ADIV

The SmartETFs Asia Pacific Dividend Builder ETF

September 2023 Update

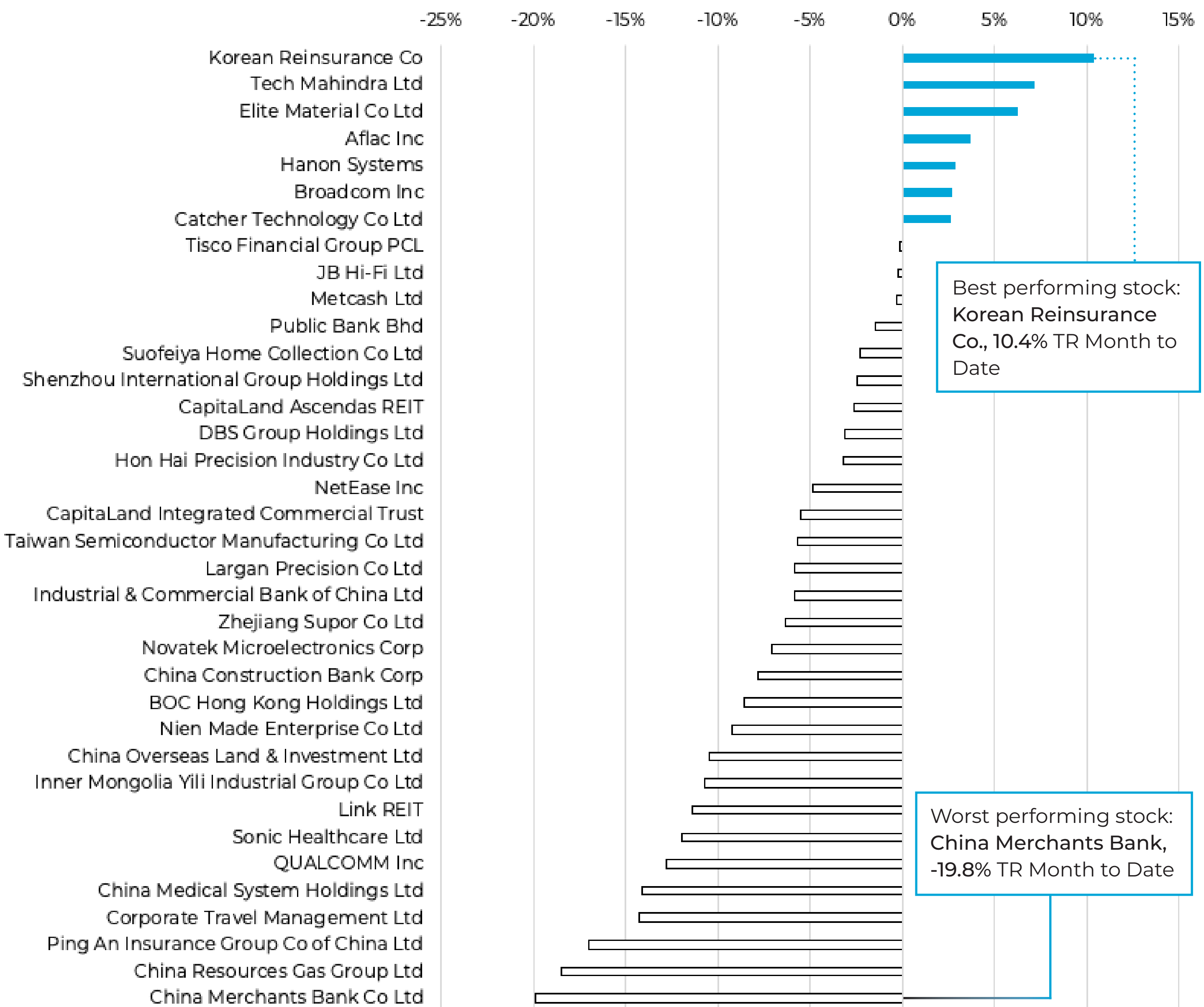
SmartETFs

Portfolio Performance

as of 08/31/2023

ADIV fell -5.21% on a NAV basis in August, -5.35% on a market price basis, outperforming the MSCI AC Pacific ex Japan Net Total Return Index benchmark which fell -6.75%. August proved to be a challenging month for Asia, as none of our markets delivered positive performance; however, Indonesia, India, and Thailand exhibited notable resilience. Conversely, New Zealand faced the brunt of weakening economic conditions and rising political uncertainty, making it the poorest performing market in August. Additionally, speculation surrounding China's financial system has gained momentum in recent weeks, but a financial collapse has yet to play out. Read on for more on this, and ADIV's performance over August.

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



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Portfolio Performance

As of 08/31/2023	YTD	1 Year	3 Year	5 Year	10 Year
ADIV at NAV	4.32%	4.21%	3.28%	2.81%	5.56%
ADIV at Market Price	5.04%	4.46%	3.20%	2.76%	5.54%
MSCI AC Pacific Ex-Japan NR	1.71%	0.12%	-3.38%	0.62%	3.64%

As of 06/30/2023	YTD	1 Year	3 Year	5 Year	10 Year
ADIV at NAV	3.40%	-1.18%	6.18%	3.26%	5.18%
ADIV at Market Price	4.43%	-1.72%	6.20%	3.27%	5.18%
MSCI AC Pacific Ex-Japan NR	2.69%	-1.01%	0.61%	0.67%	3.98%

Expense Ratio: 0.78% (net) | 4.94% (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, 2026.

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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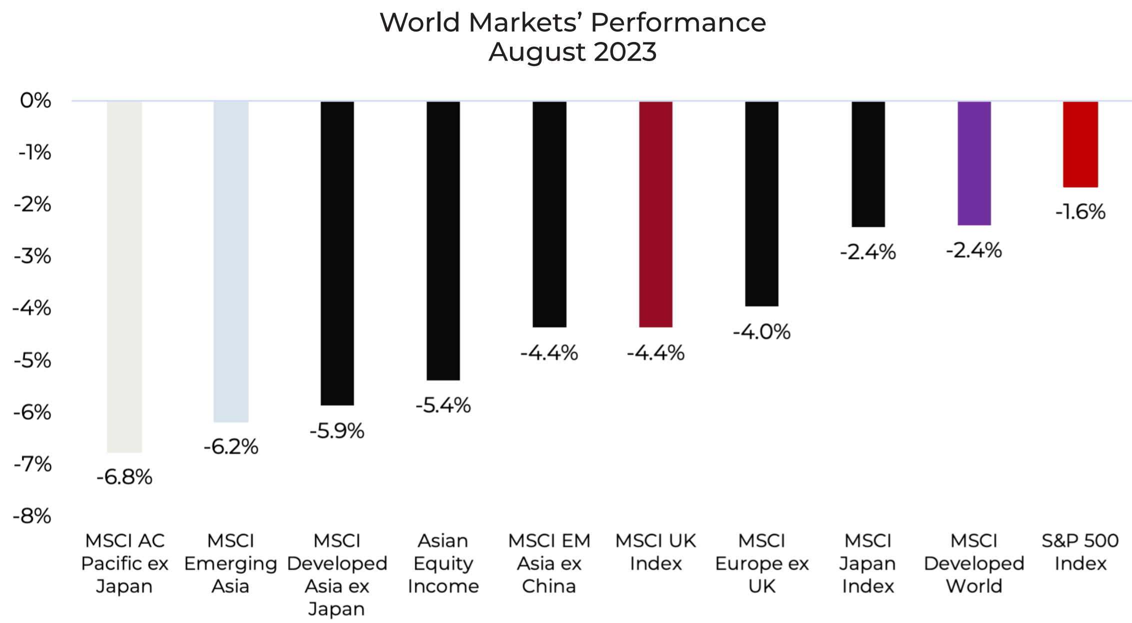
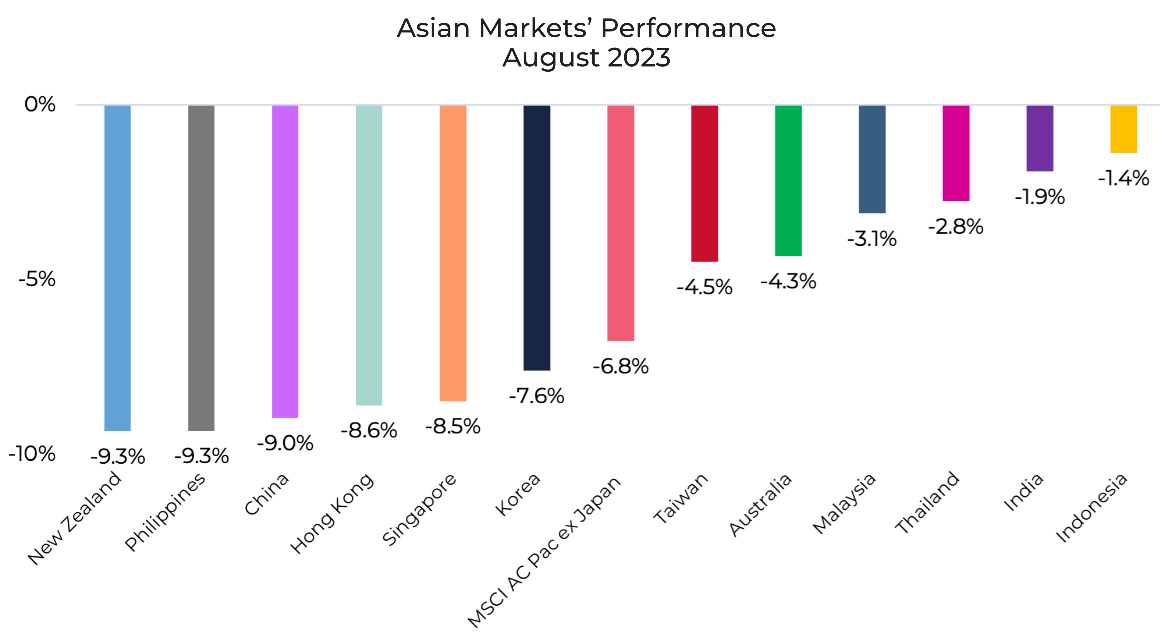
ADIV Macro Magic





Source: Bloomberg, MSCI, SmartETFs, Guinness Atkinson Asset Management.
Data as of August 31, 2023.

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ADIV Macro Magic (continued)

August has been a tough month for Asia, with none of our markets showing positive performance. The most resilient markets were Indonesia, India, and Thailand. In Thailand, following months of uncertainty, a government was finally formed, and a Prime Minister elected, bringing about more political stability and investor confidence.

On the flip side, increasing political uncertainty and deteriorating economic conditions led to New Zealand being the weakest performing market in August. As a reminder, New Zealand is heading towards its general election on October 14th, with both the current Labour government and the opposing National Party proving to be unpopular. On the economic front, the IMF (International Monetary Fund) expects New Zealand's growth rate to slow to below 1% in 2024 due to weak private spending. New Zealand's Reserve Bank has also warned that the official cash rate will likely be raised again in the fourth quarter of 2023. Moreover, the country is directly affected by the Chinese economy; China accounts for more than 25% of New Zealand's exports and is New Zealand's largest trading partner.

China Property & Banks

Source: Bloomberg, MSCI, SmartETFs, Guinness Atkinson Asset Management.
Data as of August 31, 2023.

Speculation about China's financial system has intensified in recent weeks. Debt defaults in the property sector giving rise, usually by inference only, that the financial system itself is at risk. China's global financial presence is enormous, and it remains a net foreign creditor meaning for those countries running deficits funded by government borrowing (the US, UK much of Europe, for example), China is

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ADIV Macro Magic (continued)

a major source of the capital. How big a source can be gauged by its $3 trillion dollars of foreign exchange reserves held mostly in US Treasuries and Euro government bonds.

If a financial collapse was truly in the cards, we would expect a rapid withdrawal of that capital to shore up the system back home, resulting in sudden global financial tightening. We would also expect imports (and prices) of oil, iron ore, copper, and agricultural commodities to slump, affecting the southern hemisphere. China's annual $6 trillion of trade in intermediate and finished goods would also contract. So, for all investors, everywhere, in every asset class, this question is more than one of just polite interest. To reassure on the above points, there have been no signs of strain in the global financial or commodity complexes.

It has been notable to us, that those sounding warnings have given precious few numbers that support the systemic argument. But we can. It becomes apparent that while the debt issue is substantial, there is more than enough capital in the banking system to manage the fallout of the shrinking real estate sector that has been deliberately engineered and sustained by the government:

- Over the past ten years, capital reserves in China's banking system have trebled to US$4.6 trillion of capital reserves. This amounts to 15% of the $32 trillion of risk-weighted assets, well above the level required in the third Basel (banking) Accord.
- The Trust Companies, those that securitize loans and sell them on as wealth management products, have a much lower capital base of $0.1 trillion or 4.7% of $2.2 trillion risk weighted assets.
- Property developer debts amount to around $2.75 trillion of which $1.8 trillion has been lent by banks (out of total bank loans of $32 trillion), $0.3 trillion from Trust companies and $0.75 trillion in bonds.
- Mortgage debt amounts to $5.6 trillion, which for context, equates to 31% of GDP versus over 50% in Germany and over 60% in the UK. Chinese mortgage rates have dropped this year from over 5% to 4.1% currently. With mortgage borrowers able to refinance at lower rates this is not seen as a problematic area.

Starting from this position, we can see that the banking system has substantial capital, relative to its exposures and while the Trust Companies look more vulnerable, they are much smaller in scale relative to the system. We can question the accuracy of these numbers, but we can also track their evolution over time, in aggregate and at the individual institutional level to assess reasonableness. And finally, we can perform stress tests. At its simplest, if we assume that 50% of all property loans (banks, trusts, and bonds) go bad and 60% of those are a complete loss we would be looking at a capital hit of $2.75 trillion by 50% x 60% = $0.8 trillion which still leaves $3.8 trillion of capital and a capital adequacy ratio of 11.8%, still above the Basel threshold.

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ADIV Macro Magic (continued)

This would be a bad scenario, no doubt, but importantly it shows the system itself could withstand such an outcome and therefore, investors should not be making decisions based on qualitative assertions that China is "in trouble". Our assessment is that the government is serious about shrinking the real estate sector and its output to match China's long term demographic profile more closely. This would also free up capital for more productive economic activities. We will continue to see individual institutional failures but even Country Garden, which is causing bondholders such anguish and has $187 billion of total liabilities, does not represent a systemic risk.

A final question on financial stability would concern the second or third order impact of a falling property market. The property sector accounts for almost 25% of GDP after all, with land sales accounting for a significant share of local government revenue and property acting as collateral for some bank loans. We can do a similar stress test on banking system loans, which stands at $32 trillion. The reported non-performing loan ratio for the system is 1.62%. Let us assume the ratio goes to 10% and (given the loans are to areas other than just property) let us assume a lower 40% loss rate. This would result in a capital hit of $1.3trillion leaving $3.3 trillion of capital or 10.4% of risk weighted assets, in line with Basel thresholds.

Over the last twenty years, excesses have built up in China's property market. At the same time its manufacturing and trade growth has allowed it to accumulate a substantial pool of capital. Government policy is geared to preparing China's economy for a new phase of development which focuses on new industries against a backdrop of an ageing and shrinking population. Signs of progress can be seen in the Electric Vehicle market where it is now the world's biggest exporter, its dominance in the EV battery segment, the solar segment, and the wind segment. Huawei's development of a domestic 5G handset using chips made by SMIC in the face of US sanctions suggests greater technical knowhow than was assumed. After all, it had been assumed that the Chinese industry did not yet have the knowledge or the technology to make such chips. Our message on China is that structural and cyclical headwinds are clearly evident today but elsewhere in the economy there is still dynamism and growth.

Fund Review

With the portfolio being roughly 30% Chinese stocks, we were clearly affected by weakening Chinese sentiment. Four of the five worst performing stocks this month were Chinese (China Merchants Bank, China Resource Gas, Ping An Insurance and China Medical Systems). In the most recent earnings results, China Merchants Bank reported a rise in Non-Performing Loan ratio for its property portfolio. However, it is important to note that the bank's exposure to the property portfolio is low; it has a total property credit exposure to total assets ratio of 5.3%.

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SmartETFs

Fund Review (continued)

Of the weaker stocks, the one non-Chinese company was Corporate Travel Management. At the recent earnings call, the company provided FY24 guidance which was below sell-side consensus expectations Despite Corporate Travel Management's weak total returns performance, there was one bright spot; the company's final dividend per share rose from AUD0.06 ($0.038 USD) per share in FY22 to AUD0.22 ($0.14 USD) per share in FY23, bringing the dividend per share back in-line with pre-COVID levels.

Dividend increases were also noted in other areas of the portfolio. Tisco Group changed their dividend policy, introducing their first ever semi-annual dividend this year. DBS, while not changing their dividend policy, have also committed to returning an extra SGD1.2 per share over the next two to three years. This has resulted in an increase in this year's mid-year dividend. NetEase and Public Bank Berhad also reported higher dividends per share in their latest earnings releases, with NetEase's dividend per share rising 46% and Public Bank Berhad's rising 13%.

The Fund's top performers were Korean Reinsurance, Tech Mahindra, Elite Materials, Aflac and Hanon Systems. Tech Mahindra has been undergoing a change in senior management since June, when a new CEO was appointed. In August, the company appointed a new COO, Atul Soneja, who had previously held the role of COO at CitiusTech and was an executive at Infosys when Mohit Joshi (the new CEO of Tech Mahindra) was president of Infosys. Elite Materials continues to benefit from the interest in AI. Hanon Systems reported strong second quarter results, with revenues at an all-time high and impressive cost pass-through leading strong operating profits.

Outlook

We remain firmly confident in the broader Chinese market. We believe that the Chinese financial system has sufficient capital to weather the property market storm, with our stress tests suggesting capital adequacy ratios still in-line or above the 10.5% minimum threshold as per Basel III requirements, even in bleak conditions.

We also expect continued policy changes as the government manages through the property sector headwinds. Already at the end of August, we have seen further shifts in policy, with changes in the definition of first-time buyers, and lower mortgage rates and down payments for these first-time buyers. The new definition for "first-time buyers" includes any household where at least one member does not own a registered property.

Given the importance of China in Asia's intra-regional trading environment, we expect other Asian markets to also see a lift as China's recovery comes through.

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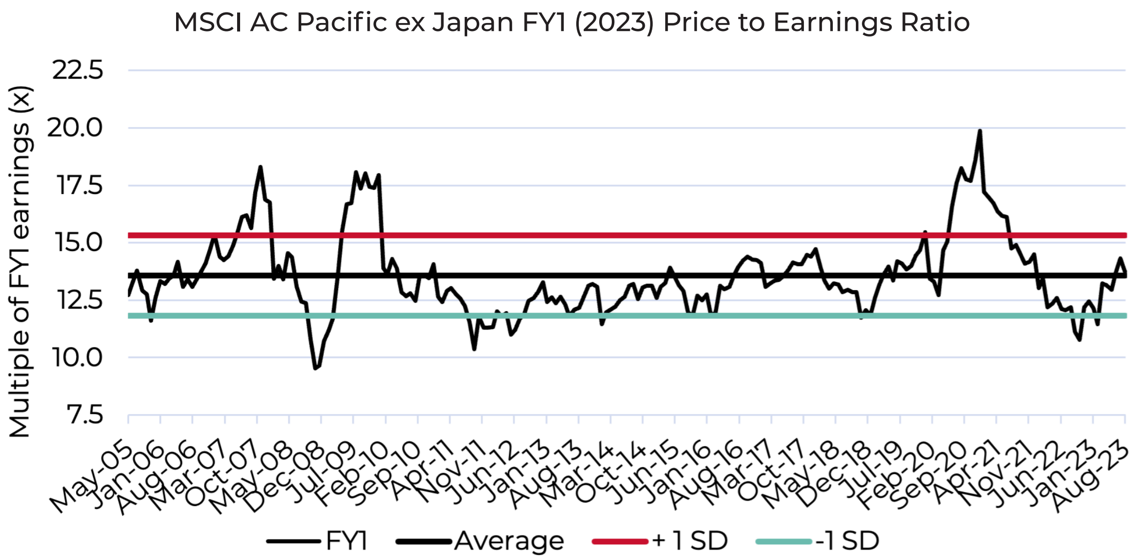
Outlook (continued)

The chart below shows valuations based on a multiple of consensus estimated 2023 earnings (FY1 PER - Price/Earnings Ratio) for the region:



Source: SmartETFs, Bloomberg. Data as of June 30, 2023.
1 SD = One Standard deviation above (red line) or below (green line) the average FY2 PER multiple over the period.

Average annual earnings growth for the Fund over the next two years is forecast to be 0.6% compared to 7.4% for the benchmark, with a 4.9% contraction in 2023 followed by an 6.5% expansion in 2024.

The Fund's 2023 valuation multiple of 11.1x is above its average since launch of 10.8x. It remains at a discount to market of 21%, which is still below the average discount of 14% since launch. If the portfolio companies achieve an earnings growth trajectory in line with their long run averages, we think there is every reason to expect the valuation will also move back in line.

There's more where that came from!

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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.

EBITDA or earnings before interest, taxes, depreciation, and amortization, is an alternate measure of profitability to net income.

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

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.