Guinness Atkinson

Asia Pacific Dividend Builder Fund

Review of January 2019

Summary Review & Outlook

Fund & Market

- January saw Asian markets bounce 8.2% in USD as measured by MSCI AC Pacific ex Japan net return Index.
- Leading sectors were Consumer Discretionary, Real Estate, Energy, IT and Materials. Laggards were Utilities, Financials, Consumer Staples, Industrials and Health Care.
- The best-performing countries were China, Korea, Indonesia, Thailand and the Philippines. The weakest were Taiwan, Malaysia, New Zealand, Singapore and Australia.
- In the fund the outperformers were among the Chinese banks and IT names Elite Materials, Largan Precision, Asustek Computer and Novatek Microelectronics. Hanon Systems, the Korean auto parts business, Yangzijiang Shipbuilding and Thai energy company PTT complete the picture.
- Underperformers during the month included smartphone-related names Catcher Technology, Hon Hai Precision and Qualcomm. Banks outside China, including DBS in Singapore, Public Bank in Malaysia and BOC Hong Kong rose only modestly as the interest rate backdrop turned more benign.
- Our Technology names, with the exception of Elite Material, all underperformed in November. Our exposure is focused in hardware and chip manufacturing rather than internet services. These stocks are facing the twin headwinds of trade uncertainty and the outlook for consumer electronics, especially smartphones.

Events in January

- The Federal reserve signaled a policy change and a moderation in the pace of interest rate increases.
- The value of the dollar eased on a trade-weighted basis.
- Positive noises from President Trump on trade talks with China raised hopes of progress.
- The US government shut-down ended after 35 days.
- World stock markets bounced after the sharp sell-off in December. Emerging Markets outperformed.
- The collapse of a dam at one of Vale’s iron ore mines in Brazil has caused iron ore prices to spike as Vale declared force majeure potentially reducing production by 40m tons.
- Brexit negotiations still appear to be stalled.

The stock market recovery in January has come as a relief following a miserable month in December. Asia and Emerging Markets outperformed Developed Markets and in fact are ahead since the lows in October. The environment as we enter 2019 seems reminiscent of the conditions at the end of 2015/beginning of 2016: US interest rate outlook turns more benign; the trade-weighted dollar value appears to have peaked, and we are looking forward to the effects of policy stimulus in China coming through. If we add to the mix low valuations and the possibility that earnings growth in the US may also have reached a peak, then conditions look favorable for Asian and Emerging Market outperformance.

We argue that investors ought to be looking at building positions in Asia. There are many who have been looking for an entry point and we believe that now is just such a time. At the end of December, valuations had retreated to the lows of 2015. Understandably, people were still nervous, but the bounce back in January should boost confidence. The Chinese slow-down is the most often quoted reason for holding back, but investors are going to have to get used to the idea that China's economy has been slowing and will continue to do so, because China's economy is changing.

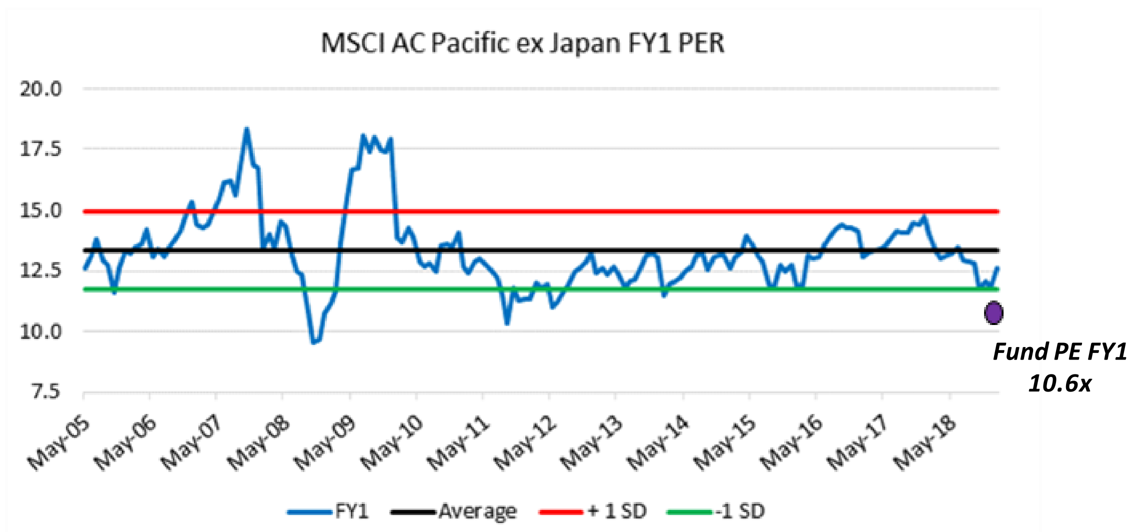
At its current size, 6% growth in China's economy adds another Switzerland each year. If we were to assume that China's GDP grew by 6% this year, 5% next year, 4% the year after (a rate of decline that would certainly cause a stir!) then in five years' time, in GDP terms, China will have added another India. The slowing growth rate is not the issue, but the effect this may have on cash generation, profitability and debt servicing that is important. And as China's economy broadens and deepens into consumption and services, away from debt-funded investment, profitability improves.

We have been encouraged to see the operating performance of the Chinese banking sector in recent months as the macro-economic slowdown has become more apparent, because it is in this sector that the 'old' and 'new' Chinese economies meet. The debt built up by the old economy sits in the banks, and in order for them to provide a useful function in China's new economy, they have to manage the legacy and transform into market-led commercial institutions. The news flow of on-going regulation, bad debt recognition and improved market practice has been evident in 2018 performance, which showed rising net interest margins, solid cost control, accelerated bad debt write-downs and shrinking balance sheets as shadow banking activity has reduced. Many of our peers have been, and remain, skeptical, but regulatory change has translated into better-than-expected operating performance, which in turn has delivered share price outperformance of our Chinese banks exposure (consisting of China Construction Bank, China Merchants Bank, China Minsheng Bank and Industrial and Commercial Banks of China (ICBC)) in four of the last five years, including in 2018.

There are signs too that the technology sector may be beginning to come out of its malaise. Semiconductor stocks in the US have reported an improving outlook which has fed through to the performance of TSMC and Novatek Microelectronics. The smartphone area remains contentious, especially following Apple's warning that the China slow-down was responsible for its sales drop. A closer look reveals a different picture: while volume sales of smartphones fell 10% in the fourth quarter, Apple's sales fell 20%. This begins to look more like an Apple problem than a China problem, especially when we see local makes Huawei, Oppo and Vivo reported volume growth. Among smartphone-related stocks in the portfolio we have seen upgrades to forecasts for both Largan Precision and Elite Material.

We are still early in the season for earnings reports and company outlooks for 2019, but early indications are of a more optimistic picture. We do not expect Asian markets to hang around waiting for results to come through but instead to look through and anticipate. The chart below shows the forward Price to Earnings (PER) multiple for consensus expected (FY1) earnings for the MSCI AC Pacific ex Japan Index compared to its 10-year average with bands showing +/- 1 standard deviation (for a normal distribution, +/- 1 standard deviation (SD) means that valuations should lie within these bands 68.27% of the time). We can see that even after the bounce in January it still looks cheap compared to its history.

But perhaps most exciting is the valuation of the Fund which is at a deep discount to the market. For a group of companies with a return on capital twice that of the broad market and a history of steady cash profits and growing dividends over years, this valuation discount looks wrong.



Source: Bloomberg, Guinness Asset Management; May 31, 2005 to January 31, 2019.
Fund price/earnings ratio (PER) as of January 31, 2019.

Outlook

In the short term we expect China-US trade talks to overhang the market as they struggle to reach a deal that will satisfy the hawks on both sides. But we do not expect any of this to change the direction of travel. The Asian region offers structural themes (consumption, life-style upgrading, rising manufacturing skills) that will continue to develop despite the current trade dispute between the US and China.

However, the capture of these long-term themes is best done, in our opinion, through investment in companies that have demonstrated a long-term track record of turning them into superior profitability and delivered dividend growth. If Asian corporations continue to report earnings that meet market expectations, then the prospects for investors look bright. Valuations at these levels augur for attractive shareholder returns in future. The main risks are a significant decline in Chinese economic activity, or potentially a wider global economic slowdown. Nevertheless, Asian equities appear attractive, particularly in the context of higher valuations elsewhere in the world.

Edmund Harriss and **Mark Hammonds** (portfolio managers)
Sharukh Malik (analyst)

Performance

As of 1/31/2019	YTD	1 Year	3 Year	5 Year	10 Year
Asia Pacific Dividend Builder Fund (GAADX)	7.67%	-13.88%	12.08%	8.07%	12.22%
MSCI AC Pacific ex Japan NR Index	8.18%	-13.57%	13.90%	5.65%	11.61%

As of 12/31/2018	YTD	1 Year	3 Year	5 Year	10 Year
Asia Pacific Dividend Builder Fund (GAADX)	-16.42%	-16.42%	7.53%	5.27%	10.60%
MSCI AC Pacific ex Japan NR Index	-14.51%	-14.51%	7.95%	2.90%	9.81%

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 noted. Total returns reflect a fee waiver in effect and in the absence of this waiver, total returns would be lower.

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, 2019. To the extent that the Advisor absorbs expenses to satisfy this cap, it may seek repayment of a portion or all of such amounts at any time within three fiscal years after the fiscal year in which such amounts were absorbed.

As of November 2018, the MSCI AC Pacific Ex-Japan Net Return was used instead of the Gross Return. MSCI AC Pacific Ex-Japan Net Return reflects deduction for withholding tax but reflects no deduction for fees and expenses. Net Return is net of local withholding taxes that any investor would typically pay.

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 Net 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. It reflects deductions from reinvested dividends for withholding tax but reflects no deduction for fees and expenses.

One cannot invest directly in an Index.

Price/Earnings Ratio (PER) 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 01/31/19:

1.	Hanon Systems	3.20%
2.	Elite Material Co Ltd	3.06%
3.	Yangzijiang Shipbuilding Holdings Ltd	3.02%
4.	China Construction Bank Corp - H Shares	2.98%
5.	Tisco Financial Group PCL/Foreign	2.96%
6.	St Shine Optical Co Ltd	2.92%
7.	Catcher Technology Co Ltd	2.92%
8.	Delta Electronics Thailand PCL /Foreign	2.87%
9.	China Merchants Bank Co Ltd - H Shares	2.85%
10.	DBS Group Holdings	2.85%

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

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