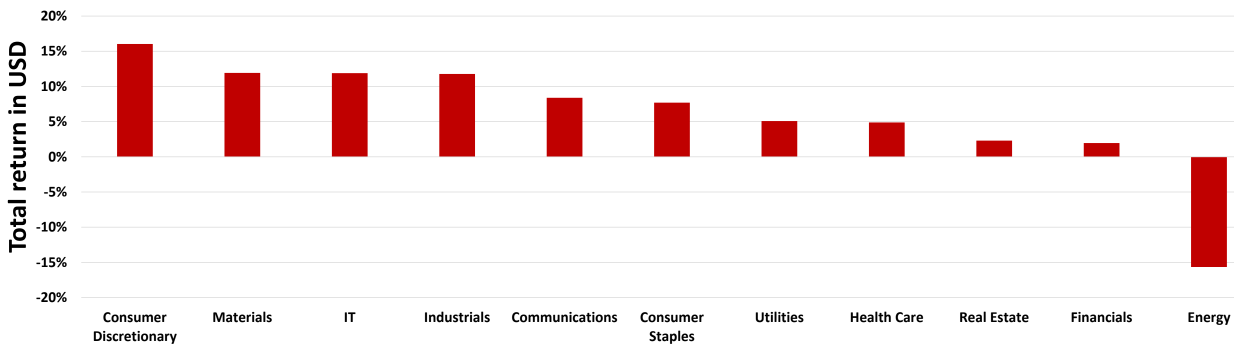



**Source: Bloomberg PORT, as of September 30th 2020**

*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](https://www.gafunds.com/our-funds/dividend-builder-fund/#fund_performance) or call (800) 915-6566. Performance for 1-year or less is cumulative.*

Aided by the 'GAFAMs' in July and August, the Consumer Discretionary, IT and Communications sectors posted strong returns, while the defensive sectors – including Healthcare and Consumer Staples – relatively lagged. Though this trend remained for the quarter overall, there was some reversal in September as uncertainty over US elections and fiscal stimulus negotiations weighed on the cyclical sectors and large-cap technology names. The MSCI World Index's streak of five monthly advances came to an end in September, and sector leadership tilted towards the defensive sectors. Strong showings within the Consumer Staples and Healthcare sectors aided the Fund's outperformance in the month but was not sufficient enough to overturn overall underperformance in the quarter.

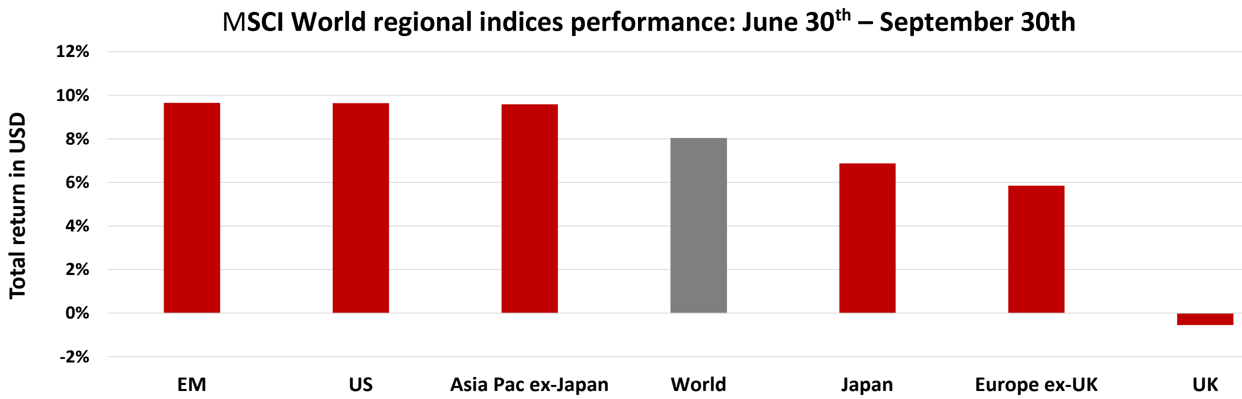
**MSCI World sector indices performance: June 30th – September 30th**




**Source: Bloomberg, as of September 30th 2020**

All sectors bar Energy registered positive gains in Q3 and the Fund benefitted from zero exposure in the sector. Holding no banks was also once again beneficial to the Fund. They have underperformed in recent times due a number of reasons: firstly, central banks across the world have cut interest rates and reiterated that they will remain near-zero for the foreseeable future. Lower rates in turn squeeze banks' lending margins. Secondly, with consumers and businesses facing greater financial stress, outstanding bank loans are riskier and have a greater probability of default. Thirdly, to add salt to the wounds, regulators in the US ruled that banks must cap dividends and undertake no share buybacks, while in Europe, banks are being forced to withhold all dividend payments until at least next year.

Regionally, Emerging Markets and Asia Pac ex-Japan were amongst the best performing regions in the quarter, largely benefitting from a weak US Dollar, ongoing monetary and fiscal stimulus, and a continued recovery in economic data. Equity markets in the regions weathered an acceleration in new Covid-19 cases and the escalation of US-China tensions which led to tit-for-tat consulate closures, new restrictions on Chinese telecom company Huawei, and Presidential orders preventing US companies doing business with TikTok and WeChat. Within the Fund our EM and Asia-Pac exposure comes via three companies: TSMC (Taiwan), Anta Sports (Hong Kong) and Sonic Healthcare (Australia), which all performed well in the quarter.

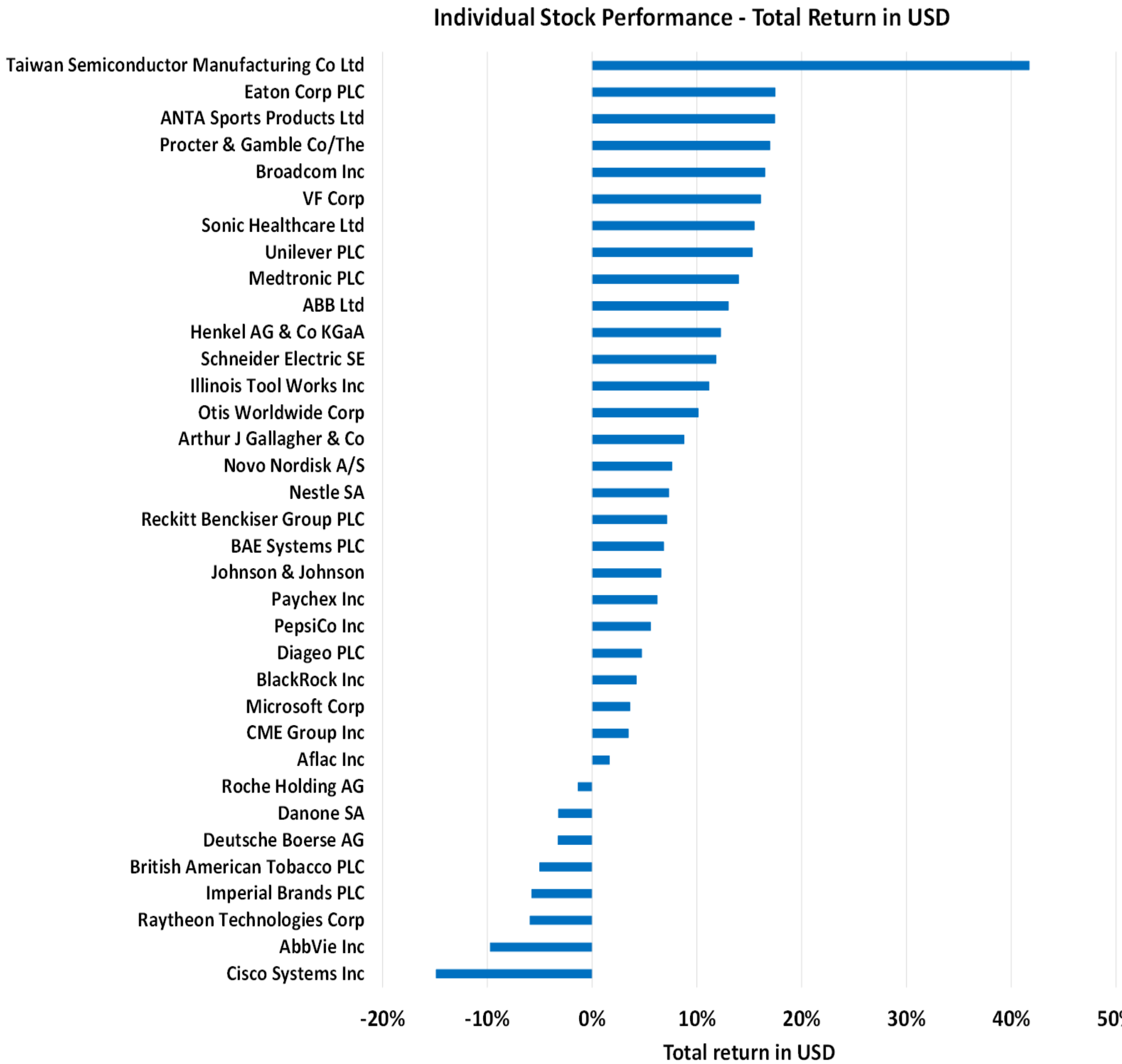



**Source: Bloomberg, as of September 30th 2020**

US equity markets also continued their ascent in the quarter despite mixed economic data releases and increasing political uncertainty. Although it was anticipated, confirmation that Q2's quarterly contraction in GDP (-32.9%) was the worst on record raised questions over a swift recovery. The unemployment rate however dropped to 8.4% in August – down from 10.2% in July and below consensus expectations of 9.8%. The labor force participation rate also improved, but it is still below its February pre-pandemic level. Industrial production rose for the fourth consecutive month in August, albeit at a much lower rate than earlier in the summer, signalling a slowing recovery in manufacturing. Similarly, retail sales increased in August, but again at a slower rate and below consensus expectations.

Near-zero interest rates in the US have had a depreciating effect on the US Dollar, which has seen a steady decline since its March highs. The weaker Dollar versus a basket of foreign currencies boosts US stocks by attracting foreign investors and export demand. This is not beneficial, however, to foreign-domiciled multinational companies which translate their Dollar earnings into local currency at a less favorable exchange rate. This particularly affects the FTSE 100 Index given that the largest UK companies collectively derive over 70% of their earnings from overseas. Alongside sector biases towards Financial and Energy stocks, and continued uncertainty over Brexit negotiations, the UK fared as the worst performing region in the quarter – a trend also seen for much of this year. Any drag on Fund performance from being overweight UK was however limited given good stock selection in Unilever, Reckitt Benckiser, BAE Systems and Diageo.

## Stock Selection




**Source: Bloomberg. As of September 30th 2020**

**TSMC** (Taiwan Semiconductor Manufacturing Company) was the best performer in the Fund in the quarter (+41.7% in USD) after the world's leading global foundry raised its 2020 sales target as well as the growth outlook for the integrated chip foundry sector. TSMC dominates the advanced node-processing foundry market with about 75% market share. The company's extreme ultraviolet lithography (EUV) process capacity is more than triple its peers such as Samsung and Intel after it spent more than $3.3 billion on 18 new EUV machines in 2019. TSMC's success in adopting the 5-nanometer node process in mass production this year should allow it to command a higher selling price, helping it maintain its revenue growth amid the Covid-19 pandemic. Further, Intel announced on July 23rd that it is planning to outsource production of some chip products to external manufacturers due to low production yield in its own 7-nm technology under development. This not only will pass more business to TSMC, but will extend its lead over Intel and other peers who cannot compete with the high required R&D expenditure. The company's expansion into a new semiconductor packaging business, although less profitable than chipmaking, should also help to retain its market-share leadership amid increasing competition with Samsung.

**Cisco** was the worst performer in the quarter (-14.9% in USD) after earnings results showed that the uncertainty from pandemic disruptions extended to enterprise clients' IT-purchasing decisions. Cisco is a leading maker of networking equipment (routers, switches, servers and software) and relative to peers, Cisco's enterprise and small- and medium-business (SMB) exposure is high, accounting for about 50% of sales. This end-market focus makes the company's revenues particularly sensitive to economic conditions. Nonetheless we continue to like Cisco's strong balance sheet which provides a buffer against the coronavirus induced demand shock. The business has $27.1 billion in gross cash and $11.1 billion net, which would allow it to comfortably fund operations, service and pay down debt, all while maintaining its dividend.

## Changes to the Portfolio

We made no changes to the portfolio in the quarter.

## 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.

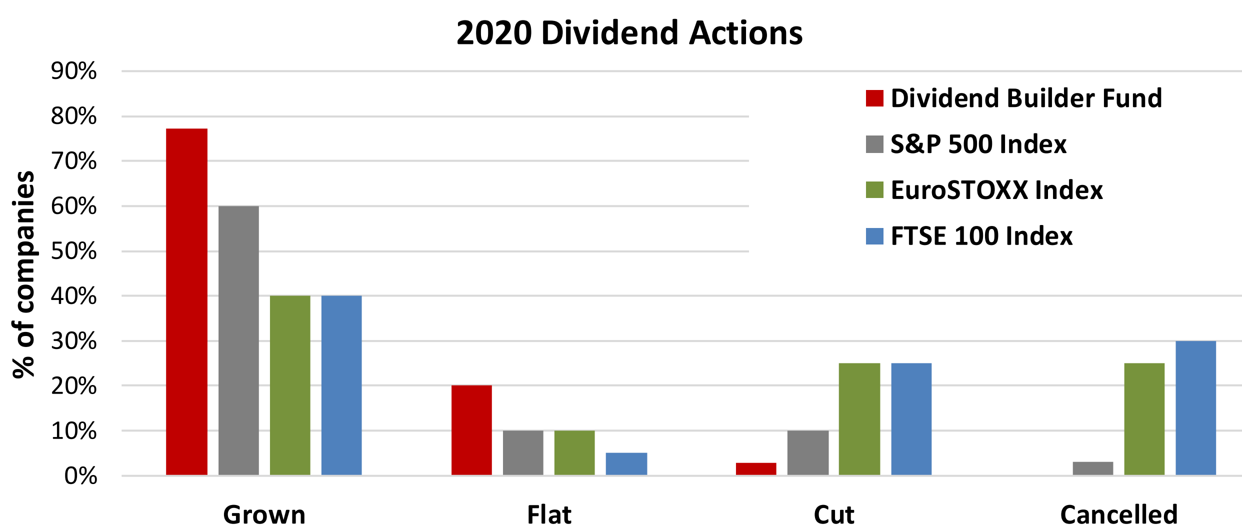
- In Europe, the overall EuroSTOXX Index dividend is expected to decline by over 30% in 2020 compared to 2019; 25% of all companies in the index have cancelled their dividend so far this year with a further 25% having reduced their dividend. *Source: SocGen*

- Similarly, in the UK, the FTSE100 Index dividend for 2020 is expected to decline by over 35%; 30% of companies have cancelled and a further 25% have reduced their dividend so far this year. *Source: SocGen*

- In the US, these respective figures are much lower owing to a culture of progressive dividend policies, a focus on share buybacks, and more conservative payout ratios.

Broadly, the dividend cuts seen this year have been concentrated in companies affected by (i) significant loss of revenues from COVID lockdowns (airlines, travel & leisure, retail, energy), (ii) regulatory pressure (European banks, insurance), (iii) government pressure (French state-owned businesses in particular), (iv) companies with weak balance sheets conserving capital by reducing or cancelling dividend payments.

The Fund has an overweight to Europe (including UK) and an underweight to the US, yet the dividend actions of our holdings have been extremely robust across all regions:




Source: Guinness Atkinson Asset Management, SocGen, as of September 30th 2020
Data for the Fund includes companies that have declared their 2020 dividend action and includes our expectation for the 2 remaining Fund holdings which will declare their dividend action in Q4.

So far, out of our 35 holdings:

- 26 companies have **grown** their dividend this year
- 6 companies have kept their dividend **flat**
- 1 company **cut** its dividend (Imperial Brands)
- 0 companies **cancelled** their dividend

- For the 2 remaining companies, we expect Broadcom to grow its dividend in Q4, and expect VF Corp to maintain a flat dividend this year. This is reflected in the chart above.
  (Both companies have paid dividends in all 3 quarters so far this year, they just do not typically announce their year-on-year growth in their quarterly dividend until Q4)

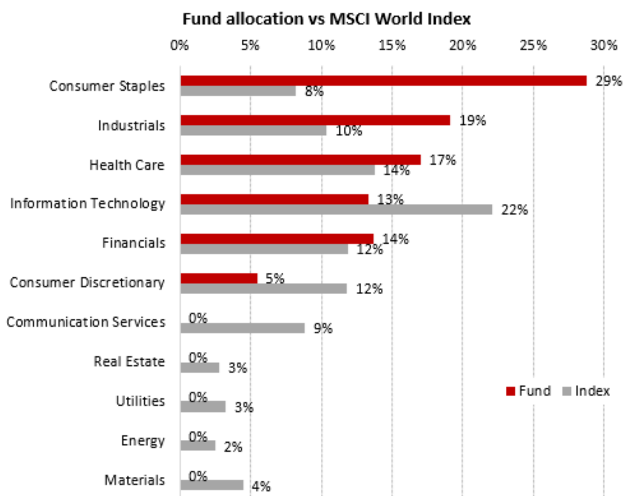
Our current expectation is that the 2020 fund dividend distribution will be very similar to 2019 – but we note there are some moving parts to this analysis (e.g. Foreign Exchange rates or portfolio changes).

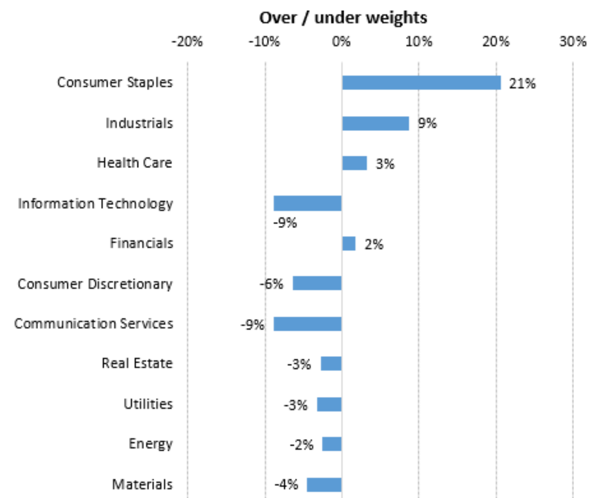
In the coming years we believe income will be more in demand, but dependable and sustainable income will be harder to find, which we believe will be positive for the dividend paying companies that we own. The growing dividends that our stocks have provided are a consequence of the companies themselves being able to grow successfully; our search for persistently high return on capital businesses leads us to companies which have navigated different economic environments well, not least the most recent. We therefore believe that our approach should stand us in good stead in our search for rising income streams and long-term capital growth in the future.

## Portfolio Positioning

**We continue to maintain a fairly even balance between quality defensive and quality cyclical/growth companies.** We have approximately 50% in quality defensive companies (e.g. Consumer Staples and Healthcare companies) and around 50% in quality cyclical or growth-oriented companies (e.g. Industrials, Financials, Consumer Discretionary, Information Technology, etc.) Within Financials, however, we do not own any Banks, which helps to dampen the cyclicality of our Financials.

The Fund also has zero weighting to Energy, Utilities, Materials, and Real Estate. The largest overweight is to Consumer Staples.

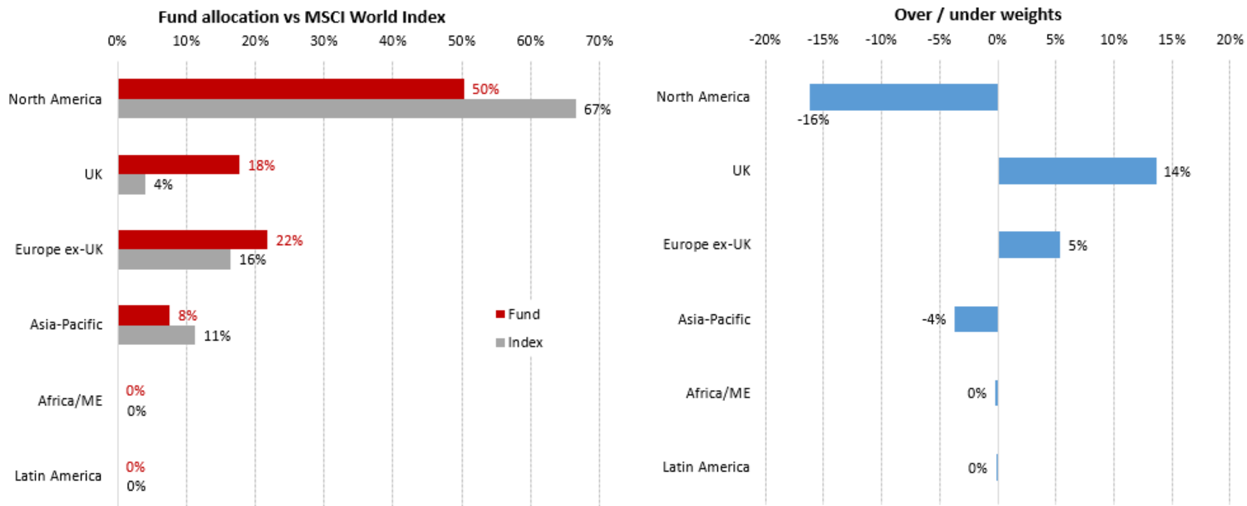



**Sector breakdown of the fund versus MSCI World Index.**
**Source: Guinness Atkinson Asset Management, Bloomberg. Data as of September 30th 2020**

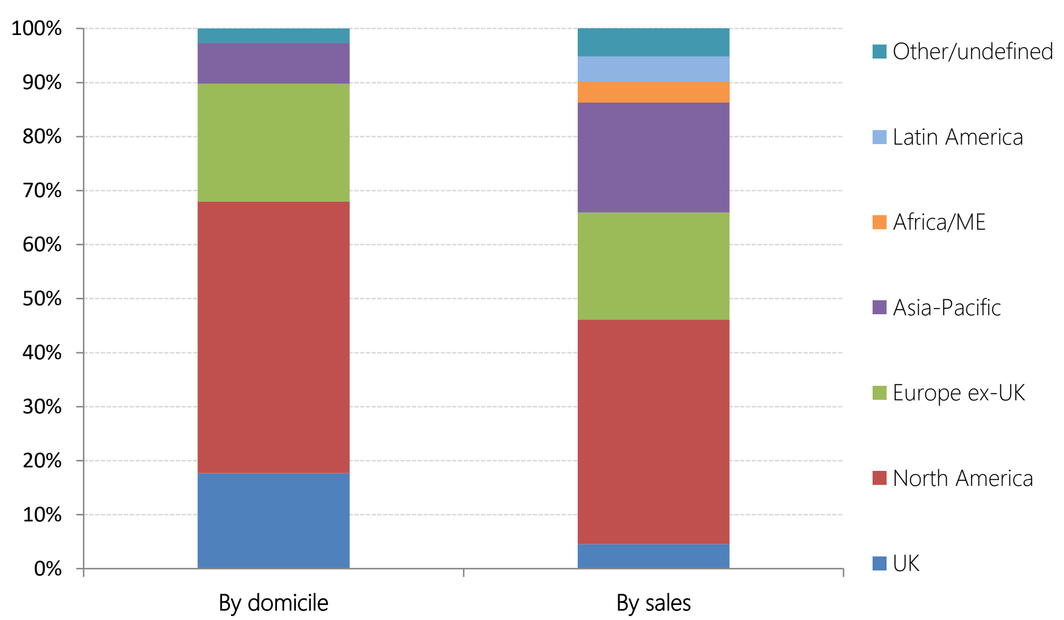
In terms of geographic exposure (chart below), the largest difference between the Fund and the benchmark is our exposure to the US (as measured by country of domicile). The Fund over the quarter had on average about 50% weighting to North America which compares to the index at about 67%. The largest geographic overweight remains Europe ex-UK and the UK.

We are diversified around the world with 50% in the US, 40% in Europe and 8% in Asia-Pacific. Within the Asia-Pacific region we have one company listed in Hong Kong (Anta Sports), one company listed in Taiwan (Taiwan Semiconductor) and one company listed in Australia (Sonic Healthcare).



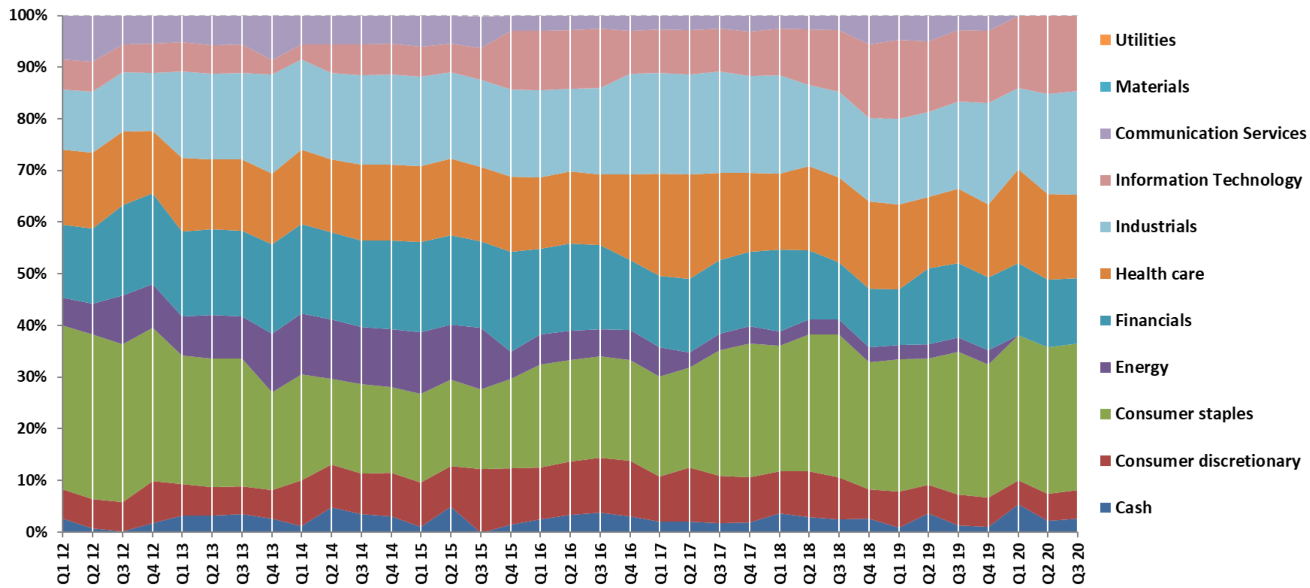

**Regional breakdown of the fund versus MSCI World Index.**
**Source: Guinness Atkinson Asset Management, Bloomberg. Data as of September 30th 2020**

With regards to our UK exposure, we would note two main points, referring to the chart below; (i) the Fund has a lower exposure to the UK when considered in revenues (about 4%) versus by domicile (about 18%). This is because we have favored UK domiciled companies with a more global exposure (such as Unilever and Imperial Brands); and (ii) there is a larger exposure to Asia-Pacific by revenues (about 20%) than the equivalent statistic as measured by domicile (about 8%).

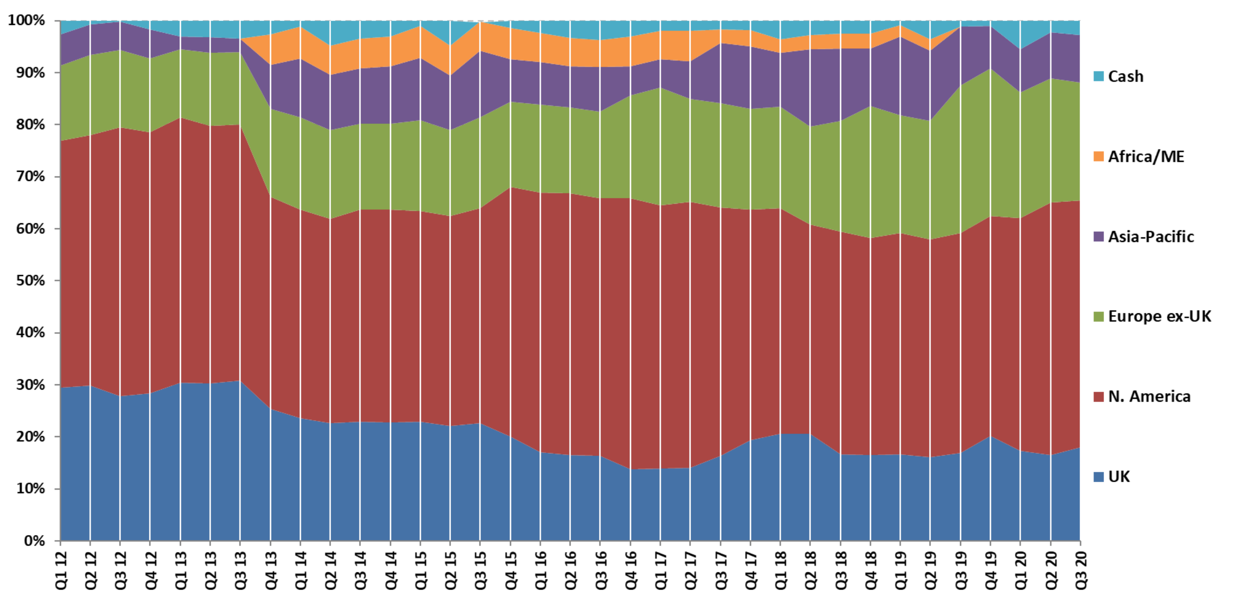



**Geographic breakdown of the fund.**
**Source: Guinness Atkinson Asset Management, Bloomberg. Data as of September 30th 2020**

The below two charts show how the exposure of the fund has evolved since we launched the Fund back in 2012.




**Sector breakdown of the fund since launch.**
**Source: Guinness Atkinson Asset Management. Data as of September 30th 2020**




**Geographic breakdown of the fund since launch.**
**Source: Guinness Atkinson Asset Management. Data as of September 30th 2020**

## Outlook

The four key tenets to our approach are: quality, value, dividend, and conviction. We follow these metrics at the portfolio level to make sure we are providing what we say we will. Based on the measures, holistically, the high-conviction fund has companies which historically have been on average better quality at better value versus the index. We are pleased to report that the portfolio has continued to deliver on all four of these measures relative to the benchmark MSCI World Index.

| | | Fund | MSCI World Index |
|---|---|---|---|
| **Quality** | Average 10 year Cashflow Return on Investment | 17% | 8% |
| | Weighted average net debt / equity | 53% | 68% |
| **Value** | PE (2020e) | 18.3 | 24.0 |
| | FCF Yield (LTM) | 6.2% | 5.5% |
| **Dividend** | Dividend Yield (LTM) | 2.3% (net) | 2.1% (gross) |
| | Weighted average payout ratio | 62% | 79% |
| **Conviction** | Number of stocks | 35 | 1650 |
| | Active share | 90% | - |

**Portfolio metrics versus index.**
**Source: Guinness Atkinson Asset Management, Credit Suisse HOLT, Bloomberg.**
**Data as of September 30th 2020**

The fund at quarter end was trading on 18.3x 2020 expected price to earnings; a discount of 23.8% to the broad market.

With so much uncertainty, not least from the upcoming US elections and COVID vaccine optimism, forecasting earnings is very difficult. What we can focus on with a higher level of clarity is the balance sheet strength of our companies and we believe the holdings we have selected in the Fund remain very robust. We believe these companies are well placed to weather whatever happens next and will come out the other side ready for their next stage of growth. As investors in these companies we should receive a share of their potential profits each year in the form of a dividend and look forward to seeing those dividends grow.

We thank you for your continued support.

## Performance

In September, the Guinness Atkinson Dividend Builder Fund produced a total return of -0.53% (TR in USD), compared to the MSCI World Net TR Index return of -3.45%. The Fund therefore outperformed the Index by 2.92%.

In the third quarter, the Guinness Atkinson Dividend Builder Fund produced a total return of 6.72% (TR in USD), compared to the MSCI World Net TR Index return of 7.93%. The Fund therefore underperformed the Index by 1.21%.

| as of 09/30/20 | YTD | 1 YR | 3 YR Annualized | 5 YR Annualized | Since inception Annualized (3/30/12) |
|---|---|---|---|---|---|
| **Dividend Builder Fund** | 0.24% | 8.76% | 8.77% | 10.48% | 9.57% |
| **MSCI World Net NR Index** | 1.70% | 10.41% | 7.72% | 10.46% | 9.32% |

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

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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, 2024. 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 9/30/2020:

| | | | |
|---|---|---|---|
| 1 | Taiwan Semiconductor Manufacturing | 3.27% | Semiconductor Components - Integrated Circuits |
| 2 | British American Tobacco PLC | 3.01% | Tobacco |
| 3 | The Procter & Gamble Co | 3.01% | Cosmetics & Toiletries |
| 4 | VF Corp | 3.00% | Apparel Manufacturers |
| 5 | Broadcom Inc | 2.97% | Electronic Components - Semiconductor |
| 6 | Paychex Inc | 2.94% | Data Processing/Management |
| 7 | Unilever PLC | 2.92% | Cosmetics & Toiletries |
| 8 | Arthur J Gallagher & Co | 2.89% | Insurance Brokers |
| 9 | Eaton Corp PLC | 2.89% | Diversified Manufacturing Operations |
| 10 | Illinois Tool Works Inc | 2.87% | Diversified Manufacturing Operations |

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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