Guinness Atkinson

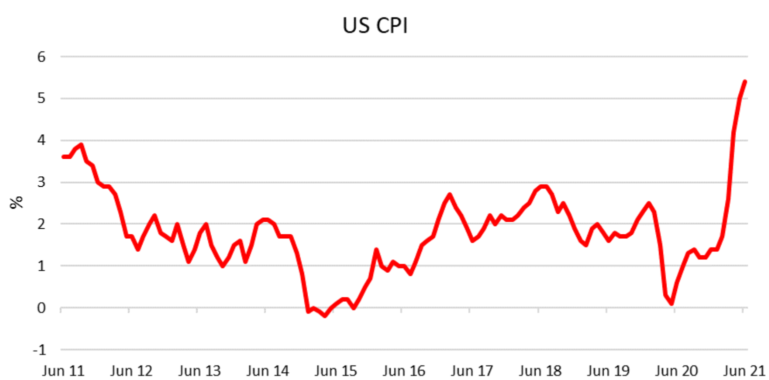
Global Innovators Fund

Managers Update – August 2021

July in review:

US bond yields declined sharply in July, with the 10 year falling from 1.47% to 1.23% - a result of both macro and technical factors. From a technical side, strong demand and weak supply in the bond market contributed to this fall. We are seeing higher levels of demand than usual, with the Fed's continuation of expansionary monetary policy from the recession last year leading to a high level of asset purchases. On the supply side, the suspension of the US debt ceiling expired in July, meaning the Treasury Department will begin conducting emergency cash-conservation steps to avoid issuing new debt for the next 2-3 months. From a macro perspective, we also saw indications of a declining economic growth outlook. Delta variant concerns and gross domestic product (GDP) below market expectations led to a flight to both quality stock names and bonds. Additionally, inflation remained at 5.4%, far exceeding the Fed's 2% target. While standing behind their belief that inflation remains transient, there was an acceptance that the time horizon may be incrementally longer than first expected, especially when taking in to account continued pressure on commodities, disrupted supply chains, and wage inflation. After acknowledging good progress in economic activity and jobs, the tapering of asset purchases is now on the horizon. Pairing this with two expected rate hikes in 2023, we can therefore expect yields to move higher in the mid-term.

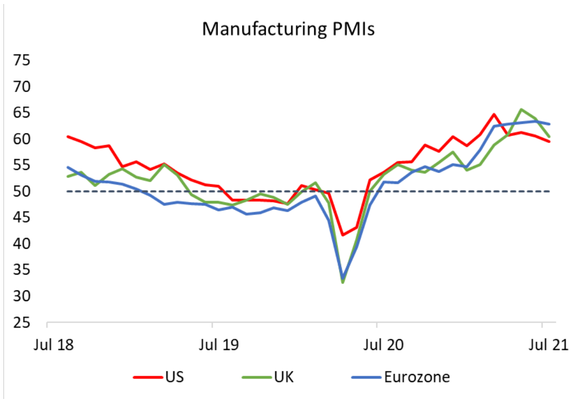
This is the first period since 2008 that the Consumer Price Index (CPI) has breached the 5% level. In contrast, European inflation is lagging, with inflation ticking up 30bps to 2.2% - a result of supply bottlenecks pushing up prices and the removal of Covid restrictions increasing demand. During the period, the European Central Bank (ECB) tweaked its inflation target to 2%, rather than below 2%.

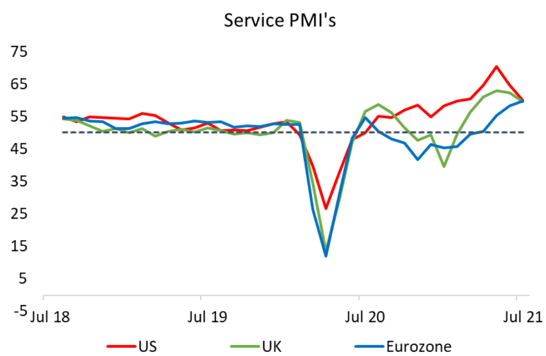


Source: Bureau of Labor Statistics

Strength in equities was buoyed by a stellar results season, despite volatility from delta concerns and Chinese regulation. The S&P 500 reached an all-time high during the month. US Q2 earnings season saw an unusually high number of companies in the S&P 500 beat earnings per share (EPS) consensus numbers: 87.1% of companies reported a beat to earnings consensus, with a mean beat of +17.9% (*source: Bloomberg*). This compares to a 5-year average of 75%, with a mean beat of +7.8%. Interestingly, while health care delivered one of the lowest aggregate earnings surprises, it had the largest price reaction, contributing positively to fund performance. Equity strength was also driven by a fall in bond yields during the month, helping to drive up valuations.

While concerns over sustained inflation exist, positive indicators for economic growth remain. Manufacturing PMI’s across regions remain in expansionary territory, despite the UK and Eurozone regions dipping slightly - a result of supply chain disruption. However, this modest decline in manufacturing was more than offset by robust improvement in service sector activity in the Eurozone. Conversely, US Manufacturing PMI’s rose slightly, offset by weaker Services PMI’s due to labour shortages. Eurozone businesses reported their fastest expansion in more than two decades.





Source: Bloomberg

Stock performances

Danaher Corp (10.85% USD over July): DANAHER

Danaher was the strongest contributor to the fund during July, driven by a strong set of Q2 results, capping off a half year in which the stock rose 29%. The Washington D.C. based medical company posted EPS growth of 71% year-over-year, revenue growth of 36% (+7% to consensus) and net income growth of 93%. Life Sciences (39% of revenues) and diagnostics (37% of revenues) were up 35% and 37% year-on-year respectively. What was particularly attractive to us was company guidance, with Q3 core business growth in the mid-to-high teens – including both high single digit growth in the base business and covid-related business. The firm has undoubtedly been a beneficiary of the pandemic, with tailwinds expected to be prolonged due to the likely requirements of vaccines for younger generations and booster shots. Management also reiterated just a small drop off in 2022 test volumes. While modest inflationary pressures in the company’s supply chain exist, Danaher possess an attractive group of businesses across multiple end-markets, in which their non-Covid core activities are experiencing a strong recovery, are exposed to continued expenditure on healthcare research, and have a renewed and brighter outlook on covid tailwinds. Strategic acquisitions should also continue to add value to the business, such as that of Aldevron and GE’s biopharma business.

Alphabet (7.9%), Apple (6.5%), Microsoft (5.2%), Facebook (2.5%):

Big Tech delivered another blowout quarter, with profits continuing to surge as the global economy emerges from the pandemic. **Apple, Amazon, Alphabet, Microsoft** and **Facebook** (all held in the fund) made $75bn in after-tax profits for Q2, up 90% on the year before and 30% above consensus estimates. **Alphabet** was the standout performer of the group, announcing strong financials across the board during their Q2 earnings release. A strong recovery in ads, an outlook containing margin upside, and continued cloud earnings growth, led to a wave of analyst upgrades, followed by a 4% re-rating on the day of results. YouTube's advertising business was a particular standout, with revenue growth of 84%. **Apple** and **Microsoft** also performed well during the month, with iPhone sales jumping 50% and Microsoft's cloud platform, Azure, growing in excess of this. **Amazon (-3.3%)** was the sole detractor of the Big Tech group in the fund, suffering from a miss to revenue consensus for Q2 results of -8%, an uninspired Q3 outlook (a revenue fall of 1%, despite historically tending to offer a 9% increase in Q3), a record fine from the European Union (a breach of GDPR rules), and increasing worries of regulation following Lina Khan's appointment to FTC chair in June. While enhanced regulation continues to be a risk, each of these companies benefitted from strong, economic moats within their industries, alongside long-term growth trends across a diverse range of revenue streams. Their ability to continue surprising to the upside should not be underestimated.

Infineon (-5.3%), TSMC (-2.8%), Nvidia (-2.5%), Lam Research (-2.0%):

Semiconductor stocks had thus far performed very well this year. However, July offered a rare occurrence of negative growth. **Nvidia**, **Infineon** and **Lam Research** fell 11%, 9% and 6% respectively over a four day period - seemingly a negative read-across of **TSMC**'s Q2 earnings. There was limited news flow for these stocks elsewhere. **TSMC** fell 3.9% after short to mid-term gross margin guidance disappointed investors, despite raising their outlook and reaching the top-end of their sales guidance. This outlook was based on a rapid increase in sales contribution from expensive, 5-nanometer semiconductors. However, investors were unimpressed with margin guidance at two percentage points lower than consensus, and the suggestion that margin erosion is likely to continue. Heavy and sustained capital investing is required to maintain their trend of capacity expansion, while a significantly weakened US dollar (comparative to the New Taiwan dollar/TWD) continues to dilute gross margins, and large depreciation costs are due from 5-nanometer-chip equipment. However, we view **TSMC**'s growth and capacity expansion commentary as a positive for the firm. The majority of news surrounding TSMC related to expansion efforts, in particular on potential new sites in Germany and Japan, alongside the 60% capacity expansion of their Nanjing plant. TSMC also did not rule out further expansion of production capacity in Arizona, where the firm will start mass production in 2024. We believe the outlook for TSMC remains strong. Demand is likely to outstrip supply, with the global chip shortage expected to last into the back-end of next year, and increasing capacity through large investments will cement their position as an industry leader. Other chip stocks are also likely to benefit, as demand for high performing chips continues to rise, through 5G, IoT, Cloud etc.

Anta (-7.5%):

Anta went from the fund's top performing stock in June (+14.0%) to the bottom performer in July (-7.5%). During the month, **Anta** hit a record high of $191, before dropping to $153 (-20%) just 12 days later. While not all of June's gains were wiped out, a very active Chinese regulator over the period weighed heavily on investor sentiment. Underperformance was led by Chinese tech stocks, with the Nasdaq Golden Dragon China Index falling 22% over the period – their worst month since the financial crisis. Mega-caps Alibaba and Tencent fell about 18% and 10% respectively. Beijing had recently implemented a regulatory crackdown across multiple fronts: overseas listing rules; cyber security and privacy concerns (e.g. Didi); anti-competitive practices (Alibaba); and restrictions on private education (New Oriental Education). This regulatory assault across multiple sectors worried investors across the spectrum, with Beijing even holding a call with executives from global investors in an attempt to ease concerns. Brands such as Anta suffered as collateral damage, with investors pulling funds out of China. We remain comfortable with Anta's positioning, with long term structural tailwinds and limited narrative surrounding the regulation of apparel. China continues to promote exercise and sports, pouring billions into initiatives such as China's "Action Plan to Stimulate Sports Consumption (2019-2020)", the "Healthy China 2030" Plan and the "National Fitness Program" (2016-2020), which should serve to lift the sports industry's contribution to GDP. China wants to increase the number of people exercising regularly by more than 18% by 2022, and a further 29% by 2030. China's per capita spending on sportswear remains comparatively low at $31, and analysts expect this to rise to a similar level as Japan ($110) by 2030 (US $307). These underlying factors will serve to boost Anta's revenue profile into the long term, and despite the regional risk that it entails (Anta is now the fund's only Chinese stock), we remain bullish on the firm's outlook.

Changes to the Portfolio:

We sold Tencent on the 6th July. Increased scrutiny from the Chinese regulator on monopolistic behavior, data security and financial stability adds an inherent level of risk to investments within the region – particularly in large, mega-cap tech stocks. At the beginning of the month, Tencent was blocked from combining gaming platforming Douyu and Huya on anti-competitive grounds. Two-weeks later, regulators ordered Tencent to end exclusive music contracts with copyright holders. Following their 2016 acquisition of China Music Group, Tencent was left controlling more than 80% of "exclusive music library resources", preventing rivals from entering the market. The firm was given 30 days to end exclusive music copyright contracts. Subsequently, the stock fell over 18% during the month. Such is the density of the interactions the regulator is having with Tencent, the drastic measures felt across a range of industries (such as those felt by the $100bn Chinese private education industry) and hefty fines (Alibaba fined a record $2.8bn in April for abusing market dominance), the recent swing in the balance of risks is dominating the conversation around Chinese tech stocks, and is likely to continue weighing heavily on the stock price.

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/global-innovators-fund/#fund_performance or call (800) 915-6566.

We thank you for your continued support.

Portfolio Managers

Matthew Page, CFA

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Summary performance

For the month of July, the Guinness Atkinson Global Innovators Fund provided a total return of 2.50% (USD) against the MSCI World Index net total return of 1.79% (USD). Hence the fund outperformed the benchmark by 0.71% (USD). Year to date, the fund has produced a total return of 17.26% (USD) against the MSCI World 15.07% (USD).

Delta variant concerns, Chinese regulation and high levels of inflation offset much of the optimism felt from the ongoing vaccine rollout, the re-opening of economies and continued economic growth.

With the more infectious delta variant accounting for up to 87% of new U.S. infections and with just half of the U.S. fully vaccinated, the market became increasingly concerned about the sustainability of economic momentum. In Q2 US GDP grew 6.5% to the previous quarter, yet failed to reach expectations of 8.4%. In contrast, eurozone GDP (2.0% to the previous quarter) beat consensus by 50 bps, with consumer and business confidence rebounding strongly.

US inflation surprised to the upside for the fourth consecutive month, with the CPI at 5.4% to the previous year- 10bps ahead of consensus. Inflation in energy commodities (+41.2%), alongside the easing of restrictions, led to significant increases across other products, such as airline fares (+19.0% Year over year), intercity transportation (+11.4%), car and truck rental (+73.5%), as well as a used cars and trucks (+41.7%). Food away from home also contributed, up 6.6% to the previous year. And while the market consensus is for inflation to curtail to 2.2% in 3Q22, the Fed's latest FOMC meeting suggested the committee was beginning to accept that inflation was slightly less transient than they had previously expected. The Fed had become noticeably more hawkish in tone since June, with their latest dot plot indicating two rate hikes between now and the end of 2023. With increasing pressure to taper asset purchases, the Fed also acknowledged progress in economic activity and employment, yet said the threshold of "substantial progress" had not yet been made.

In the UK, Boris Johnson removed the majority of pandemic restrictions despite a new wave of infections from the delta variant, citing the UK's strong vaccine record as the enabler. The UK is now being seen as a test case for other countries with high vaccine counts, who are also looking to remove restrictions.

In Asia, an active Chinese regulator dominated investor focus. The Chinese private education sector, worth $100bn in sales annually, took the largest hit when reports broke that Beijing may plan to turn the sector non-profit. Firms such as New Oriental Education (sold by the fund in June) dropped in share price by over 70% (in USD). The latest regulatory crackdown also heavily impacted large internet stocks such as Tencent and Didi, causing four days of heavy selling in the region. Anxieties over political risk factors in China are now at the forefront of investor's minds, alongside where the regulator may turn their attention to next.

Overall, fund performance vs the benchmark can be attributed to:

- Strong stock selection led to the Industrials sector being the fund's largest contributor to outperformance during July, with all three holdings (ABB, Schneider and Roper) delivering strong returns.

- Strong stock selection within the Healthcare sector, particularly from the fund's MedTech holdings, was a positive contributor to fund performance.
- As the benchmark's second best performer this month, high exposure to the IT Sector was a positive for the fund from an asset allocation perspective. However, over-exposure to semiconductor stocks such as Infineon, TSMC and Lam Research more than offset this benefit, with the chip industry suffering a period of weakness.
- Our lack of exposure to the Energy sector also made a positive contribution to returns as it was the worst performing sector in July.

There has been strong outperformance from growth since mid-May, when the YTD performance spread between growth and value was at its widest. Year to date, the performance of the two factors was almost equal at the end of July. As a result, the fund's relative positioning against competitors has continued to improve.

as of 07.31.2021 (in USD)	1 year	3 years annualized	5 years annualized	10 years annualized
Global Innovators, Investor Class[1]	39.24%	21.04%	20.95%	17.01%
Global Innovators, Institutional Class[2]	39.58%	21.34%	21.24%	17.17%
MSCI World Index NR	35.07%	14.49%	14.27%	11.04%

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.

as of 06.30.2021 (in USD)	1 year	3 years annualized	5 years annualized	10 years annualized
Global Innovators, Investor Class1	45.94%	20.99%	21.82%	16.30%
Global Innovators, Institutional Class2	46.26%	21.29%	22.12%	16.46%
MSCI World Index NR	39.04%	14.96%	14.82%	10.64%

All returns after 1 year annualized.

[1] Investor class (IWIRX) Inception 12.15.1998 Expense ratio* 1.24%

[2] Institutional class (GINNX) Inception 12.31.2015 Expense ratio* 0.99% (net); 1.07% (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 1.24% for the Investor class and 0.99% for the Institutional class through June 30, 2025. 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 07/31/2021:

1.	Facebook Inc	3.97%
2.	Alphabet Inc - A Shares	3.77%
3.	Danaher Corp	3.74%
4.	Adobe Inc	3.72%
5.	Roper Technologies Inc	3.72%
6.	Applied Materials Inc	3.59%
7.	KLA-Tencor Corp	3.59%
8.	ABB Ltd	3.58%
9.	Cisco Systems Inc	3.55%
10.	Visa Inc	3.53%

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.

Gross domestic product (GDP) is the total monetary or market value of all the finished goods and services produced within a country's borders in a specific time period.

The Purchasing Managers' Index (PMI) is an index of the prevailing direction of economic trends in the manufacturing and service sectors.

The European Central Bank (ECB) is the central bank of the 19 European Union countries which have adopted the euro.

The New Taiwan dollar (TWD) is the official currency of Taiwan. It is issued by the Central Bank of the Republic of China (Taiwan), the nation's central bank.

Earnings per share (EPS) is calculated as a company's profit divided by the outstanding shares of its common stock.

General Data Protection Regulation (GDPR) is the toughest privacy and security law in the world. Though it was drafted and passed by the European Union (EU), it imposes obligations onto organizations anywhere, so long as they target or collect data related to people in the EU.

Capital expenditures (CapEx) are funds used by a company to acquire, upgrade, and maintain physical assets such as property, technology, or equipment. CapEx is often used to undertake new projects or investments by a company.

The Consumer Price Index (CPI) is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services. Indexes are available for the U.S. and various geographic areas.

Basis point (BPS) is a unit of measure for interest rates and other percentages in finance. One basis point is equal to 1/100th of 1%, or 0.01%, or 0.0001, and is used to denote the percentage change in a financial instrument. The relationship between percentage changes and basis points can be summarized as: 1% change = 100 basis points and 0.01% = 1 basis point.

Price-Earnings (P/E) ratio is a valuation ratio of a company's current share price compared to its per-share earnings. Forward earnings differ from trailing earnings, which is the figure quoted more often, as they are a projection and not a fact.

The Federal Open Market Committee (FMOC) is responsible for open market operations. FOMC consists of twelve members-- seven members of the Board of Governors of the Federal Reserve System; the president of the Federal Reserve Bank of New York; and four of the remaining eleven Reserve Bank presidents, who serve one-year terms on a rotating basis.

One cannot invest directly in an index.

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