Guinness Atkinson
China & Hong Kong Fund
Managers' Update – June 2022

GUINNESS ATKINSON FUNDS

Summary Review & Outlook

Summary View

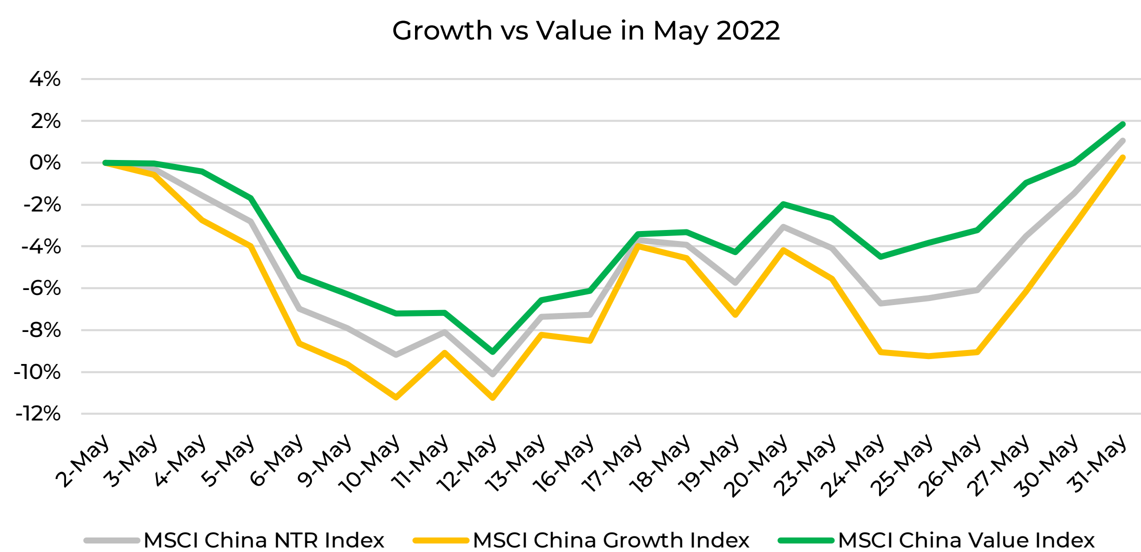
- In May, the MSCI China Total Return Index ("MSCI China Index") rose 1.2% (in USD unless otherwise stated). MSCI China Value rose 1.8% while MSCI China Growth rose 0.3%.
- The lockdown in Shanghai was lifted while Beijing seems to have averted following its fate. Covid cases are moving in the right direction which is good for the economy but China remains committed to its zero covid policy. Therefore, we expect to continue to see outbreaks across the country which will have implications for the economy.
- Policymakers released further details on stimulus which included tax rebates worth CNY 140 billion (bn) and a deferral of social security premium payments worth CNY 320 bn. Our view is that though the loosening of fiscal policy is encouraging, many of the policies are focused on the supply side and so encourage an increase in investment and production. Consumption growth has lagged production growth since Covid started because the government has mostly focused on supply side stimulus. Therefore, we would like the government to announce more consumption boosting policies which would also have the effect of increasing consumption's share of economic growth.
- The NBS Purchasing Managers Index (PMI), which is more geared towards state-owned firms, rose from 47.4 in April to 49.6 in May. The Caixin PMI, which is more geared towards private firms, rose from 46.0 in April to 48.1 in May. These data points indicate a recovery in economic activity compared to April, though since both are below 50, still indicate weak economic activity.
- The five year loan prime rate was cut by 0.15% to 4.45%, lowering the cost of mortgages. Banks are now also allowed to offer a further 0.20% below the benchmark rate, meaning an effective 0.35% cut in mortgage rates. Given new home prices fell for the first time in many years, it is no surprise policymakers are loosening credit towards the property sector. This cut follows individual cities lowering home purchase restrictions and down payment requirements.

Market Commentary

Chinese markets rose by 1.2% in May (in USD) but the month really had two phases. In the first half, Chinese markets had fallen by as much as 10.0%, as Shanghai was still in lockdown and fears were building that Beijing would follow too. However, as Covid case rates began to improve and further economic stimulus was announced, markets rebounded over the rest of the month, meaning Chinese markets rose in May.

(Data from 04/30/22 to 05/31/22, returns in USD, source: Bloomberg, Guinness Atkinson calculations)

In May, value stocks performed better than growth stocks, as the MSCI China Value Index rose 1.8% while the Growth Index rose by 0.3%.



(Data from 04/30/22 to 05/31/22, returns in USD, source: Bloomberg, Guinness Atkinson calculations)

The strongest sectors were Utilities, Energy and Information Technology. The weakest were Real Estate, Health Care and Communication Services. Within Energy, coal companies were strong due to rising coal prices for the export market. Real Estate names were soft as government support for the sector was weaker than expected.

(Data from 04/30/22 to 05/31/22, returns in USD, source: Bloomberg, Guinness Atkinson calculations)

Company Updates

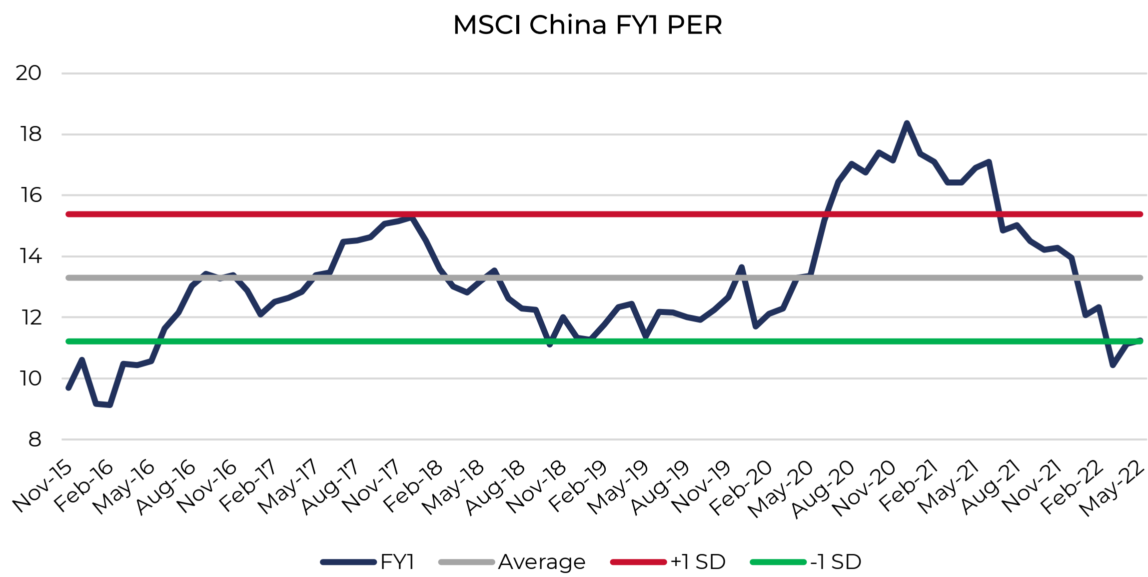
Geely is a well-known automobile manufacturer whose parent company also owns Volvo. Management do not expect production to reach capacity until the first week of June, mostly due to issues with its smaller suppliers. The company was expecting the government to cut the purchase tax for automobiles priced up to RMB 120k, but the government extended the tax cut to cars costing up to 300k. This was a positive surprise as it is likely to boost sales for a greater number of cars, leading to a rally in Geely's share price.

Despite the lockdowns, Inovance is still targeting revenue growth of 25-50% in 2022, with growth spread across the industrial automation, electric vehicle components and industrial robots segments. Management say demand in April and May was solid despite the macro headwinds as weakness from traditional sectors was offset by strength in renewable energy and advanced manufacturing clients. Like we saw with the first lockdown in 2020, Inovance is performing better than its foreign competitors in the Chinese market, as its better execution is leading to better delivery rates.

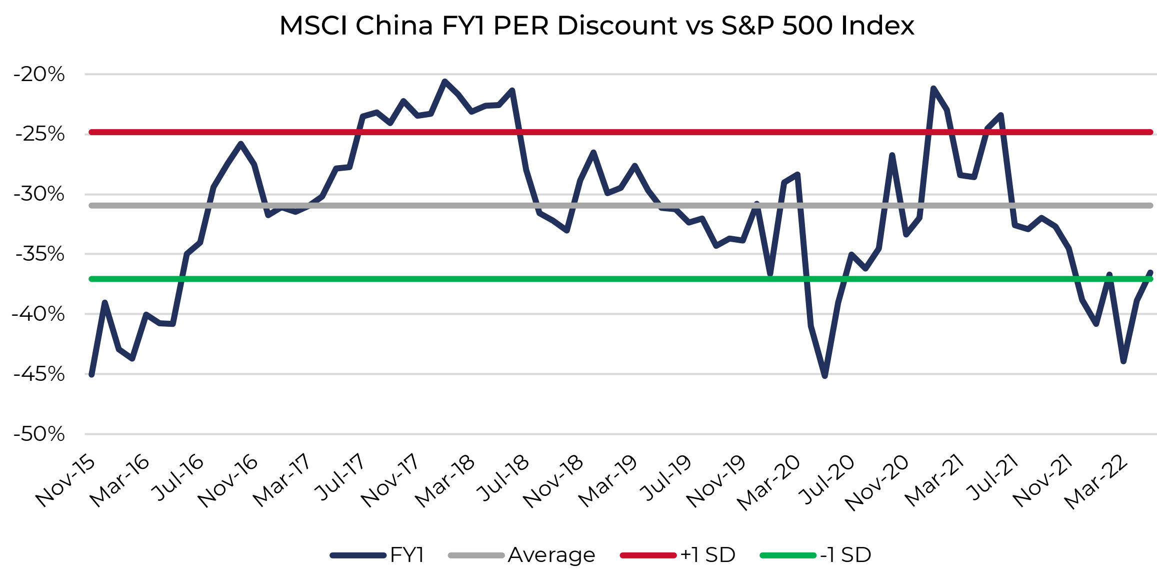
Outlook

As of early June, there has been an uptick in interest in Chinese stocks. A potential end to the probe into Didi (the Chinese equivalent of Uber), allowing the company to sign up new users, improved sentiment towards Chinese stocks. This was followed by the next batch of approval for video games, leading to a rally for the Internet stocks. The Fund's exposure to these rallies comes through e-commerce (Alibaba and JD.com), video games (Tencent and Netease) and search (Baidu).

We think China remains attractive from an investment point of view, one of the reasons for which is the supportive risk reward ratio. The country trades on 11.2x on a one forward year price earnings ratio, which is one standard deviation below the average since 2015. One may fairly argue that China often trades at a discount to the US, so we also show MSCI China's historical discount to the S&P 500. It remains significant at 37%, levels which last persisted in late 2015/early 2016, which was a similarly bearish period for China. Expectations, in our view, are undemanding for Chinese equities and so positive surprises are likely to be well received.



(SD = Standard Deviation)(Data from 11/30/15 to 05/31/22, returns in USD, source: Bloomberg, Guinness Atkinson calculations)



(SD = Standard Deviation)(Data from 11/30/15 to 05/31/22, returns in USD, source: Bloomberg, Guinness Atkinson calculations)

Edmund Harriss (portfolio manager)

Sharukh Malik (portfolio manager)

Guinness Atkinson

China & Hong Kong Fund

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Performance

As of 05/31/2022	YTD	1 Year	3 Year	5 Year	10 Year
China & Hong Kong Fund (ICHKX)	-16.66%	-28.28%	2.57%	2.83%	4.38%
Hang Seng Composite Index TR	-10.75%	-28.47%	-0.94%	1.29%	5.44%
MSCI China Net Total Return Index	-16.73%	-35.92%	-0.11%	1.31%	5.03%

As of 03/31/2022	YTD	1 Year	3 Year	5 Year	10 Year
China & Hong Kong Fund (ICHKX)	-15.16%	-25.13%	0.31%	3.97%	3.58%
Hang Seng Composite Index TR	-8.83%	-24.19%	-2.49%	2.88%	4.77%
MSCI China Net Total Return Index	-14.19%	-32.54%	-3.01%	3.51%	4.54%

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

Expense Ratio: 1.50%

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.

In China, the NBS Manufacturing Purchasing Manager Index measures the performance of the manufacturing sector and is derived from a survey of more large-scale, state-owned companies. The Manufacturing Purchasing Managers Index is based on five individual indexes with the following weights: New Orders (30%), Output (25%), Employment (20%), Suppliers' Delivery Times (15%) and Stock of Items Purchased (10%), with the Delivery Times index inverted so that it moves in a comparable direction.

The Caixin PMI measures the performance of the manufacturing sector and is derived from a survey of more private companies.

MSCI AC Asia Pacific ex Japan Index is free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of countries in the Asia Pacific region.

MSCI Europe Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of European markets.

MSCI EM Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of Emerging markets in Asia, Europe, Middle East, Africa and Latin America.

MSCI EM ex China is the same as the MSCI Emerging Markets Index but excludes China.

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 Golden Dragon is a composite of the MSCI China, Hong Kong and Taiwan Indices which are free float-adjusted market capitalization weighted indices that is designed to measure the equity market performance of the respective markets.

MSCI Japan Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of the Japanese market.

MSCI World Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed markets.

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

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.

S&P 500 Index is a market-capitalization-weighted index of leading publicly traded companies in the U.S.

Price/Earnings ratio (P/E) is an equity valuation multiple. It is defined as market price per share divided by annual earnings per share

Discounted cashflow measures future cashflows in terms of today's value using discount rates.

Standard deviation (SD) is a statistic that measures the dispersion of a dataset relative to its average.

The Required Reserve Ratio (RRR) is how much of a bank's capital that must be kept as reserves.

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 5/31/2022:

1.	NetEase Inc - ADR	4.80%
2.	China Overseas Land & Investments Ltd	4.24%
3.	NARI Technology Co Ltd	4.18%
4.	AIA Group Ltd	3.89%
5.	Xinyi Solar Holdings Ltd	3.84%
6.	JD.com Inc	3.78%
7.	Baidu Inc	3.64%
8.	China Medical System Holdings Ltd	3.59%
9.	Shenzhou International	3.59%

10.	Haier Smart Home Co Ltd	3.58%

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

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