

Guinness Atkinson Asset Management, Inc.

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This brochure provides information about the qualifications and business practices of Guinness Atkinson Asset Management, Inc. If you have any questions about the contents of this brochure, please contact us at 818 716-2739. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state security authority.

Additional information about Guinness Atkinson Asset Management, Inc. also is available on the SEC's website at www.adviserinfo.sec.gov.

Item 2 Material Changes

Not applicable.

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Item 4 Advisory Business

Guinness Atkinson Asset Management, Inc. (“GAAM” or “Guinness Atkinson” or “we”) was formed in November 2002 and began operations at the end of April 2003, primarily as the advisor to the Guinness Atkinson Funds. We also serve as the sub-advisor to the Marlborough Tiger Fund, a Guernsey-based mutual fund investing in Asia. As of December 31, 2011 GAAM managed approximately \$503.2 million in assets comprised of the Marlborough Tiger Fund and seven US-based open end mutual funds.

The firm is privately held with Timothy Guinness and James Atkinson each owning greater than 25% of GAAM.

We provide investment advisory services to the seven Guinness Atkinson Funds and sub-advisory services to the Marlborough Tiger Fund. These seven funds include one global fixed income fund and six equity funds(plus the Marlborough Tiger Fund which is an equity fund). In managing these funds we are responsible for researching and selecting individual securities and are responsible for portfolio construction and monitoring. Four of the seven funds managed invest primarily in Asia; two invest in energy and one in global equities.

Each of our clients is a mutual fund and each fund has its own restrictions regarding the types and amounts of securities in which the funds can invest. These restrictions are detailed in the offering documents for each of the funds. In addition, with respect to the seven US-based mutual funds an independent board of trustees has oversight responsibility and has the ability to provide input into the types of securities in which the funds invest. With respect to the Marlborough Tiger Fund, the advisor to the fund is able to provide input regarding the sub-advisory activities undertaken by GAAM.

We do not provide management services to wrap programs.

Item 5 Fees and Compensation

We only manage or sub-advise mutual funds. Management fees are deducted from fund assets and paid to the advisor or sub-advisor on a monthly (quarterly for the Marlborough Tiger Fund) basis in arrears.

In addition to the management or sub-advisory fee incurred, the funds managed or sub-advised by us also pay operating expenses, including custody fees, shareholder servicing fees, legal fees, interest expenses, brokerage fees, compliance and other regulatory fees, insurance, auditing and accounting fees, trustee fees and other expenses incurred in the operation of the funds. The seven Guinness Atkinson Funds also impose a 2% redemption fee for shares held for 30 days or less.

Item 6 Performance- Based Fees and Side-by-Side Management

We are compensated based on the amount of assets under management and not on a performance basis.

Item 7 Types of Clients

All of our clients are mutual funds as described above.

Item 8 Methods of Analysis, Investment Strategies and Risk of Loss

In managing client assets we take a macro or thematic view and couple it with individual securities analysis. The macro analysis looks at global and national economic indicators, interest rates, industry trends, political developments, advances in technology and broad market trends (the market for any given products as well as stock markets). Investing in securities involves risk and clients should be prepared to bear losses.

We are looking for changes in the overall operating environment for companies which may help or hinder those in any given sector. To try and capture these we gather a range of economic and market data from government statistics, independent bodies such as the International Energy Agency, industry groups and consumer surveys. We will also review expert opinion from both academic and industry sources.

This analysis helps us to allocate between sectors. It also provides a context when making specific profit and loss forecasts for individual companies.

At the security or company level we seek to identify which are the great companies and great stocks (which are not necessarily the same thing) and put them together in a portfolio. This is sometimes called “micro analysis.” In the case of fixed-income securities we’re looking at credit risk (including financial analysis and projections at the company level).

For this to work we need to understand what it is we are looking for in a stock or fixed income instrument, to have a structured process of analysis to compare different companies on a similar basis and we need to have been thorough enough to understand when we should continue to hold and when to sell.

Four Metrics and Four Steps (4x4) (Equity Analysis)

We want to buy stocks that are a mix of **quality** and **value**, where the market is increasingly optimistic about its **profit outlook** and where the **stock price** is on a rising trend.

The core of our process uses these four metrics and works in four steps. We screen, we test, we conduct due diligence and then we construct the portfolio.

The first two metrics can be seen as being more fundamental in nature whereas the last two are stock market related.

Four Metrics

1. **Quality:** Good quality companies reveal this attribute by measuring the profits they have earned relative to the amount of money they have had to invest in the business to make those profits. This is called the Return on Investment.

We use a system called HOLT, which consists of a database of over 20,000 companies, which assesses companies on their ability to generate *cash* profits rather than accounting (or paper) profits and seeks to value these on their *cash flows*.

Thus we are not looking purely at the Return on Investment but on the Cash Flow Return on Investment (CFROI, which is a term trademarked by HOLT).

The quality measure is therefore an effort to determine how well a company has done over time; we’re interested in its cash profits and how these were achieved. The goal is to identify companies that have been able to generate higher than average profits with lower initial and additional investment.

The questions we will ask later on include

- How have they achieved higher profits with lower initial and additional investment?
- Why have they done better than others?
- How long can they keep doing it?
- What might cause everything to change?

2. Value: We look at the value of companies on a cash flow basis as well as using traditional metrics.

The cash flow basis seeks to reach an intrinsic value of the business. For example, we look at the amount of cash we expect a company to generate year by year over the next ten years. We then work out the total value of all that cash generated over the next ten years, in today's money. This is called the discounted cash flow method.

The key complication is what discount rate (or call it a conversion rate) to apply to turn those future cash flows into today's money. HOLT uses as its discount rate the rate at which the stock market as a whole is using now to value company cash flows. It derives this from the value that the market appears to be applying on any given day.

What this means is that when we use HOLT to assess the value of a stock on the basis of that company's cash flows, *HOLT is looking at the value of that company relative to the market and assumes that the market as a whole is always fairly valued.*

Our job is to look through this last assumption and try to decide what this company is actually worth; or more precisely, we have to decide how much we are prepared to pay for it.

The due diligence process requires us to look at valuation using the cash flow method as well as traditional metrics such as Price/Earnings, Price to Book, Price to Sales ratios.

3. Profit Outlook & Market Expectations: This is the first of the stock market related criteria. It is incredibly hard for a good quality stock that is on a cheap valuation to perform if the market is gloomy about the profit outlook and when stock market analysts are cutting their profit estimates.

We should be seeking to invest in those companies where the market is optimistic, where estimates are being upgraded and where we believe this will continue to occur. A sudden and significant upgrade to profit expectations (an earnings surprise) is always good but steady incremental increases are better for our approach.

Our due diligence process is about looking behind these estimates, identifying those elements propelling the upgrades, seeing what might cause those to change and to try and anticipate the durability and longevity of the trend.

4. Stock price behaviour: Ideally, we'd like to be buying into a stock when a rising price trend is established. If we are comfortable that the first three metrics hold well then the current rising price trend should continue. We should not be concerned about trying to pick the bottom and catching stocks on the turn. A rising price trend means looking at the price in absolute terms, relative to the market, on a moving average basis (which smoothes the trend, making it easier to see) and also seeing whether the price trend is becoming more volatile (as a sign that the trend may be about to change).

Four Steps

The next four steps lay out (in brief) how they are applied.

1. **Screening:** Each week we run a screen of the universe of stocks for each portfolio using the HOLT system. We screen all stocks against the four metrics, ranking them by deciles (the top 10% scoring 10, the next 10% scoring 9... and so on) on each metric. The scores for each stock are summed (the best score being 10 for each metric gives a total of 40) and then all the stocks are ranked.

We direct our research for new ideas in the top 10% of companies in this screen and we review those we already hold that have dropped down the ranking.

Importantly, we do not take this output as being a list of buys. This is a list of stocks that appear to have the characteristics we are after and where we should direct our research effort.

2. **Testing:** Stocks in the screen output are then tested where we conduct an initial pass over the stock by reviewing each of the metrics in turn. We want to see if the stock looks genuinely interesting on each metric.

If the profit forecasts (sometimes called earnings revisions) are rising then we need to understand why and whether this is the same for all in the sector or whether this is specific to the company we are looking at.

If the share price is rising, we need to look at it against the broad market and again, versus its peers. Assuming that this all stacks up, we go on to step 3.

3. **Due Diligence:** We will build a model of the company's financial statements: Profit & Loss Account, the Balance Sheet and the Cash Flow statement. This requires specific assumptions about the components that go to make up revenues and costs, as well as bank interest, tax rates, working capital and financing costs.

In short, the information that we gather about the company and its broad operating environment has to be quantified to reach an estimate of what a company is likely to make over the next three years as well as how much it can invest and is going to invest to sustain it beyond that horizon.

This gives us a greater understanding of the company as an investment: where its strengths and weaknesses lie to give us high conviction for step 4.

4. **Portfolio Construction:** We build concentrated portfolios. There are 40-50 stocks in Asian portfolios, not equally weighted but are usually initiated at 2.5% of the portfolio. The portfolios do not follow the structure of their benchmarks and have a high active share, which is to say they have a sizeable bet against the benchmark. (An index tracker is the polar opposite.) Risk is managed by limiting the sizes of individual positions and by avoiding excessive sector concentration either by having too many holdings in one sector or by focusing too much on sectors that are closely related.

As with any fundamental analysis there are risks that unforeseen events may occur, that our analysis may fail to anticipate individual company fortunes or that markets may decline. These and other risk factors may result in losses.

Most of the funds we manage invest in equity securities on a global basis. Equity investing involves inherent risks and there are additional risk factors for global (non-US) securities including lack of

transparency, currency risk and expropriation risks. Global fixed income investing involves interest rate risk, reinvestment risk, currency risk and credit risk.

Item 9 Disciplinary Information

No reportable events.

Item 10 Other Financial Industry Activities and Affiliations

Guinness Atkinson Asset Management, Inc. is affiliated with Guinness Asset Management and Guinness Capital Management Limited which manage a UK-based hedge fund and a Dublin-based range of open-end mutual funds. These three companies share office space in London and have directors and employees that serve or work for all three companies.

Item 11 Code of Ethics, Participation or Interest in Client Transactions and Personal Trading

We have in place a Code of Ethics which covers all of our employees. We seek in all areas of our business to maintain the highest standards. In particular the Code of Ethics incorporates the requirements of the US Investment Company Act of 1940, which has strict guidance on dealing for ‘access’ persons, and the US Investment Advisers Act of 1940, which applies to the firm’s ‘supervised persons.’

Covered Persons are permitted to engage in personal account dealings. However, they are expected to accept that the nature of the firm’s relations with its accounts must impose restrictions on the dealings in which Covered Persons can engage, the timing of those dealings, and the level of privacy which they can expect in those dealings and on-going securities holdings. All Covered Persons are required to get pre-trade permission prior to engaging in any securities transaction other than non-GAAM open-end mutual funds. This permission is granted by the London compliance director or a London-based director of the firm. This permission to trade is only granted if it will not adversely affect our clients.

Whilst the majority of the Rules relate to Personal Account Dealing (“PAD”), there are other areas where conflicts with accounts’ interests may arise. Such ethical issues include the receipt and provision of Gifts and Entertainment from or to persons with whom we do business on behalf of accounts (such as stockbrokers and financial intermediaries) and the possible receipt of Inside Information on companies which could affect the timing of investment decisions.

In general, our Covered Persons should at all times:

- A. place the interest of the firm’s accounts first;
- B. conduct all personal securities transactions in a manner consistent with the PAD Rules;
- C. avoid any actual or potential conflict of interest or any abuse of the individual’s position of trust and responsibility;

- D. adhere to the fundamental standard that Covered Persons should not take inappropriate advantage of their positions; and
- E. comply with the applicable US federal securities laws and applicable laws of other jurisdictions governing the firm's activities.

Item 12 Brokerage Practices

As part of its services to its clients GAAM selects the brokerage firms used to transact securities on behalf of clients. Only the London-based directors of GAAM and the London-based compliance officer have the ability to approve new brokerage firms and brokerage firms utilized are subject to a regular review process.

A number of factors are considered in the regular review process including commission amounts and rates paid, overall responsiveness and service level, quality and timeliness of execution and any research or analysis provided.

We have one formal soft-dollar arrangement in place under which we receive research from a third party in exchange for transacting business with a specific brokerage firm. This relationship is subject to a regular review. In theory we may have an incentive to select a broker based on our interest in receiving this research rather than on our clients' interest in receiving the most favorable execution. The regular reviews of soft dollar arrangements is to make sure that the commissions paid and the execution received is on par with other brokerage arrangements and that clients' are not disadvantaged. The benefits of soft dollar arrangements potentially accrue to all of our clients regardless of which clients' transactions were involved in the generation of the brokerage business that provides the soft dollar benefit. With the exception of the formal third party relationship cited above, the only soft dollar benefit received by the firm can be described as general research which is routinely provided to all brokerage clients. Given our investment process we do not utilize this general research significantly and as such are not making any specific brokerage decisions on general brokerage research.

Some of the inflows into our US-based mutual funds are generated by brokerage firms investing in the GA Funds on behalf of clients. In theory, we might decide to direct brokerage business to a particular firm in exchange for them recommending our funds to their clients. In practice, there is inconsequential overlap between brokerage firms transacting on behalf of the funds and those firms placing client assets in the funds. As part of our regularly scheduled compliance review program we compare the list of firms conducting transactions on behalf of the funds and brokerage firms with assets in our funds. It is our policy not to direct client transactions to brokerage firms in return for client investments in our funds.

When we are buying or selling the same stock for more than one fund we do aggregate orders together; if we are buying for one fund and selling for another, we do not aggregate.

Item 13 Review of Accounts

We review investment portfolios formally on a quarterly basis. Mr. Guinness, as Chief Investment Officer, is responsible for oversight and review of all portfolios under management. In these reviews, Mr. Guinness is reviewing, among other items, the level of diversification or concentration by industry and issuer; turnover levels; portfolio construction and performance against stated benchmarks; and a review of recent transactions. As the advisor to seven US-based mutual funds we provide detailed reports and commentary on results and activities to the board of trustees four times per year, roughly on a calendar basis. In addition, formal written reports are provided to fund shareholders twice a year in the form of an audited annual report and an unaudited semi-annual report. These reports are provided to investors approximately within 60 days of the end of the reporting period.

Item 14 Client Referrals and Other Compensation

Not applicable.

Item 15 Custody

We do not maintain custody of any client assets.

Item 16 Investment Discretion

We have discretionary authority over each of the funds we manage or sub-advise. The management of these funds is subject to limitations placed by the prospectus, summary prospectus, Statement of Additional Information or other offering documents. The authority to manage these assets is contained in the advisory or sub-advisory agreement, which in the case of the US-based mutual funds is approved by the board of trustees no less frequently than annually.

Item 17 Voting Client Securities

We have the authority to vote on client securities and, for our US-based mutual funds have a proxy voting policy in place. Under this policy all decisions on voting a proxy will be made in accordance with the best investment interests, stated objectives and particular preferences, if stated or known, of the beneficiary of the account. All such decisions made on behalf of a client which is a registered investment company shall further reflect public disclosure of proxy voting guidelines, such as provided in any Form N-1A Statement of Additional Information. Our general policy is to vote when we believe it is in the best interest of the client and to abstain otherwise. For our US-based mutual funds the proxy voting record is made public annually. For our sub-advised, non-US client, this information is provided to the client on request.

Item 18 Financial Information

Not applicable.