ADIV

The SmartETFs Asia Pacific Dividend Builder ETF

November 2024 Update

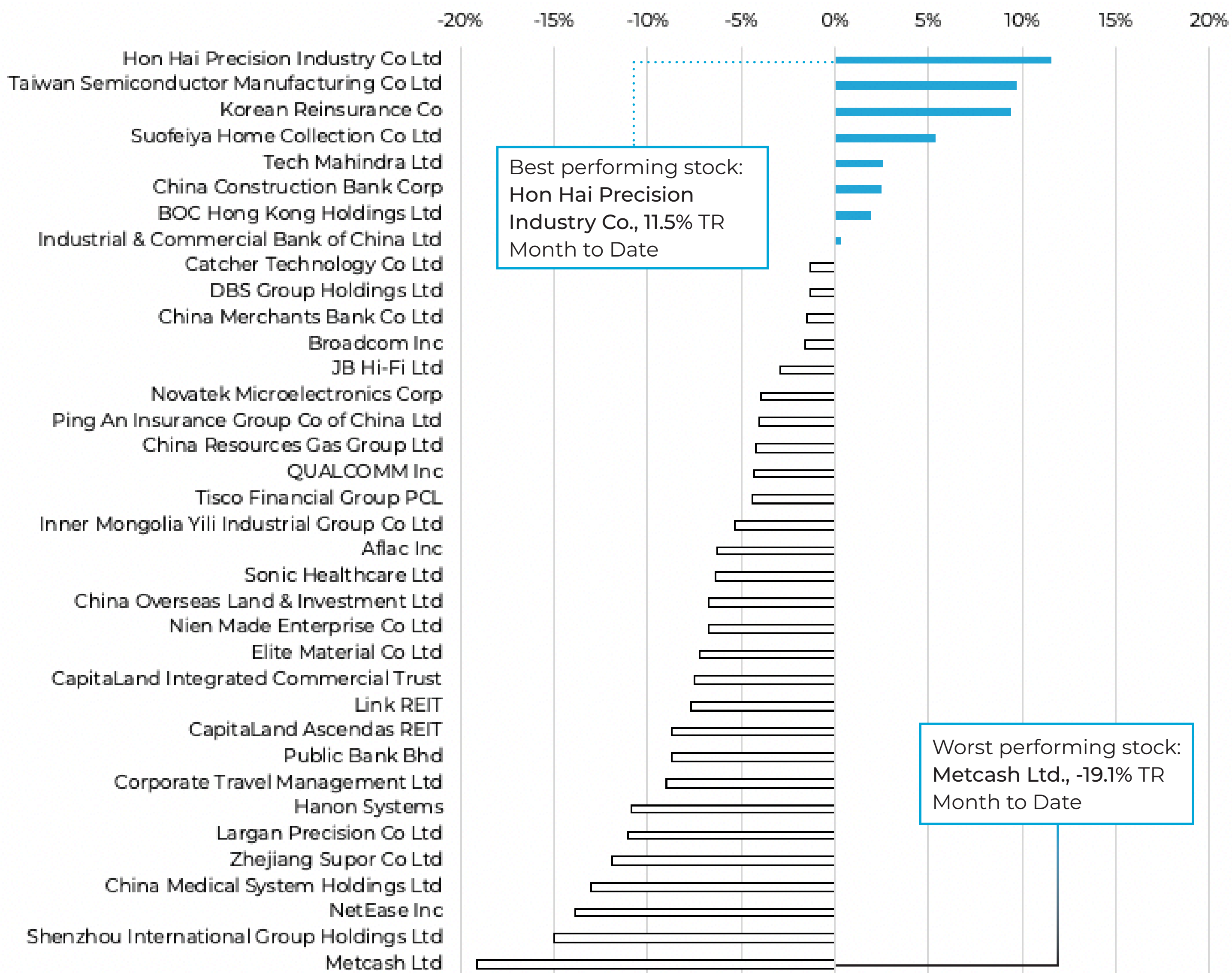
SmartETFs
by Guinness Atkinson

Portfolio Performance

as of 10/31/2024

ADIV outperformed the index in October, delivering -4.21% on a NAV basis, and -3.32% on a market price basis, while the MSCI AC Pacific ex Japan Net Total Return Index benchmark fell -4.22%. China stocks retreated following the public holidays in the first week of October on disappointment that there was no "big number" announcement of spending to boost consumption. However, China was not the weakest market. Taiwan was the only market in the region to deliver a positive return. Technology was the best performing sector delivering positive returns in Taiwan, China and India but notably, not in Korea. Materials were led lower by Australia, Korea and Malaysia and consumer staples led down by Australia, China, India, and Korea. 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.

Portfolio Performance

Top Performers

Hon Hai Precision was the top performer rising 11.5% as continuing strong demand for AI servers led growth. Investors are confident in Hon Hai's leading position in this part of the AI supply chain and are now looking toward the new Blackwell GB200 server racks going into mass production next year. Lest, we forget, the company is also the largest assembler of iPhones and stronger sales here have also helped.

Korean Reinsurance rose 9.4% and is up almost 32% this year. The business has been seen stronger underwriting this year and has excess capital. The announcement of a 1 for 5 stock bonus for the third year in succession was well-received and the ordinary cash dividend is forecast to grow by a further 7%. The stock trades on a trailing cash dividend yield of 5.8%.

Taiwan Semiconductor rose 6.4% and is up 68% over the year to date. Its role in the AI supply story is well known and as a key beneficiary of the theme plus the ramp-up of new production technology, the market has upgraded revenue and gross margin forecasts. TSMC benefits also from Intel's challenges which could require them to outsource production.

Bottom Performers

Metcash fell -19.1% in October and is now -13% lower for the year to date. The latest trading update came as a disappointment. The food and supermarkets business is doing fine with growth in the first six months of their financial year up ~3% but the hardware division is struggling. This is a cyclical problem, affecting not just Metcash, but illustrates the fixed cost leverage of retail operations. In a positive surprise move Scott Marshall, who was an effective head of Metcash Food, has returned to head up the hardware division.

Shenzhou International fell -15.0% and is down 22.4% for the year to date. The latest results announced in August were good: revenues were below consensus on a decline in average selling prices but volumes were strong and gross margin expanded 6.5% to 29% reflecting the strength and efficiency of manufacturing operations. We believe the underperformance in October to be related to the outlook for US sales, but we believe there is ample scope for positive surprises.

NetEase fell -13.9% and is down -11.8% for the year to date. The share price is highly sensitive to quarterly gaming revenues and forecasts for Q3 24 were that revenues were under some pressure. As it turned out, revenues and bottom line beat consensus estimates. Revenue from PC games (probably World of Warcraft) were up 29% year on year while mobile games revenue was down 10% (but still better than forecast). Good cost control together with a decent dividend and an enlarged buyback has put some zest back into the stock.

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As of 10/31/2024	YTD	1 Year	3 Year	5 Year	10 Year
ADIV at NAV	14.11%	26.87%	3.35%	6.94%	6.53%
ADIV at Market Price	14.42%	27.14%	3.18%	6.96%	6.55%
MSCI AC Pacific Ex-Japan NR	13.96%	27.50%	-1.83%	3.78%	4.08%

As of 09/30/2024	YTD	1 Year	3 Year	5 Year	10 Year
ADIV at NAV	19.12%	28.27%	5.86%	8.66%	7.35%
ADIV at Market Price	18.35%	27.94%	5.64%	8.48%	7.26%
MSCI AC Pacific Ex-Japan NR	18.98%	27.43%	0.27%	5.51%	4.80%

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

Elections

Following the decisive election victory for Donald Trump, investors are now focused on his domestic agenda and the impact this may have on international trade and political relations.

The condition of Federal Finances with a persistent primary deficit forecast at 2% to 2.5% per annum over the next thirty years and an additional interest burden over and above that of 3% of GDP, forecast to rise to over 6% of GDP presents policy challenges and constraints. Tax cutting plans will exacerbate this problem unless offsetting measures can be taken. The solutions offered so far include radical cuts to government spending in a project to be led by Elon Musk, and increased revenue collection by the imposition of tariffs on foreign trade. Tariffs work on manufactured goods rather than services, putting Asia, the EU, and Mexico in the front line. A country like the UK whose trade surplus with the US is almost entirely accounted for by services will be less affected directly (but will still feel a second-order impact).

Trade

The policy of imposing tariffs is a seductively simple solution to the need to increase government revenue; it is also a useful stick in international negotiations. For many years, globalization and the extension of the US has been accompanied by almost unfettered access to its markets, at the expense of American workers who have now made their feelings clear. The price of US market access is about to go up to fund a lower tax burden on the consumer. In the short term this looks very neat but most serious economists have painted a gloomier picture for both America and its trading partners.

First some trade ***coordinates***:

Based on US trade representative figures for 2022 annual US imports of goods were roughly $3.25 trillion. The EU accounts for the largest share at $553 billion, followed by China, with a 16.5% share at $536 billion, and then Mexico at $459 billion. Canada follows at ~$436 billion and then Japan at ~$148 billion.

World Bank data for 2022 put US imports of intermediate and capital goods at 50.5%; that is, goods which are incorporated to domestically manufactured goods in the US. Imports of consumer goods amounted to ~$1.2 trillion. Detailed category breakdowns take time to collate, but in 2021 imported consumer goods into the US from East Asia and Pacific accounted for 45% of the total; China alone (and included in that number), accounted for 22%.

Second, some tariff ***proposals***:

A blanket tariff of 10% or 20% on all imports;

60% to 100% tariffs on goods from China;

25%, 75% or 100% tariffs on goods from Mexico.

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Macro (continued)

Impacts

Tariffs are a favored tool in Trump's economic armory. As President, he can impose them on his own executive authority without resort to Congress. (A trifecta – control of Presidency, Senate, and House by one Party – does not always mean the President gets his own way.) The amounts and ranges of tariffs proposed over the course of the election suggest there is room for negotiation: if, for example, Mexico shoulders more of the burden on immigration controls the tariffs may not be so steep. When we look at the structure of Federal revenues and spending, we can see that additional revenues are required to fund the tax cut proposals that got him elected and this makes the tariff increases look highly likely. The Tax Foundation estimates that a universal 10% tariff on imports would bring in $2 trillion in revenues between 2025 and 2034 while a 20% tariff would bring raise $3.3 trillion.

However, what those numbers also indicate is that higher tariffs will lead a slowing of imports. Put simply, a 10% tariff on imports at current levels would deliver $340 billion in a year, but the forecast of revenue collection over the next 10 years is not $3.4 trillion. There are dynamic effects. With half of US imports consisting of intermediate and capital goods, the effect will be to raise costs for US manufacturers which over time is likely to slow investment, wages and ultimately demand growth. The effect will also be to slow the supply of goods from the rest of the world. The estimated impact on European GDP is to shave of 0.3% of growth; a 60% tariff on China might take off as much as 1% of growth and that is before we get into the realms of retaliatory actions. Mexico is more than just a "back door" for Chinese companies to access the US market; there are substantial US manufacturing interests. In addition to the $500 billion of goods coming into the US from Mexico there is another $300 billion going the other way, making Mexico the US' largest trading partner.

There are no estimates from nonpartisan analysts that forecast an acceleration in GDP growth in the US if we go down this path. At the same time, it is also expected that the the US budget deficit will widen more than is currently envisaged by the Congressional Budget office. We therefore expect the market focus will likely shift from the immediate positive reaction to tax cuts and de-regulation to caution over the risks associated with higher government borrowing, including higher bond yields, and potentially reinvigorated inflation pressures.

China Trade

The proposal to put 60% tariffs on Chinese imports is certainly eye-catching, but it is likely only to accelerate a trend that has been evident for the last five years. The chart below, drawing on data from the US Census Bureau, shows the path taken by Chinese imports – growth from 1987 to 2000, acceleration after China's admission into the World Trade Organization in 2000 to a peak in 2017. Since then, China's share has declined to its lowest level since 2004; and the nominal dollar value of $426 billion is the lowest since 2012.

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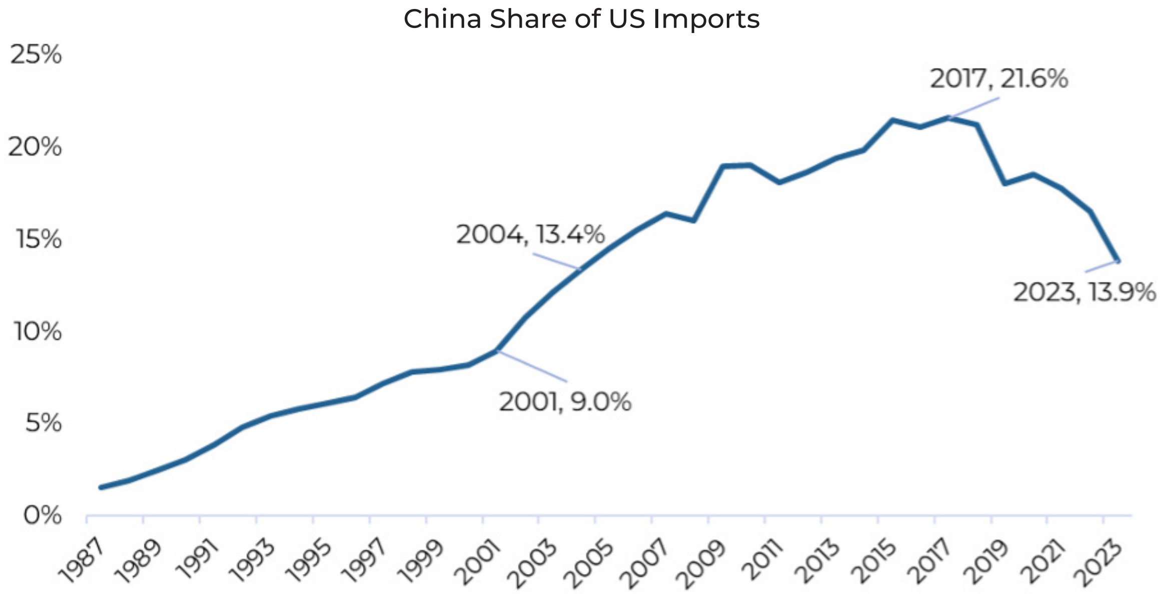
Macro (continued)



Source: US Department of Commerce Census Bureau

Chinese companies have already had to come to terms with an unfriendly trading environment that was stepped up in Donald Trump's first term and then more stringently applied under Biden. Trade re-routing and the development of new markets have both been material trends over this period.

From China's perspective, this additional pressure will have an impact. To try and quantify this we need to put some numbers together. China's GDP in 2023 was worth $17.89 trillion USD and the total value of Chinese exports of goods according to China customs data was $3.38 trillion or 18.9% of GDP on a gross basis. On China's own numbers, 14.8% of exports went to the US or about 2.75% of GDP. If we assumed for example, a 25% drop in Chinese imports was the result, then the impact on GDP on a gross basis would be -0.6%.

The wider effect, given as the export multiplier, is very hard to compute. It relies on measures of the marginal propensities to consume and save over time. But China's economic structure has changed very rapidly as have income levels over the past 30 years and it has been subject to fiscal shocks all of which make savings and spending patterns highly variable and therefore difficult to estimate. However, we can measure China's exports to gross production i.e. the proportion of China manufacturing output that is sold abroad. The chart below was produced by Professor Richard Baldwin of the IMD Business School for The Centre for Economic Policy Research (CEPR). Since 2004, the proportion of Chinese goods manufactured exports has been coming down and its economic dependence on exports is not as high as many assume.

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Macro (continued)

Source: Baldwin 2024, IMD, OECD TiVA database (https://cepr.org/voxeu/columns/china-worlds-sole-manufacturing-superpower-line-sketch-rise)

For Asian companies, the mood is not one of shock. As a regional economy built around export manufacturing, the world of trade restrictions and tariffs is not new. Those with longer memories will recall the restrictions and quotas applied to textiles and those with longer memories still will recall the response to Japanese exports. In recent, years the tariff restrictions imposed by Trump in his first term were tightened and extended under Biden. Against this backdrop, businesses have become more flexible by necessity and the new round of tariff proposals is an extension, not a change in prevailing conditions. Trade within the region and with other emerging economies has grown as trade with the US has declined. Domestic economies too are in a good position; cyclical challenges are evident, certainly, but in terms of government borrowing levels, current account balances, banking sector capital and foreign exchange reserves these economies are stable.

Fund Positioning

In aggregate, ADIV is 63% exposed to the Asia Pacific region and 37% to the rest of the world. Ex-Asia exposure consists of the fund's 27% exposure to technology and positions in Corporate Travel Management, Shenzhou International and Sonic Healthcare.

Drilling down further into specific companies engaged in manufacturing for export, the aggregate exposure is 21%:

- Shenzhou International, a Chinese textiles and apparel business with operations in China and Vietnam and 15% of sales going to the US;

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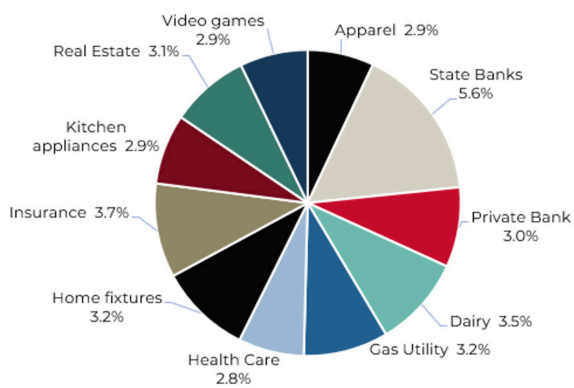
- Nien Made Enterprise, a Taiwanese maker of shutters and blinds with operations in Mexico and 71% of its sales into the US
- Taiwan components makers and assemblers. Many are supplying indirectly but TSMC has 65% US sales (but has a plant now operating in Arizona) and Hon Hai Precision generates 34% of revenues from the US.

Based on FactSet analysis, US sales revenues for the all the portfolio companies account for 9.4% of total sales compared to 15.1% for the benchmark. This analysis seeks to augment incomplete reporting by companies and to assess, with varying degrees of certainty, the ultimate geographic source of revenues.

ADIV's China exposure of 37% is almost entirely domestically focused. The chart below shows the latest breakdown of the position; only Shenzhou International (discussed above) is involved in export manufacturing.



SHENZHOU INTERNATIONAL GROUP	Apparel	2.6%
CHINA CONSTRUCTION BANK-H	State Bank	3.1%
IND & COMM BK OF CHINA-H	State Bank	2.9%
CHINA MERCHANTS BANK-H	Private Bank	3.1%
INNER MONGOLIA YILI INDUS-A	Dairy	3.6%
CHINA RESOURCES GAS GROUP LT	Gas Utility	3.3%
CHINA MEDICAL SYSTEM HOLDING	Health Care	2.6%
SUOFEIYA HOME COLLECTION C-A	Home fixtures	3.6%
PING AN INSURANCE GROUP CO-H	Insurance	3.7%
ZHEJIANG SUPOR CO LTD -A	Kitchen appliances	2.7%
CHINA OVERSEAS LAND & INVEST	Real Estate	3.1%
NETEASE INC-ADR	Video games	2.7%

Data as of October 31, 2024.

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.

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.