Guinness Atkinson

China & Hong Kong Fund

Managers' Update – January 2022

Summary Review & Outlook

Market

- In January, MSCI China fell 2.9% (in USD) and MSCI Hong Kong rose 1.0%. The CSI 300 Index, which covers the largest stocks in the onshore market, fell 7.7%.
- MSCI China Value fell 1.2% while MSCI China Growth fell 4.6%. The MSCI China A Onshore Value Index fell 5.7% while the MSCI China A Onshore Growth Index fell 12.2%.
- In MSCI China, the strongest sectors were Real Estate (total return +8.6%), Energy (+6.5%) and Financials (+5.7%), while the weakest were Health Care (-14.8%), Information Technology (-13.5%) and Utilities (-12.6%).
- In Hong Kong, the Real Estate and Financials sectors rose 0.9% and 1.7% respectively.

Events

- With Omicron rapidly becoming the dominant strain of covid worldwide, China's policy of maintaining zero-covid cases becomes harder. Lockdowns were introduced in Xi'an, Tianjin and even parts of Beijing. Cases were falling throughout the month but the start of the Winter Olympics has led to more cases being detected.
- The People's Bank of China (PBOC) cut the 7-day reverse repo rate by 0.1% to 2.1%. It also cut the 1-year medium lending facility (MLF) rate by 0.1% to 2.85%. The bank loan prime rate (LLPR) was cut by 0.1% to 3.7% and the 5-year LPR rate was cut by 0.05% to 4.6%. While these moves are encouraging in that they signal a loosening of monetary policy, we do not regard them as significant enough to stimulate economic growth.
- The difficulty China has is that there is already a significant amount of debt within the economy, which we think the government is keen on limiting. Cutting broad interest rates to stimulate growth is likely to add to this debt, so there is a fine balancing act between the need to stimulate growth and the need to ensure debt does not grow too quickly. Cutting domestic interest rates while US rates are increasing could also lead to downward pressure on the Renminbi, which is another consideration.
- Chinese fourth quarter GDP growth for 2021 was 4.0% year-on-year, beating expectations. In 2021, GDP grew 8.1%, marking a recovery from 2020.
- But December data was mixed. Retail sales only grew 1.7%, with a notable 7% drop in auto sales due to the ongoing chip shortage. Industrial production grew 3.5%, with tech growing 14% but cement and steel falling 17% and 23% respectively. Data from the property market remains weak.
- Consumer price inflation (CPI) remains under control, as headline CPI fell from 2.3% in November to 1.5% in December. Producer price inflation (PPI) remains high but fell from 12.9% in November to 10.3% in December.

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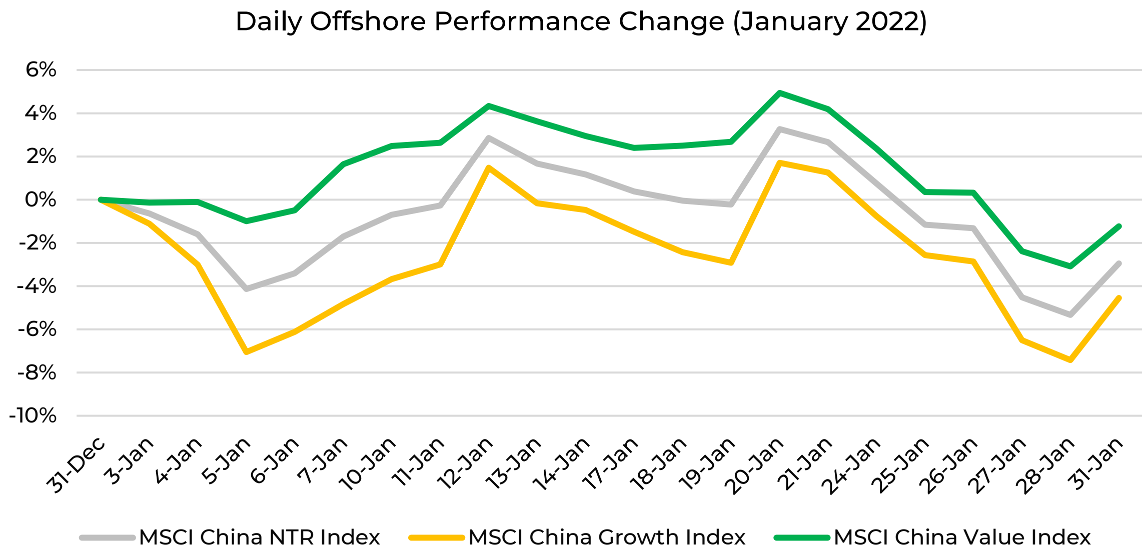
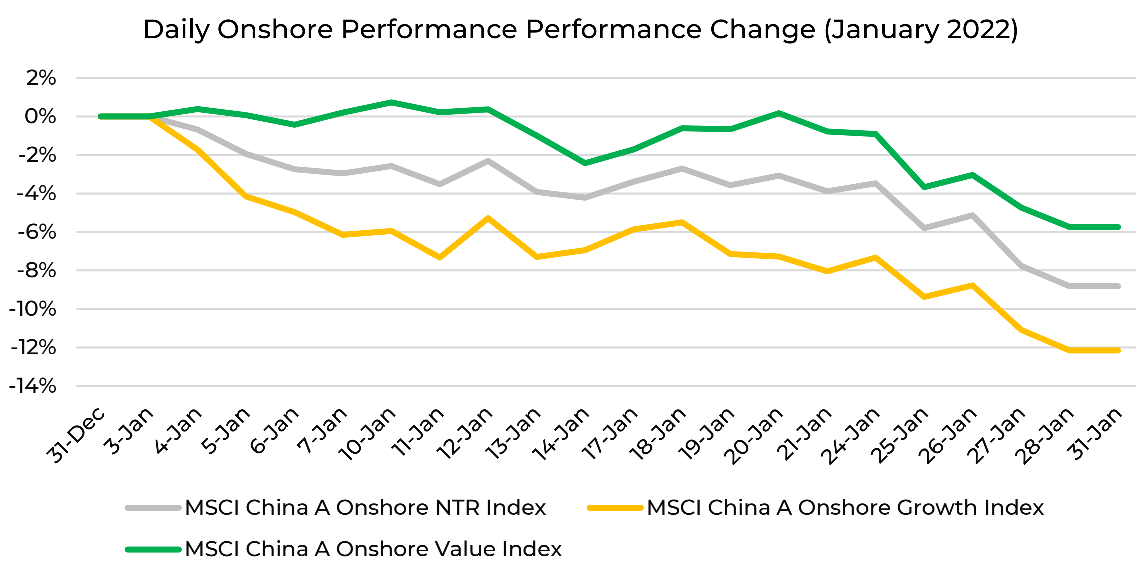
Market Commentary



(Data from 12/31//21 to 01/31//22, returns in USD, source – Bloomberg, Guinness Atkinson calculations)



(Data from 12/31/21 to 01/31/22, returns in USD, source – Bloomberg, Guinness Atkinson calculations)

Onshore markets were noticeably weak in January, with the CSI 300 Index falling 7.7% and the MSCI China A Onshore NTR Index falling 8.8%. We think the A share market was weak due to multiple reasons:

- The expectation of rising interest rates in the US led to a sell-off in higher growth and more expensive names in developed markets, which fed through to the A share market. The MSCI China

A Onshore Growth Index fell 12.2%, falling much more than the MSCI China A Onshore Value Index which fell 5.7%.

- Continued weakness in the property market is affecting sentiment. While certain interest rates have been cut, a cut of 0.1% is not significant enough to boost growth, and so perhaps onshore markets were pricing in more aggressive monetary easing.

Offshore stocks, listed in Hong Kong and the US, were better performers as they started the year cheaper than the onshore stocks, and so were less exposed to rising interest rate expectations. The tech stocks affected by last year's regulations are listed in Hong Kong, and so already suffered from a derating last year. On the other hand, the A share market was up in 2021 and started the year more expensive, and so was more exposed to rising interest rate expectations.

Stock Commentary

In the Fund, China Overseas Land Investment (COLI) was the strongest stock in the portfolio. It is a state-owned property developer which is conservatively financed, meaning it has not breached any of the debts limits set by the so called three red lines policy. As the property market has weakened following Evergrande's troubles, COLI has been much more active in land auctions, taking advantage of its competitors' weaknesses. It has even acquired projects from distressed property developers such as Shimao and Agile in the past month.

China Lesso makes pipes used in property and infrastructure developments. Its share price bounced in January on no stock specific news, but we think was likely in anticipation of infrastructure stimulus and support for the property market. This should lead to a recovery in demand for Lesso's products.

Geely was the weakest stock, reflecting the weakness in China auto stocks more broadly. Shortages of chips have constrained production for automobile manufacturers globally, leading to the weak auto sales seen in retail sales data. Despite these challenges, Geely increased its sales volume by 1% in 2021 and in Dec-2021, more than 10% of its sales were in electric vehicles. The company is now targeting a 24% volume increase in 2022.

Reflecting the weakness in the A share market, generally the Fund's A shares were the weaker stocks in the portfolio, while the offshore stocks performed relatively better.

Outlook

We think in the context of rising interest rates in the US, investors should be looking at China. While the US is tightening monetary policy, China is in the process of loosening monetary policy. American indices are trading at high multiples relative to their long-term average, while China is trading in line with its average. We are seeing some well-known American growth stocks disappoint in their results announcements in early February, leading to very sharp sell-offs. In China, given the weakness over the past 12 months, valuations and expectations are more reasonable.

Our companies have in aggregate grown net income by 13% a year over the past 10 years i.e. they have shown they can translate the structural growth opportunities into consistent earnings growth. We believe at current prices, the Fund's focus on quality, growing companies which gives exposure to the structural growth opportunities in China is worth considering.

Edmund Harriss (portfolio manager)

Sharukh Malik (portfolio manager)

Performance

As of 01/31/2022	YTD	1 Year	3 Year	5 Year	10 Year
China & Hong Kong Fund (ICHKX)	-2.39%	-16.04%	7.09%	8.48%	5.14%
Hang Seng Composite Index TR	-0.17%	-18.38%	2.18%	5.69%	5.91%
MSCI China Net Total Return Index	-2.95%	-29.24%	3.03%	7.28%	5.75%

As of 12/31/2021	YTD	1 Year	3 Year	5 Year	10 Year
China & Hong Kong Fund (ICHKX)	-6.70%	-6.70%	11.58%	10.53%	6.48%
Hang Seng Composite Index TR	-13.89%	-13.89%	4.80%	6.99%	6.96%
MSCI China Net Total Return Index	21.72%	-21.72%	7.76%	9.35%	7.16%

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

Expense Ratio: 1.60%

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. 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 invest 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.

The Shanghai Shenzhen CSI 300 Index is a market capitalization-weighted stock market index designed to replicate the performance of the top 300 A-share stocks traded in the Shanghai and Shenzhen stock exchanges.

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

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.

The MSCI China A Index captures large and mid-cap representation across China securities listed on the Shanghai and Shenzhen exchanges. The index covers only those securities that are accessible through "Stock Connect".

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.

MSCI China Value Index captures large and mid cap Chinese securities exhibiting overall value style characteristics. The value investment style characteristics for index construction are defined using three variables: book value to price, 12-month forward earnings to price, and dividend yield.

MSCI China Growth Index captures large and mid cap securities exhibiting overall growth style characteristics across the Chinese equity markets.

In China, the Caixin Manufacturing PMI Purchasing Managers' Index measures the performance of the manufacturing sector and is derived from a survey of private 430 industrial companies.

China Manufacturing Purchasing Managers Index (PMI) provides an early indication each month of economic activities in the Chinese manufacturing sector. It is based on data collected by the National Bureau of Statistics (NBS).

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

The MSCI China A Onshore Value Index captures large and mid capitalization stocks listed in Shanghai or Shenzhen, which are deemed by MSCI to show overall value style characteristics.

The MSCI China A Onshore Growth Index captures large and mid capitalization stocks listed in Shanghai or Shenzhen, which are deemed by MSCI to show overall growth style characteristics.

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 1/31/2022:

1.	NARI Technology Co Ltd	5.60%
2.	NetEase Inc	4.50%
3.	China Resources Gas Group Ltd	4.17%
4.	Inner Mongolia Yili - A Shares	4.12%
5.	China Overseas Land & Investments Ltd	4.01%
6.	CSPC Pharmaceutical Group Ltd	3.85%
7.	JD.com Inc	3.74%
8.	Wuxi Lead Intelligent Equipment Co Ltd	3.62%
9.	Shenzhen H&T Intelligent Control Co., Ltd.	3.52%
10.	China Lesso Group Holdings Ltd	3.39%

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

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