ADIV

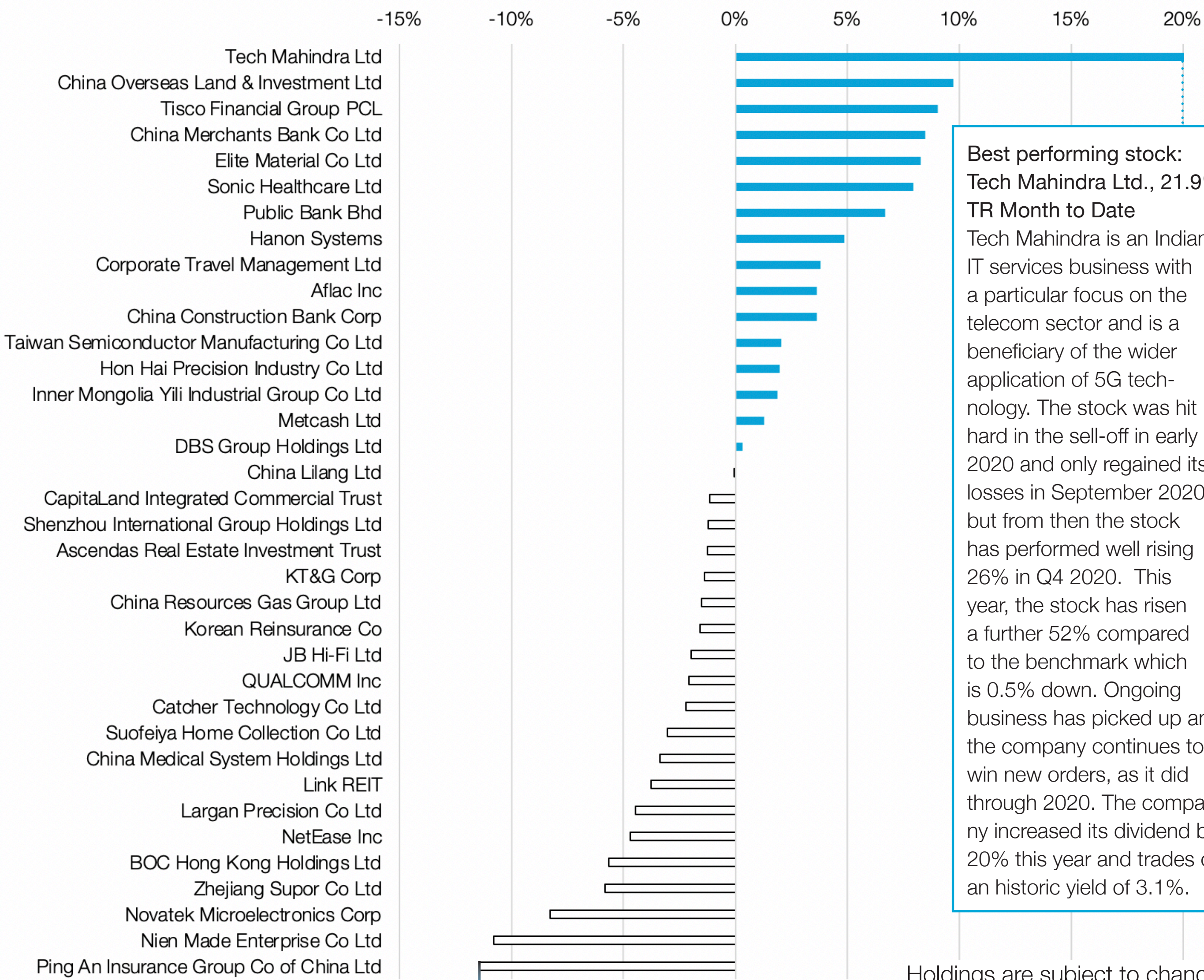
The SmartETFs Asia Pacific Dividend Builder ETF

September 2021 Update

Portfolio Performance

as of 08/31/2021

ADIV rose 0.39% (NAV basis) in August, but underperformed its index which rose 1.1%. Twenty-four companies, out of the thirty-six held in the portfolio reported quarterly, interim or full year results. Sixteen of them were due to declare dividends, the rest pay annual dividends which were received in the first half of the year. Of the sixteen dividends declared, ten increased compared to last year, three were unchanged, two were down and Corporate Travel Management omitted once again, in line with expectations. Read our stock review on page 3.



Best performing stock: Tech Mahindra Ltd., 21.9% TR Month to Date

Tech Mahindra is an Indian IT services business with a particular focus on the telecom sector and is a beneficiary of the wider application of 5G technology. The stock was hit hard in the sell-off in early 2020 and only regained its losses in September 2020; but from then the stock has performed well rising 26% in Q4 2020. This year, the stock has risen a further 52% compared to the benchmark which is 0.5% down. Ongoing business has picked up and the company continues to win new orders, as it did through 2020. The company increased its dividend by 20% this year and trades on an historic yield of 3.1%.

Holdings are subject to change.

Worst performing stock: Ping An Insurance Group Co of China Ltd., -11.4% TR Month to Date

Ping An Insurance Group has seen its stock price affected by exposure in the investment portfolio to a troubled Chinese real estate company, China FortuneLand. Recent reported results however, show the property and casualty insurance business is performing well as is the commercial banking business. The life insurance business is experiencing headwinds in garnering new business as the company focuses on restructuring its sales platform although progress is evident in increased sales efficiency - sales growth is flat although the sales headcount is 11% smaller.

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As of 08/31/2021	YTD	1 Year	3 Year	5 Year	10 Year
ADIV at NAV	8.17%	23.58%	8.82%	10.14%	7.73%
ADIV at Market Price	8.17%	23.58%	8.82%	10.14%	7.73%
MSCI AC Pacific Ex-Japan NR	-0.46%	15.40%	9.67%	10.89%	6.97%

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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The results have been overwhelmingly positive, and none contained any unpleasant surprises. We hold a diverse range of companies in the Fund and these results have given us a useful insight into operating conditions in Asia as the problems caused by COVID continue to oscillate. The interesting aspect, however, is the way individual companies have dealt or are dealing with these issues.

For the most part the conclusion seems to be that companies with strong management teams, that have built a strong capital base, that have invested and have positioned the business effectively are now reaping the benefits. DBS in Singapore for example, has been investing in its technology platform for the last five years and has been able to diversify its income stream, reduce its costs, and curtail risk. Consequently, it has reported better results than its peers, has limited its bad debt exposure, and has fully resumed its dividend. China Merchants Bank offers a similar story of investment in technology and concentrating on private banking and high net worth customers. It's fee income is growing strongly, and bad debts are low.

Among the manufacturers, Nien Made Enterprise, a manufacturer of shutters and blinds is among the most exposed to higher raw materials prices. In the last few years, the company has been investing in new more efficient facilities and has also been positioning to offer more bespoke types of product which command higher prices and can offset the now higher materials costs. Investment in more efficient facilities has also borne fruit for Shenzhou International, a textile maker. COVID has disrupted it's Vietnam operations and materials prices too have exerted pressure, but a 14% gain in worker efficiency due to increased capital investment in recent years is helping.

We have provided a brief commentary below, on the companies that have reported in the past month:

- Ascendas REIT announced results for the first half (1H21), with a distribution up 5.4% year on year (YoY). Growth has come from acquisitions: European data centers, two office buildings in San Francisco and an Australian business park. Positive 3.8% rental reversions last year have also contributed to results. Management is seeking further acquisitions in logistics and data centers in the UK, Europe and US.

- BOC Hong Kong reported 1H21 results slightly below market expectations. Net profit was 17% lower partly due to a contraction in Net Interest Margin to 1.08% form 1.13% in 2H20 and partly down to a high base comparison for trading gains last year. Fee income growth was solid, up 22% and a decline in credit costs associated with bad debt. Lower margins have meant the bank has been among the weaker performers among the large Hong Kong banks, but it's capital strength and market position leaves it better placed in our view for a post-COVID recovery on the back of ongoing market share gains in loans and deposits as well as its position to benefit from further development of the Bond Connect scheme. The interim dividend was maintained unchanged from 2020 but is still 18% below that of 2019. The market is however, forecasting a decent pick-up in the 2H21 dividend which will be declared next year.

- Catcher Technology reported results for the second quarter 2021 (Q2 21) that included weaker than expected sales growth and net profit but a sequential improvement in gross margin. The company sold its smartphone casing business last year and it will take time for new business channels in automotive, healthcare and 5G consumer device thermal solution to contribute meaningfully. The main contributions now come from Notebook and Tablet demand, which remains strong for now, although component shortages have restricted supply which resulted in slower sales in the past quarter.

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Stock Review (continued)

• China Construction Bank reported Q2 21 results that were ahead of market expectations with net profit up 24% YoY. Net interest margin was unchanged at 2.13% but was better than its peers while improving asset quality reduced the need for further provisioning and improved existing bad debt coverage. Non-performing Loan (NPL) ratios dropped in almost all segments bar real estate (up 0.25% compared to last year) and mining which rose 4.7%; but these rises were more than offset by improvements in loan quality to manufacturing, transport, retail & wholesale as well as personal lending.

• China Lilang reported 1H21 revenue recovery continued, rising 23.9%, but still 12% below the same pre-pandemic period in 1H19, and net profit up 0.9%. Gross margins were strong, rising 10% to 49.5%. However, selling expenses increased due to the business model switch in 2H20 from franchise to self-operated distribution which, combined with store renovations, pushed store operating expenses higher. Lilang continues to optimize its 2,708-store portfolio closing 53 stores and opened 18 in quality malls. The company completed renovations on 100 stores in 1H21 and plans to complete 400 more in 2H21. The company declared a dividend of HK$0.18 per share, 6% higher than 2020 but still 30% below 2019.

• China Medical System reported another good set of results for 1H21 with revenue up 23.6% YoY and net profit up 27.2% YoY. Dividend per share rose 25.5%. Direct sales of medicines grew strongly, led by sales of cardio-cerebrovascular products (heart disease/stroke), which account for over half that division's revenue, up almost 30%. The digestion line, accounting for 34% of divisional revenue, rose 26% followed by 46% growth in ophthalmology and 54% growth in dermatology. The company has been developing new business lines and began independently operating its dermatology and medical aesthetic business this year. The division employs 500 people, acquired a 65% stake in Carnation, which operates an ultrasound technology platform, and began a collaboration with EC Healthcare to establish a divisional marketing operation. Finally, its program of new products, focusing on delivery methods, rather than new compounds, remains on track and the company expects its Diazepam Nasal Spray (for anxiety disorders & muscle spasms) and Tildrakizumab solution injection (for eczema/psoriasis) to be approved in 2022.

• China Merchants Bank reported second quarter profits up 32% YoY and pre-previsioning operating profit (PPOP) up 18.5%. Fee income growth of 24% benefitted from strong growth in AUM in the asset management business. Fee income and a growing retail franchise, especially in Private Banking and High Net Worth have been supported by growing demand deposits (a cheap source of funding) and investment in technology are the main growth drivers for this business. The bank's net interest margin was 2.46%, the ratio of non-performing loan to total loans was 1.01% and these are more than 4x covered by provisions.

• China Overseas Land & Investment (COLI) reported 1H21 results with core net profit (excluding the effects of investment property revaluation and FX) up 2%, in line with expectations. The interim dividend was held at HK$0.45 in line with 2019 and 2020. At the time of writing the stock offers a yield of 6.6%. The Chinese real estate sector can be a worrying sector, but COLI is easily the best positioned in our view. It has the lowest debt ratios of its peers (Debt to equity 67%, net debt to equity 33%) and its investment grade credit rating, also the best in the sector, gives access to the lowest cost of funding at 3.6%. COLI's business is property development with 40% of its landbank in Tier 1 cities (Beijing, Shanghai, Hong Kong etc.) and in urban renewal projects. The stock offers a combination of strong balance sheet, good

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Stock Review (continued)

market position, and a stabilizing margin trend that suggests earnings growth is likely to track sales growth more closely.

• China Resources Gas increased net profit in the first half up 35.6%, largely in line with expectations and helped by a strong rebound of 29.5% in gas sales volumes. New residential connections in the first half were 1.3m, with management guiding for at least 3.2m for the full year. Margins in the period were stable but may see some pressure in the second half from high LNG prices. Capex guidance increased slightly for the year, due to an increased M&A budget as the company expects acquisition opportunities to materialize.

• Corporate Travel reported results for the second half of their financial year (June year-end), marked by a return to profitability at the EBITDA (earnings before interest, taxes, depreciation, and amortization) level. June was a post-COVID record month, despite it typically being seasonally weaker. The company has gained market share recently in a struggling sector – for CTM volumes are currently around 40% of pre-COVID levels (this is significantly higher than some peers). CTM is benefitting from the higher vaccination levels in the US and UK, which account for a large proportion of revenues. Cost cutting efforts earlier in the pandemic leave the company well placed for profits to rebound sharply as activity picks up again.

• DBS announced good results for the second quarter despite a contraction in net interest margin to 1.45%. However, a 27% increase in fee income, cost control, better asset quality that meant a 91% drop in provisioning expenses combined to deliver a 37% increase in net profit. The news that the Monetary Authority of Singapore had lifted its restrictions on bank dividends allowed DBS to reinstate the full dividend to S$0.33 from S$0.18. New NPL formation has fallen back to pre-pandemic levels in contrast to their peers. Investment in technology over the last few years has enabled the bank to generate income from more sources while keeping a lid on costs and expenses through better risk management and greater efficiency.

• Hon Hai Precision reported Q2 21 profits that were a little better than consensus forecasts. Sales were up 20% versus a weaker comparison period in 2020. Growth in the short term is related to the production of the iPhone 13 but with tight component supply this is unlikely to come before the 4Q21. Gross margin expansion is likely to pause in the short term at around 6% but management expects a resumption next year driven by a wider product mix. Management is talking about an EV market worth $600 billion from which they target a 10% share by 2025 and a 10% gross margin. However, there needs to be greater clarity on how this is to be achieved before this can start to be priced into the stock.

• Hanon reported second quarter results that were impacted by the shortage of computer chips at its US and European customers. Increased raw materials costs for the company's components were also a drag, impacting operating margins by around 1%. The outlook for the second half, however, is good, with a recovery expected as chip shortages decline and continued expansion of electric vehicle sales (EV revenues currently contribute around 21%). New orders have also been strong, with management increasing annual new order guidance by 10%.

• JB Hi-Fi reported full year results for FY21. Sales were up 12% in JBH Australia, up 13% year on year in comparable terms. Sales growth versus FY19 was 26%. The Good Guys division continued to benefit from a strong housing cycle, with revenues up 13.7% year on year. Final dividend of A$1.07, equates to total dividend for the year of A$2.87, up 52%.

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Stock Review (continued)

• Korean Re reported a decent set of results for the second quarter, net profit declined by 13%, but importantly, underwriting performance was strong with the combined ratio of 97.7% marginally improved from 97.9% in the prior year. The company has a good track record of lowering underwriting volatility each year, implying good allocation of capital. Given the underwriting performance, strong performance in the investment segment could result in a higher level of profits distributed as dividends.

• KT&G reported results that missed expectations on lower margins. Exports were weaker, and the pandemic continues to impact domestic (Korean) duty free sales. Increased roll-out of heat-not-burn products, which continues, should improve investor sentiment over the rest of the year.

• NetEase reported a good set of results for Q2 21. Revenue was up 13% YoY. Online gaming revenue, which accounted for 70% of total revenue, rose 5% YoY which without a new game and coming against a high base for comparison, was encouraging in our view. Innovative businesses (which includes advertising and NetEase Cloud Music) accounted for 20% of revenue and rose 26% YoY. Youdao, the search engine business saw revenue more than double. Net income was down 20% YoY, pulled down by FX translation losses and higher R&D and marketing expenses. Excluding the FX loss, net profit fell 10% YoY. The dividend came in at US$0.24 per share, a drop of 20% in line with reported net income. Recent news that China is clamping down further on game time for younger children is expected to have little impact given management's disclosure that less than 1% of revenue comes from this group.

• Nien Made reported results for the second quarter, with gross profit margin of 53.9% beating consensus expectations of 51.9%. Offsetting gross margins was a large FX loss, which lowered net income growth to 2% year on year. Management is seeing increases in commodity prices leading to inflation; however, is passing this on with higher prices for both custom-made and ready-made products in the second half.

• Ping An Insurance Group reported interim results for 1H21 that were better than forecast with net book value and operating profit above expectation. The dividend was increased by 5%. The value of new business in the life insurance segment dropped significantly as a result of declining first year premiums and lower margins. This is consistent with Ping An's drive to reduce the number of sales agents but to increase productivity, which remained unchanged on last year but with an 11% lower headcount. This lies behind the improvement at the operating profit level. Property & Casualty, however, was a highlight with credit and guarantee insurance leading the way resulting in a Combined ratio (Costs and expenses divided by revenues earned) falling to 95.9%, thereby increasing profits. Another strong contribution from Ping An Bank and the announcements of a share buyback makes for a good set of results.

• Public Bank reported 1H21 net profit rose 25% YoY. Operating profit before the provision charge against non-performing loans was 36.2%. A deterioration in asset quality was evident, especially in the second quarter and management has turned more cautious. Nevertheless, to place this in some context, the ratio of NPLs to gross loans is only 0.35%. Steady loan growth, good cost control and cheaper funding costs are all supportive. Net interest margins have expanded to 2.15% from 1.99% in 2020 while the ratio of costs to income declined to 31.6% compared to 34.6% in 2020. The dividend increased by 14% above the same period in 2019, having omitted in the same period in 2020. (The omission was "made good" earlier this year.)

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Stock Review (continued)

• Shenzhou reported 1H21 earnings that were down 11% YoY. If the impact of foreign exchange movements was excluded, net profit would have been flat. We are still very positive on the stock with volume growth up 14% with sales to Puma, Uniqlo and Nike up 39%, 22% and 12% respectively. Efficiency gains and increased production volumes on a solid order outlook has prompted the company to increase the dividend pay-out ratio to 60% resulting in an 18% dividend increase. Production in Vietnam remains hampered by COVID and this is prompting the company to build more integrated facilities in other overseas markets.

• Sonic Healthcare reported strong 2H21 results having received a significant boost from COVID testing revenue. Revenue for the full year, ended June 2021, was A$8.75 billion, up 28% YoY, of which COVID testing contributed A$2.1 billion. Earnings per share rose 141% The dividend increased 8% and this moderate rise reflects the desire for more merger and acquisition activity, in recognition that COVID related revenue will subside, and that permanent value creation will have to come from expansion.

• Suofeiya Home Collection reported 1H21 sales that rose 69% YoY and net profit that increased 30% YoY. In Q2, revenue grew 42% lifted by increased sales to property developers, which can quickly lift scale, and to a recovering wardrobe business through an increased number of distribution partnerships. Margins however, contracted 3.1% during the second quarter due to this change in channel mix and due to more promotion of Milanla, the lower-end brand. The stock is trading at trough valuations and the reason is the risk of a write down in some of its accounts receivable. Exposure to Evergrande, a highly indebted real estate developer undergoing restructuring, was CNY 194 million with a bad debt provision of only CNY 9 million. There is therefore downside risk to earnings of around 12% if the balance is written off, something we think is more than priced in.

• Zhejiang Supor reported results for the first half of 2021. Revenue rose 27% and net profit increased by almost 30% on greater cost control, increased pricing power. Gross margin on domestic sales recovered to 31.7%, the pre-pandemic level. Export sales were also strong, up 68.6% compared to the same period last year. Most of these sales are to its parent, French-owned SEB whose sales to North America rose 66% year-on-year with rising market share, and to Western Europe which rose 22%. Higher raw materials costs affected revenues from export sales because products were not re-priced. That is likely to change during the second half and into 2022 pushing gross margin on this segment up from 14% in the last reported period back toward 18%.

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Disclosure

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