Guinness Atkinson

Asia Pacific Dividend Builder Fund

Review of November 2019

GUINNESS ATKINSON FUNDS

Fund and Market

- In November, Asian markets as measured by the MSCI AC Pacific ex Japan Index rose 0.6% in USD terms.
- Asian markets were weaker than developed markets, as measured by the MSCI World, but were ahead of Emerging Europe, Middle East, Africa (EMEA) and Latin America.
- The strongest markets were New Zealand, China and Taiwan while the weakest were the Philippines, Indonesia and Malaysia.
- The strongest sectors were Consumer Discretionary, Materials and Health Care whilst the weakest were Utilities, Financials and Industrials.
- Gains in the fund were led by Corporate Travel Management and Janus Henderson, as well as companies in the smartphone supply chain like Novatek Microelectronics, Hon Hai Precision and AAC Technologies.
- Weaker names in the Fund were Hanon Systems, China Resources Gas and China Mobile.

Events in November

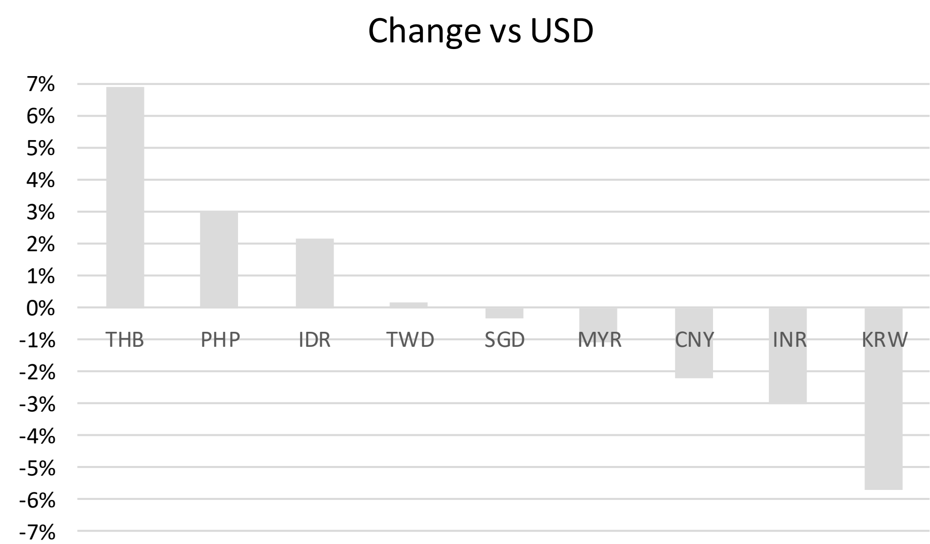
- The US and China remain engaged in trade negotiations. It seems China is pushing the US to remove some existing tariffs in order for a "Phase One" deal to be reached. President Trump surprised everyone by saying he likes the "idea of waiting until after the election for the China deal". Given his history of making off the cuff comments it is debatable as to whether this was intended to increase pressure on the Chinese to reach a deal, or is a genuine reflection of his intentions.
- MSCI increased the inclusion factor of A shares from 15% to 20%, which means MSCI will now include 20% of A shares' free float market capitalization in its calculations. MSCI also added 189 A share mid caps to its China index. It is estimated that as a result of these decisions, ~$43bn of passive flows are likely to be invested A shares. However, MSCI will not increase the inclusion factor further until access to hedging instruments is improved and progress is made over the short settlement cycle and mismatch between onshore and Stock Connect market holidays.
- Huawei's latest phones shows it is quickly reducing its reliance on American suppliers, following the USA's move to put the company on its Entity List, severely restricting what American companies can export to Huawei. Huawei claims its 5G base stations now do not use any American components and is planning on rapidly increase production of these products. Looking at its latest smartphones reveals that Huawei is diversifying its suppliers, with American firms losing market share to Taiwanese, Japanese and Dutch firms in key components.
- In Taiwan, the manufacturing PMI (Purchasing Managers' Index) was flat at 49.8 in November vs the average of 48.7 in the third quarter and 47.4 in the second quarter. This level still marginally indicates contracting activity but is the second highest reading of PMI since September 2018. Taiwan's exposure to exports does mean it is, to a degree, dependent on global economic activity and here the data is still weak as Taiwan's exports fell 2% in in October. However, perhaps because

businesses are diversifying away from China in light of the trade dispute, Taiwanese economic growth is holding up better than other export-oriented countries such as Korea and Singapore.

- In Hong Kong, the ongoing protests are leading to very weak economic data. Arrivals from China fell 46% in October. Retail sales, by value, fell 24% in October, meaning retail sales have fallen for four months in a row and this is very likely to continue in the November numbers.
- In India, Moody's downgraded the country's outlook from stable to negative. GDP growth in the third quarter was 4.5%, meeting expectations, but lower than the 5.0% rate seen in the second quarter.

Market Update

The Thai baht has been noticeably strong this year, appreciating 6.9% against the dollar, well ahead of its regional peers:



Data 12/31/18 through 11/30/19. Source: Bloomberg. THB = Thai baht, PHP = Philippine peso, IDR = Indonesian rupiah, TWD = New Taiwan Dollar, SGD = Singapore Dollar, MYR = Malaysian ringgit, CNY = Chinese yuan, INR = Indian Rupee, KRW = South Korean won.

The strength of the baht has been one of the reasons why the Bank of Thailand cut interest rates by 0.25% in August and by the same amount in November, to 1.25%, last seen during the global financial crisis. The central bank also recently introduced new measures to encourage capital outflows to reduce pressure on the baht:

- Exporters will be allowed to keep more of their proceeds abroad. Exporters with proceeds above the higher threshold can use the revenues to offset foreign currency expenses.

- Retail investors will now be allowed to invest up to $200,000 in foreign securities without having to go through an intermediary instititution. Criteria in terms of asset ownership have been relaxed.
- When transferring money abroad, the threshold for providing documentation has been raised from $50,000 to $200,000.

Thailand is, and has been for some time, viewed as a source of relative stability in Asia and the broader emerging market universe. This marks quite the turnaround since the 1990s, when Thailand was the trigger for the start of the Asian Financial Crisis.

Portfolio Update

Novatek Microelectronic's results came in line with expectations. Inventory of TV drivers is likely to continue falling for the next six months and so demand is likely to be weak. Novatek is, however, making good progress with its Touch & Display Driver Integration (TDDI) product and we expect rising adoption by smartphones. Management also point to rising OLED driver demand and expects shipments in the first half of 2020 to be greater than all of 2019.

In China, the National Healthcare Security Administration (NHSA) revealed the latest National Reimbursement Drug List (NDRL), which lists the drugs the state will pay for. Over the past two years, the government has started requesting aggressive price cuts in exchange for greater volumes for those drugs that make the list. China Medical System's Xinhuosu (used to treat breathing difficulties) remained on the list with a comparatively low price cut of 23%.

Our quality universe of companies which have generated a persistent return on capital does not yield any of the large smartphone manufacturers. Our universe, does however, yield many companies who are suppliers to smartphone manufacturers and specialize in a certain field of expertise. The ongoing launch of 5G across the world, is likely to benefit several of the portfolio's suppliers. Elite Material, a supplier of copper clad laminates to both Huawei and Apple, expects rising demand for its products for 5G base stations and mobile phones. Catcher Technology expects average selling prices to increase for its casings for 5G phones due to the need for better heat dissipation. Tech Mahindra, a consultant, is likely to be involved in the design and build out of 5G networks in Europe and the US with customers such as AT&T and BT. 5G is also expected to drive replacement demand for smartphones which should lead to greater volumes for the likes of AAC Technologies (manufacturer of speakers and haptics) and Largan Precision (manufacturer of lenses).

Outlook

The portfolio trades on 12.9x consensus estimated earnings for 2019 putting the fund at a 12% discount to the valuation of the Index. We think the portfolio has good exposure to a quality set of companies in both developed and developing economies within the Asia Pacific region. All eyes are now looking towards the December 15th, when the US is due to introduce tariffs on $160bn of Chinese imports, unless a deal can be reached. There are different voices within the US administration, some suggesting that tariffs will go into effect if no deal is reached, while others suggest the date can be shifted into 2020. We continue to focus on the companies in the portfolio and their ability to maintain their competitive positioning.

Following on from the earliest discussion on Thailand's cut in interest rates, we would also like to point out that most Asian economies have positive real interest rates and so have the room to stimulate economic growth with conventional monetary policy i.e by cutting rates. This is in stark contrast to developed economies, many of which have negative real rates and so do not have the room to boost growth with conventional monetary policy. Asia remains an attractive place to invest, underpinned by the ability to support growth with sensible and conventional monetary and fiscal policy.

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. 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 11/30/19

1	Largan Precision Co Ltd	3.13%
2	St Shine Optical Co Ltd	3.08%
3	Luk Fook Holdings International Ltd	3.00%
4	Ascendas Real Estate Investment Trust	2.98%
5	JB Hi-Fi Ltd	2.97%
6	Aflac Inc	2.95%
7	Janus Henderson Group PLC	2.93%
8	Corporate Travel Management Ltd	2.87%
9	AAC Technologies Holdings Inc	2.87%
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.

Distributed by Foreside Fund Services, LLC