

Guinness Atkinson
Asia Pacific Dividend Builder Fund
Review of October 2019



Fund and Market

- In October, Asian markets as measured by the MSCI AC Pacific ex Japan Index rose 4.0% in USD terms.
- During the month Asian markets were stronger than developed markets as measured by the MSCI World Index. Within emerging markets, Asia was better than emerging Europe, Middle East and Africa (EMEA) and Latin America as measured by the MSCI regional indices.
- The strongest market in the region was Taiwan, which rose 8.1% in USD terms as measured by MSCI Taiwan Index and is the strongest market this year. The weakest market during the month was Thailand, down 1.5% in US dollar terms. China and Hong Kong were up 4% and 4.7% respectively as measured by their MSCI Indices.
- From a sector perspective, Health Care rebounded 12.1% after a weak September, followed by the Technology and Consumer Discretionary sectors; Communication Services, Materials, Energy, Staples, Financials and Utilities all lagged.
- Leading portfolio holdings during the month included technology names AAC Technologies, which rose 23% (following a 24% rise in September), Novatek Microelectronics, Hon Hai Precision and Catcher Technology, accompanied by China Resources Gas, China Medical Systems, JB HiFi and St Shine Optical.
- Lagging names were Corporate Travel, Tisco Financial, Li & Fung, KT&G, China Mobile and Link REIT.

Events in October

- US economic growth in the third quarter was 1.9%, compared to 2% in the second quarter, on an annualized basis. Existing home sales, retail sales manufacturing and new orders for durable goods all contracted. At the end of October, the US cut interest rates by 0.25%.
- The Reserve Bank of India delivered an expected interest rate cut of 0.25% (its fifth in a row) and cut its growth forecast for fiscal year ending March 2020 from 6.9% to 6.1%.
- A partial trade agreement was reached between China and the US which was very limited in scope. China agreed to increase agricultural purchases to \$40-50 billion within two years and to speed up access to its financial sector. In return, the US agreed not to implement the scheduled tariff increase on October 15th (from 25% to 30% on \$250 billion of Chinese goods).
- The APEC (Asia-Pacific Economic Co-operation) summit scheduled for November has been cancelled due to unrest in Chile. If China and the US do manage to strike a (Phase 1) trade deal, they will now have to look for somewhere else to sign it. This is a genuine issue, since President Trump has stated his wish to sign in the US, while China is more cautious about appearances.

Portfolio Changes

We have been obliged to sell Infosys after a very short holding period. This follows a whistle-blower complaint to both the Indian Stock Exchange and the US SEC alleging pressure tactics from the CEO to overstate revenues, understate costs and withhold selected information from Board and auditors. Infosys has had corporate governance issues in the recent past. We took the view that management changes a couple of years ago would allow the company to move on and rebuild commercial momentum. While the allegations are unproven, they appear to be supported with evidence, and this is likely drag on.

We have replaced Infosys with Tech Mahindra (TechM). The company does not have the same international brand recognition as Infosys and Tata Consulting, but what makes it interesting is its heavier exposure to telecoms. The telecom industry has been in the doldrums for five years and is one of the worst-performing sectors globally. This is in part because the growth related to 3G and 4G has dissipated for the telecom providers, who overpaid for spectrum in the first place. We believe the dynamics for this industry are about to change with the advent of 5G, which is based on different technology, requiring different hardware and with wider application than just smartphones. These elements provide an opportunity for the technology consulting companies and TechM has the biggest presence of the Indian consultants. It will take time for this area to ramp up, but TechM recently secured a US\$1bn contract from AT&T (a long-standing customer). As network providers and 5G users increase capex we believe TechM is well placed.

Outlook

Consensus forecasts for 2019 earnings have also picked up over the past month, with estimates for Asia as measured by the MSCI AC Pacific ex Japan Index (the Fund's benchmark for comparison purposes) rising 0.7%. The earnings estimates for the Fund have increased 2.1% over the same period, led by Chinese and Taiwanese names. The portfolio is trading on 12.8x consensus estimated earnings for 2019, putting the Fund on a 13.5% discount to the valuation of the Index.

Edmund Harriss and **Mark Hammonds** (portfolio managers)

Sharukh Malik (analyst)

The Fund's investment objectives, risks, charges and expenses must be considered carefully before investing. The statutory and summary prospectus contains this and other important information about the investment company, and it may be obtained by calling 800-915-6566 or visiting gafunds.com. Read it carefully before investing.

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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. The Asia Pacific stock markets may experience periods of volatility and instability. Some domestic China “A” Shares are available through the Hong Kong Stock Connect or Shenzhen Stock Connect, which may be subject to risks of trading suspensions, quota limitations and additional risk. The Fund may invest in small-cap or mid-cap companies, which involves additional risks such as limited liquidity and greater volatility, than in larger companies.

MSCI AC Pacific Ex-Japan Net Total Return Index is a market capitalization weighted index that monitors the performance of stocks from the Pacific region, excluding Japan consisting of Australia, China, Hong Kong, Indonesia, Korea, Malaysia, New Zealand, Philippines, Singapore, Taiwan, and Thailand.

One cannot invest directly in an Index.

Price/Earnings Ratio (P/E) is an equity valuation multiple. It is defined as market price per share divided by annual earnings per share.

Opinions expressed are subject to change, are not a guarantee and should not be considered investment advice. Past performance is not indicative of future results.

Top Fund Holdings as of 10/31/19

1	AAC Technologies Holdings Inc	3.22%
2	Hon Hai Precision Industry Co Ltd	3.16%
3	Largan Precision Co Ltd	3.15%
4	St Shine Optical Co Ltd	3.03%
5	JB Hi-Fi Ltd	2.99%
6	Janus Henderson Group PLC	2.97%
7	Elite Material Co Ltd	2.97%
8	DBS Group Holdings	2.95%
9	QUALCOMM Inc	2.94%
10	Catcher Technology Co Ltd	2.91%

Fund holdings and sector allocations are subject to change and are not recommendations to buy or sell any security.

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