# DIVS

## The SmartETFs Dividend Builder ETF

September 2024 Update

SmartETFs by Guinness Atkinson

## Portfolio Performance

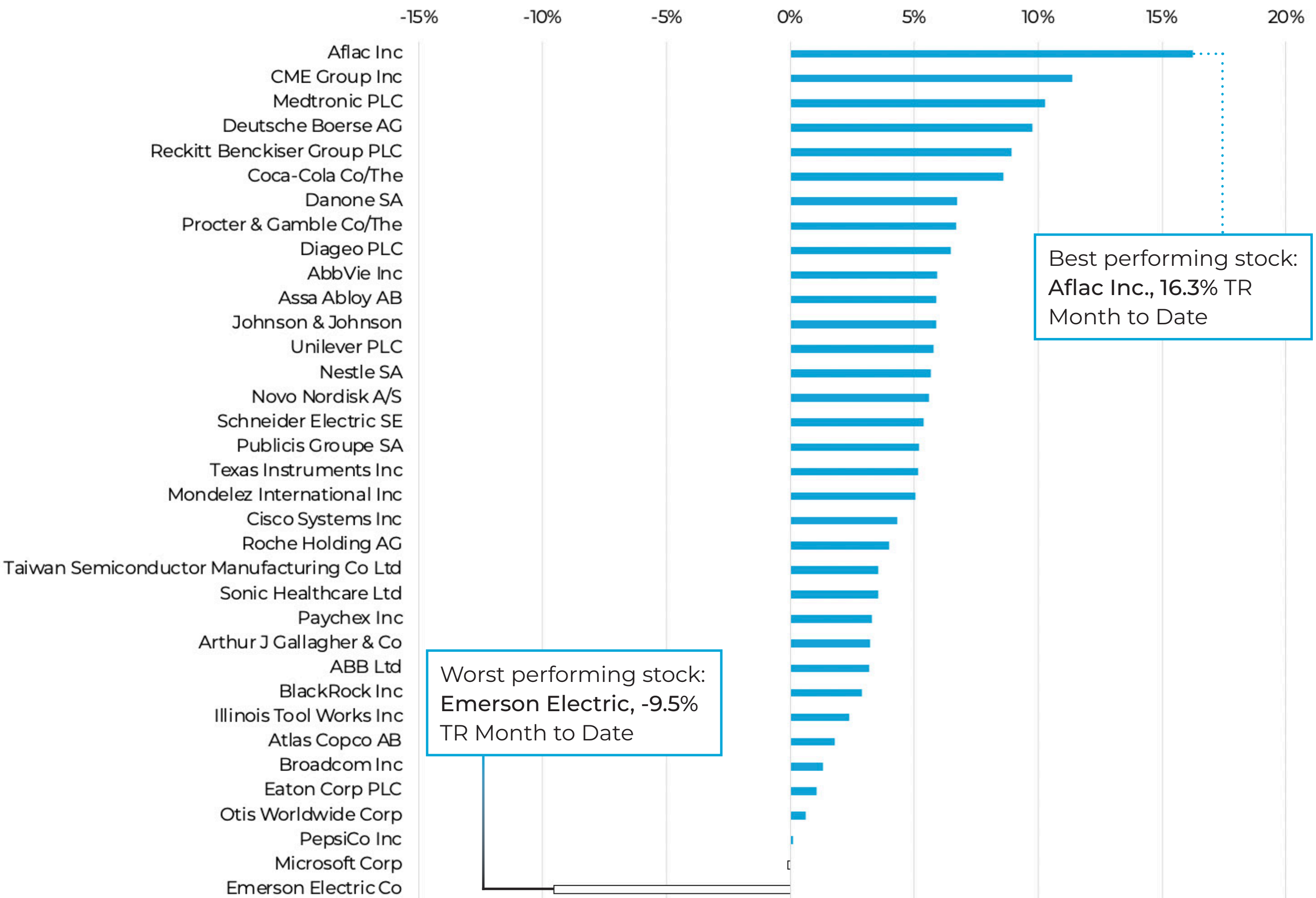
as of 08/31/2024

In August, DIVS was up 4.55% (NAV basis, 4.57% market price), while the MSCI World Index benchmark was up 2.64%. It was a busy month for equities from a macroeconomic standpoint. Although the S&P 500 ended the month in positive territory, markets were rocked by a significant sell-off at the start of the month, due to a combination of the unwinding of the yen carry trade and growth fears sparked by the July non-farm payrolls report. The following weeks then saw markets rebounding - driven by more positive inflation and retail sales data that quelled recession fears, and a rather dovish tone set by Fed chair Powell in his most recent comments. All of which appeared to prompt greater investor confidence towards the end of the month.

The Fund's outperformance versus the benchmark can be attributed to the following:

- The Fund benefitted from strong asset allocation over the month. Our overweight to the Consumer Staples sector aided Fund relative performance, as did our underweight to Information Technology, and zero allocation to Energy, the weakest sector over the month.
- Positive stock selection aided Fund relative performance over the period, and notably within the Financials sector where Fund holdings Aflac, CME Group and Deutsche Boerse delivered.

Holdings are subject to change. Go to SmartETFs.com/DIVS 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.*

SmartETFs
by Guinness Atkinson

## Portfolio Performance

**Aflac**, a leading provider of supplemental health and life insurance for the US and Japanese markets ended the month as the Fund's top performer. This was largely the result of strong quarterly earnings posted at the start of the month. Aflac reported strength in sales across all segments but most notably Japan. The region reporting robust third quarter sales supported by the launch of new products and margins were markedly strong, due to low expenses and a decline in premiums. Japan sales have been weaker over the medium-term, but there are signs of progress and within the US region the company has reported good momentum contributing to an improving overall sales outlook. Aflac remains a quality business with high persistency rates and low churn across regions. The company has focused on improving persistency with new annualized premium sales (NAP) to generate revenues from selling policies to ideally new younger customers rather than existing (typically older) policy holders. Furthermore, the company continues to experience favorable benefit and expense ratios across segments, supporting solid margins. The combined trajectory for sales recovery and growth coupled with a quality, defensive business gives us confidence in Aflac's long-term potential.

**Emerson Electric**, the global technology, software and engineering company faced a tough quarter resulting in weaker performance over the month. While overall sales were up 3% yoy, fueled by growth across segments, the company struggled in its discrete automations segment where underlying sales declined by 6% yoy and orders decreased due to continued weakness in factory automation. Emerson has struggled with cyclical headwinds in recent quarters, and recovery was expected earlier this year, however this earnings release has not convinced the market that the company has reached that point. This was not helped by a downward revision on sales guidance to the midpoint. However, free cash flow remained strong at $2.8bn, in line with consensus, indicating that the story is not entirely negative. Emerson is a powerhouse in process manufacturing, holding first or second market positions across product categories. While near-term headwinds are evident, we believe the company is poised for longer term organic growth with a total addressable automation market valued at over $200bn.

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### Portfolio Performance

| As of 08/31/2024 | YTD | 1 Year | 3 Year | 5 Year | 10 Year | Since Inception (03/30/2012) |
|---|---|---|---|---|---|---|
| DIVS at NAV | 16.44% | 21.36% | 8.72% | 13.52% | 9.71% | 11.07% |
| DIVS at Market Price | 15.69% | 20.47% | 8.63% | 13.44% | 9.67% | 11.04% |
| MSCI World NR | 16.72% | 24.43% | 6.89% | 13.09% | 9.56% | 10.61% |

| As of 06/30/2024 | YTD | 1 Year | 3 Year | 5 Year | 10 Year | Since Inception (03/30/2012) |
|---|---|---|---|---|---|---|
| DIVS at NAV | 8.41% | 13.44% | 7.64% | 11.74% | 8.85% | 10.59% |
| DIVS at Market Price | 7.96% | 12.51% | 7.57% | 11.72% | 8.83% | 10.58% |
| MSCI World NR | 11.75% | 20.19% | 6.85% | 11.76% | 9.15% | 10.38% |

Expense Ratio: 0.65% (net) | 1.09% (gross)

30-Day SEC Yield (as of 08/31/24): 1.08% subsidized | 0.76% unsubsidized

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 0.65% through June 30, 2027.

*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 Dividend Builder Fund, an open-end mutual fund (incepted March 30, 2012).  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.  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.

A fund's NAV is the sum of all its assets less any liabilities, divided by the number of shares outstanding. The market price is the most recent price at which the fund was traded.

Subsidized yields reflect any fee waivers or reimbursements that may be in effect during a period, while unsubsidized yields do not.

# DIVS

## The SmartETFs Dividend Builder ETF

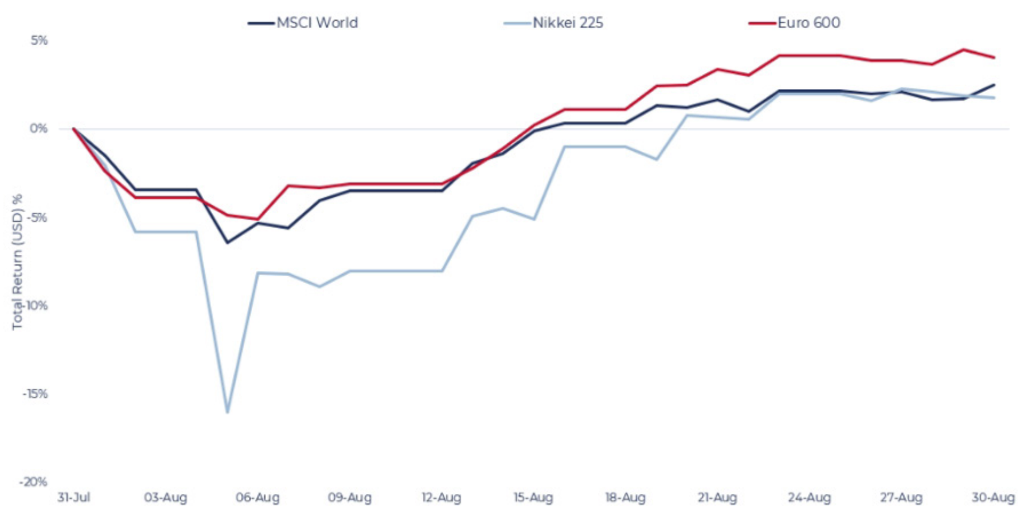
September 2024 Update

### August in Review

August was a volatile month for equity investors, with multiple market indices (including the MSCI World and the S&P 500) delivering both the best and worst days of 2024-to-date. The MSCI World fell 5.9% in the first three trading days, before regaining the entirety of these losses over the remainder of the month as markets regained confidence over the economic outlook.

A rare interest rate hike from the Bank of Japan spurred an unwinding of the so-called yen carry trade early in the month, with the Nikkei 225 index recording its largest decline in history based on index points, surpassing the magnitude of the Black Monday crash in 1987. This fall was quickly reversed but added to the significant volatility spike seen across global equity markets.

**Global Markets Total Return**




Source: Guinness Atkinson, MSCI, Nikkei. Data as of August 31, 2024.

The sectors that led the sell-off (Information Technology, Consumer Discretionary, Financials and Industrials) were the sectors that subsequently performed best over the remainder of the month – although the rally was far broader than the sell-off.

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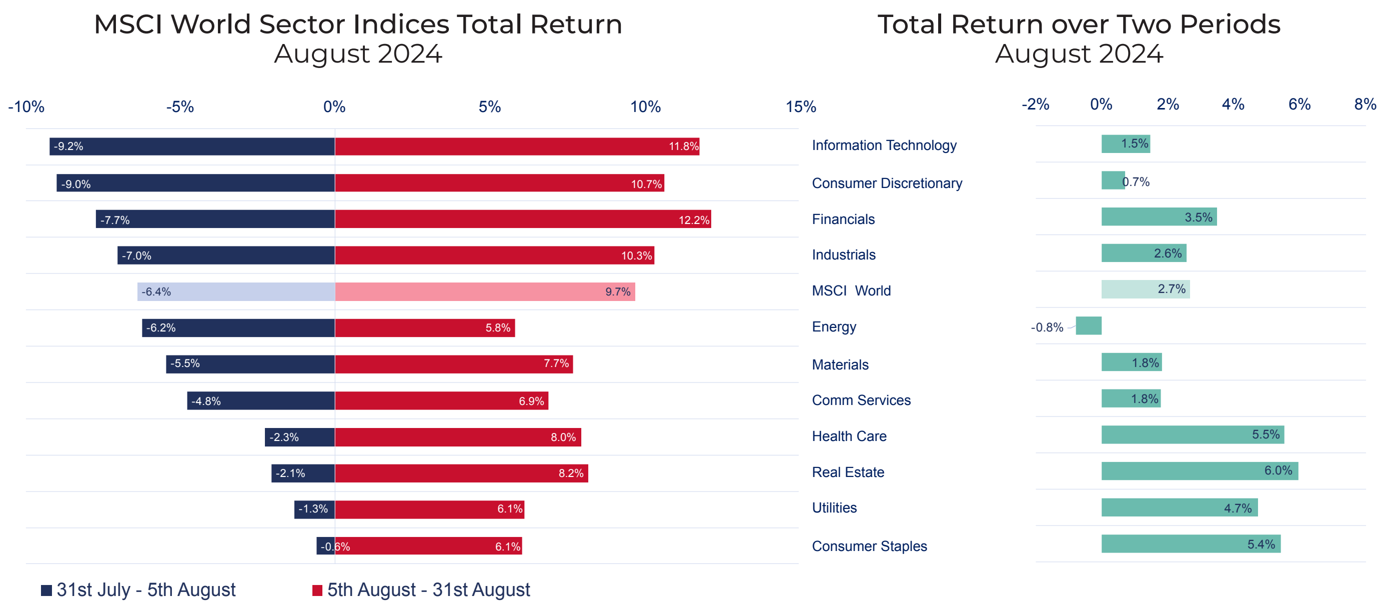
# DIVS
## The SmartETFs Dividend Builder ETF
### September 2024 Update

## August in Review (continued)




Source: Guinness Atkinson, MSCI, Nikkei. Data as of August 31, 2024.

From a factor perspective, "Cyclicals" fell the hardest and gained the fastest over the two respective periods, with the reverse being true for "Defensives". As market concerns grew over the state of the economy, "risk-off" sentiment drove a rotation towards less economically sensitive sectors, with the likes of Consumer Staples, Utilities and Health Care falling just low-single digits, compared to the more cyclically orientated sectors of IT and Consumer Discretionary, which both fell ~9%. The "defensive" sectors also performed relatively well in the subsequent cyclically led rally, enough to ensure their outperformance vs the broader MSCI World index over the month of August as a whole. Following the volatility in the early stages of the month, investors were seemingly still nervous about rushing back into "risk-on" sensitive assets, despite economic concerns appeasing somewhat. "Quality" stocks performed well over both periods.

### Is the US Economy Looking Weaker?

The market selloff was largely driven by weaker than expect jobs data released at the beginning of the month. This followed three sets of downwardly revised data, suggesting the US job market was slowing more rapidly than previously thought. The non-farm payrolls report showed that 114,000 jobs were added in July, well below the consensus expectation of 175,000. Furthermore, the unemployment rate rose to 4.3%, its highest reading in nearly three years and represented a 0.8% gain from the 12-month low, thus triggering the "Sahm Rule". Coined by former Fed economist member Claudia Sahm, the rule has been a historically accurate indicator of when an economy has reached a recession - when the three-month moving average of the national unemployment rate is 0.5 percentage point or more above its low over the prior twelve months. Investor sentiment appeared to shift from a "soft landing" to a "hard landing",

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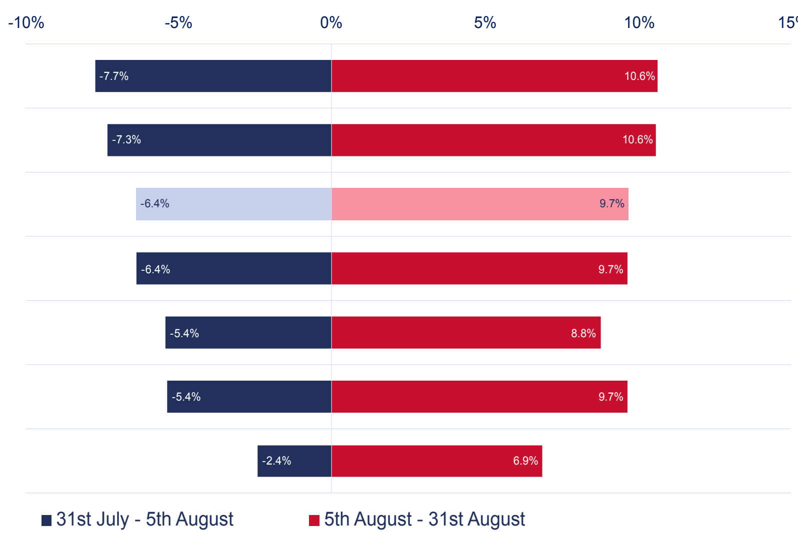
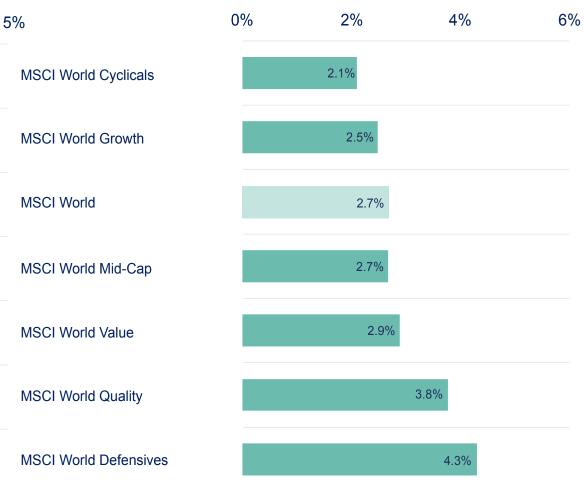
## August in Review (continued)

**MSCI World Sector Indices Total Return**
August 2024




**Total Return over Two Periods**
August 2024




Source: Guinness Atkinson, MSCI, Nikkei. Data as of August 31, 2024.

with equity market leadership moving notably toward traditionally defensive sectors. US Manufacturing data also came in weaker than expected with the PMI dropping further to 46.8 in July from its previous 48.5 in June and reflecting the lowest reading since November 2023 (readings below 50 indicating contraction).

However, there are still signs of strength. Although the July jobs report sent jitters through the market, the softer labor market data may not be that severe. Though the economy added only 114,000 jobs, the labor force increased by 420,000. Thus, the unemployment rate rise was likely due to the increase in new labor force participation, rather than layoffs which would be more characteristic of a recession. Furthermore, there were positive signals elsewhere. US retail sales rose faster than expected at 1.0% compared to expectations of 0.3%, following a downwardly revised 0.2% drop in June. For the first time in 3 years, US CPI came in under 3%, at 2.9% year-over-year, indicating continued progress towards the 2% inflation target.

### Has This Changed Interest Rate Cut Expectations?

The economic data points released over the month also contributed to shifting interest rate expectations. Investors are now pricing in 4 cuts for the rest of the year at 25bps each accelerating from almost 3 cuts expected in July.

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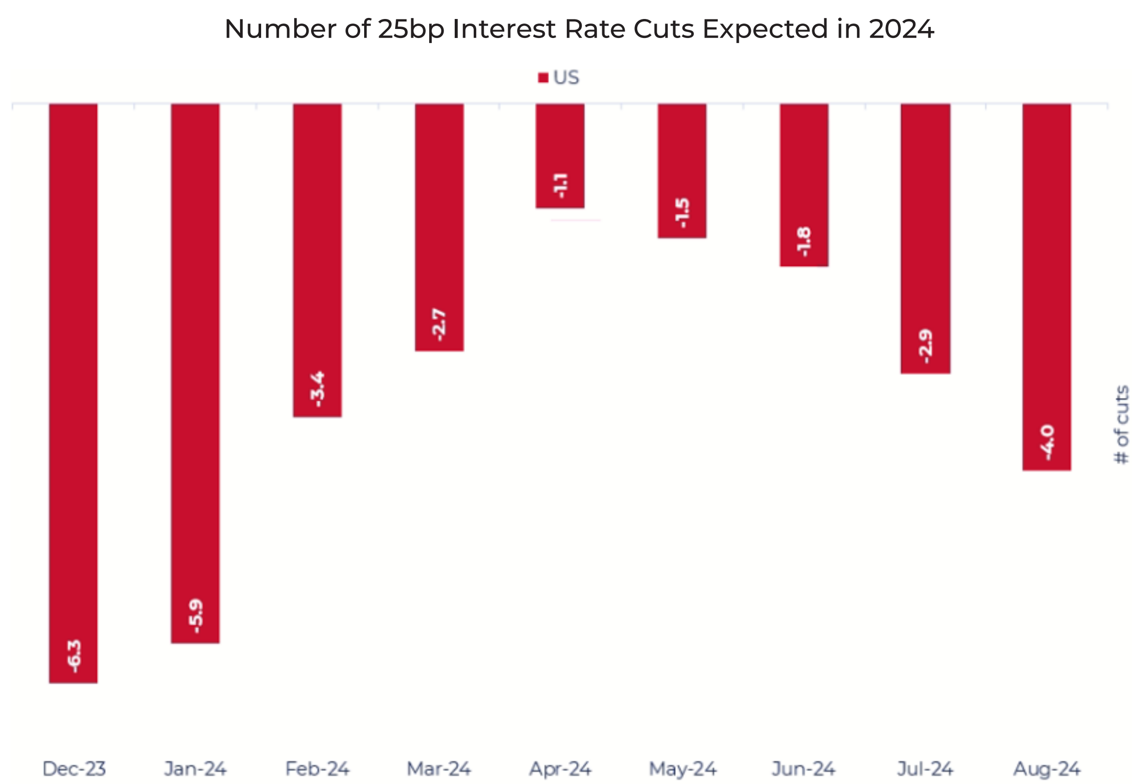
### August in Review (continued)




Source: Bloomberg. Data as of August 31, 2024.

This month's economic data appears to have shifted investor view that imminent rate cuts may be more "stimulating" rather than "normalizing" - as fears have grown that the Fed may have waited too long to begin the rate cutting cycle. However, later in the month, investors seemed encouraged by the dovish tone set by comments from Fed chair Jerome Powell at the annual Jackson Hole Symposium. Powell provided arguably the strongest signal yet that the Fed were prepared to cut interest rates imminently, having remained at 5.25-5.5% for more than a year now. He stated the "time has come" for policy easing and the softening labor market data could prompt the rate-setting committee to cut rates more quickly. He highlighted the "clear" slowdown in the US labor market and noted that policy makers have "ample room" to act if economic conditions worsen further. However, there was still an emphasis on the timing and pace of rate cuts which will depend on "incoming data, the evolving outlook and the balance of risks".

So, overall, economic data points remain mixed but the market volatility over August appears to have reminded investors that the "soft landing" scenario was anything but certain.

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## August in Review (continued)

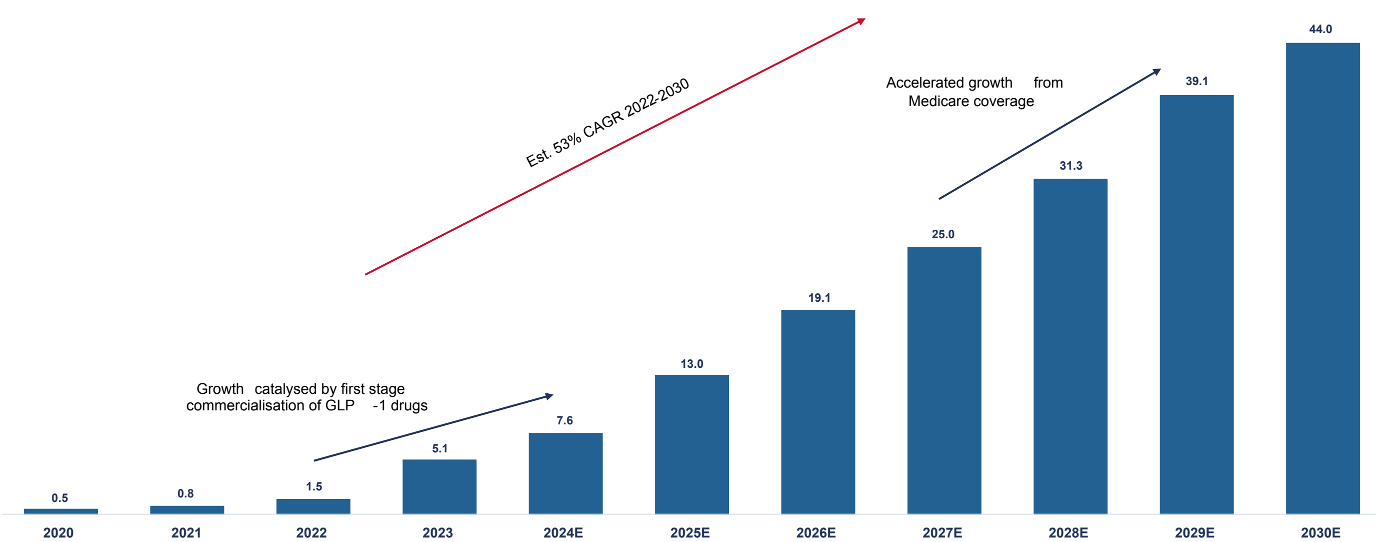
### GLP-1 Drugs and the Impact on Consumer Staples

Since the end of 2022, the obesity drugs market has boomed, leading to significant share price performance, therefore investor interest, in the two companies leading the race to market; Novo Nordisk (held in the Fund) the producer of Ozempic and Wegovy, and Eli Lily the producer of Mounjaro and Zepbound.

Glucagon-like peptide-1 (GLP-1) drugs were originally used to treat type 2 diabetes but are now seeing success as a weight loss drug, among other potentially significant use cases. The drugs mimic the action of the GLP-1 hormone which is released when eating food and can lower blood sugar as well as increase satiety, encouraging users to eat less. Reduced food consumption and lower prevalence of diseases could present headwinds for certain sectors such as Consumer Staples and Healthcare. Indeed, towards the end of 2023, widely known food and staples companies PepsiCo, Coca Cola and Walmart saw negative 4-6% stock price reactions following comments from Walmart management in their earnings release around the impact of GLP-1 drugs on consumer behavior.

From the latest Gallup poll, it is estimated that currently 3% of US adults are taking GLP-1 drugs and 6% have taken them at some point. Driven by wider medical insurance coverage and greater supply, usage is expected to rise significantly over the next decade resulting in a $44bn US obesity market by 2030 and estimates of a $100bn market globally.

US Obesity Market ($bn)




Source: JP Morgan. Data as of August 31, 2024.

### The Impact of GLP-1 Drugs

GLP-1 drugs were hailed "miracle drugs" for their improved efficacy compared to any other weight loss drugs. These drugs work by mimicking GLP-1, a gut hormone produced naturally by the body that is

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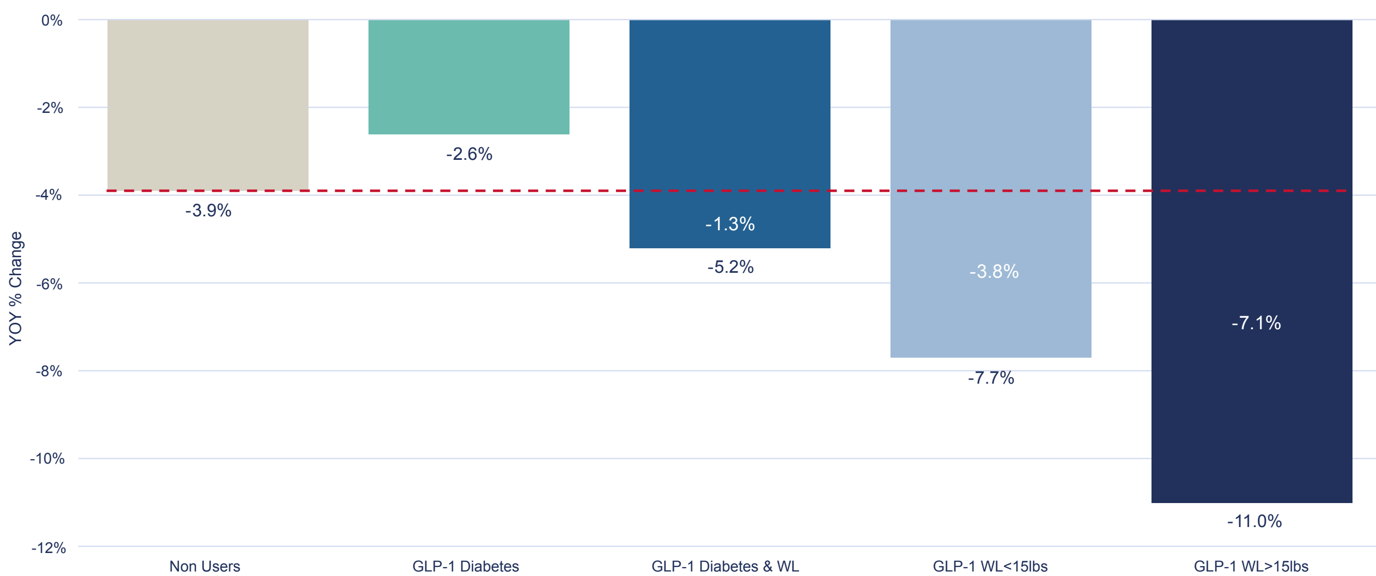
## August in Review (continued)

involved in insulin release and appetite regulation. GLP-1 medications have been shown to encourage insulin release after eating, while also inhibiting glucagon production and slowing down digestion. Together, these effects help to control blood sugar, reduce appetite, and lead to weight loss. Clinical studies have shown GLP-1 drugs can lead to a 15-20% decline in weight among treated individuals, far higher than previous types of weight-loss drugs that produced 6.5% total body weight loss. A reduced appetite naturally leads to lower calorie consumption and estimates suggest the average user could reduce daily calorie intake by 15-20%. Projecting this figure to the entire US population and total GLP-1 users, sell-side estimates are pointing towards an overall 1-3% reduction in calorie consumption by 2030. While this headline figure seems inconsequential, survey data from users tells a more important story. Comparing buy rates between GLP users across use cases such as solely for diabetes or weight loss and non-users indicates a significant change in purchase habits. Across US households, survey data indicates an incremental 7.1% reduction in grocery buy rates for GLP users looking to lose more than 15lbs compared to non-users.

Grocery Buy Rates (Q4 2023 vs Q4 2022)




Source: Numerator, Morgan Stanley. Data as of August 31, 2024.

This also varied across households with the most pronounced change found in one person households, indicating a 26% reduction in grocery buy rates compared to non-users. It is likely that individuals living alone have greater elasticity in their general food purchasing whereas multiple people households are still required to purchase for non-users in the household, who may not experience any change in food consumption.

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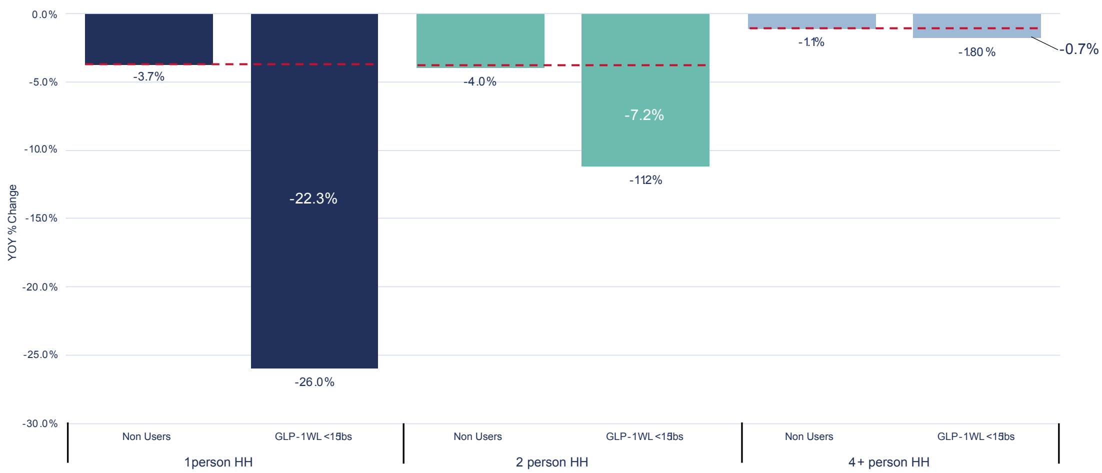
## August in Review (continued)

Grocery Buy Rates by Household Size (Q4 2023 vs Q4 2022)

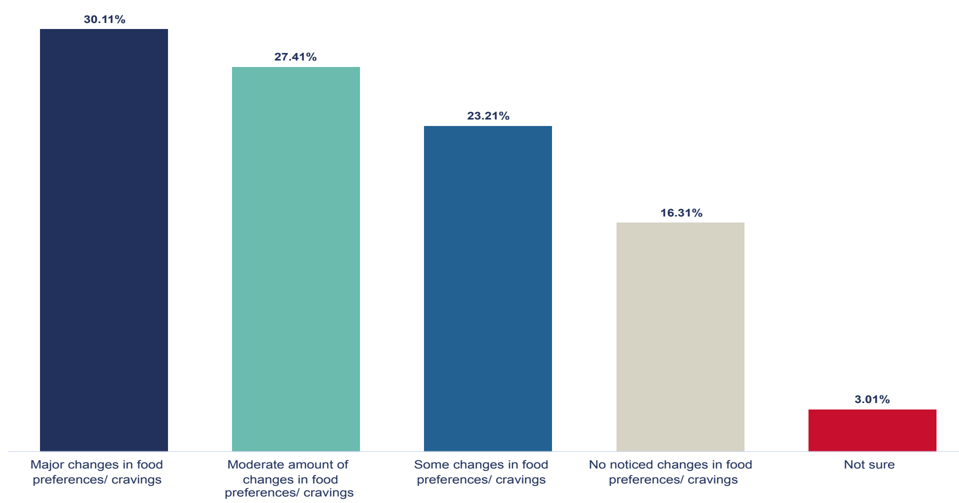



Source: Numerator, Morgan Stanley. Data as of August 31, 2024.

### Not All Food Groups are Made Equal

Evidently, GLP-1 drugs impact caloric consumption but there is also a notable change in food preferences. Survey data showed 80% of users had some, moderate or major changes in food preferences and cravings since starting the GLP-1 medication. Furthermore, the impact varies significantly across different food groups with traditionally "unhealthy" foods such as chocolate and ice cream at higher risk of reduced consumption. Approximately 60% of GLP-1 users consumed less of these food groups according to a UBS survey.

Since starting GLP-1 medication, have you noticed any changes in your food preferences?




Source: Numerator, Morgan Stanley. Data as of August 31, 2024.

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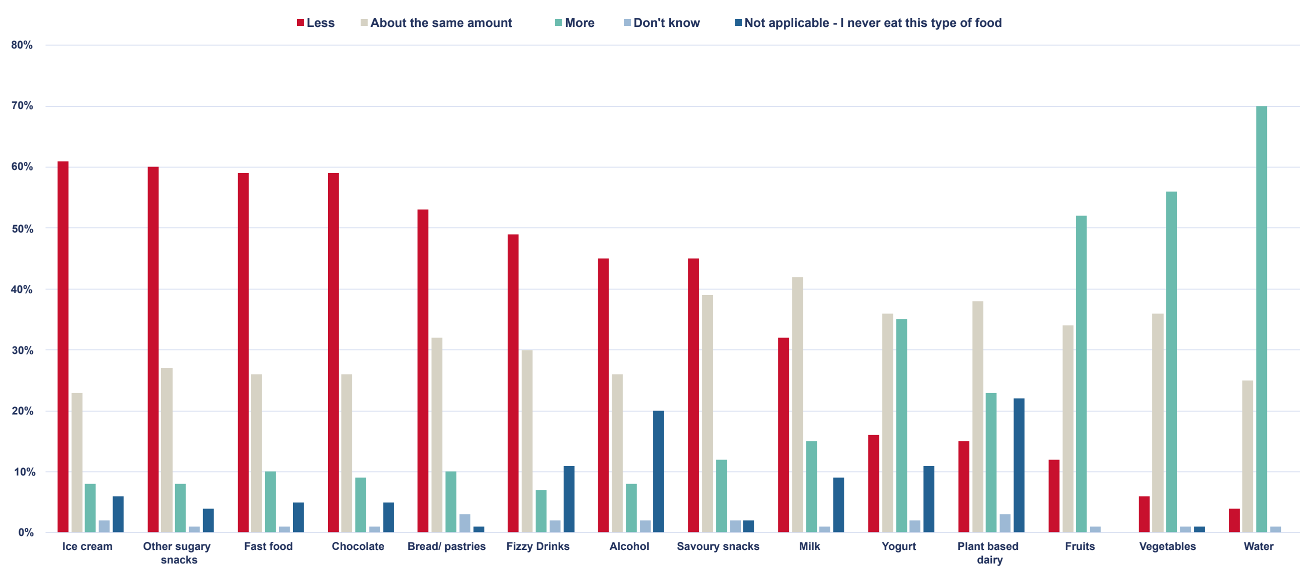
## August in Review (continued)

Due to their high calorie content and the general medical advice which promotes a healthier lifestyle for users, sugary and fast foods become less preferred. Furthermore, these categories are naturally most vulnerable when people focus on losing weight. Those who are obese have greater incentive to take GLP-1 drugs and account for a significant portion of overall food consumption and likely an even larger share of snacking, sugary drink, and fast-food consumption, leading to a more noticeable reduction in calorie intake. If these changes continue to materialize, particularly for individual food groups, this could have a notable impact on consumer staples companies, which are most exposed to food groups such as snacks, confectionery and alcohol. However, consumers tend to make healthier choices when starting diabetes or weight loss medications, which often results in increased consumption of healthier food categories. This creates some upside opportunity for companies with higher nutrition exposure, as users increased intake of fruits and vegetables, some dairy products and water.

### Changes in Consumption based on Food Category




Source: UBS Evidence Lab. Survey as of June 19, 2024.

### Not All Doom & Gloom

While it seems that GLP-1 drugs could pose a threat to food companies, there are significant obstacles in the industry that could limit these observed effects. Firstly, the length of GLP-1 usage appears to be impermanent with only 3% of users from survey data, having used them for more than 2 years. The majority of users from the same survey, using GLP-1 drugs for weight loss and diabetes were on the drugs for 3 months or less. In such brief usage periods, the magnitude of lifestyle or food changes users make or how long they may last for, is unclear. There are several factors that influence length of usage, most commonly users have reached their target weight and thus no longer need the drug. This is likely to persist, particularly for the use of GLP-1 medication as an obesity/ weight loss drug. Others include intolerable side effects such as gastrointestinal issues, accessing or supply constraints to the drug and

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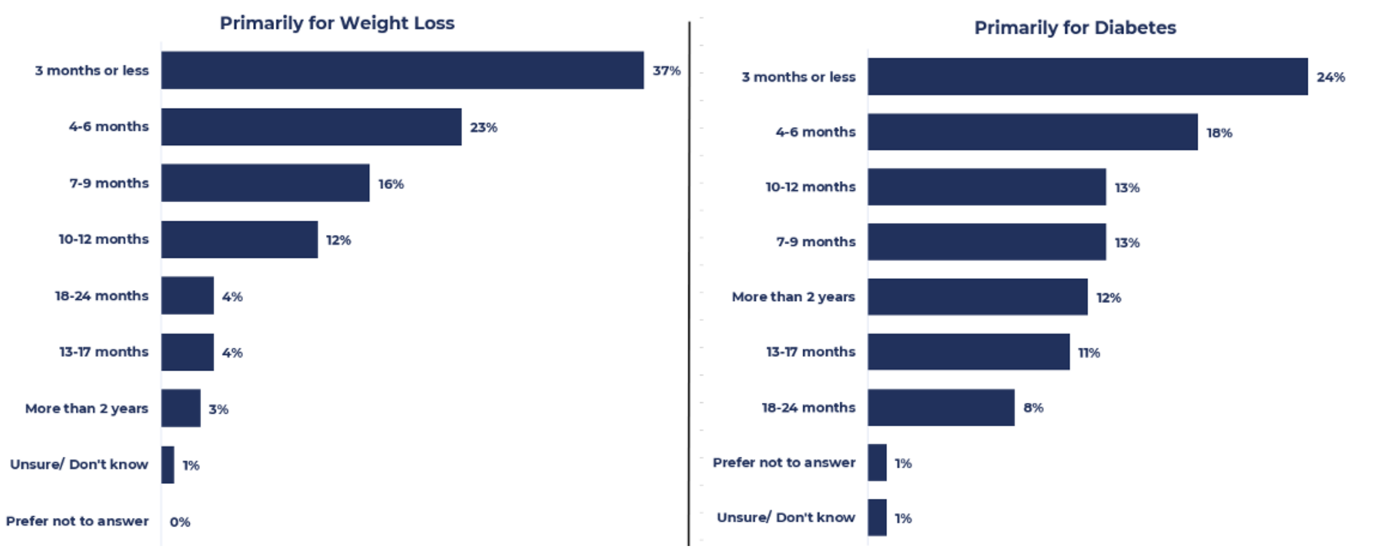
## August in Review (continued)

cost or medical insurance cover. Lack of insurance coverage has been a major obstacle to wider GLP-1 usage and the likelihood of widespread access or Medicare coverage of GLP-1s is still unknown. Both the length of usage and the cost of the drugs among others have made insurers hesitant to expand coverage. A monthly package of a GLP-1 costs between $900 and $1,350 before insurance and other rebates. This is also a significant cost to households and recent survey data found that 64% of people with annual incomes of less than $75,000, said the maximum price they are willing to pay out of pocket for a GLP-1 is $50 per month or less and only 4% in the same group would pay more than $300 per month. Although there have been efforts made by manufacturers Novo Nordisk and Eli Lily to reduce prices, this remains a significant contributing factor to stopping GLP-1 usage.

How long did you use GLP-1 medications in total?




Source: Numerator, Morgan Stanley. Data as of August 31, 2024.

Interestingly, among users that have since stopped taking GLP-1 medication there is a clear reversal of initial effects. From Numerator survey data, 19.3% of users were found to have higher calorie consumption, 23.2% found themselves eating more sugar/ sweets and almost 30% of users regained weight. These observations are significant as consumer reverting to previous food habits could lead to a rebound in demand for high calorie and sugary foods. A key explanation for why so many patients regain weight quickly after stopping the medication is that the areas of the brain that control appetite remain dysregulated, making the person prone to overeating. GLP-1 drugs temporarily suppress this dysregulation, but once their effects wear off, food cravings rapidly return. Furthermore, the doses of the GLP-1 within semaglutide drugs are far greater than what the body would expect to receive, potentially suppressing the body's ability to secrete the GLP-1 hormone on its own. This could lead to patient's hunger and appetite returning more voraciously than when on the drug.

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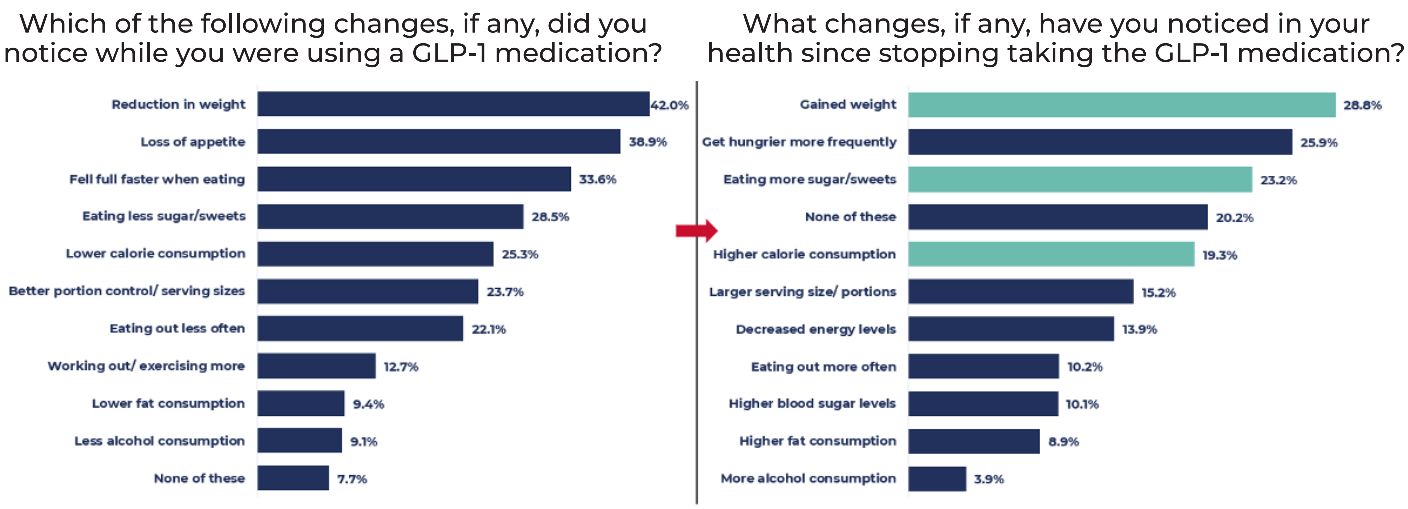
## August in Review (continued)




Source: Numerator, Morgan Stanley. Data as of August 31, 2024.

### What Does that Mean for Consumer Staples and for Our Fund Exposure?

The Fund holds an overweight position to consumer staples, making up 25.7% of the portfolio, a result of the attractive investment characteristics of these companies. Furthermore, we continue to hold them as we believe staples companies can mitigate the headwind presented by GLP-1 drugs. Although exposure to the snacks and beverages (including sugary drinks) categories seems significant, staples companies have several levers to utilize to continue growing. These are price, volume and product mix. Despite the emergence of GLP-1 drugs and a tougher macroeconomic environment in recent years, staples companies, thanks to strong branding and customer loyalty, have implemented price increases that exceed inflation rates, resulting in healthy organic growth, which has even offset negative volumes in some cases. Performance of staples companies over the last few years is a testament to their defensiveness both by nature of each business but also their agility in responding to headwinds, using these levers. We have seen companies increase the availability of products such as plant-based foods, lower calorie or reduced sugar variations and smaller-sized goods, amidst the incumbent health-conscious trends. Staples companies have also employed “shrinkflation”, involving the downsizing of products whilst maintaining price to reduce costs. Both the increasing shift towards healthier living and reduced product sizing aligns with the observed food preference changes from GLP-1 users and it is likely that these companies can continue adapting towards newer preferences and maintain demand.

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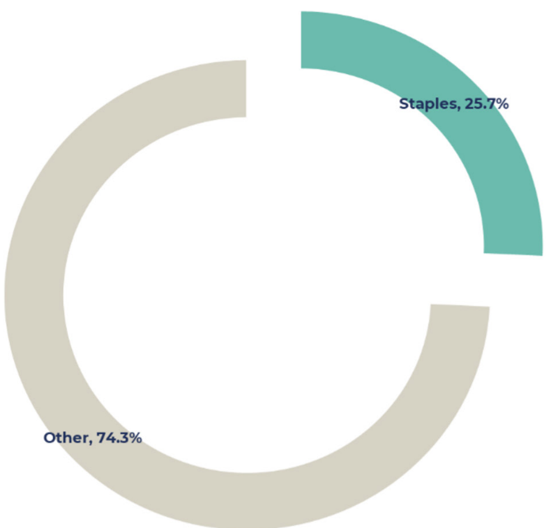
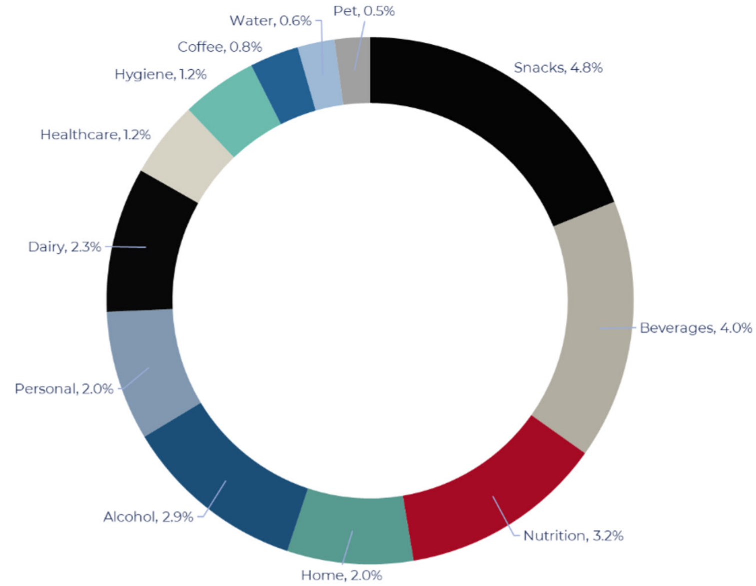
## August in Review (continued)

**DIVS Consumer Staples Exposure**




**Consumer Staples Category Exposure**




Source: Guinness Atkinson. Data as of August 31, 2024.

Evidently investors have reason to be concerned with GLP-1 drugs given their rapid rise to popularity and the unique impact they pose to lifestyle and food choices. However, consumer staples companies can insulate themselves from these impacts. Staples companies have already adapted by expanding their portfolios to include low-calorie, low-sugar, and organic alternatives, allowing them to capture market share from health-conscious customers. Additionally, strong brand loyalty and the essential nature of many staple products, such as household goods, personal care items, and basic foodstuffs, help to maintain consistent demand regardless of dietary trends. Though GLP-1 usage is predicted to boom, some consumers may not reduce their intake of high-calorie foods but rather their portioning, and evidently many eventually revert to previous eating habits, providing a balancing effect on overall sales. Finally, it is worth noting the existing unknowns related to GLP-1 drugs such as long-term health effects, insurance coverage and penetration that could all impact the usage of these drugs in the long term. The inherent versatility, adaptability, and resilience of consumer staples companies should insulate them from substantial disruptions caused by GLP-1 drugs, but we remain watchful of the everchanging obesity drugs industry.

In the short-term we have also heard from management teams that they are not seeing any direct impact on revenues from GLP drugs with PepsiCo CEO Ramon Laguarta citing a “negligible” impact on the business last year, but we will continue to monitor this closely for any signs of this changing.

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### There's more where that came from!

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Important Information

Basis Points (bps) are a unit of measurement used to describe the percentage change in the value or rate of a financial instrument. One basis point is equivalent to 0.01% (1/100th of a percent) or 0.0001 in decimal form.

MSCI World Index captures large and mid cap representation across 23 Developed Markets countries. With 1,583 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

S&P 500 Index is a market-capitalization-weighted index of 500 leading publicly traded companies in the U.S.

Personal Consumption Expenditures Index is a measure of the prices that people living in the United States, or those buying on their behalf, pay for goods and services. The index is known for capturing inflation (or deflation) across a wide range of consumer expenses and reflecting changes in consumer behavior.

MSCI World Value Index captures large and mid-cap securities exhibiting overall value style characteristics across 23 Developed Markets countries. The value investment style characteristics for index construction are defined using three variables: book value to price, 12-month forward earnings to price and dividend yield.

MSCI World Growth Index captures large and mid-cap securities exhibiting overall growth style characteristics across 23 Developed Markets countries. The growth investment style characteristics for index construction are defined using five variables: long-term forward EPS growth rate, short-term forward EPS growth rate, current internal growth rate and long-term historical EPS growth trend and long-term historical sales per share growth trend.

Consumer Price Index is a weighted average of prices for a basket of goods and services representative of aggregate U.S. consumer spending.

Indexes are unmanaged. It is not possible to invest directly in an index. Past performance is no guarantee of future results.

Price to Earnings Ratio is a stock valuation metric that compares a company's share price to its earnings per share.

Earnings Per Share (EPS) is is a company's net profit divided by the number of common shares it has outstanding. It indicates how much money a company makes for each share of its stock and is a widely used metric for estimating corporate value.

Magnificent Seven comprises Apple, Microsoft, Amazon.com, Nvidia, Meta Platforms, Tesla, and Alphabet.

**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.**

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.

Investing in securities involves risk and there is no guarantee of principal.

Shares of the Fund are distributed by Foreside Fund Services, LLC.