Guinness Atkinson
Global Innovators Fund Update
January 2017

GUINNESS ATKINSON FUNDS

Review of 2016

As many commentators have noted 2016 provided reasonable, but not spectacular, global equity returns (MSCI World Index up 8.18% in USD over the year) despite the myriad of events that occurred throughout the year that could have knocked markets off course.

The year started with a continuation of the slide in oil prices. The West Texas Intermediate (WTI) crude price had stabilised in mid-2015 around the $60 per barrel mark, having dropped from around $100 per barrel in 2014. But as the Organization of Petroleum Exporting Countries (OPEC), and Saudi in particular, continued to pump oil and proceed with their stated aim of conserving market share the price slumped to a low of $27 at the end of January as supply overwhelmed demand. The steep fall in the oil price coincided with a focus on one of the market's biggest concerns from 2015; namely the underlying growth in the Chinese economy. Fears of slowing growth in China alongside a sharp depreciation in the Renminbi caused a steep sell off in all risk assets, both credit and equities. On February 11th the S&P500 was back to 1829 - over 10% below where it ended 2015.

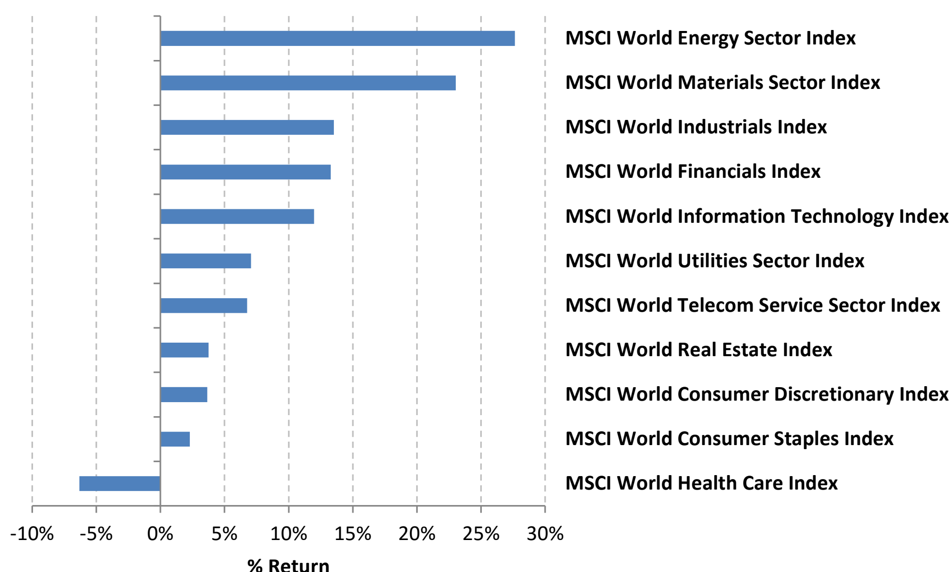
This proved to be the low for the S&P500 for the year, however. The rally in equities through the end of February and into March began on the back of better than expected economic results in the US which helped assuage some doubts following the weak Q1 gross domestic product (GDP) data released earlier in the year. The Federal Reserve (Fed) was then more dovish at its March meeting and also talked specifically about taking global market conditions into consideration when deciding on the path of interest rate rises and other policies. In China policymakers continued with the stimulus plan outlined in 2015 which broadly entailed slowing fiscal reforms and increasing credit growth to maintain target GDP growth in 2016. The oil price began to recover alongside equity markets which had the effect of improving future earnings estimates for the sector and therefore the broader indices as a whole, and high yield credit associated with indebted oil and gas companies began to recover significantly. Oil exposed countries also benefited from the recovery in crude.

It would then be fair to say that political uncertainty then dominated market sentiment through the rest of 2016. It started with the beginning of official impeachment proceedings against Dilma Rousseff in Brazil in April and then moved swiftly on to the Brexit vote in June.

Arguably the shock vote to leave to the European Union by British voters was the biggest political surprise in 2016, even perhaps when measured against the US election in November. The implications of the actual triggering of Article 50 remain to be seen and the outcome of trade negotiations and whether the Brexit is 'soft' or 'hard' will not be known for potentially several years. The immediate impact was felt most in the currency markets with the sharp depreciation of sterling but equities recovered remarkably quickly after an initial slump in the days after the vote.

European politics then took a back seat as the world looked towards the US and the Presidential election in November. Once again experts were confounded as Donald Trump became President-elect. The result, having been predicted to crater equity markets, caused a strong equity rally into the year end with domestically orientated businesses gaining significantly on the back of the prospect of more protectionist policies being enacted by the incoming administration.

Figure 1: Sector performance in 2016 (all TR in USD)



Source: Guinness Atkinson Asset Management, Bloomberg (performance from 12.31.2015 to 12.31.2016)

Figure 1 above illustrates the individual sector performances of the MSCI World Index over 2016. The big winners in 2016 were the commodity companies with Energy and Materials topping the list and Consumer Staples and Healthcare posting the weakest performance, with Healthcare the only sector with a negative total return over the period.

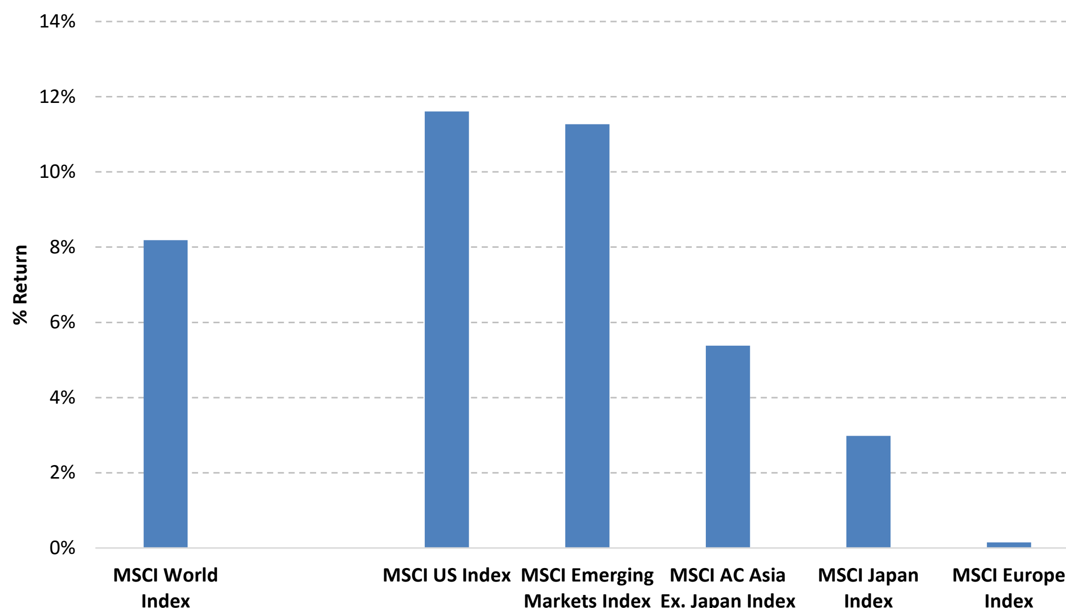
Clearly the rebound in commodity prices, and especially oil, which began in late February drove returns but it is important to note those returns were based on low starting points; the Energy sector was down 22% (in USD) and Materials down 15% in 2015. Whereas healthcare suffered on the back of negative sentiment based on Hilary Clinton's desire to clamp down on drug pricing.

The Consumer staples performance, however, hides a more dramatic change within markets through 2016. Namely the large sector rotation from defensive sectors towards more cyclical sectors which began in earnest at the end of July. But to use a convenient mid-point, the Consumer Staples sector was up 8.73% (in USD) at the end of June, and then was down 5.92% from that point into year-end; giving a full year return of just 2.30%.

So the election of Donald Trump in November which fuelled the expectation of large fiscal stimulus, lower taxes, and thus faster growth in inflation served to accelerate this rotation, rather than necessarily cause it.

Geographically the US and Emerging Markets were the best performing regions, as Figure 2 highlights. Asia showed reasonable returns but Japan and Europe lagged. In local currency terms Japan actually had a negative return of -0.4% whilst Europe was up 3.1%

Figure 2: Regional performance in 2016 (all TR in USD)



Source: Guinness Atkinson Asset Management, Bloomberg (performance from 12.31.2015 to 12.31.2016)

When considering Emerging Markets, however, it is important to distinguish between the large differences in individual country performances. When we look more closely at the drivers of the 11.3% return for the Emerging Markets index we find that over 60% of that return can be attributed to just three countries: Brazil, Russia, and South Africa. All of which benefitted significantly from the rebound in commodity prices and in fact make up less than 18% of the index as a whole in terms of their average weights over the year. If it were not for Taiwan (where the IT sector had a very strong year) which contributed over 20% to the index return the majority of emerging markets had a relatively weak year on average.

Another notable move in markets was the strengthening US dollar from the middle of the year, having been range bound for the previous 12-18 months. With the potential for significant rate rises from the Fed in 2017 and continued low interest rates in the rest of the world the prospect of further dollar strength is very possible into 2017. However, if inflation is slower than the market expects and/or full employment in the US is in fact not as close as it currently looks then this trend could be curtailed. Whatever happens the level of the dollar relative to other world currencies is likely to be a hotly debated topic this year as it can have such a profound effect on a multitude of asset classes.

Figure 3: US Dollar index (DXY)

Source: Guinness Atkinson Asset Management, Bloomberg (as of 12.31.2016)

Performance

In December the Guinness Global Innovators Fund produced a total return of +1.69% vs the MSCI World Index +2.43%. The fund therefore underperformed the index by 0.74%.

Over the fourth quarter the Guinness Global Innovators Fund produced a total return of +2.17% vs the MSCI World Index +1.99%. The fund therefore outperformed the index by 0.18%.

In 2016 as a whole the Guinness Global Innovators Fund produced a total return of +9.51% vs the MSCI World Index +8.16%. The fund therefore outperformed the index by 1.35%.

as of 12.31.2016 (in USD)	YTD	1 year	3 years annualized	5 years annualized	10 years annualized	Since inception annualized
Global Innovators, Investor Class[1]	9.51%	9.51%	6.12%	15.80%	8.14%	6.93%
Global Innovators, Institutional Class[2]	9.81%	9.81%	6.22%	15.86%	8.17%	6.95%
MSCI World Index	8.16%	8.16%	4.42%	11.06%	4.45%	5.13%

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Investor class (IWIRX) Inception 12.15.1998 Expense ratio* 1.24% (net); 1.27% (gross)

Institutional class (GINNX) Inception 12.31.2015 Expense ratio* 0.99% (net); 1.07% (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. Total returns reflect a fee waiver in effect and in the absence of this waiver, the total returns would be lower. Current performance of the Fund may be lower or higher than the performance quoted. For most recent month-end and quarter-end performance, visit http://www.gafunds.com/GIF_performance or call (800) 915-6566.

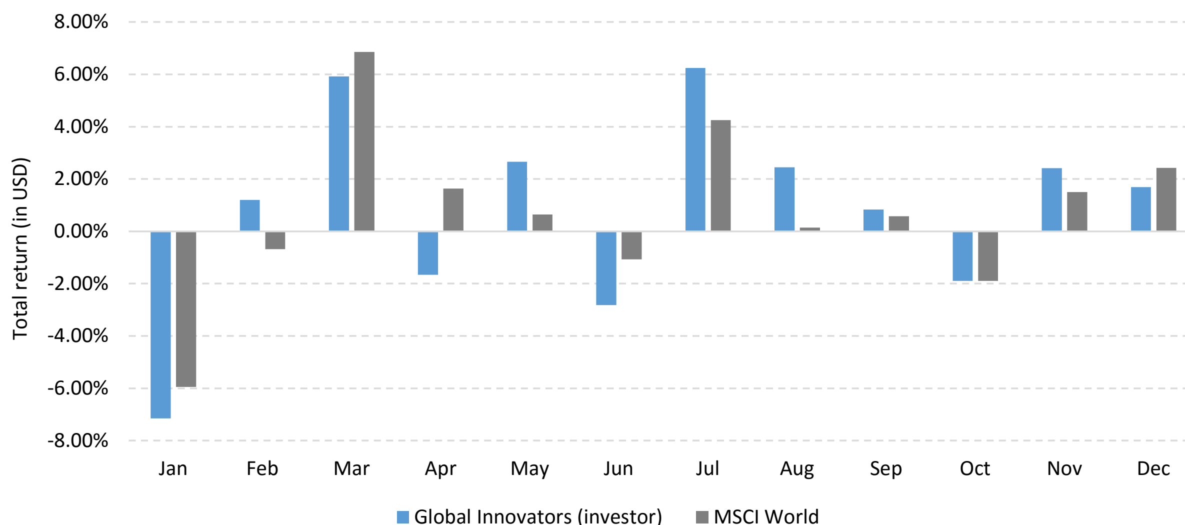
*The Advisor has contractually agreed to reduce its fees and/or pay Fund expenses (excluding Acquired Fund Fees and Expenses, interest, taxes, dividends on short positions and extraordinary expenses) in order to limit the Fund's Total Annual Operating Expenses to .99% for the Institutional class and 1.24%for the Investor class through June 30, 2018. To the extent that the Advisor waives its fees and/or absorbs expenses to satisfy this cap, it may seek repayment of a portion or all of such amounts at any time within three fiscal years after the fiscal year in which such amounts were waived or absorbed, subject to the 0.99% for the Institutional class and 1.24% for the Investor class expense cap.

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).

Review of 2016 fund performance

As we have highlighted in previous reviews historically the global innovators fund has tended to outperform in months where the index performance has been positive and underperform in months where the index performance has been negative. On average that picture held true for 2016. The chart below shows there were eight months of positive market returns and in those the fund outperformed in five of them. There were four months of negative market performance and the fund underperformed in two of them.

Figure 4: Monthly returns of Fund vs benchmark in 2016 (all TR in USD)



Source: Guinness Atkinson Asset Management, Bloomberg (as of 12.31.2016)

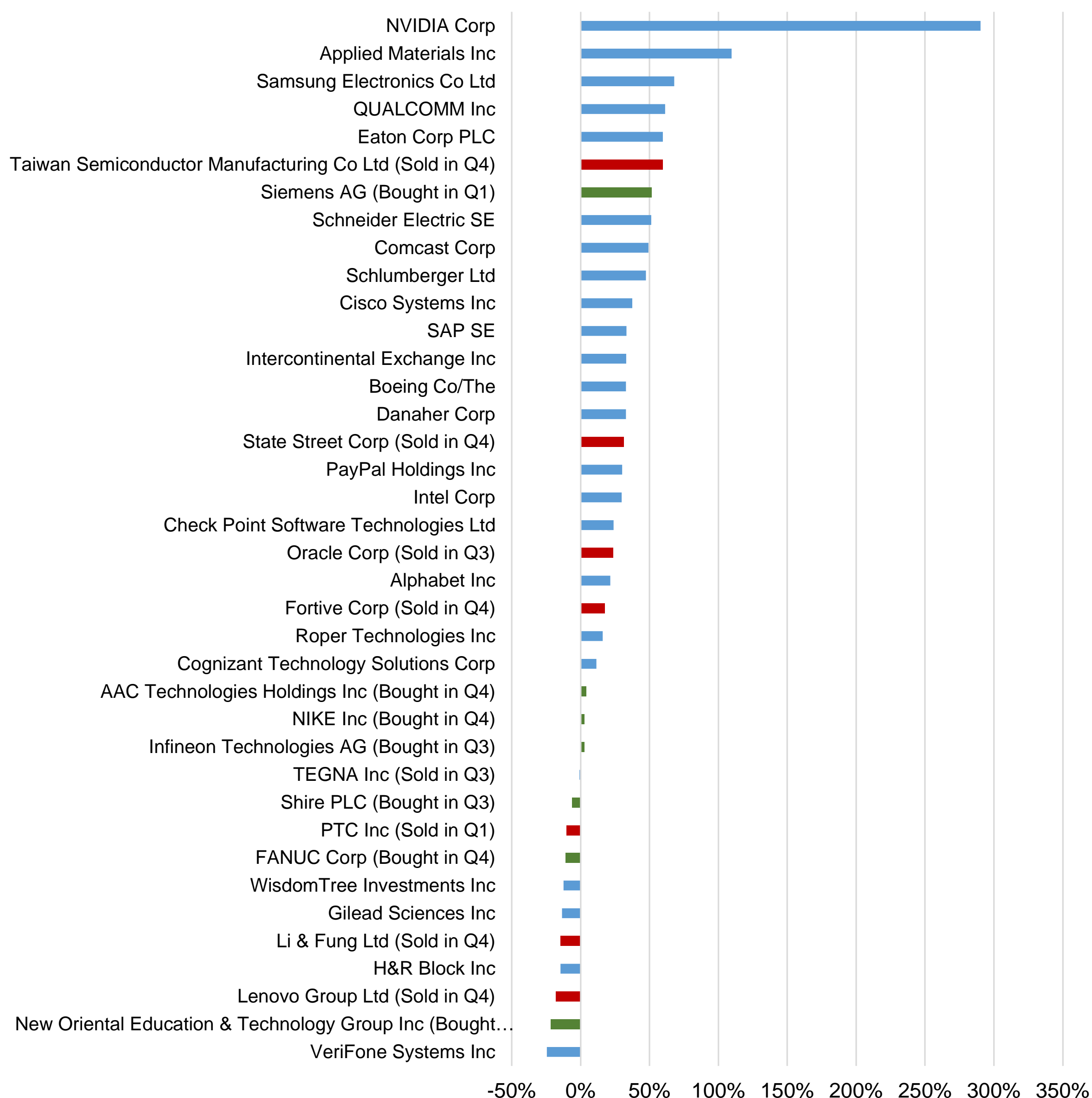
The months where the fund underperformed in positive markets were March, April, and December. In March weak results from H&R Block sent the shares down 19% and were the main contributor to the underperformance of the fund in what was a strong month for the market. In April the fund's overweight to IT companies was a significant drag on returns relative to the benchmark in the month. And finally the relative underperformance in December was caused mainly by New Oriental Education shares falling 16% as Reuters reported potential academic fraud at the business (which now appears an overreaction - the shares having rallied back to the pre-sell off level as we write).

February was the month where the fund outperformed the market in a down month. This outperformance was driven in the main by strong returns from many of the larger IT companies held in the portfolio; namely Qualcomm, Cisco, Applied Materials, and Nvidia. Good performance from Gilead outpaced the broader healthcare sector and also aided relative performance in the month.

If we consider the year as a whole, however, the funds low weighting to Energy (we held only one position in that sector - Schlumberger) and zero weighting to materials meant the fund did not participate in the commodities rally significantly. Similarly the fund had a low exposure to the banking industry which also rallied strongly in the second half of the year as the expectation of interest rate increases boosted the prospects for their returns and the potential for reduced regulations from a Trump administration served to stoke that rally after the US election. On a stock-specific basis weaker results from stocks held in the Consumer Discretionary sector (Li&Fung, H&R Block, New Oriental Education) were more than offset by very strong returns from holdings in the IT sector, and the semi-conductor industry specifically. The funds large overweight to IT did not significantly add to overall performance relative to the benchmark.

Figure 5 highlights these trends in more detail by showing all the companies held in the portfolio over the year, and their total returns over our holding period. Red and green highlighted bars indicate the company was sold or bought, respectively, intra year.

Figure 5: Individual stock performance over 2016 (total return USD)



Source: Guinness Atkinson Asset Management, Bloomberg (as of 12.31.2016)

We are pleased to note that not only was Nvidia the best performing stock in the portfolio but it was also the best performing stock in the S&P 500 for 2016 with a total return of 227%.

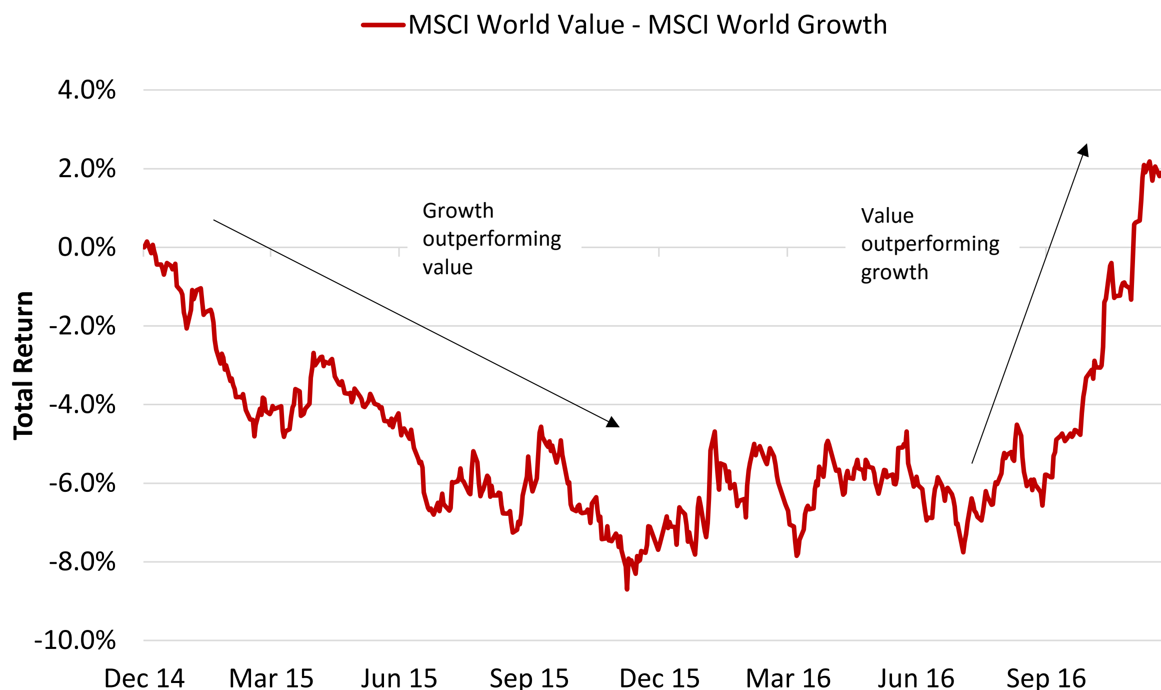
We have always sought to apply a valuation discipline when running this strategy and to avoid the temptation to invest in exciting stories at heady valuations – a style which held the fund back in 2015 for example, as highly valued growth stocks drove market returns almost single-handedly. This discipline does not preclude investment in companies with high levels of anticipated growth, it just means we will only do so when we are comfortable that we are not taking on too much risk from a valuation perspective.

This was tested again when the fund underperformed in the first half of 2016 despite the good valuations we saw in many of the companies held in the portfolio. However, as long term investors we stuck to our beliefs and it was pleasing that as market sentiment began to turn the performance of those stocks that had suffered most relatively were the ones that began to lead in the second half of the year.

As we mentioned above when we look at performance in the first half of the year versus the second half there is a stark difference and this was also true for the fund. In the first half of the year the fund was down- 2.35% versus the second half of the year when the fund was up +12.15% (all investor class total return in USD).

One factor that we think goes a long way to explaining the relative swing in performance of the fund between the underperformance in the first half of the year versus the strong outperformance in the second half of the year is the change in sentiment towards value stocks that began in earnest in late July, as can be seen in figure 6 below.

Figure 6: Value vs growth index performance since start of 2015 (all TR)



Source: Guinness Atkinson Asset Management, Bloomberg (as of 12.31.2016)

Although we are investing for growth our valuation discipline and bottom up approach means we have generally steered away from the most expensive parts of the growth universe and the value rally we saw into yearend benefitted some of the more cyclically oriented businesses we held as the market began to price in better prospects for economic growth and higher inflation. Whether this 'rotation' can be maintained is up for debate, as the move we have seen already has been particularly stark and especially considering the timescale that move occurred over.

Changes to the portfolio

We sold seven positions and initiated seven new positions over the course of 2016, which was one more than in 2015 and is in line with the long-term turnover of the strategy.

We made one change to the portfolio in the **first quarter**. We sold PTC and replaced it with Siemens.

PTC had been a long-term and successful holding in the strategy. We initially purchased the company in late 2006 and it provided a total return almost double that of the broad market over the period. However, as the company began its transition to a subscription-based revenue model, the strong earnings growth we enjoyed over our holding period slowed significantly. Management expectations were for operating margins to 'trough' in 2018 as this transition developed, before expanding rapidly over subsequent years alongside good growth in revenues. We remain admirers of the company and believe management have made sensible decisions. But ultimately we felt the valuation of the business no longer gave a reasonable margin of safety to reflect the increased risks associated with the changes planned for the business. If the valuation of the company decreased significantly in the future and company results began to reflect expectations set, then we may well consider repurchasing the company for the portfolio.

Siemens is an industrial conglomerate which generates less than 30% of its revenues from the US and is diversified across multiple divisions. The company had underperformed the wider market, and its peers, for the last couple of years as it struggled to grow its revenues, and margins weakened alongside. Its exposure to the oil and gas sector had also been a drag. However, much of this pessimism was reflected in the share price. At purchase the stock traded on a PE multiple of just over 13x 2016 expected earnings and a stock price that reflected long-term free cash flow growth of less than 1%.

Management committed to cost savings, the high dividend yield (of over 4% at purchase) was well covered, and the most recent results had begun to indicate margin improvements. Our expectation is for earnings growth in the high single digits over the longer term which, when combined with the undemanding multiple and its good history of earning a return-on-capital consistently above its cost of capital, appeared good value. And especially so when compared to how the market is rewarding (and valuing) any company that can offer a reasonable growth 'story' today.

The overall effect on the portfolio was to reduce our exposure to the IT Sector and the US and increase our exposure to Europe and the Industrial sector.

We did not make any changes to the portfolio in the **second quarter**.

We made two changes to the portfolio in the **third quarter**. We sold positions in Oracle and Tegna and initiated new positions in Infineon and Shire.

ORACLE TEGNA Infineon Shire

Oracle had been a long tem holding in the strategy, having been held since the end of 2003. The total return of the stock over our holding period was 222% (in USD), versus the MSCI World Index return of 132%. A significant 2.8% annualised return difference. Over the long period we held the stock the earnings improved by 441%, which came through both net income growth (c.325%) and also a reduction in the shares outstanding (c.21% reduction). The PE multiple contracted significantly, however, reducing by approximately 46% - which reflects the maturity of the business and its ability to grow cash flows in the future. The contribution from shareholder returns in terms of dividends was modest, as the company only began to pay a dividend in 2009.

We saw the company's reasonable valuation multiple at sale as reflective of the lower prospects for growth and this combined with the declining return on capital suggested the business was struggling to find good projects for reinvestment of capital. The bull case was that the company is undergoing a period of restructuring as it transitions from a license-model to software as a service (SaaS) model and that the higher margins afforded to the restructured segments will provide an uplift to both earnings and the multiple. We feared that the transition may be more difficult than management suggested and despite the company's market share and large size we saw increased competition in its end markets, especially in the database segment. We therefore felt the prospects for short to medium term growth were potentially limited and that the reasonable valuation was a fair reflection of this, and that there were better opportunities elsewhere.

Tegna had been held in the strategy since October 2013, originally through the Gannett business which subsequently split into Tegna and Gannett(NewCo) in June 2015. Gannett(NewCo) took on the publishing business and Tegna the broadcast television and digital media businesses. Part of the rationale of this split was that the faster growth, and more profitable, Tegna could command a higher multiple and ultimately we took the same view – selling our holding in Gannett (NewCo) and increasing our stake in Tegna to a full position in the portfolio.

The market rewarded the reorganisation of the business leading up to the June 2015 split, but subsequently Tegna disappointed somewhat with quarterly earnings below expectations. The company has also announced that one of its main digital media assets, cars.com, would be spun out in 2017 and that careerbuilder.com was under strategic review. We perceived the broadcast television model to be under potential long term threat, and the fact that the company was struggling despite a 'bumper' year of the Olympics and a presidential election made us question the long term opportunities for the business. The very low multiple (less than 10x 2016 expected earnings) did not, in our opinion, make up for the potential for near term earnings declines and the long term headwinds in the sector more generally. Over our holding period (adjusting for the split in June 2015) we calculate the position made a small loss versus the MSCI World.

Shire was a business we held in the strategy previously; from October 2013 to August 2014. We sold in 2014 as the share price appreciated dramatically when a bid from Abbvie was tabled for the company. Post our sale the bid was ultimately withdrawn by Abbvie - due to the growing backlash against so-called 'tax inversions' at that time (Abbvie would have been able to utilise Shire's Dublin domicile to reduce significantly the overall group tax rate). We repurchased shares in Shire in September 2016.

In the time between the failed Abbvie bid and our purchase Shire made a number of notable transactions itself; NPS and Dyax in 2015 and the transformation deal for Baxalta in 2016. In doing so the company reduced its dependence on its legacy drugs, created the largest biopharma company focussed on rare diseases, and created a strong future pipeline of new drugs. We were attracted back to the company based on the fact it had increased its

return on capital every year for the last three years, its potential ability to protect margins with its new focus and specialistion, and the fact we could purchase shares at reasonable valuations that were trading at the time below the average five year multiple and below the broad market.

Infineon was a new holding for the fund. The euro17bn market cap company is listed in Germany and manufactures and designs semiconductors. Originally part of the Siemens group, it was spun out as a separate entity in 1999. The stock price was strong over the year preceding our purchase but we still saw good opportunities for growth. The company currently has a number 1 or number 2 position in very fast growing markets, and especially in the automotive sector where we see significant prospects for future growth through advanced driver assistance to completely autonomous vehicles. Each stage in between this transition will require a higher and higher density of chips per car to enable the increased functionality and safety features required.

Infineon traded at the high end of valuation multiples we are comfortable with (at around 20x forward earnings) and we recognised it as a cyclical business but we also saw high operating margins, improving returns on capital and the prospect of growing economic profits through asset growth. When combined with a secular growth trend supporting the business more broadly we could see earnings growth at the ~15% compound annual growth rate level over the next five years which, if achieved, would certainly justify the current price. We also recognised that we have not factored in any significant multiple rerating into our analysis of potential future returns.

We made a number of changes to the portfolio in the **fourth quarter.** We sold our positions in Lenovo and State Street and bought new positions in New Oriental Education and Fanuc.

STATE STREET.

We decided to cut our losses on Lenovo after what has been a tumultuous period for the company, with falling global demand for notebook computers. In contrast, we decided to sell our position in State Street after a rapid rerating since the end of June.

New Oriental is a leading Chinese private education company. It is a mid-sized company with a market capitalisation of around $8 billion. The company operates 67 schools and nearly 800 education centres in China and they have grown rapidly. Revenues have doubled in the last four years, driven by increasing demand for language and test preparation courses. The growth in the business is attractive and we believe it has considerable scope to continue to grow for years to come. We also like the fact that the company has generated higher margins and has no debt. It is therefore highly cash generative and importantly requires a relatively modest amount of this cash to finance its organic growth. We believed the valuation was underestimating both the quality of the business model and the long-term growth opportunity.

Fanuc is a Japanese company and is one of the largest producers of industrial robots in the world. Like New Oriental, Fanuc had no debt and a large cash pile. It is geographically diversified, with around 60% of revenues coming from Asia and the balance from Europe and the US. While New Oriental Education is on a secular growth trend Fanuc is more cyclical, and sentiment towards the company is currently quite negative. Sentiment was far more positive in the spring of last year but this change in sentiment meant we could buy the same, high quality company, at a 25-30% discount to where it was in May of 2015.

The overall effect of these changes was to reduce our exposure to Financials and IT and increase our exposure to Industrials and Consumer Discretionary. It also had the effect of increasing our exposure to Asia and reducing our exposure to the US.

At the end of the fourth quarter we also sold positions in Li & Fung and Taiwan Semiconductor, and replaced them with new positions in Nike and AAC Technologies.

We decided to cut our losses on Li & Fung, a position we bought back in 2014 and where we ultimately we got it wrong. We really liked the company's asset light business model as we could see how growth would translate into significant operational leverage. Growth had been weak for some time but we thought there was a reasonable chance that it would turn around. Unfortunately, that has not occurred and with the election of Donald Trump we felt the company's model of being a global outsourcing business was becoming more vulnerable. We also came to the conclusion that there is now a real risk of a dividend cut, which could also lead to further selling in the market.

Taiwan Semiconductor had been a very long term holding in the strategy (since 2003 in fact) and had performed extremely well over that period: providing a total return almost five times that of the MSCI World Index. It is one of the highest quality businesses in its sector with very steady cash flow returns on investment despite the cyclical nature of its market. The company has more recently enjoyed good share price performance with the rotation from growth to value and from the re-rating of the semiconductor industry more generally. We noted, however, that the re-rating took the company's forward earnings multiple from a low of around 10X in late 2015 to around 15.5X, a high relative to where the company has traded historically. The speed and magnitude of this re-rating suggested to us that there was little further upside without significant earnings growth in the near term, which we felt was unlikely.

Nike was a company we had admired for some time as it had all the characteristics we seek in terms of a business with a strong balance sheet, historically good returns, and good capital allocation discipline that shows the company as selectively, and profitably re-investing cash flows. However, the market tended to over-reward the company for its growth in our view – with the company trading on over 30X forward earnings at its peak at the end of 2015. At such lofty valuations the market inevitably expected perfect execution and if those are not met the share price reaction is usually stark and swift. This was the case for Nike through 2016; slower growth led to the share price falling 19.2% (total return in USD) from the end of 2015 to the end of November versus the S&P500 equivalent return of +9.8%, an almost 30% difference. The forward earnings multiple fell in unison from approximately 30X at the start of the year to just over 21X at purchase. The threat of increased competition, inventory overhang, and whether future lines are well received remain but we believed the market had moved from overly optimistic to overly pessimistic – and this presented us with the opportunity to add the company to the portfolio.

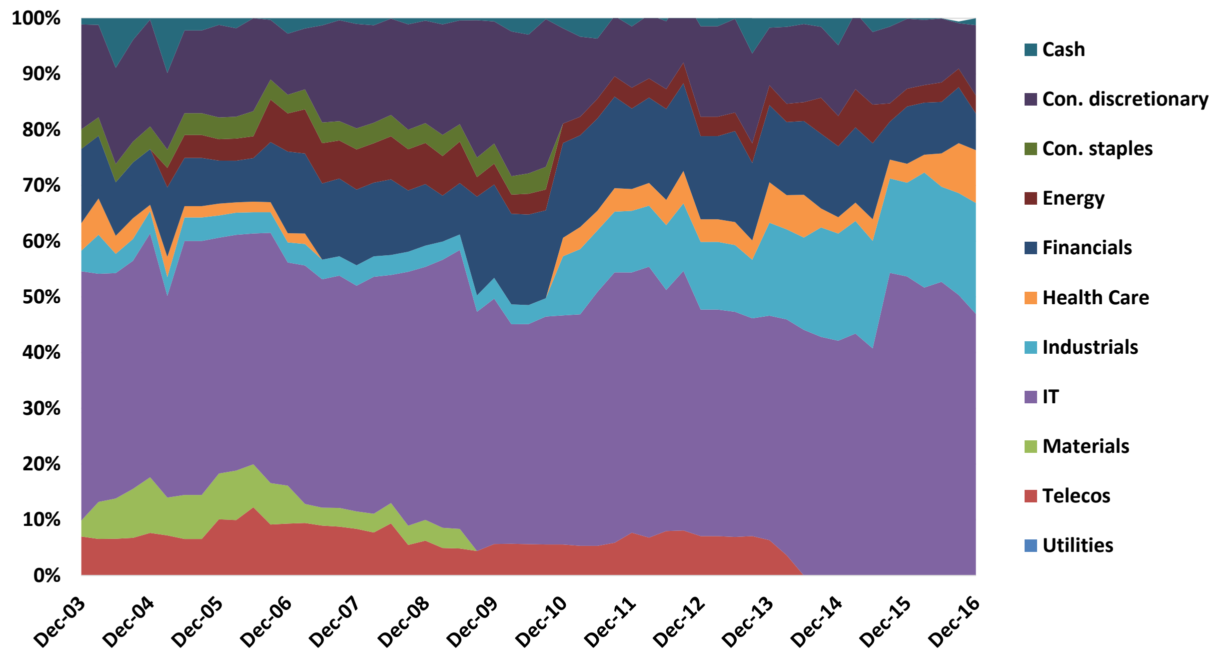
AAC Technologies is a HK-listed company that is a market leader in the design and manufacture of various components for consumer electronic components. It historically specialised in acoustic parts, most notably speakers and microphones for smart phones and tablets but has been diversifying into non-acoustic parts such as haptic vibrators and RF antenna. Like many Asian technology companies its client base is concentrated, with companies such as Apple and Samsung accounting for significant proportions of overall revenue - which poses obvious risks. However, unlike many other product manufactures AAC has consistently managed to maintain high operating margins of around 30% and has a strong balance sheet. Despite significant revenue growth the company had sold off with the wider market from a high in August of 2016. This presented us with a good opportunity to purchase a high quality business, with very good growth potential, at a much more attractive valuation.

The overall effect of these changes was to reduce our exposure to Asia and increase our exposure to the US slightly, whilst also decreasing our exposure to the IT sector.

Portfolio characteristics

The charts below show the sector and geographic breakdown of the portfolio at the end of each quarter since 2003.

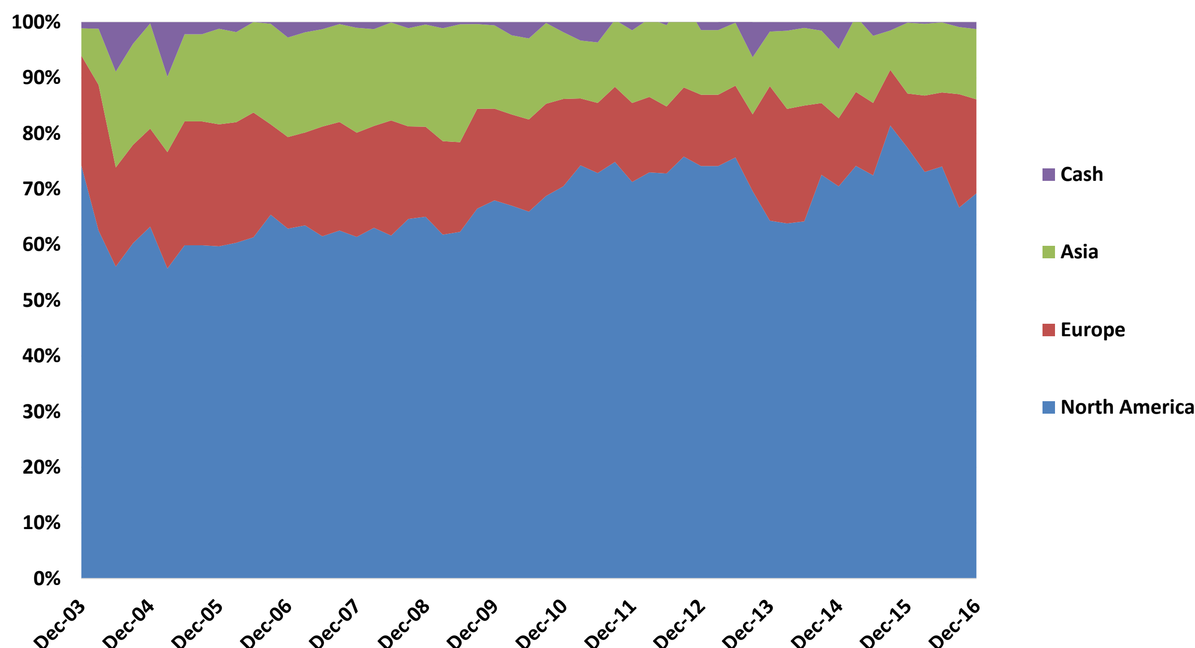
Figure 7: Portfolio sector breakdown



Source: Guinness Atkinson Asset Management, Bloomberg (as of 12.31.2016)

In terms of sector allocations over the year we reduced our exposure to information technology and financials and increased our exposure to healthcare and industrials. We still have no holdings in Consumer Staples, Materials, Telecos, Utilities, or the newly ‘spun out’ Real Estate sector.

Figure 8: Portfolio geographic breakdown



Source: Guinness Atkinson Asset Management, Bloomberg (as of 12.31.2016)

In terms of the portfolio's geographic breakdown the portfolio continues to have a bias to the US, but we reduced this significantly over 2016, decreasing the funds allocation by just over 10%. We increased our exposure to the UK and Europe in place.

At the year end the portfolio is trading on a 2016 PE ratio of 17.9X, which is at a discount of just over 6% to the MSCI World Index equivalent PE multiple of 19.1X. The expected growth in earnings of the portfolio (2017 on 2016) stands at 9%.

Outlook

As we reflect on 2016 and look forward to 2017, there is considerable uncertainty in markets.

On the political front the vote in the UK appeared to give a boost to populist political parties in the rest of the Europe many of which have anti-immigration, anti-EU, and protectionist policies at their heart. Indeed we saw the resignation of Mateo Renzi in early December following the defeat of his referendum proposals on constitutional reform, which may leave space for the populist 5 Star Movement to gain further ground when elections are finally called. And the election cycle in France which begins in February 2017 will see if Marine Le Pen's Front National moves into the second round run off to decide the next President in May. Earlier in the year we also have elections in the Netherlands and then in September Angela Merkel will seek a fourth term as Chancellor against a backdrop where the populist Alternative fur Deutschland has been gaining ground in regional elections consistently. We will also get a clearer picture on the actual policies the Trump administration will try to enact, and also an indication of which may ultimately come to pass.

Politics ultimately overshadowed central bank policy in the second half of 2016, despite the fact that those policy shifts have arguably been the major driver of markets since the end of the financial crisis. It is likely that any decisions made by the central banks will remain an important driver of markets and market sentiment in 2017, especially as we have the beginning of a divergence in policy between the Fed which has indicated three further

rate rises in 2017 and the Bank of Japan and the European Central Bank who look poised to continue their polices of asset purchases. We also have to assess whether any of the policies enacted in 2016, or indeed before, have the ability to unwind and undo their shorter-term benefits.

This uncertainty leaves us a little apprehensive, but our investment process has never been one in which we try and position the portfolio based on our macro view or to try and capture any short term trends. 2016 was clearly a case in point about why this type of approach can be problematic.

Instead we will continue to try to focus on looking for companies that show an ability to avoid the competitive threat of their peers, that have healthy balance sheets, that are earning returns on capital above their cost capital and growing their economic profit, and that can reinvest their cash flows in profitable projects that can grow their business sustainably in the future. The fact that the portfolio as a whole remains at a healthy discount to the broad market on a PE basis despite the companies we hold, we believe, having superior fundementals is at least some demonstration that there still exists good opportunities in the market today. The expected earnings growth of the portfolio in 2017 of 9% is slightly below where the fund has been historically but with anaemic historic and expected growth in the broader market we still see this as compelling, and especially as the fund has not yet closed the valuation discount versus the MSCI World which opened up through 2015.

May we wish you a happy a prosperous New Year, and we look forward to updating you on the progress of the fund over the course of 2017.

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 may invest in derivatives which involves risks different from, and in certain cases, greater than the risks presented by traditional investments.

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 12/31/16, are:

1.Boeing Co/The	3.57%
2.SAP SE	3.50%
3.Intercontinental Exchange Inc	3.49%
4.Applied Materials Inc	3.49%
5.AAC Technologies Holdings Inc	3.47%
6.VeriFone Systems Inc	3.41%
7.Siemens AG	3.41%
8.Samsung Electronics Co Ltd	3.39%
9.PayPal Holdings Inc	3.39%
10.Schneider Electric SE	3.37%

Click here for list of holdings for the Global Innovators Fund.

Opinions expressed are subject to change at any time, are not guaranteed and should not be considered investment advice.

This information is authorized for use when preceded or accompanied by a prospectus for the Guinness Atkinson Global Innovators Fund. The prospectus contains more complete information, including investment objectives, risks, charges and expenses related to an ongoing investment in The Fund. Please read the prospectus carefully before investing.

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

Price to Earnings Ratio (P/E) is a valuation ratio of a company's current share price compared to its per-share earnings. Calculated as: Market Value per Share / Earnings per Share (EPS)

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

The MSCI World Value Index captures large and mid cap securities exhibiting overall value style characteristics across 23 Developed Markets countries.

The MSCI World Growth Index captures large and mid cap securities exhibiting overall growth style characteristics across 23 Developed Markets countries.

S&P 500 Index is a broad based unmanaged index of 500 stocks, which is widely recognized as representative of the equity market in general.

One cannot invest directly in an index.

Basis Points (BPS) is a unit that is equal to 1/100th of 1%.

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