
Summary Review & Outlook

Market & Fund

- The Fund fell in May and ended the month a little behind the benchmark.
- At the end of May the Fund was down for the year, but in June we have seen a recovery in both absolute and relative performance.
- Weakness in Technology hardware, banks across the region and in Consumer Discretionary names have been behind the relatively lackluster performance this year. Market attention has been focused on Energy, Materials and Real Estate, sectors to which the Fund has lower exposure.
- Moderate downgrades to profit forecasts have been evident in Consumer Discretionary in China, Korea, Taiwan and Indonesia; in banks in China, Indonesia and Thailand (and India); and in Technology hardware in both China and Taiwan. By contrast, upgrades to forecasts have been made in Hong Kong and China Real Estate, China and Taiwan Materials. Upgrades to Energy names appear to have leveled off.
- The stock prices of many of our holdings had already priced in many of these moves back in March and April. The businesses we are invested in have seen their earnings downgraded less but sentiment has weighed heavy on their share prices nonetheless.
- We have been pleased to see a change in market sentiment in early June, with outperformance from Largan, Elite Material, Novatek, Hon Hai and Qualcomm in Tech; Hanon, Lilang, Corporate Travel in Consumer Discretionary; St Shine Optical & Sonic Healthcare in Health Care; The Link REIT in Real Estate; China Mobile in Telecom; Yangzijiang in Industrials; and China Construction Bank, Tisco in Thailand, Public Bank in Malaysia in Financials.

Events in May

- Trade tensions between the US and China rumble on with a trade war variously on, off, maybe back on, but perhaps not.
- May 19th: both sides agreed to take effective measures to reduce the trade imbalance; China committed to increase significantly its purchase of US goods.
- May 29th: the US stated it would publish a list of Chinese goods worth \$50bn to be subject to tariffs of 25% on June 15th.
- The US summit with North Korea was on, then off, and then back on (and in the end did happen).
- The ruling party (UMNO) in Malaysia was defeated in a general election for the first time since independence by Dr. Mahathir Mohammed, a former prime minister who used to lead UMNO but left after he fell out with the new leadership. The change therefore, is not profound.
- Instability in Italy raised fears for the future of the Eurozone.
- Indonesia raised interest rates twice in response to currency weakness.

Outlook

- Political noise around trade with China is high, but action taken so far has been limited. We still believe a negotiated outcome is the desire of both parties.

Guinness Atkinson
Asia Pacific Dividend Builder Fund
 Review of May 2018



- The outlook for the businesses in the portfolio is still bright. The second half of 2018 should see an upswing in Technology hardware names with channel checks pointing to good order flow. With valuations still well off their highs, we see opportunity.
- The portfolio is trading on a price/earnings multiple basis at a 6% discount to the broad market and earnings are forecast grow c.10% in each of 2018 and 2019.

Performance

As of 5/31/2018	YTD	1 Year	3 Year	5 Year	10 Year
Asia Pacific Dividend Builder Fund (GAADX)	-3.26%	13.25%	6.79%	7.13%	3.73%
MSCI AC Pacific ex Japan Index	0.28%	17.48%	7.82%	7.65%	5.46%

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

There has been some nervousness surrounding Asian investing this year as dollar strength, rising treasury yields and higher oil prices have come into the picture. However, Asia has remained resilient, underperforming Developed Markets by only around one per cent this year. The problems that have come to light this year are well known – in Argentina, Brazil, Russia, South Africa and Turkey – but we see them as related to issues specific to those countries.

From a purely top-down perspective we are picking up the following:

1. **China's domestic bond market**

Last year China established the Bond Connect scheme to allow overseas investors to gain direct access to China's \$5 trillion domestic bond market. Roughly 300 institutions have registered with the scheme since July 2017. Chinese bonds are due to be included into the Barclays Global Aggregate by April 2019 so long as the market meets certain liquidity criteria especially in the secondary market. Goldman Sachs reports that around \$150 billion of foreign money is now invested and this could reach almost \$1 trillion over the next five years. For now, this remains a new asset class but inclusion in Barclays Aggregate and the other major bond indices could have a significant impact both on China's capital markets and more broadly for Emerging Markets if this were to draw flows away from other countries.

2. **Indonesia**

This is one market in Asia that has been feeling the heat from the stronger dollar and rising core bond market yields. Among Emerging Markets, Indonesia has been a favorite destination for those in search of yield. Government bonds were yielding 5-6% at a time when US Treasuries were below 2.5%. Indonesia's domestic financial position has improved in recent years, earning it an investment grade sovereign rating of BBB- (under Standard and Poor's system). Just as money flowed in over the past two years, therefore, so it has flowed out in recent months. The currency has been one of the weaker performers this year but flows and the currency have been steadied by two 0.25% increases in interest rates, the second being unexpected, to contain rupiah weakness. Investors have been encouraged to see the Central Bank working proactively, rather than using foreign exchange reserves to defend the currency.

3. **Oil**

The current oil price (WTI \$66, Brent \$75) is leading to pressure in some countries for caps or subsidies. Malaysia has said it will subsidize above current levels, while Thailand has already committed to subsidies for both transport and cooking fuels. India looks more vulnerable than most, with rising oil prices affecting both fiscal and current account deficits, and this has been reflected through currency weakness. We do not believe higher oil represents a significant threat to Asia because with the exceptions of Indonesia (itself an oil producer and so a beneficiary), India and the Philippines, national finances are strong. But sharp moves are difficult to absorb and so we must expect possibly slower growth in those subsidy markets.

4. **Chinese Yuan**

This does not appear to be a concern one way or the other, which is news in itself. The currency seems to be moving in a range whose extremes are CNY6.25 – 6.70 to US\$1. The currency strengthened from RMB6.50 at the start of the year to a high of RMB6.26 and has since settled back to RMB6.40. On a trade-weighted basis this amounts to 3% weakening, which can be seen in the context a strengthening in the trade-weighted dollar of 2.8%.

5. Technology hardware

The hardware segment of the Information Technology sector has had a difficult time this year and this has been felt most keenly in Asia, where the majority of manufacturing takes place. The issue has mostly affected smartphone area. Apple sales have not been as strong as hoped, while in China, both ZTE and Huawei have been caught up in Sino-US trade matters. At the same time, Chinese smartphone makers have had more inventory to clear. However, in recent weeks it has become apparent that concerns have been overdone. Channel checks among screen makers, chip drivers and lens makers show capacity is being ramped up and being taken up in line with management's expectations. Both Largan Precision and Catcher Technology have been beneficiaries in the portfolio.

Summary and conclusion

The portfolio is trading, on a price/earnings multiple basis, at a 6% 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.

The fundamental outlook for the region's economies and earnings remains good. Political noise will create an overhang, especially with respect to trade. It remains far from clear precisely what President Trump wants, but based on actions taken so far, we can see that discussions are ongoing, and we think there is a willingness to reach an accommodation.

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.

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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 05/31/18

1	Largan Precision Co Ltd	3.53%
2	Lilang China Co	3.40%
3	Corporate Travel Management Ltd	3.10%
4	Novatek Microelectronics Corp	3.07%
5	Aflac Inc	3.06%
6	China Mobile Ltd	3.04%
7	Luk Fook Holdings International Ltd	3.01%
8	The Link REIT	3.00%
9	Sonic Healthcare Ltd	2.98%
10	BOC Hong Kong Holdings Ltd	2.97%

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

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