ADIV

The SmartETFs Asia Pacific Dividend Builder ETF

February 2023 Update

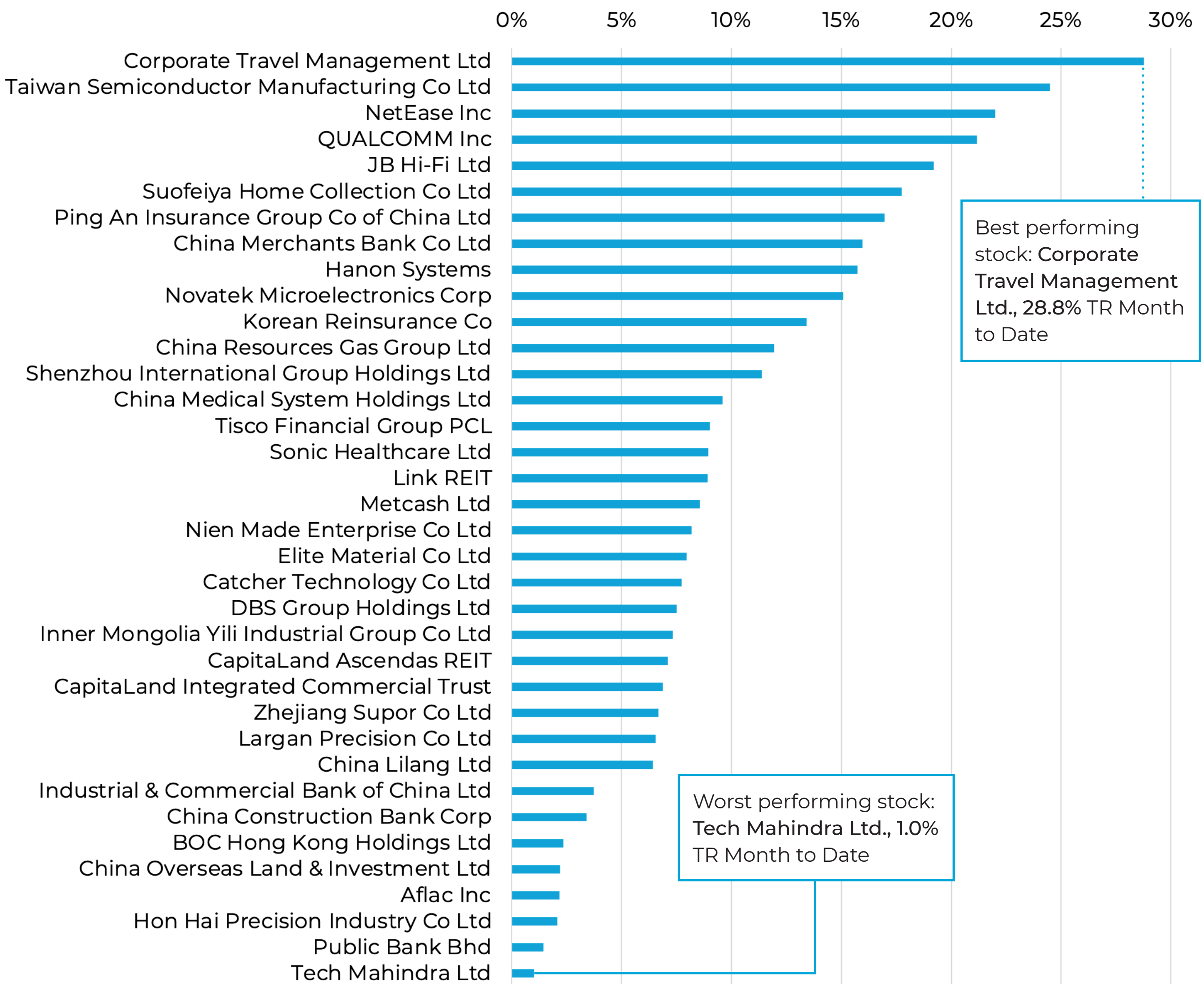
SmartETFs

Portfolio Performance

as of 01/31/2023

ADIV rose 9.61% on a NAV basis in January, 10.61% on a market price basis. Major regional and country stock markets have had a strong start to the year following China's re-opening and despite weakening macroeconomic outlook for developed markets. The market appears to believe that inflation has reached or is close to the peak and that interests could start to come down this year. The best performance over the past month has come from Asia. Read on for our latest dividend review and macroeconomic review.

Holdings are subject to change. Go to SmartETFs.com/ADIV for current holdings.



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Portfolio Performance

As of 01/31/2023	YTD	1 Year	3 Year	5 Year	10 Year
ADIV at NAV	9.61%	-6.25%	7.20%	2.12%	5.56%
ADIV at Market Price	10.61%	-7.47%	7.20%	2.12%	5.56%
MSCI AC Pacific Ex-Japan NR	10.44%	-6.19%	2.68%	-0.02%	3.88%

As of 12/31/2022	YTD	1 Year	3 Year	5 Year	10 Year
ADIV at NAV	-16.92%	-16.92%	1.73%	1.15%	4.85%
ADIV at Market Price	-18.02%	-18.02%	1.42%	0.96%	4.75%
MSCI AC Pacific Ex-Japan NR	-18.75%	-18.75%	-2.00%	-0.65%	3.10%

Expense Ratio: 0.78% (net) | 4.27% (gross)

The Adviser has contractually agreed to reduce its fees and/or pay ETF expenses in order to limit the Fund's total annual operating expenses to 0.78% through June 30, 2025.

Performance data quoted represents past performance and does not guarantee future results. The investment return and principal value of an investment in the Fund 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 data quoted. Performance data current to the most recent month-end may be obtained by visiting SmartETFs.com, or calling (866) 307-5990. The returns shown are cumulative for the period, not annualized. Market prices return is based on the market price of Fund shares as of the close of trading on the exchange where the shares are listed. Performance would have been lower without fee waivers and or reimbursements in effect.

Effective as of the close of business on March 26, 2021, the fund acquired the assets and assumed the performance, financial and other historical information of the Guinness Atkinson Asia Pacific Dividend Builder Fund, an open-end mutual fund (incepted March 31, 2006). The fund's investment objectives, strategies and policies are substantially similar to those of the predecessor mutual fund and it was managed by the same portfolio managers. Performance information for periods prior to March 26, 2021 is the historical performance of the predecessor mutual fund and reflects the higher operating expenses of the predecessor mutual fund. The fund has lower expenses than the predecessor mutual fund (including a lower management fee). For periods prior to March 29, 2021, the fund's performance would have been higher than shown had it operated with the fund's current expense levels.

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Dividend Review

Four companies have declared dividends over the past month.

- Aflac raised its dividend by a modest 5%, compared to the 21% increase last year. The market was disappointed by the sales growth number and even though the earnings number was better than expected, the share fell sharply on the day. Sales in Japan grew 11.4% driven by demand for the cancer health care policy. The growth came despite another COVID wave in the fourth quarter, nevertheless it appears the market had been hoping for more. We remain happy with the stock.
- CapitaLand Ascendas REIT declared a distribution that was 1% above market forecasts. Some analysts are pointing out that Singapore REITs have tended to do well when the US Fed stops raising rates. As we have discussed, we don't think that's imminent but is still good know. In the meantime, Ascendas' operating performance has been satisfactory with rent rises of 8% in 2022 and occupancy reaching a record high of 94.6%. Logistics assets were the brightest area with rent rises of 7% in Singapore, 14.2% in Australia, 29.2% in the US and 11.7% in the UK.
- CapitaLand Integrated Commercial Trust reported a distribution for the second half of 2022 that was 5% up on the prior year. The company reported 98% occupancy for retail properties and 94% for office (well above the Singapore average of ~70%). Rent renewal rates were 1.2% higher in 2022 and management expects to see a positive renewal rate in 2023. Debt financing rates have come down from a few months ago due to an inverted yield from ~4.5% to high 3s percent.
- Qualcomm declared its fourth quarterly dividend. The company is forecast to lift the dividend by 8% from the next quarter. The company says it is looking to diversify its business from its reliance on smartphones, and fractious relationship with Apple, to address "demand for similar components from cars to connected devices such as smart grocery carts", according to Barron's. The company did report a 41% revenue increase from the auto segment, but smartphones will remain the main business for a while yet. The analyst community has been and remains divided on the stock. We, however, are positive and the stock continues to deliver for the Fund.

Other stocks that reported earnings but are not due to declare a dividend at this point include:

- Tech Mahindra who reported results for their third quarter. Sales were 5% higher on a sequential basis but increased operating margin, higher utilization, lower staff attrition lifted net profit by 11% compared to the prior quarter. Results are still weaker than they were a year ago, but the company appears to be successfully addressing the challenges they faced over the prior twelve months. The company reported a client environment that includes longer decision-making times and cuts to "discretionary" spending.
- Tisco Financial Group reported fourth quarter results. Full year net profit rose 6% year on year. It looks as though, once again, they have used a strong period of profitability to build up loan loss reserves in line with their prudent approach. Loan growth was 8% year on year, net interest margin was higher than expected at 5.09% while the non-performing loan ratio was lower at 2.09% of Gross Loans.

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SmartETFs

Dividend Review (continued)

- JB Hi-Fi announced preliminary results for their first half which beat expectations on sales, up 8.6%, operating profit up 14% and net profit up 14.6%. Consumer electricals were notably strong suggesting market share gains with its value-led offering. We are aware that bearish market bets (short positions) on this stock have increased on expectations of a consumer slowdown in Australia, but we think its competitive positioning and strong cost control will continue to work in its favor.

Macro Review

US Interest Rates

The Federal Reserve slowed the pace of interest rate increases lifting the upper bond of the Fed Funds rate to 4.75%. Jerome Powell sounded a little more encouraging on the outlook, enough at least to maintain bullish market sentiment. The Federal Reserve focuses on Personal Consumption Expenditure (PCE) inflation and the Core PCE deflator, said to be the Fed's preferred measure for gauging the direction of inflation, came in at 4.4% which continues its deceleration and was in line with expectations.

We can see that Consumer Price Inflation (CPI) is coming down in the US and this has raised expectations in some quarters that we could see interest rate cuts this year. However, we think this is the wrong measure to follow. PCE inflation looks stickier, especially in the core components. The difference between the two measures (CPI and PCE) lies in methodology. CPI data is collected by the Bureau of Labor and is narrower by comparison to PCE; it looks at the out-of-pocket expenses (spending) of urban households on a basket of goods. PCE data is collated by the Bureau of Economic Analysis (BEA) and is broader, looking at supplier prices of consumer items goes beyond urban households. The consumer baskets are markedly different between the two measures and price changes in the PCE basket are also less volatile. For example, the provision of healthcare services as paid for by businesses goes beyond what households spent over the past month is given a higher weight in the PCE measure.

Bloomberg Intelligence produced a chart showing the breakdown of PCE inflation by components:

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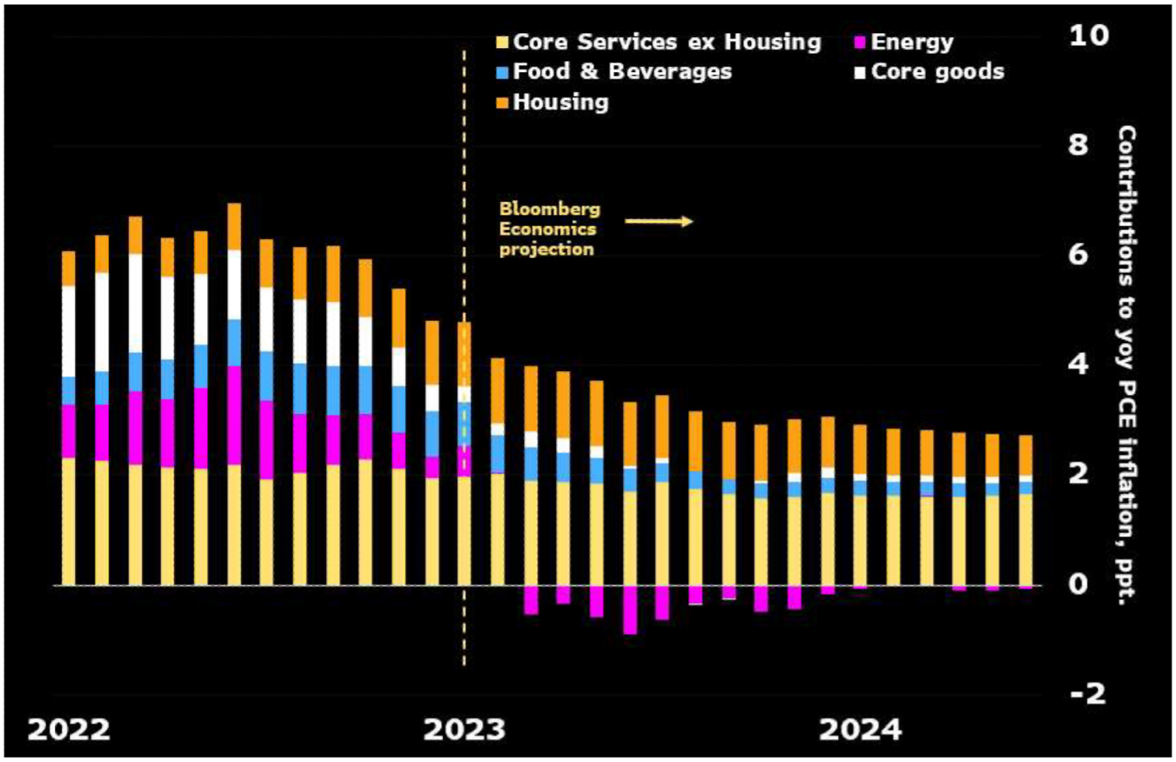
Macro Review (continued)

Personal Consumption Expenditure Inflation by Components



Source: BEA, Bloomberg Economics. Data as of January 31, 2023.

We can see how the non-core elements of energy and food are coming down quite quickly (in pink and blue) but housing and especially core services ex-housing have been more resistant declines. And core PCE services ex-housing accounts for 50% of the PCE basket and only 25% in the CPI basket. The Federal Reserve is on record as attaching great importance to this larger weighted element. If the Fed were to cut rates while this component remains elevated, then once the disinflationary effects of falling energy prices have worn off there is a risk that headline inflation may pick up once again.

The Fed is also on record as focusing on the labor market, especially in services sector. Jerome Powell, the Chair of the Federal Reserve Board, in a November speech at the Brookings Institution described services ex-housing is regarded as “maybe the most important category for understanding the future evolution of core inflation. Because wages make up the largest cost of providing these services the labor market holds the key to understanding inflation in this category”. He made three more points that we think investors should heed:

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SmartETFs

Macro Review (continued)

First, he said “For starters, we need to raise interest rates to a level that is sufficiently restrictive to return inflation to 2 percent”.

Second, “[N]ominal wages have been growing at a pace well above what would be consistent with 2 percent inflation over time.”

Third, we need “[...] to put aside the [private sector] forecasts and look instead to the macroeconomic conditions we think we need to see to bring inflation down to 2 percent over time.”

However, there is a tension between the political goals of the Administration and monetary goal of the Federal Reserve in their respective approaches to labor and wages. The current Administration is much more active in promoting the cause of labor. For example, when President Biden signed an executive order to ban non-compete clauses in employment contracts on July 9th, 2021 he remarked “If an employer wants to keep you...he or she should have to make it worth your while to stay”. But at a press conference in June 2022, Powell was coming from the opposite direction: “You have two vacancies... for every person actively seeking a job, and that has led to a real imbalance in wage negotiating”. Over the longer term, these two positions can be reconciled through income and productivity growth. In the short term, these political and monetary priorities run counter to one another. The latest jobs figures for January record payrolls increased by 517,000 versus a forecast of 188,000 and a drop in the unemployment rate to a new cycle low of 3.4%. In other words, the labor market has tightened further and upward wage pressure looks set to continue.

Our view is that one more interest rate rise of 0.25% to 5%, as currently priced by the market, looks unlikely. More likely, we could see two or three more rises at least and rates moving to 5.5%. Our reasoning for this is given below. We note that with core inflation now at 4.4% and Fed Funds having moved to 4.75%, this is the first time in this cycle that real interest rates have turned positive to +0.35% at least on a core inflation basis.

The chart on the following page shows interest rates and core (PCE) inflation in the US over the past fifty years. Several features jump out. First, we can see how the interest rate cuts and negative rates in 1975 and 1976 proved to be too early and were followed by a more severe run of inflation that took almost ten years to resolve. Second, positive real interest rates were the norm from 1979 to 2008, barring two years between September 2002 and November 2004. Since 2008, the US has been running a loose monetary policy with a short-lived attempt to normalize in 2018 and 2019 before turning ultra-loose in 2020. Third, if we take the period 1979 up to the Global Financial Crisis in 2008 as one of a “normal” monetary policy setting, real interest rates average 3.4%. From 1985, when Core inflation fell below 4%, to 2008 the average real rate was 2.5%.

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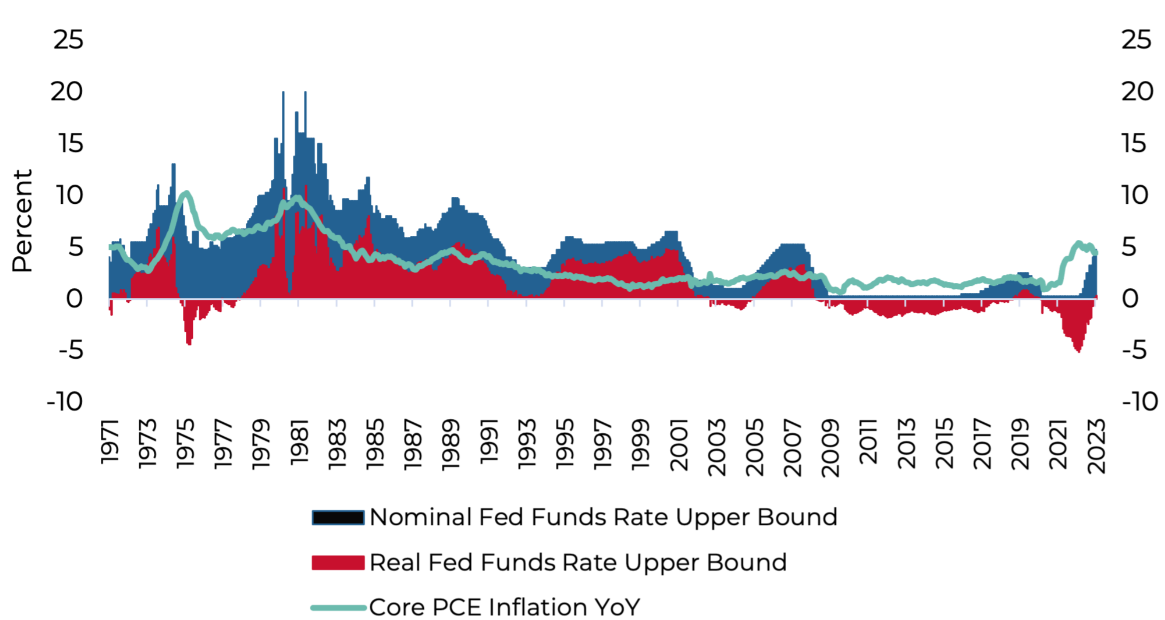
Macro Review (continued)

Nominal & Real US Fed Funds Rate vs Core PCE Inflation
1971 - 2023



Source: BEA, Federal Reserve. Data as of January 31, 2023.

Based on this assessment of monetary settings it is quite possible that core inflation retreats to around 3% in the coming year, though it gets harder as we get closer, and that the Federal Reserve, consistent with its stated target of 2% inflation, keeps the real rate at 2.5% in line with earlier norms. This would imply a policy setting of (3% inflation + 2.5% real Fed Funds rate) 5.5%. In the long term, as inflation settles closer to the 2% target, we may see that real interest rate narrow. The real rate assumption may turn out to be overly aggressive but is not outlandish. The key point for us is that even after the rate rises, we have seen monetary policy is not yet restrictive.

(There is a view that keeping interest rates negative, i.e. below the rate of headline inflation, is an overt strategy of financial repression supporting borrowers rather than savers whereby the value of the debt is "inflated away" while savers receive less interest income on their deposits. While that is an argument, we do not believe the Fed is playing that game; that they perceive the risk of runaway inflation and its damaging effects in the near term to outweigh the benefits of debt devaluation over the longer term. We think the speed of interest rate rises and their impact needs to be considered in the context of debt levels built up in the low-rate years and potential systemic stress.)

We have dwelt on this at some length because US interest rates and related bond yields form the basis of the global "risk-free rate" that goes into the discount rate we apply to company cash flows to arrive at a share price valuation. This discount rate disaggregated into the risk-free rate, plus a premium over

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Macro Review (continued)

that for country risk and a further premium to reflect sector or company specific risk. When we say there is a likelihood that markets are underestimating the trajectory of US interest rates, we are saying that the risk-free rate, and therefore the discount rate for valuing cash flows may also move/stay higher which would exert downward pressure on the value of future cash flows and thus, share valuations. This re-emphasizes the importance, in our view, of focusing on current and near-term profits and cash flows, rather than a hope of valuation expansion, as drivers of shareholder returns.

Asian Interest Rates

Interest rates in Korea, Indonesia and Thailand moved higher in January. Korea's increase was in line with expectations but just as in the US, markets seem to be pricing in an end to the cycle with the 3-year bond yield now lower than the policy rate, but the Governor is more cautious. From a purely domestic perspective, the market may be correct since slower exports are beginning to weigh on industrial output. The once-hot housing market is weakening and unlike in the US, the unemployment rate rose more than expected, to 3.3% in December. According to the Bank of Korea's Financial Stability Report for the second half of 2022, released in mid-December, the Financial Stress Index (FSI) has passed the threshold which the bank calls "crisis stage". (This does not equate to Korea being in crisis, but that there has been a sharp jump in gauge which we also note fell back from peak stress by December.)

Korea's FSI uses 20 monthly indicators in both financial and real asset sectors to gauge financial stress. The bond market turmoil following the Legoland construction bond in Gongwon Province and a weaker exchange rate both contributed to a drop in institutional and market liquidity in September/October. The situation since then has improved with bond market stabilization measures and the 3% rise in the Won versus the US dollar. The main concern for the central bank is the risk of a hard landing in house prices in 2023 pushing mortgage borrowings into negative equity. However, the Bank also measures systemic financial vulnerability which looks at asset prices, debt levels and system resilience and this Financial Vulnerability Index has improved, falling from a peak of 58.5 in the second quarter of 2021 to 44.9 in the third quarter of 2022.

Thailand stands out from the rest of Asia in that it was the last (excepting China and Japan) to increase the policy interest rate. This reflects the major role played by tourist arrivals on economic growth, accounting for ~20% of GDP. Visitor numbers began to rise in the latter part of 2022 to ~1.5 million per month and are expected to approach pre-pandemic levels of 3.3 million per month in 2023/24. Core inflation jumped from 0.3% year on year at the end of 2021 to 2% at the end of the first quarter of 2022 and then to 3.2% in the third quarter, where it ended the year. If we add in the effects of food and energy then headline inflation is running at 5.9% and has cooled from 7.86% in August, but core inflation pressure is the key measure, and this is still evident. As the chart below indicates, Thailand monetary policy is the loosest for twenty years and rates still have further to go before they could be said to be restrictive. The Bank of Thailand has given no indication of an imminent pause.

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ADIV

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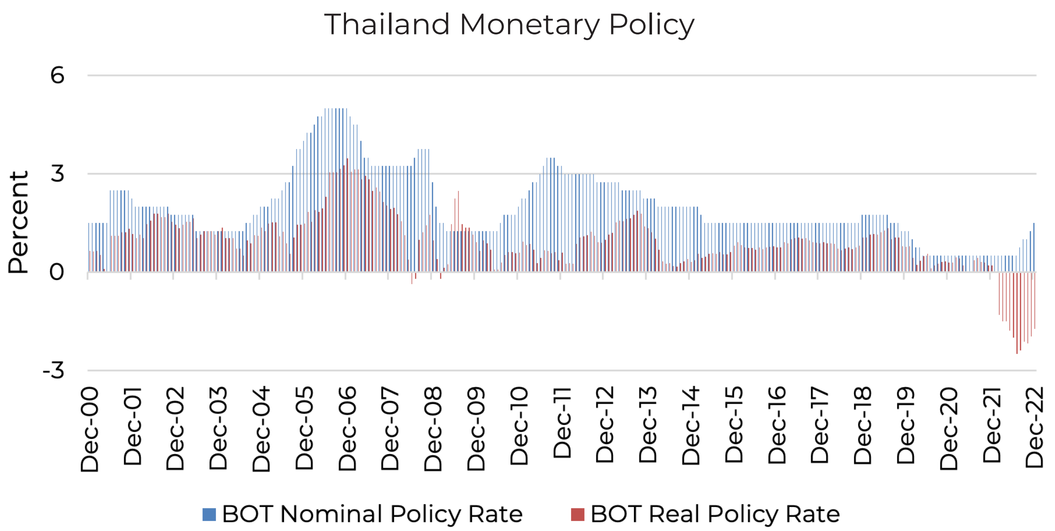
February 2023 Update

Macro Review (continued)



Source: Bank of Thailand (BOT), Thailand Ministry of Commerce. BOT Nominal policy rate is given as the Bank of Thailand Repurchase Market 1 Day Rate. Real Policy rate is given as the Nominal Policy Rate less Thailand Core CPI Inflation rate..Data as of January 31, 2023.

Indonesia raised its benchmark rate to 5.75% in line with expectations (a contrast with Malaysia which unexpectedly remained unchanged suggesting their focus on risks to growth). In Indonesia's case, currency considerations are the main driver of interest rate moves; it should be noted that Indonesia has been a significant recipient of portfolio flows seeking yield. Bank Indonesia has said it will continue to buy government bonds in the secondary market and that it will maintain accommodative macroprudential policies for commercial banks.

The table below shows the path of interest rates across Asia and includes for reference, interest rate moves in developed markets including those of the region. The numbers in red indicate the peak and month in which it was reached.

Interest Rates in Asia

	Jan-22	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	Jan-23
China	3.70	3.70	3.70	3.70	3.70	3.70	3.70	3.70	3.65	3.65	3.65	3.65	3.65
Korea	1.25	1.25	1.25	1.50	1.75	1.75	2.25	2.50	2.50	3.00	3.25	3.25	3.50
Taiwan	1.125	1.125	1.375	1.375	1.375	1.50	1.50	1.50	1.63	1.625	1.625	1.75	1.750
Indonesia	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.75	4.25	4.75	5.25	5.50	5.75
Malaysia	1.75	1.75	1.75	1.75	2.00	2.00	2.25	2.25	2.50	2.75	2.75	2.75	2.75
Philippines	2.00	2.00	2.00	2.00	2.25	2.50	3.25	3.75	4.25	4.25	5.00	5.50	5.50
Thailand	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.75	1.00	1.00	1.25	1.25	1.50
India	4.00	4.00	4.00	4.00	4.40	4.90	4.90	5.40	5.90	5.90	5.90	6.25	6.25
Australia	0.10	0.10	0.10	0.10	0.35	0.85	1.35	1.85	2.35	2.85	2.85	3.10	3.10
NZ	0.75	1.00	1.00	1.50	2.00	2.00	2.50	3.00	3.00	3.50	4.25	4.25	4.25
Japan	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10
US	0.25	0.25	0.50	0.50	1.00	1.75	2.50	2.50	3.25	4.00	4.00	4.50	4.75
ECB Deposit	-0.50	-0.50	-0.50	-0.50	-0.50	0.00	0.00	0.00	0.50	1.50	1.50	2.00	2.50
UK	0.25	0.50	0.75	0.75	1.00	1.25	1.25	1.75	2.25	3.00	3.00	3.50	4.00

Source: Central Bank. Data as of January 31, 2023.

ADIV
The SmartETFs Asia Pacific Dividend Builder ETF
February 2023 Update

SmartETFs

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Important Information

MSCI AC Pacific ex Japan Index captures large and mid cap representation across 4 Developed Markets countries and 7 Emerging Markets countries in the Pacific region. With 1,176 constituents, the Index covers approximately 85% of the free float-adjusted market capitalization in each country.

NAV is the dollar value of a single share, based on the value of the underlying assets of the fund minus its liabilities, divided by the number of shares outstanding. Calculated at the end of each business day.

Market Price is the current price at which an asset or service can be bought or sold. The market price of an asset or service is determined by the forces of supply anad demand. The price at which quantity supplied equals quantity demanded is the market price.

Earnings per Share (EPS) is calculated as a company's profit divided by the outstanding shares of its common stock. The resulting number serves as an indicator of a company's profitability.

Compound Annual Growth Rate (CAGR) is the mean annual growth rate of an investment over a specified period of time longer than one year. It represents one of the most accurate ways to calculate and determine returns for individual assets, investment portfolios, and anything that can rise or fall in value over time.

Price to Earnings Ratio (PER) is the ratio for valuing a company that measures its current share price relative to its earnings per share.

Consumer Price Index measures the average change in prices paid by consumers over a period of time for a basket of goods and services.

Financial Stress Index is a daily market-based snapshot of stress in global financial markets. It is constructed from 33 financial market variables, such as yield spreads, valuation measures, and interest rates.

Risks:
Investing involves risk, including possible loss of principal.

The Fund invests in securities that pay dividends, and there is no guarantee that the securities held by the Fund will declare or pay dividends in the future, or that dividends will remain at current levels or increase.

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.

Consider the investment objectives, risks, charges and expenses of the Fund carefully before investing. For a prospectus or summary prospectus with this and other information, please call (866) 307-5990 or visit our website at www.SmartETFs.com. Read the prospectus or summary prospectus carefully before investing.

Shares of the Fund are distributed by Foreside Fund Services, LLC.