Guinness Atkinson
Asia Pacific Dividend Builder Fund
Review of July 2020

GUINNESS ATKINSON FUNDS

Fund and Market

- In July, the Fund rose 3.61%, compared to the market's rise of 7.69% as measured by MSCI AC Pacific ex Japan Net Total return Index.
- Since then the story is much more upbeat. Markets and stock prices are moving our way: second quarter company results have generally been ahead of expectations and market focus has shifted away from 'China/growth' towards the quality value names we hold.
- In July, Taiwan, India, China and Malaysia were the leading markets. Sector performance was dominated by Technology (all driven by semiconductors), followed by Consumer Discretionary, Materials and Staples.
- Leading contributions to performance over the month came from Taiwan Semiconductor, Novatek Microelectronics, Tech Mahindra, Zhejiang Supor, Inner Mongolia Yili, Nien Made Enterprise and Ascendas REIT.
- Detractors from relative performance came from St Shine Optical, BOC Hong Kong, Tisco Financial, Corporate Travel, Largan Precision, Link REIT, China Construction Bank and Hon Hai Precision.

Events in July

- COVID cases increased again in Asia, especially China, Hong Kong, Japan, Philippines, India and Australia. Local authorities have moved quickly to try to contain the outbreaks.
- The 'Oxford' vaccine reported promising results from early human trials.
- The US revoked Hong Kong's special status; the Chinese consulate in Houston was ordered to close, a move against which Beijing retaliated by ordering the closure of the US consulate in Chengdu.
- An EU stimulus programme of €750 billion was agreed.
- Singapore held a general election which was won by the People's Action Party, again.
- Apple signalled a few weeks' delay for the launch of the new iPhones.

- China reported exceptional flooding with 443 rivers nationwide flooded and 33 of them rising to the highest levels recorded. Extensive damage to property and agricultural output has been reported.

- In Thailand, four cabinet ministers have resigned as protests against the military-led government have increased. These protests have now extended beyond the government to the King himself.

Portfolio view and review

In July, growth stocks outperformed value, as they have for much of the year. Since the month-end however, many value stocks have been outperforming.

The Technology sector was by far the best-performing area in July and this was led by Taiwanese semiconductor businesses, as opposed to the smartphone component manufacturers. Our two semiconductors names, TSMC and Novatek Microelectronics, were the Fund's two best performers. TSMC received a major boost when Intel announced a further delay to its next-generation chip manufacturing. This leaves TSMC as the undisputed leader in chip foundry and therefore the key beneficiary of outsourcing. Semiconductor stocks were also lifted by good results from Qualcomm which suggested an improving outlook for 5G smartphones.

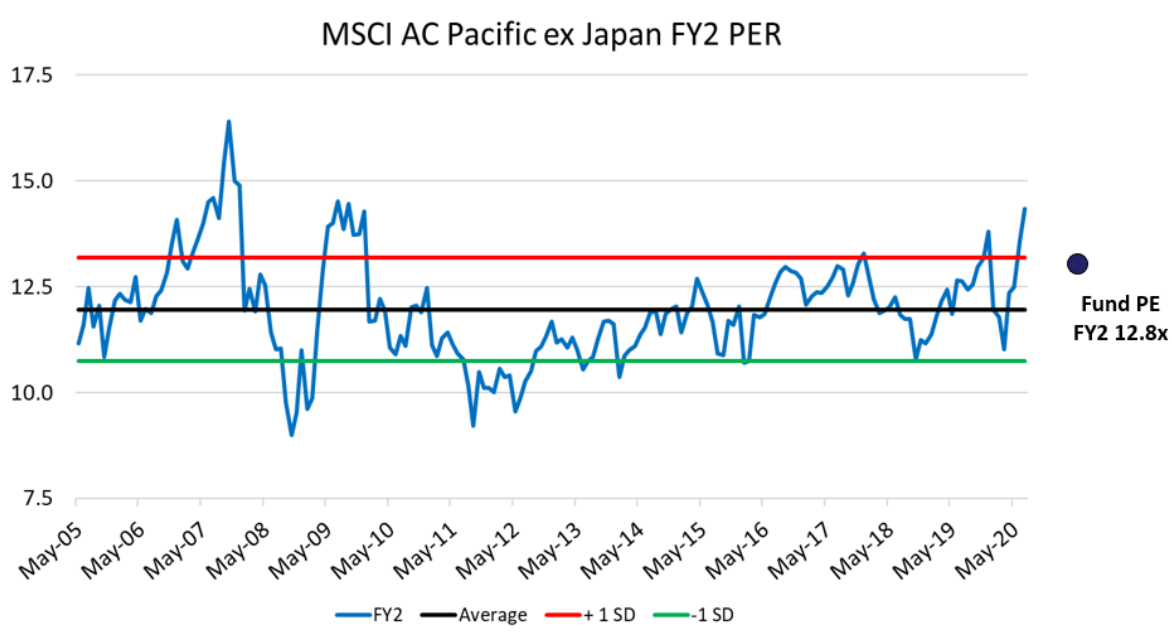
Markets

Relations between the US and China are increasingly being defined by the US electoral cycle, in our opinion. Allegations of espionage and the closure of the Chinese consulate in Houston was a significant escalation. Most recently we have seen sanctions imposed on individuals associated with the imposition of the national security law in Hong Kong and proposals to ban WeChat and TikTok. But it is notable that while the language and posturing have been fiery, the US side has made sure they have stayed away from anyone closely associated with Xi Jinping. China has retaliated but again, they have been vague in the details of their response and stayed away from President Trump's inner circle. Even when we look at the technology ban on Huawei, it is notable that the US Treasury has granted certain American businesses exemptions from technology exchanges to ensure they are not left behind in the development of 5G telephony standards.

However, there are material changes underway. We can see that China is turning inward in a quest to develop self-sufficiency and new national champions. Local suppliers are being preferred over foreign suppliers and China's economy leads the way in economic recovery. Industrial activity and state spending are rising while the focus remains on long-term strategic leadership in areas such as electric vehicles, 5G telephony, industrial automation and alternative energy. It is also leading the way in the development of a trial for a digital currency, presently being examined by upwards of forty central banks, by being the first to launch a pilot program. These themes along with diversification of supply chains will increasingly shape our portfolio composition focus.

According to consensus estimates taken from Bloomberg, earnings for the markets (as measured by the MSCI AC Pacific ex Japan Index) are expected to contract 5% in 2020 and grow by 22% in 2021. The Fund is anticipated to see earnings contract in 2020 and to grow in 2021, based on consensus estimates. In our view, the Fund's earnings profile looks both reasonable and attainable; a view which has become stronger over the course of the most recent results season. The portfolio also trades at a discount to the MSCI AC Pacific ex Japan Index of 23% and 15% based on forward price/earnings ratios for 2020 and 2021, respectively. When we consider the estimates for market earnings and valuations we need to bear in mind the top-heavy nature of the benchmark, which is dominated by names like Alibaba and Tencent (as well as other Chinese internet and e-commerce names) that are forecast to grow rapidly in 2020 and 2021. We also need to remember the forecast contributions from more cyclical areas such as Materials and Energy as well as from certain areas incorporated in the Consumer Discretionary and Industrials sectors which, in our view, still look quite uncertain. Encouraging interim results reported by our portfolio companies, some of which are discussed below, give us greater confidence in the outlook.

The chart below shows the valuation of the region as measured by the Price/Earnings ratio (PER) for next year's earnings (FY2) based on consensus estimates of earnings for the following year. The graph shows how the PER has changed over the last 15 years and also shows the long-run average plus or minus one standard deviation (1SD). *(The standard deviation "SD" expresses the degree to which data points diverge from the long run average. 1SD shows the deviation that captures 68% of normally distributed occurrences, meaning that the remaining 32% of all occurrences have diverged from the average by a greater amount.)*



We have seen stock markets around the world rally strongly on the back of government support measures and low interest rates. We have also seen the rallies driven by a comparatively narrow group of stocks. The PER is quite a volatile number since it incorporates earnings for a single year which, in this extraordinary environment, are moving around significantly. We have chosen to look at the PER for next year rather than estimates for this year to reduce that effect. However, we maintain that longer-term measures of value are much better suited to stock market investing.

Our focus is on the quantity of cash flow that our companies are capable of producing over time, based on existing assets and future growth in assets with sustainable rates of reinvestment of earnings, while also maintaining dividends. We then look to apply a suitable discount rate to those longer-term cash flows to arrive at a present value (i.e. work out what those current and future expected cash flows are worth to us today) to help us form a view whether those stocks offer value.

We consider market aggregate valuations in a similar manner. On that basis we believe the mainland China A-share markets to be expensive overall but that there are areas (outside of technology and healthcare) which still offer value. Outside domestic China, high valuations (in other words, areas where investors are being asked to pay up for growth) appear evident in the Communication Services and Consumer Discretionary sectors. This is where many of the internet service and e-commerce names are to be found. We believe it is possible to navigate around some of these inflated areas and still find growth, albeit more moderate, at substantially lower valuations.

Stocks

Encouragingly, there has been a steady stream of positive news for the Fund surrounding the interim results reason. **TSMC** reported strong results, announced its intention to increase capital expenditure and benefitted from stronger read-through from US tech names. Qualcomm's stronger results were accompanied by the resolution of two legal overhangs: one being the dispute over royalties from Huawei and the second being the favorable resolution of an anti-trust suit in the US. As one of the prime beneficiaries of 5G telephony, these resolutions plus the improving 5G outlook provide Qualcomm with a decent tailwind.

Novatek Microelectronics reported another record set of results in the second quarter and provided strong guidance for the third quarter. The company is a chip designer, rather than a maker, and while it has a substantial and growing presence in smartphones, it is the non-smartphone area that is really driving growth. Its System-on Chip (SoC) designs are increasingly being used in TVs, notebooks and tablets as well as in smartphones. The upgrading of display manufacturing by Chinese producers could benefit the company further.

Tech Mahindra is a stock we have mentioned a few times this year as the disconnect between operational prospects and share price performance widened. In July the gap has narrowed (favorably!). The company reported first quarter (April-June) results reporting 5% revenue growth and new order wins worth $300 million. The share price is now about 50% above its March lows and the market appears now to be focusing on the conversion of new contract wins into revenue generation.

The **Link REIT** in Hong Kong reported results that were in line with expectations. Clearly, tenants in its retail properties are under pressure; the company is providing support for them, but it is also becoming increasingly diversified. Property development forms a material part of the business and it is broadening its reach. The company recently announced a $500 million property purchase in London's Docklands area (25 Cabot Street, Canary Wharf) and it is also expanding in business scope to include residential rental properties alongside the existing office and retail portfolio.

Largan Precision reported an 11% drop in sales for the second quarter which caused the stock to wobble. However, order visibility for the stock is always quite limited. Sales for July showed sequential (month-on-month) growth and momentum appears to have continued into some of August; full August results not yet available. This, accompanied by better high-end smartphone sales numbers, has pushed the stock back up. We have also received the annual dividend which was 16% higher than last year.

Elite Material reported second-quarter net profit growth of 28% compared to the same period last year. Growth was driven by the perfect combination of revenue growth and margin expansion. As in the case of Novatek, even though the smartphone business is a major driver, non-smartphone related business also made an important contribution. This segment includes Copper Clad Laminates (CCL), which is the base material for printed circuit boards suitable for high-end computer infrastructure. For example, Intel's new server configuration Ice Lake, built on the Whitley platform, was cited by Elite's management as a source of growth in the infrastructure segment. The company also reported 90%-95% capacity utilization currently and further capacity expansion to come online later this year to bring total output up from 3.25m units to 3.55m.

Outlook

The recent results season has provided us with a view on how companies in Asia have fared during the pandemic and we think we have a better view of what the rest of the year holds. The Chinese economy has returned to growth driven primarily by investment spending related to property and infrastructure. Exports have also been better than expected, and we can see this not only from China's own figures but also from container shipping rates over the last few months and the positive guidance most recently from Maersk. China retail is still a mixed picture, with online recording markedly better growth than offline. Car sales to end-users have yet to pick up.

In Taiwan and Korea, the technology sector has been making the running while domestic activity remains subdued. This looks likely to remain the case in coming months. Demand for semiconductors driven by computer infrastructure, notebook PCs and smartphones, continues to grow. Smartphone volumes are looking encouraging, although lower than forecasts made a year ago. The launch of the new Apple iPhones is to be delayed for a few weeks, but this has not had a meaningful impact on the supply chain. In South-East

Asia the worst of the pandemic seems past, but the path to recovery is slower. Thailand is facing the additional problem of protests against the military-dominated government.

International relations, specifically between China and the US, remain an ongoing issue. China is now noticeably turning inward in terms of developing self-sufficiency in supply chains, preferring local producers and building national champions. As pressures mount in the technology space, there is further emphasis on core industries such as electric vehicles, alternative energy and industrial automation. There is also a focus on maintaining domestic economic momentum while, interestingly, still keeping a hawkish eye on debt management. In recent days the central bank has called on banks to tighten up on bad debt recognition and debt write-offs.

Dividends from a number of companies are likely to drop this year according to our estimates but others such as JB HiFi, Sonic Healthcare, China Mobile, Aflac, Qualcomm, China Medical Systems, Public Bank have all reported increases in their latest results. We are very encouraged by the recent results season and by the tone of managements' discussions.

Edmund Harriss and **Mark Hammonds** (portfolio managers)

Sharukh Malik (analyst)

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Performance

as of 7/31/2020	YTD	1 YR	3 YR	5 YR	10 YR
Asia Pacific Dividend Builder Fund	-5.77%	0.96%	1.58%	5.18%	6.02%
MSCI AC Pacific ex Japan NR	2.20%	10.15%	4.60%	7.40%	6.29%

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)*

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, 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.

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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.

The forward Price Earnings Ratio (PER) is calculated by dividing the current market price of the stock or market by the forecast earnings per share and is expressed as a multiple of earnings.
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 7/31/20

1	Elite Material Co Ltd	3.48%
2	Tech Mahindra Ltd	3.47%
3	Zhejiang Supor Cookware	3.28%
4	Ascendas Real Estate Investment Trust	3.24%
5	QUALCOMM Inc	3.21%
6	Inner Mongolia Yili	3.17%
7	Novatek Microelectronics Corp	2.98%
8	Hanon Systems	2.93%
9	Largan Precision Co Ltd	2.88%
10	Catcher Technology Co Ltd	2.84%

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

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