

Guinness Atkinson  
**Asia Pacific Dividend Builder Fund (GAADX)**  
Review of January 2021

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#### **Fund and Market**

- In January, the Fund rose 2.78% compared to the market as measured by the Fund's benchmark, MSCI AC Pacific ex Japan Net Total Return (NTR) Index, which rose 4.08%. The Fund outperformed the MSCI AC Asia Pacific ex Japan Value NTR Index by 1.26%.
- Growth stocks, as measured by the MSCI Asia Pacific ex Japan Growth NTR Index rose 5.42% compared to a 1.51% rise in the equivalent Value index.
- The biggest sector rise in the month was in Communication Services, driven by Tencent, which rose over 20%, followed by the Consumer Discretionary and Technology sectors.
- China and Taiwan were the best-performing markets during the month, heavily influenced by Tencent and Taiwan Semiconductor respectively. The weakest countries were the Philippines (to which we have no exposure) and Malaysia.
- The Fund's performance was led by Chinese and Taiwanese stocks, but there was no sector concentration. The top five performers were China Medical Systems, Suofeiya Home Collection, China Merchants Bank, Hon Hai Precision and NetEase.
- The five weakest stocks were defensive names: Korean Reinsurance, KT&G and China Resources Gas, along with Largan Precision and Corporate Travel Management.
- Company results are beginning to come through. Taiwan Semiconductor, Tisco Financial, CapitaLand Integrated Commercial Trust and Tech Mahindra beat market forecasts while Largan's results were a little behind.

*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](http://www.gafunds.com).*

#### **Events in January**

- China reported economic growth for 2020 of 2.3%, making it probably the only major economy in the world to have recorded growth last year.
- The inauguration of Joe Biden as the 46<sup>th</sup> President of the United States has been greeted positively by markets following chaotic scenes earlier in the month. Markets anticipate a continued adversarial but less combative approach toward China.
- The UK is setting the pace on the COVID vaccine roll-out, which is drawing envious reactions around the world. Multiple vaccines are on offer, and the number is growing. An effective rollout program enables markets to form more concrete views on a timetable for exiting lockdowns.

- The EU, by contrast, is having a much worse time with its vaccine program, which will almost certainly mean an extended period of restrictions and some social unrest. At the very least, consumer confidence in the bloc is likely to remain at depressed levels for a while yet.
- US government bond yields have increased noticeably during the month. While short-term yields (on maturities out to three years) remain low, there has been a noticeable steepening in maturities beyond five years. This suggests bond markets are beginning to factor in a path to a post-COVID normalization and the effects of significant government spending and debt accumulation.

## Market review

Asian markets opened strongly in 2021, outperforming developed and non-Asian emerging markets in January. The MSCI AC Pacific ex Japan Index rose 4.08% in US dollar terms, while the S&P 500 Index was down -1.02% and MSCI Emerging Markets ex Asia fell 1.97%. This appears to reflect a growing collective view that Asia's relative economic strength during the COVID pandemic, coupled with a wide valuation discount to developed markets that prevailed at the end of 2020, makes the region look attractive.

Closer inspection of market performance supports that analysis to some extent: North Asian markets outperformed those of South and South-east Asia. China and Taiwan were the best performers, with the respective MSCI country indices up 7.36% and 6.52%; they were supported to a lesser extent by Hong Kong and Korea, which rose 1.99% and 1.18% respectively. In South and South-east Asia, Singapore rose 0.96%, Thailand was flat and the rest were down. Australia was unchanged.

Macro-economic performance provides a favorable backdrop but does not provide a complete explanation. The Growth style of investing also reasserted itself, at least at the index level (as measured by the MSCI AC Asia Pacific ex Japan Growth Index). Taiwan Semiconductor, which rose 12% in January, and Tencent, which rose over 20%, dominated the Growth index. Two other top-10 stocks in the Growth index, China food delivery business Meituan and Hong Kong Exchanges and Clearing (HKEX), also had a strong month, rising 20% and 18% respectively. The strength in HKEX is significant because it reflects another factor at play over the month, that of substantial investment flows from Mainland China into Hong Kong-listed Chinese stocks via the Stock Connect Scheme.

Stocks in the MSCI AC Asia Pacific ex Japan Value Index had a much weaker performance profile. This index has a lower stock concentration with its top 10 holdings accounting for 21% of the total as compared with the equivalent Growth index in which the top 10 stocks account for almost 60%. The Value index is heavily weighted toward Financials, Industrials and Materials, which were the weakest sectors during the month.

Asian currencies were mostly unchanged over the month but the Chinese renminbi, which is arguably the most important from market signaling perspective, continued its rise against the dollar, climbing 0.8%. The Korean Won fell almost 3% following its strong run in the last two months of 2020 but is still 3% above pre-

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COVID levels. The US dollar, which had been weakening against the world's major currencies at the end of 2020 and into the beginning of 2021, has reversed course and begun to strengthen once again. We think this reflects uncertainty around the time it will take for COVID vaccines to be deployed and thus the duration of economic disruption this year, and issues surrounding the new US administration's stimulus spending plans. From an Asian perspective, the 1.4% decline in the Japanese Yen makes the Korean Won decline (a trading competitor to Japan) less painful.

## Portfolio Review

The perhaps overly detailed discussion on the Growth and Value index styles and composition is designed to show that while looking at these styles can provide some explanation for the performance of markets and the Fund, it is far from complete. The Fund has a bias toward Value, but we still aim for growth in cash flows and earnings to underpin dividend growth; and the holdings in the portfolio are equally weighted. The Fund did well in January, especially given the performances of certain index heavyweights which pay a minimal dividend or none and therefore are not included in this strategy.

The aggregate Price/Earnings multiple for the portfolio at month-end was 12.0x consensus estimated forecast earnings (which are subject to change) and 11.2x consensus estimated earnings for the following year, compared to market valuations of 17.2x and 14.9x respectively. This puts the portfolio on a valuation discount to the market of 30% and 25% for each of the next two years. However, the earnings growth profile of the portfolio looks considerably more attractive than the discount would imply, in our opinion. Based, again, on consensus estimates as at the end of January 2021, the 3-year CAGR (Compound Annual Growth Rate) of earnings for the portfolio was 10.5% while that for the market was 9.9%. Furthermore, based on the changes to earnings estimates, it seems the market consensus is becoming more positive on stocks held in the Fund and appears to be paring back forecasts for the broader market.

This apparent disconnect between market valuations and forecast operational results may help the strongest and most immediate argument in favor of this strategy, in our view. Our focus on quality companies that have delivered attractive returns on capital and cash flow growth is designed to help identify those which have shown to sustain such levels of performance in the most challenging circumstances.

Companies are now beginning to report earnings either for the full year or for the fourth quarter (with results for the full year announcements accompanied by dividend declarations).

In January, **Largan Precision** reported fourth quarter results that were just short of the market forecast. Margins for the business are holding up as higher-resolution lenses make up an increased share of volume, but the overall sales outlook remains cloudy. Still, January sales were stronger than expected, so it is possible the coming quarter may surprise. **TSMC** has continued to go from strength to strength; fourth quarter earnings grew 23%, pushing full-year 2020 profits to a new record. Its technology leadership has continued to widen the gap with its peers, and as demand for chips has grown ever faster, the company announced a record annual capital expenditure spending plan in the coming year of \$28 billion. The company has

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maintained a flat dividend since it moved to quarterly payments in mid-2019, which lags the profit growth in 2020, but we would hope to see a resumption of dividend growth this year.

In Thailand, **Tisco Financial** reported a decent set of results which were better than market forecasts. The bank is well capitalized and well provisioned against non-performing assets but will still have to comply with the Central Bank's requirement for commercial banks to restrict dividends. Tisco has some flexibility on this score, according to the board chairman, because there are subsidiaries in the group which are not covered by the restriction, so the payout could be higher. **CapitaLand Integrated Commercial Trust** saw net property income rise in results for the fourth quarter, although this was boosted by the impact of the merger with CapitaMall Commercial Trust earlier in the year. The company continued to feel the effects of the pandemic on its retail and office portfolios but at the same time is reporting improvements in shop visitors and tenants. It would be fair to summarize the position as challenging but improving.

**Tech Mahindra**, our only Indian position, reported strong operating results for its third quarter ending in December. Margins improved with increased utilization and more project work done in India. We hold the stock for its exposure to the roll-out of 5G technology and the broad range of 5G applications in both the commercial and consumer areas. New project wins by the company continue to be an important driver of the share price. The company's financial year-end is March 31<sup>st</sup>, when we shall know more about the dividend.

In February, **Ascendas REIT** reported good second half results on its industrial properties and recorded a 6.7% increase in distributions for 2020. The company has had a busy year accumulating properties in the US, UK and Australia on top of its substantial Singapore portfolio. The company now owns 96 properties in Singapore (worth \$6.75bn), 37 in Australia (\$1.6bn), 30 in the US (\$1.6bn) and 38 in the UK (\$0.6bn).

**Aflac**, a US-headquartered insurance company with substantial revenues from Japan, reported fourth quarter results that were ahead of expectations. Aflac adopts a progressive dividend policy which in recent years has brought about increases of 4-5% per annum, but in November the trajectory was increased by 17.9% and has been sustained into the recent quarter. The company stated that the rise in the dividend was the 38<sup>th</sup> consecutive annual increase.

**Ping An Insurance** results for the fourth quarter were below market expectations but the annual dividend was still increased by 9%. The company appears to have taken the opportunity to report as many negative items as it can, which may help with potential growth for 2021. The most attention-grabbing was the shrinkage in the sales force, with the company turning its attention to driving growth by improving their quality and productivity rather than by simply adding bodies. **Novatek Microelectronics** reported strong results for the last quarter of 2020 with the outlook for gross margins in the 38%-41% range being the big surprise, and higher than expected. The company is a chip designer whose products are used in displays ranging from communications devices to TVs and cars. The news prompted a significant upgrade to earnings forecast for the coming year. The board usually declares its annual dividend in late April.

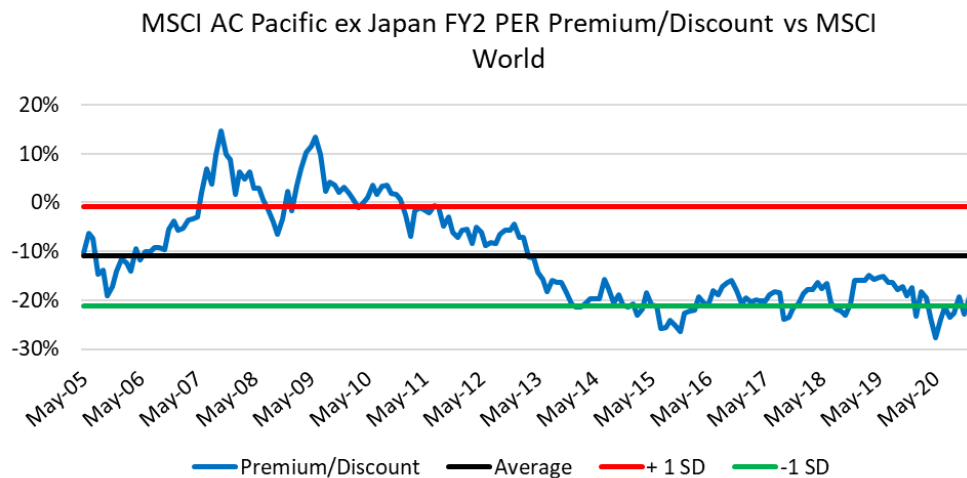
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**KT&G** reported fourth quarter earnings that almost triple those of the same period last year and beat estimates. The long-awaited improvement in export sales is now materializing. The company increased its 2020 dividend, which the market expected to be flat, by 9%. In a positive piece of news, **Hanon Systems**, which cut its quarterly dividend by 15% in 2020, raised its year-end distribution to restore the dividend for the full year back to the same level as 2019.

## Outlook

The outperformance of Asian markets versus the rest of the world in the first month of this year has closed the valuation discount to developed markets a little, but it still remains below the long-run average.



### *Past Performance Does Not Guarantee Future Results*

Source: Bloomberg, MSCI, Guinness Atkinson Asset Management. Data as of January 29, 2021

The macro-economic growth profile, especially in North Asia, appears to us to be significantly more robust than other parts of the world. North Asian management of the COVID pandemic has been more effective than in Europe and the US, generated less economic disruption and required less financial support.

There are plenty of challenges that lie ahead. US relations with China are likely to remain adversarial but, we hope, less volatile. In the Technology sector, there are concerns over the supply of semiconductor chips and the disruption now felt in the auto sector has prompted meetings between the US administration and Taiwanese producers. The shortages are partially the result of hoarding by Chinese companies facing sanctions and partially due to unexpectedly strong demand from several directions (PCs, smartphones, autos, cloud computing). The suspicion among the auto makers is that with tight production capacity at the chip makers, their supply is being curbed in favor of higher-margin chips for the consumer electronics sector. We would expect to see this resolved and new capacity will come on stream, with complexity rather than cost being the hurdle.

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The companies in the portfolio still trade in aggregate at a wide discount to Asian regional valuations and yet are forecast to grow earnings at a faster pace than the market. Company results seen so far give us plenty of encouragement that consensus forecasts present a realistic picture and could see further upgrades.

*Earnings estimates and revisions are based on consensus data gathered by Bloomberg. Data for the market, countries and sectors refer to the relevant MSCI regional, country and sector indices. These figures are current estimates at the time of writing (2/10/21) and are all subject to change.*

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

**Sharukh Malik** (analyst)

**Performance**

as of 1/31/2021	YTD	1 YR	3 YR	5 YR	10 YR
Asia Pacific Dividend Builder Fund	2.78%	24.98%	4.06%	12.99%	6.83%
MSCI AC Pacific ex Japan NTR	4.08%	33.36%	7.18%	16.03%	6.92%

as of 12/31/2020	YTD	1 YR	3 YR	5 YR	10 YR
Asia Pacific Dividend Builder Fund	13.90%	13.90%	4.63%	11.25%	6.30%
MSCI AC Pacific ex Japan NTR	23.04%	23.04%	8.14%	13.22%	6.46%

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

Expense Ratio: 1.10% (net); 4.02% (gross)\*

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*\*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, 2024. 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](http://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. When inflation rate is greater than expected, that markets may respond differently to changes in the inflation rate than the Advisor expects, or inflation may manifest in such a way that the Fund is unable to provide reasonable protection against inflation.

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.

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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 1/31/21

1	Ascendas Real Estate Investment Trust	3.74%
2	Hon Hai Precision Industry Co Ltd	3.29%
3	China Medical System Holdings Ltd	3.11%
4	NetEase Inc - ADR	3.11%
5	CapitaLand Integrated Commercial Trust	3.06%
6	China Merchants Bank Co Ltd - H Shares	3.03%
7	Tech Mahindra Ltd	2.95%
8	Novatek Microelectronics Corp	2.94%
9	Taiwan Semiconductor Manufacturing Co Ltd	2.91%
10	Public Bank Bhd	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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