Guinness Atkinson
Asia Pacific Dividend Builder Fund
Review of April 2018

Summary Review & Outlook

Market & Fund

- Asian markets rose 0.75% in April, underperforming developed markets, which rose 1.20% (measured by MSCI AC Pacific ex. Japan Index and MSCI World Index respectively).
- However, for the first four months of the year, Asian markets were still ahead of both developed and US equities (measured by MSCI World Index and S&P 500 Index).
- Within the fund, Information Technology was by far the weakest sector, leading to the underperformance over the month. Financials and Consumer Discretionary stocks offset the weakness in IT and contributed positively to the portfolio.
- IT stocks in the Apple iPhone component supply chain were the main source of weakness, on fears that iPhone sales would disappoint. Post month-end, however, Apple released strong sales figures and provided a better outlook than the market expected. Accordingly, the suppliers we hold in the portfolio began to recover in May.
- The market's enthusiasm towards the component suppliers has varied over time. For example, they enjoyed a considerable period of strength last year in the run-up to the iPhone 8 / iPhone X launch. By equally weighting the portfolio, we can benefit from such swings in sentiment. We expect component suppliers to benefit from improving demand over the second half of the year.
- Positive contributions to the portfolio came from DBS (Financials), the Chinese banks and Luk Fook (Consumer Discretionary).
- Other areas of strength across the wider region were cyclical sectors. Energy rallied with the oil price and Materials was also strong - two sectors where the portfolio is underweight.

Events in April

- Trade tensions between the US and China persisted throughout April. Early in the month, the US announced tariffs affecting $50bn of imports from China, including electronics, machinery and high-tech products. China countered with equivalent tariffs targeting agricultural products and aircraft.
- At the Boao forum, President Xi struck a more conciliatory tone, announcing reforms to continue efforts to liberalize financial markets.
- Later in the month, the US announced a ban on American companies supplying Chinese telecom equipment maker ZTE.
- Economic data in China showed first quarter GDP growth was robust at 6.8%. The NBS manufacturing PMI reading was 51.4 in April, indicating good economic momentum.
- Elsewhere in the region, Singapore is experiencing a period of economic re-acceleration. The PMI reading rose from 52.7 in February to 53 in March, and industrial production grew 5.9% (though slightly slower than the previous month).
- President Trump announced a series of new sanctions against Russia, targeting tycoons with links to President Putin.
- North Korean leader Kim Jong-un met South Korea's President Moon at an historic joint summit in South Korea. A meeting between Donald Trump and Kim Jong-un is due to take place in Singapore in June.

- Oil gained over the month due to a combination of stronger demand and the potential for renewed sanctions in Iran. Venezuelan production also continued to be disrupted. Brent crude rose 8% and WTI rose 6% in April.
- Asian currencies were generally weaker, as the US dollar rallied.

Outlook

- The portfolio is trading, on a price/earnings multiple basis, at a 9% discount to the market as measured by the MSCI AC Pacific ex Japan Index. The index is in turn trading at a 14% discount to developed markets.
- Earnings revisions for the region have stabilized after a period of strong upward momentum in 2017, but still reflect expectations that earnings growth will be healthy. Earnings are forecast to grow nearly 9% this year and 10% next year.
- Our approach of investing in companies with a track record of consistent profitability (companies that have generated a return on capital above the cost of capital), combined with attractive valuations and providing a meaningful level of dividend income is, we believe, an attractive one.

Performance

As of 04/30/2018	YTD	1 Year	3 Year	5 Year	10 Year
Asia Pacific Dividend Builder Fund (GAADX)	-2.42%	17.78%	6.81%	7.00%	4.06%
MSCI AC Pacific ex Japan Index	0.79%	21.41%	6.93%	6.83%	5.42%

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

Expense Ratio: 1.12% (net); 3.48% (gross)

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. Performance data does not reflect the 2% redemption fee for shares held less than 30 days and, if deducted the fee would reduce the performance notes. Total returns reflect a fee waiver in effect and in the absence of this waiver, total returns would be lower.*

Markets and portfolio

Trade tensions continued to dominate the headlines, as the US and China proposed and then countered tariffs of equal proportions (please see last month's update for a full discussion). Later in the month China struck a more conciliatory tone, announcing further efforts to reform and liberalize markets. The US continued to rattle the saber, instituting a ban on US companies supplying ZTE, the Chinese telecom equipment supplier, which last year pleaded guilty to violating US sanctions against North Korea and Iran. The move looked set to spell the end for ZTE until President Trump tweeted in recent days that efforts should be made to save the company.

China genuinely seems willing to negotiate over trade, and discussions are ongoing. Liu He, China's vice-premier, is due to visit Washington next week for several days of talks. Whether a satisfactory solution can be found is still an open question – the US's formal opening demands in negotiations appear to be completely unrealistic, and unacceptable to China. But President Trump's recent volt-face on ZTE suggests that a pragmatic approach may yet prevail.

Within the portfolio, IT stocks suffered, particularly those in the Apple component supply chain, due to market concerns that sales of the iPhone X would disappoint. The main trigger of the worries was TSMC (held within the portfolio), a leading supplier of Apple chips, that guided for weaker smartphone demand. Other smartphone manufacturers, such as Samsung Electronics, also indicated a more challenging market. Chinese smartphone manufacturers had already indicated a weaker demand outlook in the short term, but this was compounded in the case of Huawei (China's leading smartphone maker) on fears that the company could fall foul of US trade sanctions similar to those that had been applied to ZTE.

The market reaction was to lower valuation multiples, as several of the holdings in the portfolio dropped to their ten-year average P/E multiple (based on forward earnings). Interestingly, earnings estimates were – for the most part – unaffected.

Since month end, Apple reported good first quarter results, and provided an outlook that was better than the market expected. The companies in the portfolio with more exposure to Apple have accordingly begun to recover in May.

Looking at the difficulties IT stocks have faced with a longer-term perspective, we see that the pattern is not new. At various stages of the iPhone's development, the market's attitude towards component suppliers has waxed or waned, according to how well the latest model has been received. The run-up to the launch of the iPhone 8 and iPhone X last year was a period of strength for the component suppliers. By running an equally-weighted portfolio, we naturally recycled some of these gains into other stocks. Equivalently, this year we have been adding on market weakness. Our expectation is that the component suppliers will benefit from improving demand over the second half of the year, particularly as the next iPhone model designs are finalized and unveiled towards the end of the year.

By focusing on quality companies with a track record of consistent profitability, we expect the fund to benefit over the long term from the growth in demand for smartphone components and the continual upgrades to phone specifications and features.

Positive contributions to the portfolio came from the Financials and Consumer Discretionary sectors. In Financials, DBS recovered after a weaker period in March. At the end of the month, the company released results for the first quarter showing an increase in net profit due to loan growth, higher net interest margin and growth in non-interest income. Return on equity rose to 13% – the highest level in a decade. Chinese banks were also an area of strength in the portfolio after clarity was provided on new asset management regulations and a 100 basis point cut in the reserve requirement ratio (RRR) was announced.

In Consumer Discretionary, Luk Fook performed well after releasing results that that showed strong sales growth against tough comparatives. The company, a jeweller operating in Hong Kong, Macau, and Mainland China, reported same-store sales growth in both gold and gem-set products led by double-digit growth in those categories in Hong Kong and Macau. Contributing to the growth was an increase in tourists visiting from China.

Portfolio changes

We completed one portfolio switch during the month. We sold our position in Relo Holdings, the one Japanese-listed stock in the portfolio. Relo had been an excellent performer in the fund, but the yield contribution from the stock had fallen to a low level as the stock price had risen, accompanied by an increase in valuation multiples. While we thought the prospects for the company were good, we felt there were more attractive income and valuation opportunities elsewhere.

In Relo's place we purchased Corporate Travel Management (CTM), an Australian company that provides travel management services for corporate clients in Australia, the US, Europe and Asia. In its most recent half year results, the company reported 15% growth in revenue and 32% growth in underlying EBITDA. The dividend was also increased by 25%. We like the client proposition that CTM offers – reducing travel costs for its clients while making it easier to arrange and manage bookings. The founder and Managing Director also owns a significant equity stake in the business. As with Relo, we expect a significant proportion of our total return as shareholders to come from continued earnings growth in the business, leading to growth in the income stream from dividends

Summary and conclusion

The portfolio is trading, on a price/earnings multiple basis, at a 9% discount to the market as measured by the MSCI AC Pacific ex Japan Index. The index is in turn trading at a 14% discount to developed markets.

Earnings revisions for the region have stabilised after a period of strong upward momentum in 2017, but still reflect expectations that earnings growth will be healthy. Earnings are forecast to grow 14% this year and nearly 10% next. The broad-based nature of global growth continues to provide a favourable backdrop for Asian and Emerging Market equities.

Our approach of investing in companies with a track record of consistent profitability (companies that have generated a return on capital above the cost of capital), combined with attractive valuations and providing a meaningful level of dividend income is, we believe, an attractive one.

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.

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. Therefore, non-diversified funds are more exposed to individual stock volatility than diversified funds. Investments in debt securities typically decrease in value when interest rates rise, which can be greater for longer-term debt securities. Investments in derivatives involve risks different from, and in certain cases, greater than the risks presented by traditional investments. Investments in smaller companies involve additional risks such as limited liquidity and greater volatility. Funds concentrated in a specific sector or geographic region may be subject to more volatility than a more diversified investment. Investments focused in a single geographic region may be exposed to greater risk than investments diversified among various geographies. Investments focused on the energy sector may be exposed to greater risk than investments diversified among various sectors.

MSCI AC Pacific Ex-Japan 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.

Payout ratio refers to the proportion of company profits paid out to shareholders as a dividend.

The trade surplus is the difference between the value of a country's exports and imports. The current account surplus adds income and remittances to the trade surplus.

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 04/30/18

1	Luk Fook Holdings International Ltd	3.48%
2	Ascendas Real Estate Investment Trust	3.23%
3	DBS Group Holdings	3.14%
4	China Mobile Ltd	3.14%
5	Corporate Travel Management Ltd	3.02%
6	Aflac Inc	3.00%
7	BOC Hong Kong Holdings Ltd	2.96%
8	Delta Electronics Thailand PCL /Foreign	2.94%
9	Largan Precision Co Ltd	2.93%
10	The Link REIT	2.90%

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