ADIV

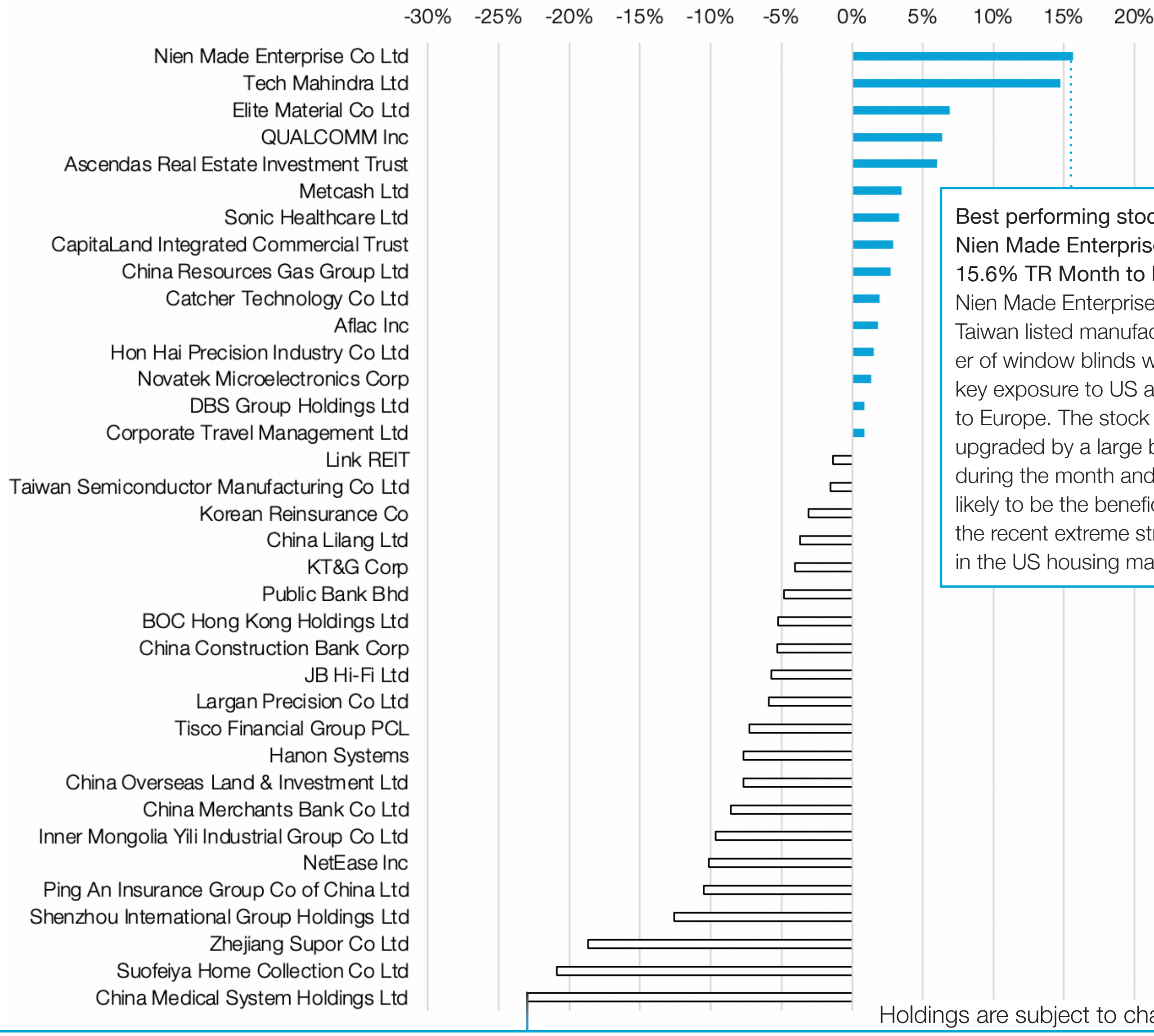
The SmartETFs Asia Pacific Dividend Builder ETF

August 2021 Update

Portfolio Performance

as of 07/31/2021

ADIV fell -3.49% (NAV basis) in July, but still held up against its index which fell -7.41%. China technology and e-commerce stocks were the weakest performers, which is evident in our weakest holding for the month: China Medical Systems which returned -23.0%. Nien Made Enterprise Co. came out on top and advanced 15.6% in July. The mid-year company reporting season is just getting underway. So far, portfolio stocks have gotten off to a good start. As we have also seen in recent months, markets have been "jumpy" on news flow, and while that persists we think that focusing on businesses that are doing well operationally, and delivering growing dividends funded by growing cash flows should afford some comfort. Read more about our "Market Outlook" on page 3.



Best performing stock: Nien Made Enterprise Co., 15.6% TR Month to Date
Nien Made Enterprises, a Taiwan listed manufacturer of window blinds with key exposure to US and to Europe. The stock was upgraded by a large broker during the month and is likely to be the beneficiary of the recent extreme strength in the US housing market.

Holdings are subject to change.

Worst performing stock: China Medical Systems Holdings Ltd., -23.0% TR Month to Date
China Medical System gave up some of its returns after a very strong start in the first half of the year. Our weaker holdings were generally Chinese companies, including domestically-listed "A-shares", following a regulatory crackdown on the Chinese Tech sector and concerns about a resurgence of COVID-19 which dampened investor enthusiasm.

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As of 07/31/2021	YTD	1 Year	3 Year	5 Year	10 Year
ADIV at NAV	7.75%	30.25%	8.57%	10.47%	6.79%
ADIV at Market Price	7.75%	30.25%	8.57%	10.47%	6.79%
MSCI AC Pacific Ex-Japan NR	-1.59%	18.48%	8.78%	11.11%	5.94%

As of 06/30/2021	YTD	1 Year	3 Year	5 Year	10 Year
ADIV at NAV	11.65%	39.83%	11.10%	12.28%	7.38%
ADIV at Market Price	11.65%	39.83%	11.10%	12.28%	7.38%
MSCI AC Pacific Ex-Japan NR	6.28%	37.80%	11.83%	14.06%	6.81%

Expense Ratio: 0.78% (net) | 4.97% (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.

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.

Due to unusually favorable market conditions, the fund's relatively high performance may not be sustainable or repeated in the future.

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Market Overview

Macro-economic concerns that have dominated investors' thinking this year have been replaced, in dramatic, fashion by a focus on regulatory risk in China. A second issue, which perhaps ought to attract more attention, are the fortunes of one of China largest and certainly most indebted companies, China Evergrande Group.

In the **first case**, Chinese regulators have increased their efforts to rein in some of the tech titans that now dominate certain segments of China's consumer economy. This process began with Alibaba last year which forced the sudden abandonment of Ant Financials Initial Public Offering (IPO). The focus soon moved beyond financial sector activities into an assessment as to whether Alibaba was abusing its market position and engaging in anti-competitive practices. Tencent then came under the spotlight and it, along with other large China tech companies scrambled to align their operations with evolving regulatory requirements. This month, regulators stepped in after the ride hailing business, Didi, a Chinese Uber equivalent, listed in New York and raised over $40 billion. In this case they cited poor controls over customer data and effectively cut off its ability to grow its business. Further steps were taken against China Meituan, a food delivery business, asserting it is underpaying its delivery workers, and finally, in the private education sector, the government stated its intention to turn this into a not-for-profit activity.

Our comment: The big tech issues with which China is wrestling echo concerns raised in the UK, EU, and US. The market dominance of the e-commerce platforms enables them to set the rules which can be to the detriment of users, be they businesses or customers. The problems around the gig economy and workers' rights have been highlighted in both ride hailing and delivery businesses. China is therefore tackling the same issues but is doing so more aggressively and seeking results in a much shorter time frame. In a wider context, Xi Jinping is pushing a social agenda that seeks to address growing inequality and this is evident in the attack on private tutorial companies that confer an educational advantage for those that can afford it, on moves to protect workers' rights and ensure better pay as well as in the used and protection of customer data. Investors have had to reassess their earlier growth assumptions for this sector.

Our Fund has low exposure to this area consequent to low dividends associated with these companies and the high stock market valuations they have commanded. The closest we have is a holding NetEase, listed in New York and in Hong Kong. Its business is in video games and music streaming. The recent moves by the government to force Tencent to give up its exclusive right over music streaming are in fact helpful to NetEase which recently signed deals with both Sony and Universal. The company's plan to spin off their music business in an IPO in Hong Kong are said to have gained approval and an announcement is expected shortly.

The **second issue** concerns China Evergrande and its ability to meet its debt obligations. The company is a conglomerate with real estate at its heart but with wide ranging interests, including bottled water, tourism, and its much-hyped China Evergrande New Energy Vehicle Group. The parent company is running into liquidity issues and doubts are identifying as to its ability to repay bonds due to mature in the next few months. Furthermore, mainland banks are now reluctant to roll over Evergrande's borrowings. The size and reach of the company mean that if it all unravels in an uncontrolled fashion, then the ripple effects could spread widely. At the same time, the company's controlling shareholder remains in Beijing's good graces and so we shall have to see how the government balances its desire to rein in company borrowing with possible systemic issues in this case as well as with its treatment of an individual who, unlike Jack Ma, has been assiduous in promoting the government's wider agenda.

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Our comment: The fund has no direct exposure to the Evergrande Group although one, Suofeiya Home Collection, supplies furniture and fittings to the real estate development business as well as to other customers. Our view is that investors in Evergrande's shares and its lenders either from bank loans or though bonds are at greatest risk as resolutions are likely to involve a combination of disposals and "white knight" investments that are likely to dilute existing holders. It is a reminder that implicit government support that has allowed debt to build in the first place, can no longer be taken as a given even for the best-connected people; and this is something else that China has been flagging for a while.

There's more where that came from!

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