ADIV

The SmartETFs Asia Pacific Dividend Builder ETF

August 2024 Update

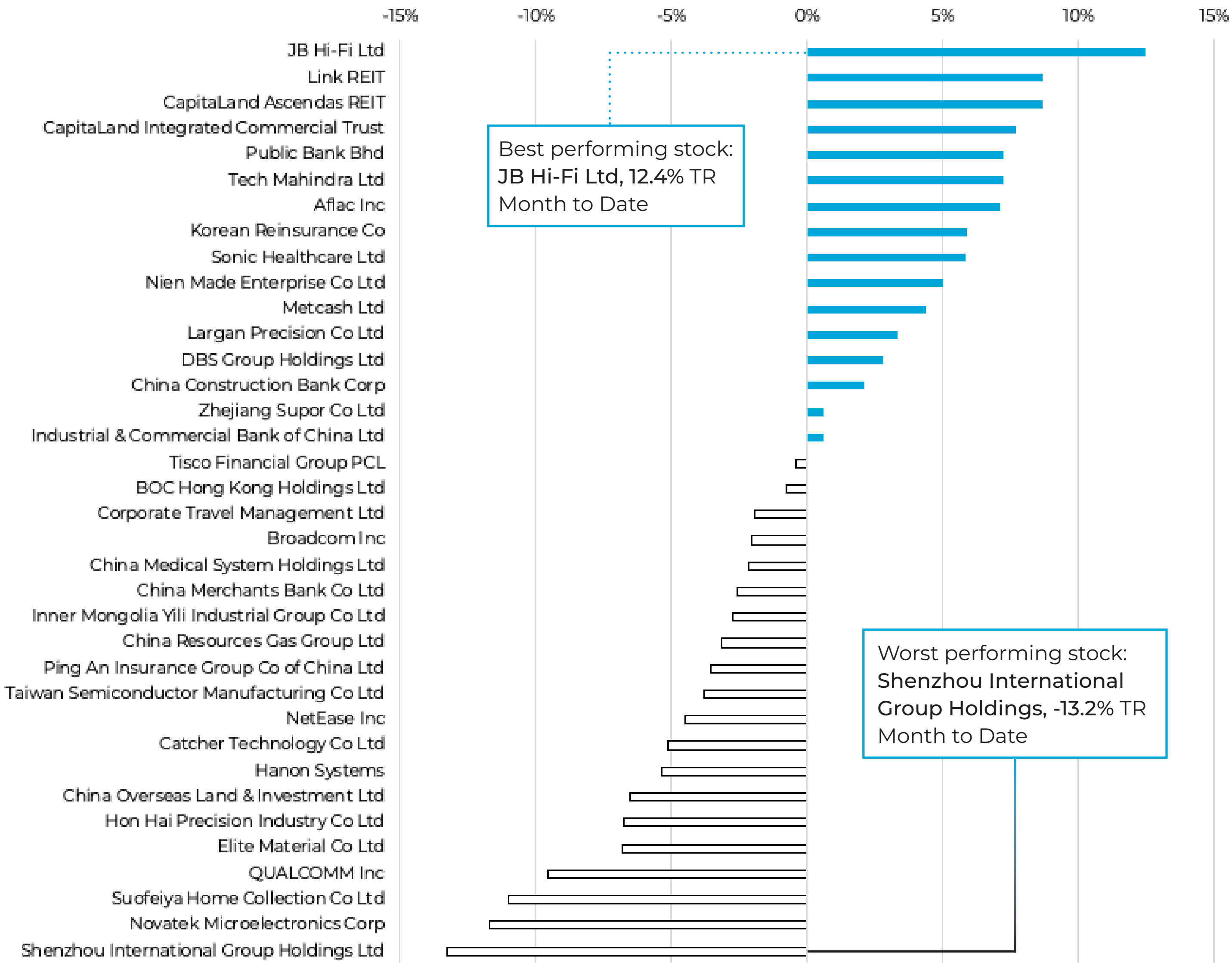
SmartETFs by Guinness Atkinson

Portfolio Performance

as of 07/31/2024

ADIV outperformed the index in July, delivering -0.68% on a NAV basis, and -0.27% on a market price basis, while the MSCI AC Pacific ex Japan Net Total Return Index benchmark fell -0.71%. In July, currency markets experienced volatility, followed by dramatic movements in stock markets in August. The Japanese Yen saw significant shifts as traders adjusted their outlook on interest rates, leading to notable impacts on Japanese equities. In Asia, technology stocks, particularly in Taiwan, experienced a downturn, while some countries and sectors that had lagged earlier showed a rebound. Despite concerns about China's economic slowdown, the fund remains focused on selective investments, especially in areas demonstrating resilience and operational strength. Read on for more ADIV.

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



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.

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JB Hi-Fi is an Australian electricals retailer with a highly capable management team and a strong balance sheet. The stock rose 12.4% in July on optimism that revenue growth might accelerate in the computer and telecom products segment. Many market analysts have been skeptical that the valuation re-rating we have seen is warranted, but results reported in mid-August recorded gross and operating margins to have been stronger than expected. The chunky dividend (including a special dividend) was also well-received.

Link REIT has had a challenging year with the stock down -20% this year. The company has had to deal with rising costs of funding and the reduction in customer activity in its shopping malls as people have been attracted to the shops in nearby Shenzhen. However, in the past month, the mood has changed and stock rose 8.7%. The main driver of stock performance has been the prospect of interest rate cuts which makes the yield on the stock look more attractive. But fundamentally, there has also been a stabilization in customer "leakage" into Shenzhen and at the same time we have also seen a stabilization in Hong Kong's retail sales and along with an improvement in sales of consumer staples. In our view, this combination of factors looks set to continue.

Tech Mahindra rose 7.2% in July and is up 23% in the year to date. In recent months the company has experienced slower new orders, order cancellations and margin pressure. However, following the appointment of a new CEO from Infosys and the announcement of the 3-year action plan, optimism around the stock has grown. The results for the recent quarter included stronger margins led by greater operational efficiency. There has been a steady improvement in new deal wins, but the conversion cycle (from deal win through to implementation and execution) remains elongated. The company is still heavily exposed to the telecom segment which declined 2% compared to the last quarter, but services provided to the healthcare, retail, and manufacturing segments all grew between 2% and 8%. In our view, the operational progress seen so far has justified our holding on to the position.

Detractors

Shenzhou International, an apparel and textile maker with production facilities in China and Vietnam fell -13.2% in July following weak guidance from Nike, one of its major customers. In Nike's case, its reduced 2025 sales outlook is company specific, but in our view, linked to strategy changes from wholesale to direct selling and back again. There is now some confusion over channels, and inventory has built up, so we are cautious about reading across to Shenzhou's other customers. Manufacturing peers have indicated good new order momentum at their annual shareholder meetings. The company has demonstrated a good track record in production efficiency and has been able to preserve margins even during the tough COVID period.

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Portfolio Performance

Novatek Microelectronics fell -11.7% in July putting it flat for the year to date. The Taiwanese chip designer had a strong year in 2023 and its collaboration with ARM pushed its stock to new highs though it is unrelated to the AI theme. The company designs chips that run displays, and Chinese rivals have been snapping at their heels. Nevertheless, the System on Chip (SoC), which is a combination semiconductor keeps them ahead and has preserved their higher margins. Their second quarter earnings were up sequentially but down on the same period last year; however, they were well ahead of the market consensus. The earnings call in August was more encouraging about the near-term outlook.

Qualcomm fell -9.5% after a strong run this year but the underlying story appears to be intact. Smartphone sales seem now to have begun a recovery, there is an emerging AI story and new opportunities opening, in PCs for example. The recent results were good and above consensus on revenue and earnings. Guidance for the coming quarter was also upbeat with revenue growth driven both by handsets and Internet of Things (IoT).

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As of 07/31/2024	YTD	1 Year	3 Year	5 Year	10 Year
ADIV at NAV	5.14%	6.45%	0.17%	5.74%	5.73%
ADIV at Market Price	5.22%	6.47%	-0.07%	5.72%	5.72%
MSCI AC Pacific Ex-Japan NR	6.07%	2.28%	-4.63%	2.50%	2.85%

As of 06/30/2024	YTD	1 Year	3 Year	5 Year	10 Year
ADIV at NAV	5.86%	14.07%	-0.79%	5.75%	6.10%
ADIV at Market Price	5.51%	13.47%	-1.05%	5.65%	6.05%
MSCI AC Pacific Ex-Japan NR	6.82%	9.41%	-6.83%	2.45%	3.29%

Expense Ratio: 0.78% (net) | 5.08% (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, 2027.

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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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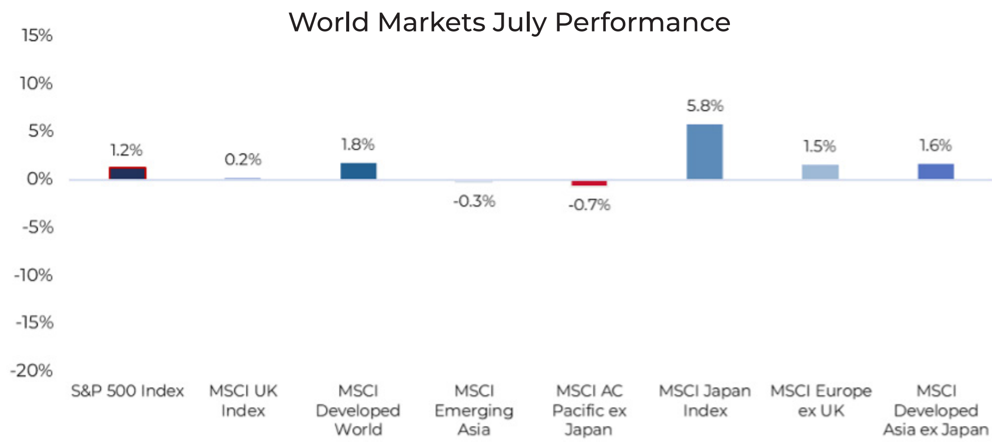
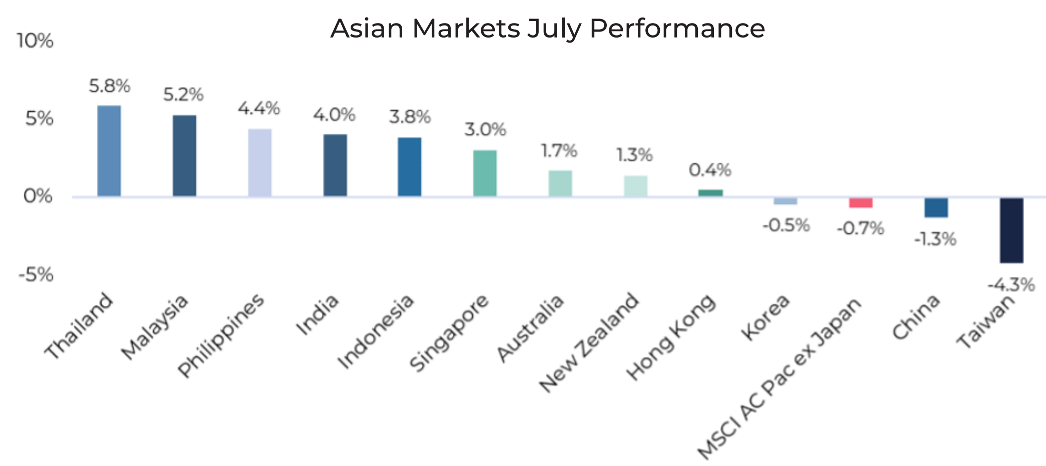
Macro

Volatility hit the currency markets in July to be followed in August by dramatic moves in stock markets. The most significant currency shift has been in the Japanese Yen as traders shifted views on the outlook for both Japanese and US interest rates. The rise in the Japanese equity market as shown by the MSCI Japan Index in the chart below, entirely due to the strengthening Yen which delivered a 5.8% increase in dollar terms. In Yen terms, the market was down -1% over the month.



Source: Bloomberg, MSCI. Net returns in US Dollars. Data as of July 31, 2024.

In Asia, there was a notable change in tempo for technology/Taiwan stocks which were down -4% during the month. The relative performances of India +4% / China -1% continued the pattern we have seen over past months but there was a notable rebound in countries and sectors that have lagged this year. Thailand and Indonesia have, apart from Hong Kong, been the weakest markets in the region while Healthcare has been the weakest sector.



Source: Bloomberg, MSCI. Net returns in US Dollars. Data as of July 31, 2024.

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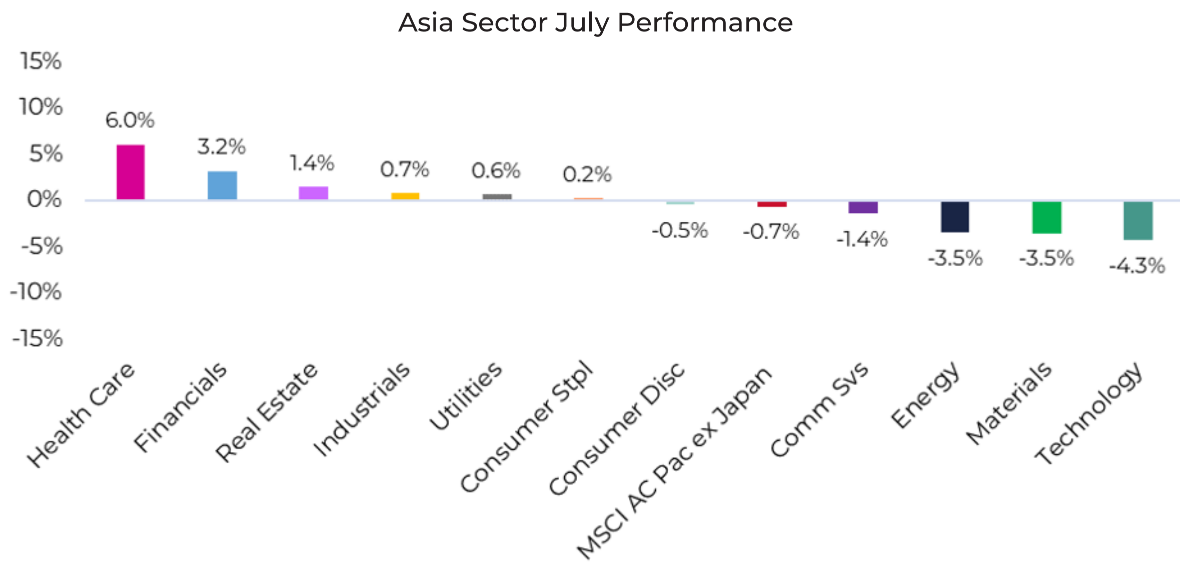
Macro (continued)



Source: Bloomberg, MSCI. Net returns in US Dollars. Data as of July 31, 2024.

This report is meant to focus on July, but we cannot simply ignore the market rout in the first week of August. Stock markets have become noticeably more skittish in recent weeks, perhaps due to a combination of seasonal factors including thinner volumes during the holiday period and a confluence of macro and geo-political issues coming to the fore. Among all of this, we think that it is the outlook for US interest rates that is the most influential. We are getting closer to the point where the Federal Reserve begins to cut. The aim of higher rates, as the Fed has continually emphasized, is to lower inflationary pressures and in doing so, to slow the economy. It was a fairly innocuous data point on US jobs that triggered a sharp selloff in August. Traders interpreted the jobs number as a sign that the US economy has slowed too sharply, that it was heading for a deeper recession, and that the Fed would have to cut rates possibly by as much as 0.5% within the week.

In Japan, where the Yen has been falling for most of this year, the focus has been on the gradual return of inflation that perhaps might bring an end to the unorthodox monetary policy and negative policy rates and bond market interventions to manage longer term market rates. The combined prospect of lower rates in the US and higher rates in Japan had already led to a reversal in the Yen's decline against the dollar and it is here that thinner market volumes played their part. There has been a very active carry trade in progress where traders, both Japanese and international, borrow in Yen (at ultra-low interest rates) and invest into higher returning assets. This trade of course, entails leverage but the sharp reversal in the Yen exchange rate necessitated a rapid unwind of these leveraged positions which in thinner trading conditions had a higher impact and snowballed.

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Macro (continued)

Another piece of the puzzle concerns the strong performance we have seen in the technology space, driven by the Artificial Intelligence (AI) theme. We believe this is quite clearly a tangible advance in technology reflected by investment in physical infrastructure to the benefit of manufacturers throughout the supply chain. Nevertheless, it is also a "crowded trade" from a stock market perspective. The sector is seen as a source of growth that stands in contrast to areas such as automobiles, for example. As the technology sector has run ahead, some other areas may be seen to be offering value, and if the interest rate outlook were to change significantly this might be another reason for rotation away.

In Asia, Taiwan has been the clear beneficiary of the AI theme. Taiwanese companies are at the forefront of technology manufacturing supported by a virtuous circle quality, pricing power, and capital investment. As cash generative businesses, they have been a source both of growth and of dividends. The Fund's exposure to the AI theme has played out through its holdings in Taiwan Semiconductor Manufacturing, Elite Material, Hon Hai Precision, and US-listed Broadcom which together account for 12.6% of the portfolio. However, the Fund also has 14% exposure to consumer electronics and technology services. These areas have also contributed to performance but were not as severely affected in the recent sell-off.

While views on the outlook for the US and for technology continue to oscillate, the Chinese economic slowdown remains entrenched. The effects of this are being felt in global commodities where the price of iron ore has revisited its 2022 low and copper inventories outside China continue to hit new highs according to the London Metals Exchange. At the same time, forecasts for oil demand growth have been scaled back as around 50% of the expected growth in demand was linked to China. Yields on Chinese Government Bonds (CGBs) have reached record lows with traders betting on lower interest rates and while steps have been taken to ease pressure on local government financing, cracks are starting to appear in the convertible bond market, previously seen as a haven.

We do not think that investors should worry unduly about China's economic stability; the slowdown is a function of choices that have been and continue to be made. At the same time, the financial system is liquid, well-capitalized, and affords policy makers multiple options should they become necessary. However, the genesis of this economic transition was the recognition domestically, and externally, that Chinese growth encompassed falling productivity and overdependence on real estate development funded by debt. We can see the process of increased funding to the new industrial growth drivers and significant reduction in funding to the old sectors which are now facing severe headwinds, not least the steel industry. Our position on China remains the same: there is an economic transition underway which, although creating strain, China can support which makes low valuations look cheap to us. We remain selective on the stocks we hold in the portfolio, focusing on operational performance and resilience.

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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.

Dividends per Share (DPS) is the sum of declared dividends issued by a company for every ordinary share outstanding.

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.