

Guinness Atkinson
Asia Pacific Dividend Builder Fund
Review of Second Quarter 2020



Fund and Market

- In the second quarter the Fund rose 15.28% and captured 83% of the market which rose 18.25% as measured by MSCI AC Pacific ex Japan Net Total return Index.
- Healthcare, materials, communication services, consumer discretionary and technology led the way.
- Australia, New Zealand, Thailand, Indonesia, Taiwan, India, the Philippines and Korea all outperformed the regional index; China, Hong Kong, Malaysia and Singapore lagged.
- Leading contribution to performance over the quarter came from JB Hi-Fi, Elite Material, Janus Henderson, Sonic healthcare, Qualcomm, Novatek Microelectronics, NetEase, PTT, Hon Hai Precision and Corporate Travel Management.
- Detractors from relative performance came from China Mobile, Tech Mahindra, Link REIT (real estate investment trust) , China Resources Gas, China Construction Bank, China Lilang, China Merchants Bank, Hanon Systems, Ping An Insurance, Public Bank, Aflac and KT&G.
- Changes made to portfolio during, and just after the quarter include the addition of three domestic-focused China A shares

Events in June

- The Chinese government announced its intention to impose a National Security Law on Hong Kong.
- China's domestic economy recovered to record economic growth of 3.2% in the second quarter, compared to the same period last year.
- The US tightened restrictions on the supply of high-end semiconductors and semi-conductor equipment to Huawei, which in addition is facing exclusionary pressures on the supply of 5G telecom equipment.
- Messages on overall US-China trade remain mixed but the overall impression given by the US Administration is that the Phase 1 deal is holding together.
- Reports of a resurgence of COVID cases in Hong Kong, Korea, Australia and New Zealand but it should be noted they number fewer than 200 in each instance. India and Indonesia are the worst affected.

Performance data quoted represents past performance; past performance does not guarantee future results. The investment return and principal value of an investment 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 quoted. Performance data current to the most recent month end may be obtained by calling 800-915-6566 and/or visiting www.gafunds.com.

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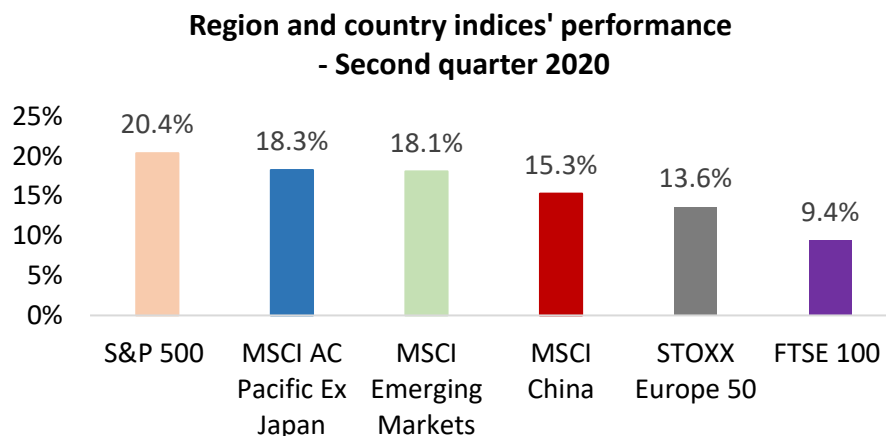


- OPEC’s agreement (tentative) to control oil supply lifted oil prices by 11% in June. Industrial metals (Iron ore, Copper) have also been rallying.
- Asia’s technology supply chain has been lifted by the strong sell-through of the new iPhone SE. Chip demand from datacenters/cloud computing also supporting the likes of TSMC (Taiwan Semiconductor Manufacturing Company).
- Clashes on the India-China border were followed by efforts to de-escalate tensions.

Portfolio view and review

In the second quarter, the Fund rose 15.28% compared to the market which rose 18.25%, as measured by the MSCI AC Pacific ex Japan net total return Index. Over the period the Fund outperformed in April, moved in line in May and underperformed in the second half of June. Overall, the fund captured a little over 80% of the market rally which is what we would expect to see. This does not mean that we underplay the significance of the Fund’s under-performance in the first quarter, which was not what we would have expected to see and which we will discuss later.

Asian markets performed well over the quarter compared to the rest of the world and the performance of China, as measured by the MSCI China Index which has had a big say in that, particularly through the performances of both Alibaba and Tencent which together account for 33% of that index. The charts below show a comparison of market performances over the quarter:

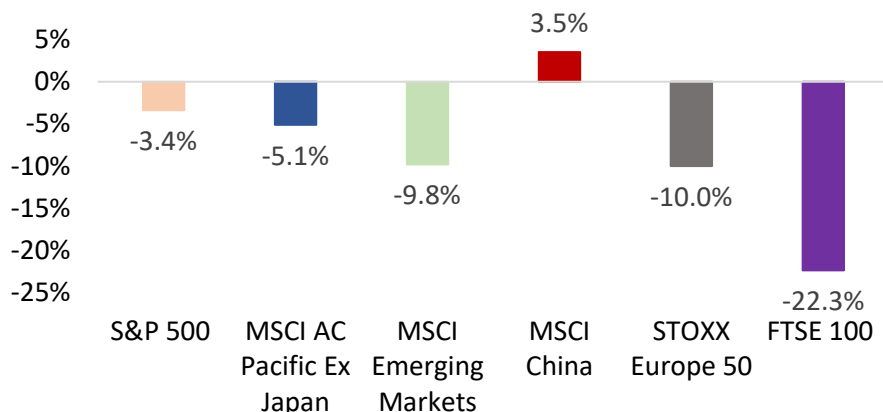


And over the year to date:

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**Region and country indices' performance
 - First half 2020**



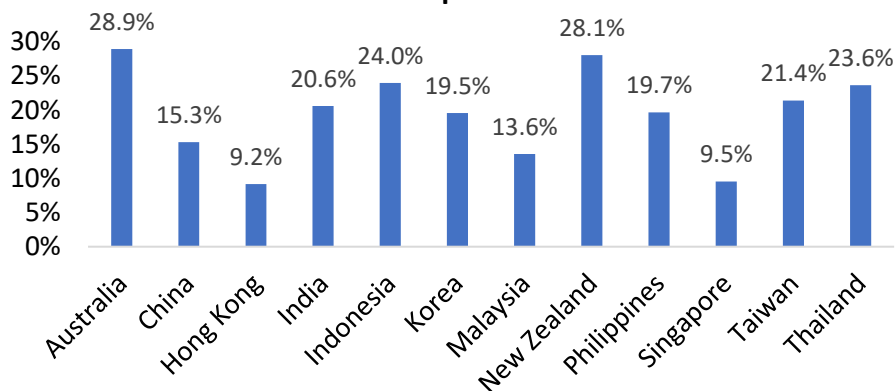
Source: Bloomberg, Net total returns in USD

Past Performance Does Not Guarantee Future Results. Securities in the Funds do not match those in the indexes and performance of the Funds will differ. It is not possible to invest directly in an index.

Stock market performance in the region, along with the rest of the world, has been heavily influenced by the spread/containment/resurgence of COVID cases and by the unprecedented level of support coming from governments and central banks. Interest rates in developed markets are expected to remain low for the foreseeable future. Quantitative easing, targeted interest rates and even in cases such as India and Indonesia, we are seeing central banks buying debt directly from the government (previously heavily frowned-upon). In Asia, all countries are implementing some kind of centralized support up to 15% of GDP (gross domestic product), although India, Indonesia and the Philippines are most financially constrained.

The performance of the region by country for the second quarter:

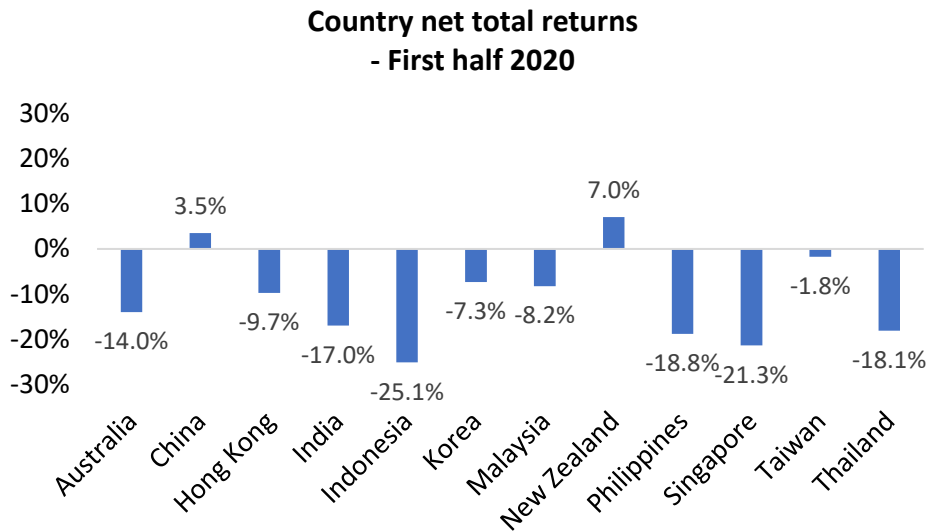
**Country Net total returns
 - Second quarter 2020**



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And for the year to date:



Source: Bloomberg, MSCI Country Indices, Net total returns in USD

Past Performance Does Not Guarantee Future Results

Geopolitics continues to raise its head: a new national Security law in Hong Kong, border clashes between China and India, North Korea coming under increasing sanctions pressure; China trade issues with the US, EU and UK. All add to the mix. However, life in the region appears to be gradually returning to normal. Mask wearing, distancing and track & trace appears to be effective and as a result, local economies are opening up. In the most recent news, cinemas in China are now re-opening. International travel however, remains limited.

High frequency indicators such as electricity consumption, traffic levels, oil demand and air quality point to a resumption of industrial output. Retail sales are still stronger through online channels as compared to offline but consumer confidence overall, appears to be on the rise. This is not to say that COVID is behind us in Asia but for the most part activity levels are now higher and downturn shallower in Asia than it was in developed markets. While some worry about the effect of ongoing weakness in developed market demand on Asian manufacturing, it does appear that Asia's domestic markets are picking up more of the slack than might have been expected.

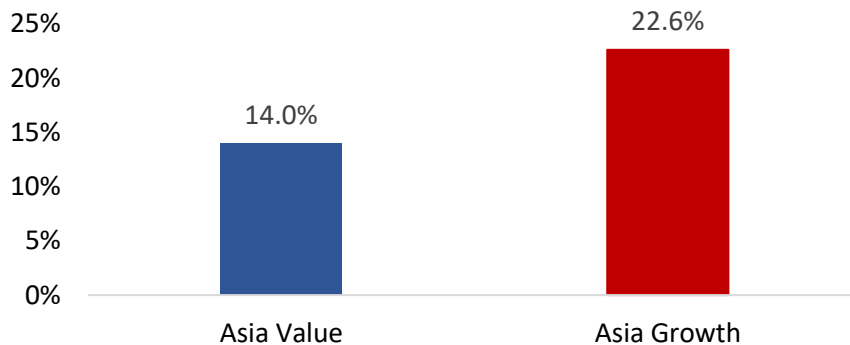
The Fund's investment approach that focuses on cash generative, income producing stocks that have shown the capacity to deliver dividend growth and which we believe are undervalued puts it closer toward the value end rather than the growth end of the market. We would characterize the growth end as being dominated by businesses with high returns on capital and high re-investment of profits leaving little or nothing for dividends. These stocks, because of their low or no dividend payout, are ones to which we have

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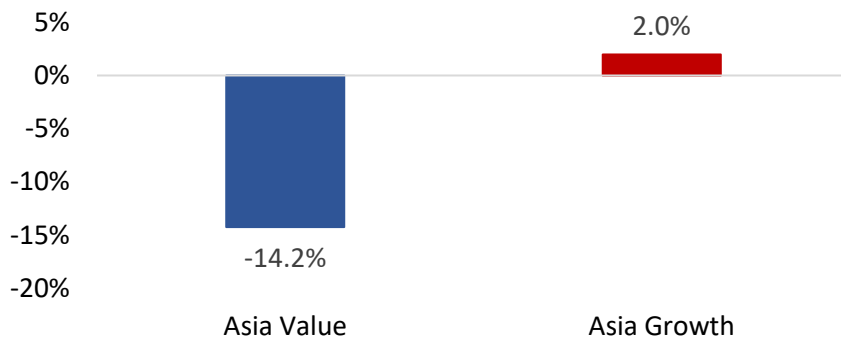
low exposure. It is in this context that we show in the charts below the divergence between growth and value styles over the quarter:

**MSCI Asia Pacific ex Japan Value & Growth Indices
- Second quarter 2020**



And for the year to date:

**MSCI Asia Pacific ex Japan Value & Growth Indices
- First half 2020**



Source: Bloomberg, Net total returns in USD.

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Revisions to forecast market earnings for 2020 have come down almost 20% since the beginning of the year and by around 11% during the second quarter. Earnings estimates for the Fund, however, have come down by around half and it is that greater resilience which we think may lead to outperformance over time when the differentiation between company operating results becomes clearer. Markets have been rallying on

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the back of printed money rather than cash flows and we prefer to focus on the latter. Dividend estimates for the market have also been declining, not least because dividend policies in Asia are predominantly based on a proportion of earnings rather than an absolute figure. Nevertheless, our experience in the portfolio has been for core dividends (i.e. excluding special dividends) to remain robust.

Portfolio view

In the first quarter of the year there were very few stocks that were working for us. Only a selection of Chinese names together with a couple of Taiwanese technology companies and Ascendas REIT were ahead of the benchmark at the end of March. We attribute this to the economic sensitivity of our names in the provision and distribution of goods and services which the breadth of economic closures have disrupted. We emphasised the financial strength of our companies because with the extent and unknown duration of lockdowns, we want to be confident that our businesses can not only survive but also emerge in a stronger position relative to peers. We believe that when economies are operating, these businesses have competitive attributes that should deliver superior operating cash flows and dividends.

In the second quarter, portfolio performance looks much improved. Companies like JB Hi-Fi, Elite Material, Qualcomm, Novatek and NetEase all reported strong growth in sales. Stock such as Janus Henderson and PTT were each beneficiaries of rising stock markets and a recovery in the oil price, respectively. At the lower end of the table, the Chinese names were more resilient in the first quarter but were always less likely to capture the early stages of a market rally. However, underlying conditions in China have continued to improve and these names have picked up into July.

Our focus is on those names which are still significantly down on the year because if we are to make good on the underperformance in the first quarter, it is this group which must rise. In the cases of DBS, Public Bank and China Medical Systems they are now well off their lows supported by stable cash flows and dividends. Asset quality amongst the banks remains a continued concern, globally, but these banks are well capitalized and importantly they are also well-provisioned having adopted a proactive approach to setting aside capital during the good times. Tech Mahindra, Aflac, China Lilang, Tisco and CapitaLand Mall Trust remain the laggards. However, all have minimal debt and robust business models such that when they are allowed to resume business again, we are confident in their ability to rebound. In the meantime, we track results and company commentary.

In the case of Tech Mahindra for example, we note that since our last report the company has been winning new orders and has increased its dividend by 7%. The stock price has been weak because current invoicing depressed while people are not able to work onsite. However, in recent weeks this is changing and Tech Mahindra's share price has been moving briskly higher in July. In the case of China Lilang, the company recently announced a profit warning net profit at the interim stage would be down 30%-35%. Since most of its sales are offline, a decline was expected but with sales in the first quarter down closer to 50%, there are signs that the second quarter has seen an improvement. This company has a good reputation for both quality

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in design and production and in inventory management. Corporate Travel Management remains the weakest performer in the portfolio in the year to date. But we see the basis for a sharp recovery from here; the timing is hard to predict but the critical point is that time is on their side with a strong cash position and tight cost management.

The table below shows the performance of stocks in the portfolio in USD terms for the second quarter and for the half-year to the end of June:

Name	Sector	2Q 2020 Total Return	Year to 30 June 2020 Total Return
JB HI-FI LTD	Consumer Discretionary	73.5%	16.0%
ELITE MATERIAL CO LTD	Information Technology	54.0%	17.8%
JANUS HENDERSON GROUP-CDI	Financials	42.7%	-10.4%
SONIC HEALTHCARE LTD	Health Care	41.2%	5.1%
QUALCOMM INC	Information Technology	35.9%	5.0%
NOVATEK MICROELECTRONICS COR	Information Technology	35.7%	5.3%
NETEASE INC-ADR	Communication Services	34.2%	40.9%
PTT PCL	Energy	30.2%	-14.4%
HON HAI PRECISION INDUSTRY	Information Technology	26.3%	-3.8%
CORPORATE TRAVEL MANAGEMENT	Consumer Discretionary	25.5%	-52.7%
YANGZIJIANG SHIPBUILDING	Industrials	19.8%	-16.2%
DBS GROUP HOLDINGS LTD	Financials	18.3%	-19.8%
TAIWAN SEMICONDUCTOR MANUFAC	Information Technology	17.8%	-2.6%
TISCO FINANCIAL GROUP PCL	Financials	17.0%	-24.8%
CATCHER TECHNOLOGY CO LTD	Information Technology	16.2%	-1.1%
ST SHINE OPTICAL CO LTD	Health Care	16.2%	-21.4%
BOC HONG KONG HOLDINGS LTD	Financials	14.9%	-8.4%
SHENZHOU INTERNATIONAL GROUP	Consumer Discretionary	14.5%	-16.7%
ASCENDAS REAL ESTATE INV TRT	Real Estate	14.4%	4.1%
CAPITALAND MALL TRUST	Real Estate	12.4%	-21.8%
CHINA MEDICAL SYSTEM HOLDING	Health Care	10.5%	-17.0%
LARGAN PRECISION CO LTD	Information Technology	9.2%	-17.3%
KT&G CORP	Consumer Staples	6.2%	-19.7%
AFLAC INC	Financials	6.1%	-31.0%
ZHEJIANG SUPOR CO LTD -A	Consumer Discretionary	4.9%	-7.1%
PUBLIC BANK BERHAD	Financials	4.5%	-17.0%
PING AN INSURANCE GROUP CO-H	Financials	3.6%	-13.9%
HANON SYSTEMS	Consumer Discretionary	3.6%	-21.1%
CHINA MERCHANTS BANK-H	Financials	1.9%	-10.5%
CHINA LILANG LTD	Consumer Discretionary	-0.5%	-29.6%
CHINA CONSTRUCTION BANK-H	Financials	-1.1%	-6.4%
CHINA RESOURCES GAS GROUP LT	Utilities	-1.5%	-9.8%
LINK REIT	Real Estate	-1.5%	-21.2%
TECH MAHINDRA LTD	Information Technology	-4.1%	-31.9%
CHINA MOBILE LTD	Communication Services	-6.4%	-17.2%

Source: Bloomberg, Total returns in USD

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Portfolio changes

This year we have made five changes in the portfolio. We sold **AAC Technologies**, **Godrej Consumer Products**, **Luk Fook**, **Janus Henderson** and **Yangzijiang Shipbuilding** (the latter two just after the quarter-end). We have replaced these with **Shenzhou International**, **NetEase**, **Zhejiang Supor**, **Nien Made Enterprise**, **Suofeiya Home Collection** and **Inner Mongolia Yili Industrial**. The overall effect has been to increase the emphasis on dividend growth (the historic 5-year dividend growth for the portfolio was 14% compared to 11% before the changes) and to increase exposure to domestic spending. Another point to note is that three of these are domestic China A shares.

- **Sales**

AAC Technologies and **Godrej Consumer Products** were both sold following their decision to omit a dividend (a final for AAC and a quarterly dividend from Godrej). Neither company needed to do so but a commitment by management to the dividend is a cornerstone of this strategy. We sold **Luk Fook** as the situation in Hong Kong continues to deteriorate. The company generates most of its revenues from mainland Chinese visitors to its Hong Kong stores and a resumption of Chinese tourist arrivals looks increasingly distant. We sold **Janus Henderson** following its bounce in the second quarter. In so doing we have locked in some underperformance but we are not confident that the business model is resilient enough to deliver the dividend growth we seek. **Yangzijiang Shipbuilding** was also sold following a bounce in the stock price. Its ability to win new orders in this environment has been very impressive but again, it is hard to construct an argument for dividend growth over the next few years.

- **Purchases**

Shenzhou International into this fund following its decision to pay quarterly dividends. **Zhejiang Supor**, **Suofeiya Home Collection** and **Inner Mongolia Yili Industrial** are all China A shares with historic dividend yields of 2% to 2.4% and all with track records of strong dividend growth. Zhejiang Supor makes kitchenware and kitchen appliances, Suofeiya makes home furnishings including cupboards, sofas and mattresses; Inner Mongolia Yili produces fresh and powdered milk along with other dairy products. **Nien Made Enterprise** is a Taiwanese company with operations in China and in Mexico which supplies shutters and blinds to the US, UK, Belgium, Australia and Japan. The company is a beneficiary of both home improvement spending as well as homebuilding.

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Outlook

The portfolio consists of companies that we believe are financially robust with solid business models. We have been encouraged by management comments in what have been challenging operating conditions and by the overall willingness to sustain and grow dividend payments. The next few months are going to be more revealing because it is in the next reporting season, we will have a clearer picture of the impact of lockdowns and the progress made toward their lifting.

So far, as we have discussed we have seen dividend omissions by two companies which we have sold. Hanon Systems has reduced its dividend this year in line with lower profits and we expect Corporate Travel will need to do the same. CapitaLand Mall Trust has deferred dividend distributions from the first half of this year; they have been permitted to do so by the regulators in Singapore but income has been earned and therefore must be distributed in due course and in any case before June 2021 in order to continue to qualify as a REIT (real estate investment trust). We do not anticipate this to be a problem and we still hold the position. Our expectations for dividend in the second half are therefore subject to earnings; we expect special dividends (of which there were a few last year) won't be repeated this year and there may be some deferral. However, the financial strength of our businesses and the evidence of domestic stability and/or recovery in their markets gives us grounds for optimism.

At a macro-level we think that North Asia will likely continue to be the stronger area and there are reasons, beyond the cyclical, to believe that China's domestic recovery will continue for the next twelve months. Next year is the centenary of the founding of the Chinese Communist Party in July 1921, in Shanghai. This is a big date in the government calendar and much of China's foreign and domestic policy is likely to be geared to showcasing a new economically and politically assertive China. As we have seen, this has resulted in rising frictions with the rest of the world which is likely to lead to further efforts to bolster domestic self-sufficiency and growth of national champions. Efforts are likely to continue to prevent excesses building or bubbles forming, but the direction of travel is likely to continue to be supportive of growth.

Edmund Harriss and Mark Hammonds (portfolio managers)

Sharukh Malik (analyst)

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Performance

as of 6/30/2020	2Q20	YTD	1 YR	3 YR	5 YR	10 YR
Asia Pacific Dividend Builder Fund	15.28%	-9.05%	-3.17%	1.53%	3.34%	6.80%
MSCI AC Pacific ex Japan NR	18.25%	-5.10%	1.31%	3.71%	4.62%	6.32%

All returns over 1 year annualized. *Source: Bloomberg, Guinness Atkinson Asset Management.*

Expense Ratio: 1.10% (net); 4.02% (gross)*

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**The Advisor has contractually agreed to reduce its fees and/or pay Fund expenses (excluding Acquired Fund Fees and Expenses, interest, taxes, dividends on short positions and extraordinary expenses) in order to limit the Fund's Total Annual Operating Expenses to 1.10% through June 30, 2021. To the extent that the Advisor absorbs expenses to satisfy this cap, it may recoup a portion or all of such amounts absorbed at any time within three fiscal years after the fiscal year in which such amounts were absorbed, subject to the expense cap in place at the time recoupment is sought, which cannot exceed the expense cap at the time of the waiver. The expense limitation agreement may be terminated by the Board of the Fund at any time without penalty upon 60 days' notice.*

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.

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. Non-diversified funds concentrate assets in fewer holdings than diversified funds. 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

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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.

The Dividend Payout Ratio is the proportion of net profit distributed as a dividend.

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 6/30/20

1	JB Hi-Fi Ltd	3.26%
2	Hon Hai Precision Industry Co Ltd	3.24%
3	Sonic Healthcare Ltd	3.19%
4	QUALCOMM Inc	3.15%
5	Novatek Microelectronics Corp	3.10%
6	Zhejiang Supor Cookware	3.04%
7	Elite Material Co Ltd	3.04%
8	Catcher Technology Co Ltd	3.02%
9	BOC Hong Kong Holdings Ltd	2.97%
10	China Medical System Holdings Ltd	2.96%

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

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