ADIV

The SmartETFs Asia Pacific Dividend Builder ETF

November 2022 Update

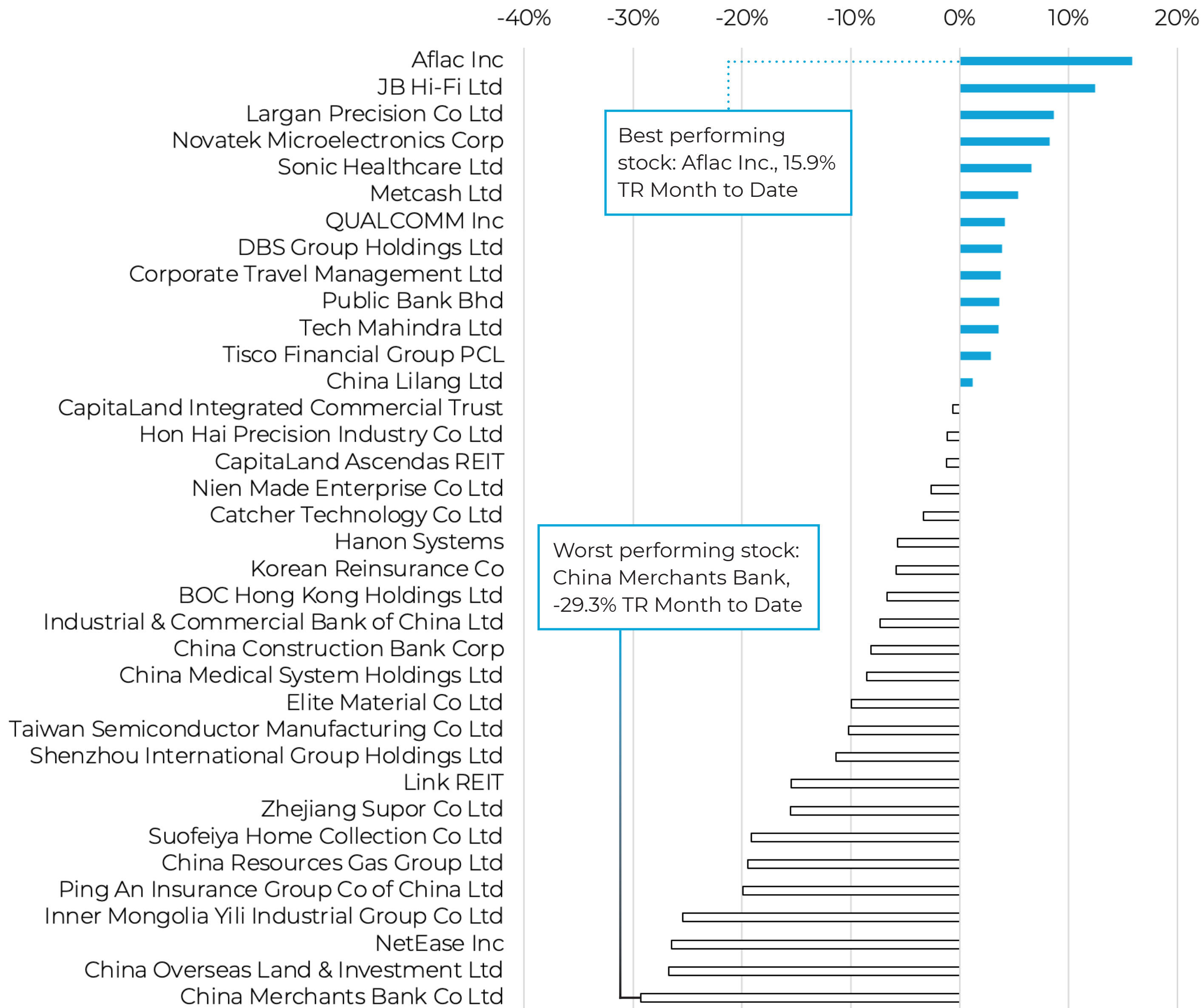
SmartETFs

Portfolio Performance

as of 10/31/2022

ADIV fell -5.13% on a NAV basis in October, -4.43% on a market price basis. The majority of the stocks in the portfolio outperformed during the month and fifteen of our stocks underperformed, but of course, it is the performance quantum that matters. The underperformers were all drawn from China, Taiwan and Korea across consumer staples and discretionary, financials, technology and utilities. However, we did also have Chinese and Taiwanese outperformers in banking and technology names along with all our south Asian and Australian holdings. We continue to reiterate the importance to us of separating in our thinking the operational performance of our companies and value placed upon those operations by the market which, as we know, is subject to sharp swings in the short term. Our view on valuation is therefore, underpinned by profits, cash flows and returns on capital.

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



Portfolio Performance

Aflac was the best performer in October, rising 15.9%, and therefore also making it the best performing stock in the portfolio year to date. Analysts continue writing about the company's growth headwinds, but the underlying earnings keep coming through. The most attractive feature of the stock for investors has been the dividend growth which has been 12% on average for the past five years and increased 20% in the last twelve months. The bulk of its revenues come from Japan, which is why we hold it. In the recent quarter, COVID-related "deemed hospitalizations" resulted in higher claims and earnings per share to fall short. However, the rules around this have been tightened, the Omicron wave in Japan has passed its peak, and underlying sales trends remain strong.

China Merchants Bank was the weakest performer, down 29.3%. Its former president was formally charged with malfeasance for activities that did not involve the bank and its business. Nevertheless, at a time of weak overall sentiment toward China, this stock amongst our China holdings bore the brunt of selling pressure. Operating results for the third quarter presented a different and much more positive picture. Margins on its loans held up at 2.36%, credit quality improved with a nonperforming loan ratio of 0.95% of total loans and although fee income fell 5% its earnings per share beat forecasts, rising 16% compared to the same period last year.

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As of 10/31/2022	YTD	1 Year	3 Year	5 Year	10 Year
ADIV at NAV	-29.69%	-26.52%	-2.36%	-1.41%	3.70%
ADIV at Market Price	-30.36%	-27.38%	-2.54%	-1.52%	3.64%
MSCI AC Pacific Ex-Japan NR	-32.46%	-34.40%	-5.82%	-3.56%	1.76%

As of 09/30/2022	YTD	1 Year	3 Year	5 Year	10 Year
ADIV at NAV	-25.90%	-20.27%	0.59%	0.37%	4.44%
ADIV at Market Price	-27.14%	-21.15%	0.16%	0.11%	4.31%
MSCI AC Pacific Ex-Japan NR	-28.63%	-29.24%	-2.81%	-1.76%	2.41%

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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Macroeconomic Review

China

The big event in October was the 20th National congress of the Chinese Communist Party during which Xi Jinping was confirmed as leader for a third term. The new line-up for the Politburo Standing Committee was also revealed. Observers were left taken aback by the concentration of Xi loyalists and the absence of any representatives from other groups within the Party. There was also concern about the removal of Hu Jintao from the podium. Some have argued that this was a political move, but others have stated their belief that in this case, the official explanation that Hu was unwell may have been correct. Xi Jinping's speech defended the zero-COVID policy, praised the governance in Hong Kong, and once again advocated for peaceful reunification with Taiwan while maintaining the right to use force. The immediate market reaction was a sharp sell-off in Chinese stocks in Hong Kong and the US. The Yuan offshore exchange rate also weakened versus the US dollar to a low of RMB 7.33 to the dollar. As we implied earlier, we do not see the outcome of the Congress as marking a change in direction on the economic front. Common prosperity, the fight against corruption, and the focus on core industries remain core policies, but the outlook for medium term growth remains hazy. Re-opening the economy from zero-COVID and stabilization in the housing market would have a meaningful near-term impact. Tax subsidies, such as those successfully applied in the past to cars and consumer durables, could also help lift consumer confidence. However, the manufacturing outlook over the medium-term is clouded by global supply chain moves into "friendly" jurisdictions and by tighter controls on sharing technology.

At the time of writing, Chinese markets have rebounded sharply in anticipation of economic re-opening. The visit by the German chancellor signals a greater willingness to engage and the public airing of China's opposition to nuclear escalation in Ukraine, following increased Russian rhetoric was welcome. An interesting shift on COVID was also evident as China agreed to allow foreigners in the country to take BioNTech's mRNA vaccine, something that had not previously been countenanced for anyone. The official line remains a commitment to zero-COVID, but there are signs that a path at least in being charted.

Semiconductor Restrictions

In October, the US moved to place further restrictions on China regarding the sale of high-end semiconductors, ostensibly to prevent their use in military equipment, but also to slow China's development of its high tech industry. There was speculation in the immediate aftermath of the announcement that this could impact the likes of Microsoft and Apple in accessing the consumer market, as well as the auto industry. This question remains unresolved but it is clear that Chinese companies are looking at ways to make sure they comply.

To give a sense of the complexity of these rules, a recent piece in the Financial Times focused on one aspect: how Chinese engineers are seeking to slow down processor speeds to ensure compliance. Among

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Macroeconomic Review

US rules is a cap on the rate of data transfer, to 600 gigabits per second with anything faster than that subject to export controls. Chinese companies, designers and their suppliers are all working to try and fit within these new rules. Suppliers like TSMC will likely need warranties from their Chinese customers that the chips they supply, produced according to Chinese designs, fall within the permitted scope. The impact of these restrictions will be felt in the US, EU, Japan, Taiwan and Korea not just in China.

Interest Rates

At the beginning of November, the Federal Reserve raise the Fed Funds target range by 0.75% from 3.00% - 3.25% to 3.75% - 4.00%. Following Jerome Powell's comment that,

> *"Data since our last meeting suggests that the ultimate level of interest rates will be higher than expected..."*

market expectations for peak interest rates increased to over 5.1% in June 2023. There is at least some indication that rate increases may start to slow from here given the time lag between rate increases and their impact on economic behavior. The UK and ECB also raised rates by 0.75% and 1% respectively although their headline rates are still lower than those of the US.

In Asia, Korea and Indonesia still report Consumer Price Inflation pushing toward 6% year on year, and both central banks raised their policy rates by 0.5% to 3% and 4.75% respectively. Malaysian inflation is running at 4.5%, at elevated levels for that market, which prompted a rise of 0.25% to 2.75%. In Australia, hope that inflation might have peaked in August were disappointed with a rise to 7.3% in September and the central bank made its fifth consecutive 0.5% increase to 2.85%. that being said, interest rate increases and inflationary pressures in the region remain below that of western economies.

Q3 Results

Fourteen companies in the portfolio reported results for the third quarter. Two of them also announced interim dividends, both welcome but which we had not factored into our forecasts.

- **Zhejiang Supor**'s interim dividend announcement at its Q3 results was unexpected but we think it is an appropriate decision. The company has substantial cash in hand and no immediate investment requirements. Revenues and profits were respectively 10%/16% weaker compared to the same period last year.

- **Tech Mahindra**'s dividend announcement was less of surprise given they also declared an interim payment at the same time last year but since that was the first time they had done so, we were not

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Q3 Results (continued)

counting on a repeat. In the event, the dividend increased by 20% and combining all payments for the full year, raises their annual dividend by 6.7% year-on-year (YoY). This puts the stock on a trailing yield of 4.5% based on the share price at the of October.

• **BOC Hong Kong** reported good Q3 results – operating profit was up 18% Quarter on Quarter (QoQ) and up 27% YoY, close to peak levels and driven by 0.35% margin expansion on rising interest rates. Fee income was higher and provisioning levels were down. It's been a while coming: but these results show BOCHK is back on track. Market forecasts for earnings are being upgraded.

• **China Construction Bank** reported Q322 profits up 9%, ahead of forecasts but operating profit of -3% YoY was below forecast. Net interest margin (NIM) fell 5bps/113bps QoQ/YoY to 1.97%. The growth came from a drop of impairment charges (provisions), which were justified by flat non-performing loan (NPL) ratio of 1.4% and NPL reserves coverage remains at 2.4x. Equity Tier 1 capital adequacy increased 0.5% to 13.9%, which is high by global standards.

• **ICBC** profit +7% but operating profit fell 9%. Net interest income grew 1% but margin fell 10bps/22bps QoQ/YoY to 1.87%. The NPL ratio fell 1bp to 1.4x which are 2.1x covered by reserves. Equity Tier 1 capital rose 0.4% to 13.7%.

• **China Merchants Bank** results beat +16% YoY. NIM held flat at 2.36% versus declines for the big 5 banks. Fee income fell 5%, dragged by the wealth business. The return on equity (ROE) expanded further to 16.6% and is expected to be 17% for the full year and is trading on 0.75x book value. The stock is cheap after falling when the bank's president was dismissed but operations are still good. The NPL ratio was 0.95% and were 4.3x covered by reserves.

• **Elite Material** reported quarterly results ahead of consensus with a 1% revenue decline but 2.8% margin expansion to 28.5% on product mix. Sales into handheld devices are seasonal but what we like is the strong R&D pipeline, ongoing capacity expansion and stronger outlook in 2023.

• **Novatek, Microelectronics** reported revenues and profits down 49% and 65% from peak levels affected by competition and inventory destocking by customers. Nevertheless, this was 11% above consensus estimates. The cycle appears likely to trough in the first quarter of next year. In the meantime, the company is in a strong financial position with substantial cash on the balance sheet even after the large dividend paid this year.

• **TSMC** reported strong numbers once again. Although it has scaled back its 2022 capital expenditure spending from $40 billion to $36 billion, considering near-term uncertainties, it still expects firm margins and revenue growth next year.

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SmartETFs

Q3 Results (continued)

• **CapitaLand Integrated Commercial Trust** reported suburban mall tenant sales are now 5% above pre-COVID levels and with tenant sales picking up there are good prospects for increased rents. Physical office attendance is now in the high 60% range with some over 85%. Interest costs were up slightly from 2.4% in the first half. Recent new loans carry a 3.1% interest rate and currently, new loans are being offered to them at 4.5%.

• **CapitaLand Ascendas REIT**, with its industrial focus and international spread reported stronger results: occupancy at 94.5% and 5%-7% rental increases for the full year. Gearing rose slightly to 37.3% and with 78% of the borrowing at fixed rates the company estimates a 1% rise in base rates would lower its distribution per unit by 0.33 cents (roughly 2%).

• **Inner Mongolia Yili**, the Chinese dairy business, disappointed with an unexpected decline in liquid milk sales. Net profit for the quarter was down 27% YoY, 10% below consensus, driven by slower revenue growth of 7% and a 2% drop in gross margin to 30.9%. However, the company pointed to reacceleration by the end of the quarter and into October.

• **Suofeiya Home Collection** reported results in line with expectations recording 7% revenue growth YoY and a 2.8% decline in earnings. Gross and net margin contracted by 1% to 33.4% and 12.4% respectively. Sentiment around the stock is weak given the weakness amongst the property developers but this is not their only channel. Growth in the distribution channel rose 15% during the quarter while sales in the retail channel doubled. The 2023 outlook is buoyed by market consolidate, rising selling prices from new products and operating leverage going their way.

• **Tisco Financial** is a stock that has continued to deliver years after year since we bought it in 2013. This Thailand-based financial group offers banking, consumer finance and asset management services. Third quarter results beat market expectations driven by a positive combination of loan growth, product mix, higher net interest margins at 5.15%, stable fee income and higher credit quality/lower credit costs with an NPL ratio of 2.08%. The group is very well capitalized with a Tier 1 equity ratio of over 17%.

• **Largan Precision** reported revenue growth in the third quarter of 13%, ahead of expectations and net profit growth (lifted by FX gains) of 55%. Operating income excluding FX contracted 4%. This contraction is linked to product mix. Largan is producing VCMs (Voice Coil Motors) for Apple whose lower margin brought Gross Margin down 5% to 53.7%. VCMs are used to control autofocus and image stabilization

• **Ping An Insurance** results for the third quarter were in line with market expectations. The trends however were mixed; on the positive side the balance sheet strengthened with lower real estate and non-standard debt exposure, both important since investors have sold the stock due to concerns

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Q3 Results (continued)

about its investment portfolio. On the weaker side, a recovery in in life policy sales is taking longer than expected. The number of sales agents is now at 488,000 down from 600,0000 in December 2021 but it is hoped this will translate into greater efficiency and effectiveness. We are looking for sales growth to pick up into next year but for the present, post-tax profit of 3-4% this year and a stronger balance sheet is supportive of the dividend and signs of renewed revenue momentum should see a recovery in the valuation.

There's more where that came from!

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