ADIV

The SmartETFs Asia Pacific Dividend Builder ETF

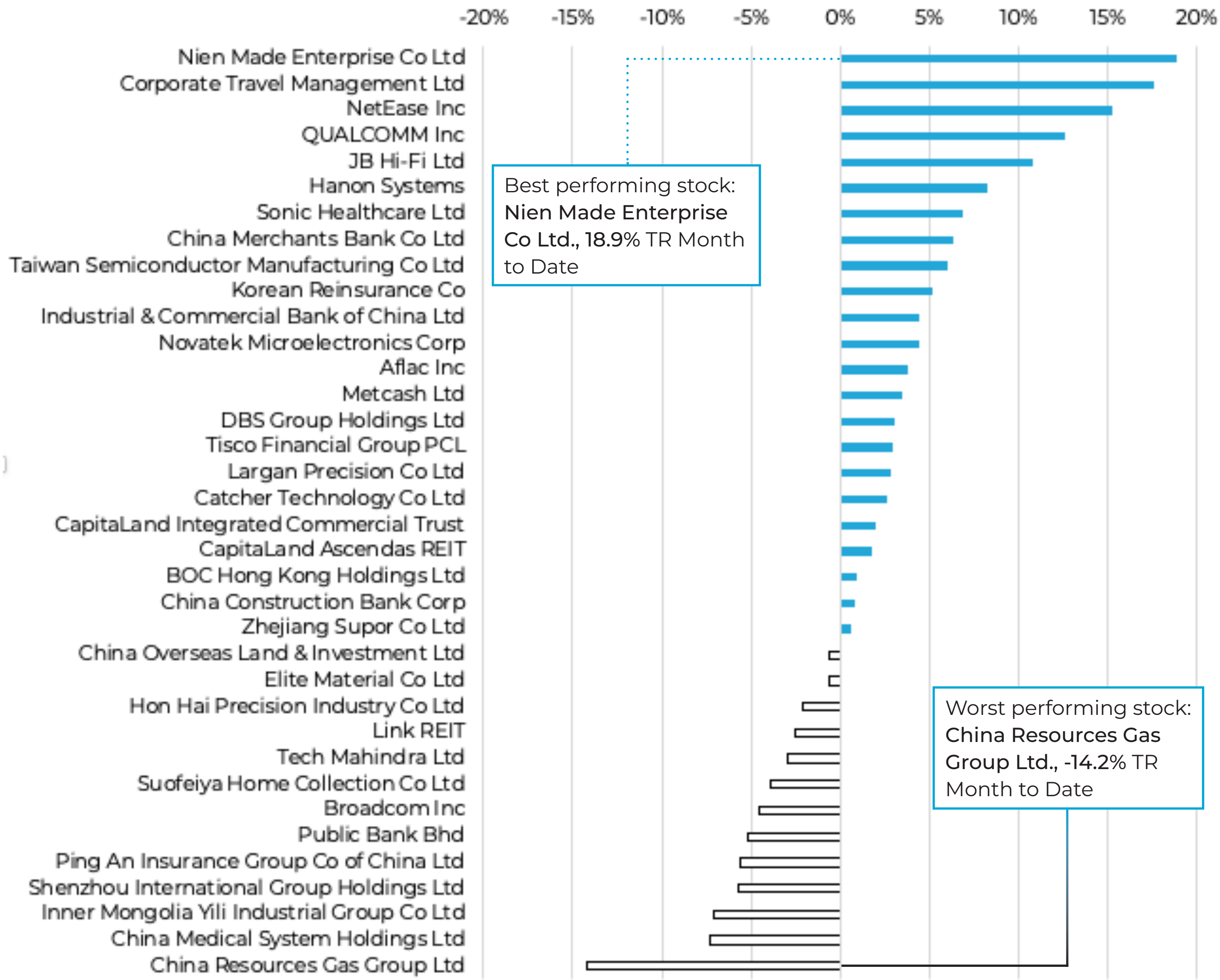
February 2025 Update

Portfolio Performance

as of 1/31/2025

ADIV underperformed the index in January, delivering 1.38% on a NAV basis, and 1.50% on a market price basis, while the MSCI AC Pacific ex Japan Net Total Return Index benchmark rose 2.50%. This has, perhaps surprisingly, been a good month for Asia. The threatened trade tariffs arrived but were limited in both scale and scope. The announcement of DeepSeek's new Artificial Intelligence model was a shock to the industry but while the technical implications are significant, the impact on capital expenditure plans appears to have been minimal. The focus at the beginning of Donald Trump's presidency has been predominantly domestic. 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.

SmartETFs
by Guinness Atkinson

Portfolio Performance

Top Performers

There were strong performances from Nien Made Enterprise, Corporate Travel Managemen, Netease, Qualcomm and JB Hi Fi.

Outside the top five performers we had positive contributions from banks and insurers with seven out of ten positions outperforming. BOC Hong Kong, Ping An in China and Public Bank in Malaysia lagged. There was also catch-up performance from consumer technology names, which had lagged their AI-related sector peers in 2024. In addition to Qualcomm, we had positive contributions from Novatek Microelectronics, Largan Precision and Catcher Technology.

Bottom Performers

The weakest names were all Chinese: China Resources Gas, China Medical System, Inner Mongolia Yili, Shenzhou International and Ping An Insurance.

China Resources Gas was the only one to see a double-digit decline. This follows strong performance in 2024 and was driven by analysts' expectations of moderating growth in kmgas demand. Despite this, it is expected that the market pricing mechanism should keep the company's operating performance steady, and the focus will be on the dividend which has grown by 10% per annum over the past 3 and 5 years.

AI-related technology names that led the way last year, were also underperformers in January but not by much. The sharp drop that followed DeepSeek's announcement was mostly made back by the end of the month. For the Taiwanese stocks, whose market was closed for Chinese New Year until after month-end, the drop and recovery all took place in February

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Portfolio Performance

As of 1/31/2025	YTD	1 Year	3 Year	5 Year	10 Year
ADIV at NAV	1.38%	18.79%	3.28%	7.68%	6.73%
ADIV at Market Price	1.50%	19.68%	2.96%	7.76%	6.77%
MSCI AC Pacific Ex-Japan NR	2.50%	20.31%	0.29%	3.08%	4.22%

As of 12/31/2024	YTD	1 Year	3 Year	5 Year	10 Year
ADIV at NAV	14.01%	14.01%	1.81%	5.99%	6.68%
ADIV at Market Price	14.46%	14.46%	1.76%	6.04%	6.70%
MSCI AC Pacific Ex-Japan NR	10.14%	10.14%	-2.00%	1.74%	4.07%

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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ADIV Performance Review

Asian markets, led by developed Asia, had a stronger opening January, one stronger than seemed likely before Donald trump took office. The threatened tariffs did not materialize, at least nothing like the 60% that has been touted. Indeed, the 10% levy on Chinese goods was in our view, the minimum that could be imposed to meet electoral promise. The Chinese response, similarly, appeared to the minimum required to be seen as meaningful. This may of course change but we note that Trump and Xi spoke before the inauguration and are due to speak again. For now, both sides seem interested in dialogue.
ADIV rose during the month but underperformed the market by about 1%. Alibaba in China, a low yielding stock, and the big Australian banks, none of which we hold, had a strong month. So too did TSMC which we hold but in which we are structurally underweight.

Macro

US

Many of Trump's early policy moves, both domestic and international can best be understood in the context of the Federal Funding deficit. The Administration has set a target to reduce the deficit to 3% of GDP (with economic growth of 3% and increasing energy production by the equivalent of 3 million barrels of oil per day) as a part of the "3-3-3 plan". To understand the implications of the deficit reduction plan, we need to understand the current position.

Briefly, the position is as follows: the overall deficit is -5.6% of GDP. The Primary Deficit, gap between revenue at 17.5% of GDP and spending at -20.5%, is -2.5% of GDP. The net interest payable on government debt is -3.1% of GDP. There is little to be done on the latter: the debt isn't going anywhere and is rising, as is the interest rate on that debt. The focus, therefore, must be on increasing revenues and cutting spending. Tariffs are a potential source of revenue but given the election promise to extend the tax cuts that are due to expire this year, it looks like revenues will remain under pressure and may decline. This leaves spending cuts as the primary focus.

To bring the -2.5% Primary Deficit back into balance implies an annual spending cut of $700 – 800 billion out of approximate total spending of $5,700 billion; that's a 12% reduction in government spending. To understand the challenge more fully, we need to know that approximately $4,000 billion of spending is legally mandated and consists of social security, federal healthcare spending, welfare, veterans' programs and others. The balance of $1,700 billion is so-called discretionary spending half of which is accounted for by defense.

Knowing this helps us understand the direction of travel in Administration policy. In this context, pressure on NATO allies to pick up defense spending and to bring an end the war in Ukraine makes sense. Halving the defense budget by cutting back on overseas commitments would reduce the deficit by 1.5% of GDP.

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The other 1% saving could be found in cuts to areas such as USAID, Federal Bureaucracy, Supranational groups such as the UN, the World Health Organization and to the extensive range of domestic programs. Tariffs are being used not only for economic purposes but to reshape the world to the Administration's liking; domestic and international organizations are being shaken up to reframe Federal obligations at home and abroad. All are being shaped by a domestic economic (and social) agenda.

The first implication, in our view, is that an acceleration of economic growth against a backdrop of aggressive Federal retrenchment looks unlikely. Secondly, the withdrawal from the international scene both militarily and more world organizations, through which the US has wielded global power, both hard and soft, opens the door to others, most obviously to China. Thirdly, the medium-term outlook for US growth, inflation, interest rates and the dollar from here looks uncertain at best, and probably negative given conflicting potential outcomes from proposals for tax cuts, tariffs and fiscal retrenchment.

China & DeepSeek

DeepSeek's arrival on the AI scene has come as a shock to the world. It may not be China's "Sputnik moment" but it is the moment when it can no longer be denied that China has caught up in leading technologies. In 2010, China announced an industrial initiative based on seven strategic industries:

- New energy
- Energy saving & Environmental protection
- Bio-technology
- High-end equipment
- New materials
- New energy cars
- New generation IT

These have been refined over time, but we have an inexorable rise toward market domination in new energy equipment, 5G telephony, batteries, electric vehicles, semiconductor manufacturing, and now AI. The big new areas for world economic progress will be based upon how the world is powered, how it communicates, and how it thinks. China has shown it has a significant presence in all three and has just shown that it is much further advanced than many had realized. Hence the sharp stock sell-off following the DeepSeek announcement.

A primer on DeepSeek has been written by Jack Drew in our Global team which appears in the DIVS monthly commentary, and an excerpt is re-produced here:

→ What was the breakthrough?

DeepSeek addressed a significant AI challenge: enabling models to reason step-by-step. Traditionally, LLMs have been trained on a very compute-intensive process called supervised learning, where models are fed immense quantities of labeled data and then match inputs to

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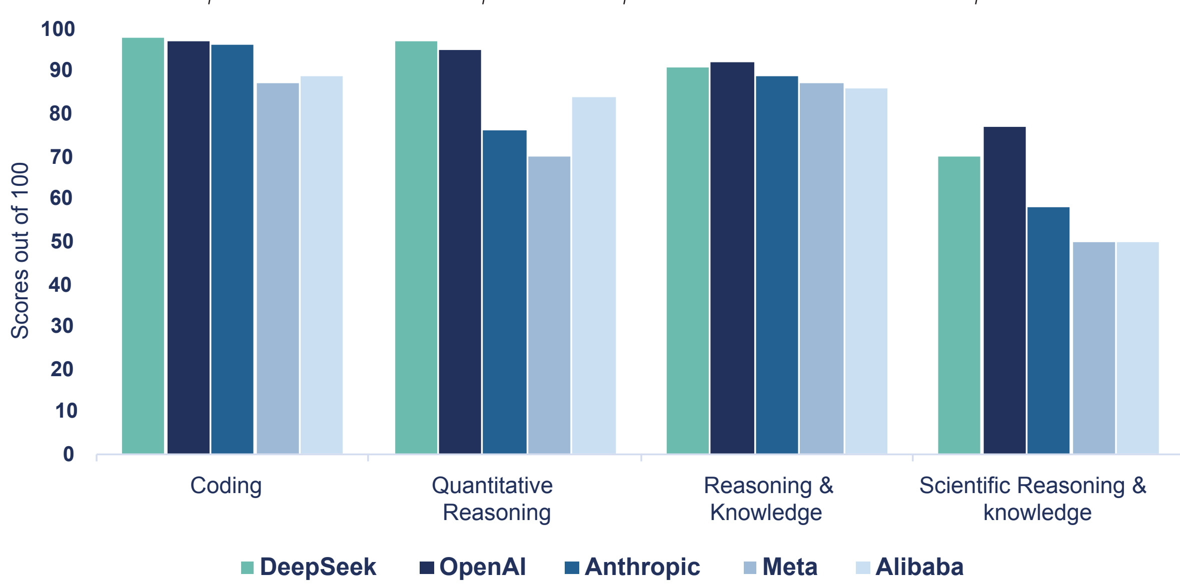
correctly labeled outputs. In contrast, DeepSeek's reasoning model was accomplished using a technique called reinforcement learning, where responses are fine-tuned by rewarding accurate outputs and penalizing mistakes. This approach mimics human reasoning by breaking tasks into intuitive, process-driven steps and giving feedback at each step of the way. In simplified terms, it's like teaching someone how to write intuitively via feedback instead of getting them to memorize every single word ever written. Although OpenAI introduced a reasoning model in September 2024, DeepSeek became only the 2nd firm to do so, matching OpenAI's performance (see chart below) at a fraction of the cost. It also surprised many that a Chinese competitor had made such a big leap forward in LLM technology, despite many believing that China was years behind the US.

Performance Compared

DeepSeek's RI model on par with OpenAI and ahead of other peers



Source: SmartETFs, Artifical Analysis. Data as of January 31, 2025.

Note: Models used OpenAI (o1), Alibaba (Qwen 2.5 72B), Meta (Llama 3.1 405B), Anthropic (Claude 3.5). Tests used are HumanEval, MATH-500, MMLU, GPQA Diamond

What are the implications: training vs inference?

Training is the process where an AI model learns by analyzing massive amounts of data and adjusting its internal parameters, while inferencing refers to the trained model applying that knowledge to make real-time and real-world predictions on new, unseen data. If DeepSeek has pioneered a way to create lower cost models, increased training competition from upstarts could emerge. Given huge demand for the latest chips used in cutting-edge AI training

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(primarily Nvidia GPUs), the waitlist can often extend many months into the future. If LLMs can now be trained using fewer GPUs and at a lower cost, this may enable a wider range of market participants to access these chips, leading to greater model creation and perhaps even the commoditization of LLMs. This is especially the case if open-source models (like DeepSeek) can provide similar performance without sitting behind a closed-source paywall. It may be the case that companies will differentiate themselves at the application-layer (what is built on top of LLMs), instead of the pure LLM technology itself. ■

The implications for the industry are explored further elsewhere, but we note that capital expenditure in the coming year for AI-related development is estimated at $325 billion, based on companies' announcements. This would suggest that demand for chips and hardware from the AI enablers will stay strong and, by extension, Asian manufacturers will continue to benefit. For Chinese companies, they now have a home-grown provider and so we should see accelerated AI incorporation into business processes.

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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.