
Summary Review & Outlook

Fund & market

- MSCI China fell 4.8% while MSCI Hong Kong fell 4.5%. Onshore markets were stronger, with the Shenzhen Component Index rising 3.3% and the Shanghai Stock Exchange Composite Index falling 1.5%.
- In MSCI China, the strongest sectors were Information Technology (+3.7%), Health Care (+0.8%) and Communication Services (-1.0%) while the weakest were Real Estate (-14.5%), Energy (-10.4%) and Materials (-9.0%).
- In Hong Kong, the Financials and Real Estate sectors, which are by far the largest parts of the local index, were down 2.9% and 7.6% respectively.

Events in January

- The coronavirus epidemic spread across China, leading to an unprecedented shutdown of Wuhan city. Travel across the rest of the country was restricted. The New Year holidays were extended to Feb 10th but we expect further disruption.
- The US and China officially signed phase one of the trade deal. Broadly speaking, existing tariffs will remain in place. The deal requires China to buy at least \$200 billion of goods and services from the US, including agricultural goods, airplanes, pharmaceuticals and energy products. The deal also led to commitments by the Chinese to:
 - Not significantly devalue the Renminbi to make Chinese exports more competitive, and to regularly disclose foreign exchange reserve data. Note that China has been bound by these commitments for some years as part of its membership of the G20.
 - Protect intellectual property rights through stronger legal protections and stop the forced transfer of technology to Chinese firms.
 - Open up the economy to foreign financial companies in insurance, banking and asset management. China has been making progress on this front over the past year e.g. asset management companies will be allowed majority control over their operations in China this year, while last year foreign firms received approval to run majority owned securities joint ventures.
- The deal does not, however, target the structure of the Chinese economy i.e. the use of subsidies and state-owned enterprises (SOEs). This will be a much more contentious discussion which will take time to resolve.
- Due to the handling of the protests in Hong Kong, the head of the Liaison Office was replaced. The Liaison Office is the official representative of the Chinese government in Hong Kong.
- The UK allowed Huawei into non-core parts of the network, limiting the company to 35% market share. BT estimates it will spend £500m over the next five years to replace Huawei equipment, while Vodafone estimates it will cost €200m to do the same. While both figures sound large, they are just a fraction of each company's capital expenditure.

Portfolio Update

The coronavirus originated in a seafood market in Wuhan, the capital city of Hubei Province, in December. Reports trickled through over the following weeks, but it was only on January 23rd that the central government took decisive

action, essentially shutting down Wuhan. Travel was restricted across the rest of the country and people mainly only ventured out of their homes for essential needs.

For now, the vast majority of cases are in China and most of these cases are in Hubei Province. But it is clear the virus is spreading beyond China's borders as cases have been reported in Europe and the US. The data shows the mortality rate is much higher in Hubei Province than in the rest of China. At least 4,200 people have recovered from the virus so far. At the beginning of the crisis, Hubei Province seemed overwhelmed by the number of people turning up at hospitals and this may be one of the causes of the higher mortality rate. At the moment, the lower death rate in other provinces and other countries suggests that if the infrastructure is in place, the virus can be dealt with. Most deaths seem to be people who already had a pre-existing medical condition and therefore, weaker immune systems.

The growth in the rate of confirmed cases has stabilized, though we are cautious on the quality of this data point. There are likely people who have moderate signs of the virus and have not been diagnosed. A change in methodology at the beginning of February meant those who were tested positive for the virus in China, but showed no signs of symptoms, were not classed as confirmed cases.

It is difficult to accurately judge the impact of the virus on the companies in the portfolio. On the supply side, the New Year holidays were extended to Feb 10th and depending on the province, it will take a little longer for factories to be restarted. On the demand side, the virus struck in the run up to the New Year holidays, a period known for high consumer spending, and so it is likely first quarter GDP growth will be lower than expected. But monetary policy has been used to help the economy as the PBOC injected \$174 billion of funds into the banking system to ensure ample liquidity. The People's Bank of China (PBOC) is also offering \$59.6 billion in loans to businesses affected by the virus.

Summary view & outlook

Despite the short-term implications of the virus, the long-term case for holding the businesses in the Fund remains the same as it was a month ago. Our companies have persistently achieved a return on capital well above the cost of capital. Our companies are not highly levered and so they should be able to cope with the slowdown in business that is expected in the first quarter. Debt/equity for the portfolio, excluding the three banks, is 48% i.e. the Fund is not highly geared. If we look at net debt/equity, which subtracts cash from debt, the figure is -8% i.e. our companies could in theory pay back all of their debt with cash.

The Fund started the year trading at a 18% discount to the MSCI Zhong Hua Index, based on consensus estimates of 2020 earnings. This is despite the fact that the companies in the Fund are expected to grow earnings, in aggregate, at 11%. This is just below 13% for the MSCI Zhong Hua Index. Over time, we expect this valuation gap to close and the Fund should benefit as the market recognizes the undervalued companies it holds.

Edmund Harriss (portfolio manager)

Performance

As of 1/31/2020	YTD	1 Year	3 Year	5 Year	10 Year
China & Hong Kong Fund (ICHKX)	-8.51%	7.71%	9.64%	5.69%	3.71%
Hang Seng Composite Index TR	-5.97%	0.71%	7.57%	4.82%	5.82%

As of 12/31/2019	YTD	1 Year	3 Year	5 Year	10 Year
China & Hong Kong Fund (ICHKX)	30.00%	30.00%	15.58%	8.00%	3.91%
Hang Seng Composite Index TR	15.36%	15.36%	12.00%	6.78%	4.92%

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

Expense Ratio: 1.54%

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 shown is current to the most recent month and quarter end. To obtain performance as of the most recent month end, please visit www.gafunds.com or call 1-800-915-6565. Total returns reflect a fee waiver in effect and in the absence of this waiver, the total returns would be lower. 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.

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. The China and/or Hong Kong stock markets in which the Fund invests may experience periods of volatility and instability. These fluctuations may cause a security to be worth less than it was at the time of purchase. Market risk applies to individual securities, a particular sector or the entire economy. China and/or Hong Kong stocks may fall out of favor with investors, the

value of Chinese currencies may decline relative to the U.S. dollar and/or China or Hong Kong stock markets may decline generally. The Fund invests in small-cap or mid-cap, which involve additional risks such as limited liquidity and greater volatility, than investments in larger companies.

One cannot invest directly in an Index.

Hang Seng Composite Total Return Index is a market capitalization weighted index that monitors the performance of stocks listed in Hong Kong.

The MSCI Zhong Hua Index is a composite index that comprises the MSCI China and MSCI Hong Kong Index. The index captures large and mid-cap representation across all China securities (B shares, H shares, Red Chips, PChips and foreign listed shares) as well as Hong Kong securities.

MSCI China Index captures large and mid cap representation across China A shares, H shares, B shares, Red chips, P chips and foreign listings (e.g. ADRs). With 703 constituents, the index covers about 85% of this China equity universe.

MSCI Hong Kong Index is a capital weighted stock index designed to measure the performance of the large and mid cap segments of the Hong Kong market. It has 48 constituents and covers approximately 85% of the free float-adjusted market capitalization of Hong Kong equity stocks.

Shanghai Composite Index, also known as SSE Index, is a stock market index of all stocks that are traded at the Shanghai Stock Exchange.

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 1/31/2020:

1.Tongda Group Holdings Ltd	4.23%
2.China Lesso Group Holdings Ltd	3.72%
3.Alibaba Group Holding Ltd	3.66%
4.NetEase Inc - ADR	3.62%
5.Anhui Conch Cement Co Ltd - H Shares	3.58%
6.Shenzhen Expressway Co Ltd - H Shares	3.50%
7.Tencent Holdings Ltd	3.47%
8.New Oriental Education & Technology Group Inc	3.43%
9.Haier Electronics Group Co Ltd	3.41%
10.China Medical System Holdings Ltd	3.33%

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

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