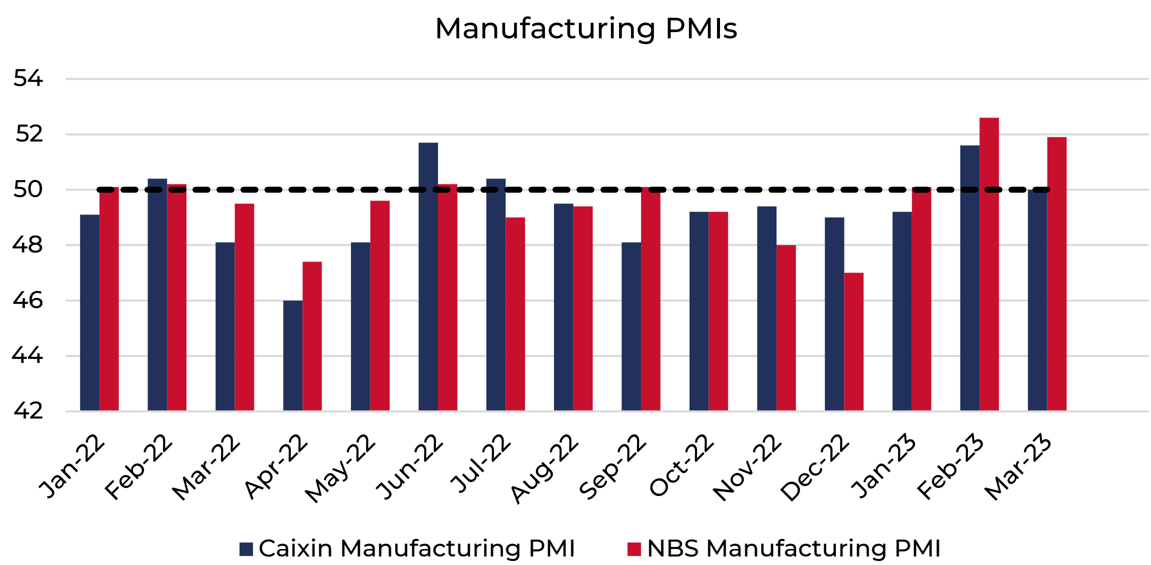
Guinness Atkinson
China & Hong Kong Fund
Managers' Update – Q1 2023

Summary View

- In the quarter, the Fund's strongest stocks were Baidu, Venustech and Netease. The Fund's weakest stocks were JD.com, Geely and Hangzhou First Applied Material.
- We bought TravelSky, which processes most flights in China. In its place we sold Shengyi Technology which makes the base material for printed circuit boards.
- The Fund is trading on a forward year price/earnings ratio of 14.7x. Compared to the existing holdings' historic valuations, the Fund is trading at nearly two standard deviations below its historic average. Given the growth profile of the Fund, we believe now is a good time to be investing in China.

Macro Commentary

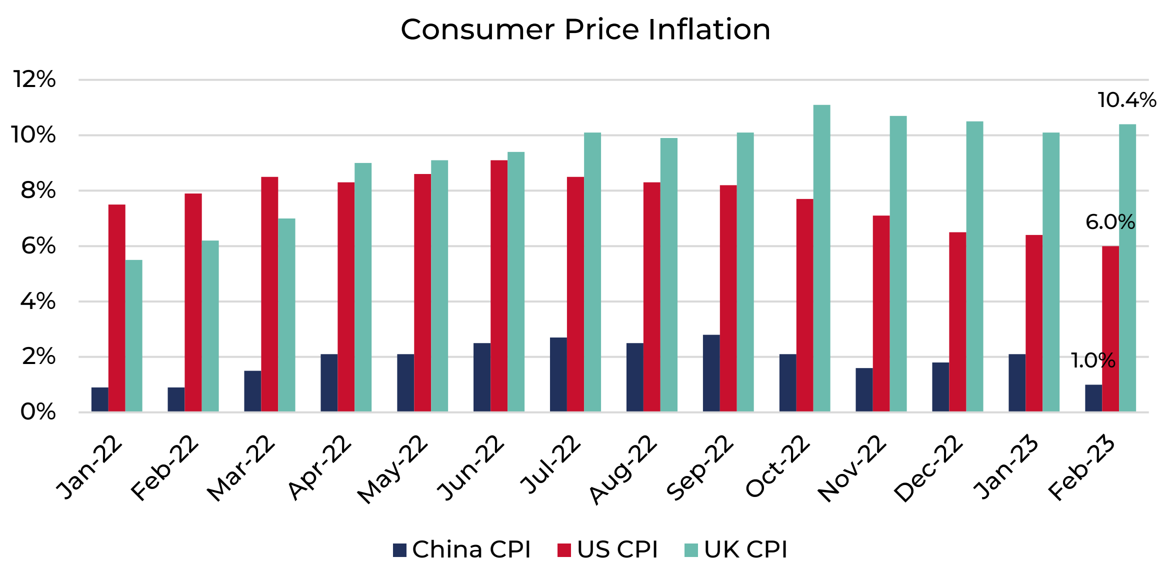


(Data from 12/31/21 to 03/31/23. Source: Bloomberg, Guinness Atkinson calculations)

High-frequency data points do show a recovery in China now that it has moved on from its zero-COVID policy. The Caixin Manufacturing Purchasing Managers Index (PMI), which is more geared towards private businesses, increased to 51.6 in February and moderated to 50.0 in March (a value above 50.0 indicates strengthening activity). This marked the first set of expansionary readings since July 2021. The National Bureau of Statistics (NBS) Manufacturing PMI, which is more geared towards state-owned firms, also rose to above 50 for each month of the quarter. The discrepancy in PMIs in March may reflect the Caixin PMI's larger sensitivity to exports and the NBS PMI's larger sensitivity to domestic demand. Exports are likely to be a drag on China's growth due to weakening global demand, while recovering domestic demand is likely to be a strong driver of growth.

(Data from 11/30/22 to 02/28/23. Source: Bloomberg, Guinness Atkinson calculations)

As China has opened up, there has been a clear improvement in consumer confidence. After bottoming in November as COVID spread and lockdowns were introduced, consumer confidence has been increasing for several months as restrictions have been gradually unwound. This should be supportive for a revival in consumption demand. In the first two months of the year, retail sales grew 3.5% and restaurant sales rose 9.2%. In our view, China is attractive precisely because of this recovery in growth, which is contrast to the developed world, where in general, confidence is weak.

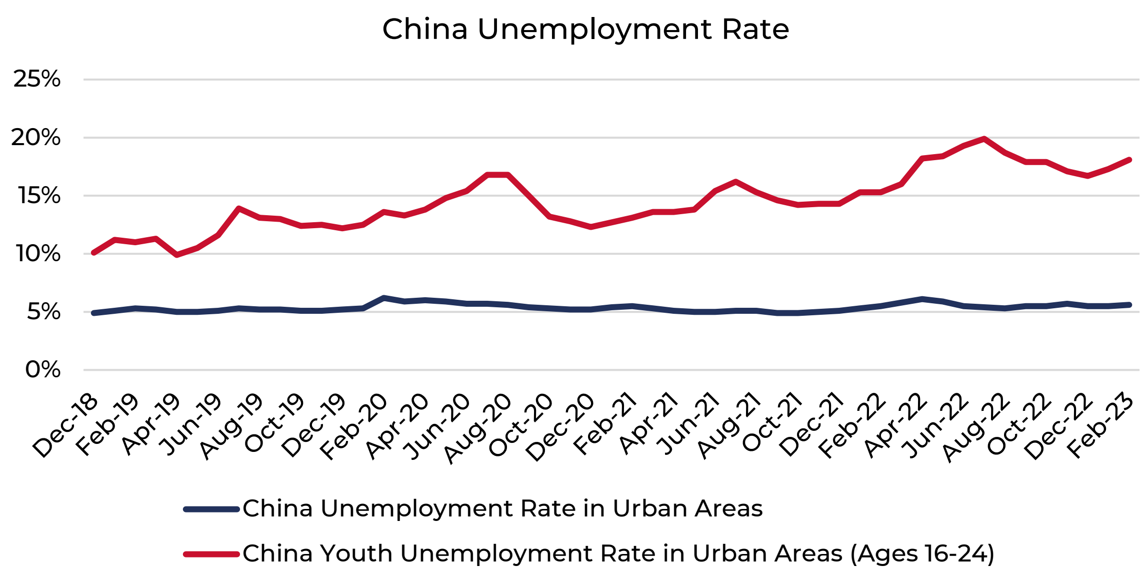


(Data from 12/31/21 to 02/28/23. Source: Bloomberg, Guinness Atkinson calculations)

Consumer price inflation (CPI) is currently not a concern in China. CPI fell from 2.1% in January to 1.0% in February, driven by lower food inflation. As China recovers from COVID, we think inflation may not reach developed market levels, due to several reasons. First, the level of excess savings in China built up from COVID is unlikely to be as high as in the United States, where the federal government directly gave each person $1,200. Secondly, the labor market in China remains slack, as the unemployment rate is 5.6% compared to 3.5% in the United States. Thirdly, pork prices which at times can be an important driver of CPI, are falling as the supply of hogs increases. Meanwhile, producer price inflation (PPI) continues to fall, from -0.8% in January to -1.4% in February.

However, while the broad story shows a recovery in China, there are areas of weakness. In the first two months of the year, industrial revenue fell 1% and industrial profits fell 23%. Delving deeper into the data, profits in downstream sectors fell 1% but in upstream sectors they fell 48%. Notably weak areas were chemicals, non-metallic minerals, automobiles and computers. We expect to see better profitability as Chinese demand recovers in the coming months.

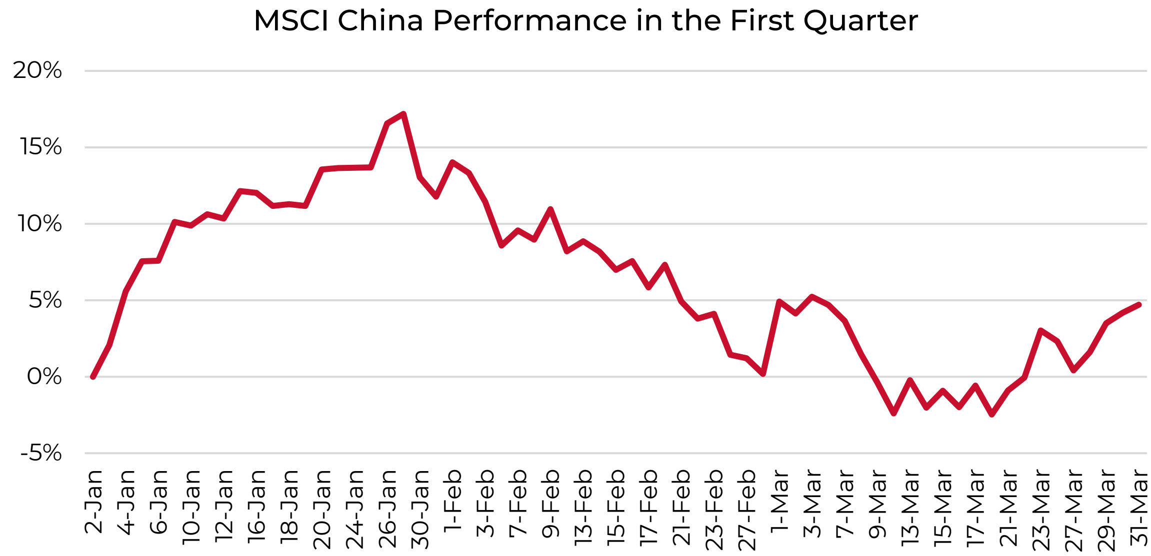
The property market remains relatively weak. Sales for the top 100 property developers in March were around a quarter lower than their recent average. However, this headline figure masks significant divergence between state-owned developers and their private counterparts. Sales for state-owned developers were up 35% compared to their four-year average, whereas sales for private developers were down 30% and sales for distressed developers were down 67%.



(Data from 12/31/18 to 02/28/23. Source: Bloomberg, Guinness Atkinson calculations)

Unemployment figures can have data quality issues, of course, but the overall trend indication is still useful. The unemployment rate for young people rose in 2022 due to the impact of lockdowns and even with the recovery so far in China, it remains high. For example, in February the youth unemployment rate in urban areas was 18.1%. As domestic demand recovers, we expect a gradual decline in the youth unemployment rate this year. Strong economic growth is necessary for this to be realized, and we note that the government set its GDP growth target for 2023 at "around 5%". Most are expecting higher growth than this and we interpret the government's announcement as the minimum target. In the past, growth has on occasion come in higher than targeted, such as in 2021, when the target was "above 6%" but actual growth was more than 8%.

Market Review

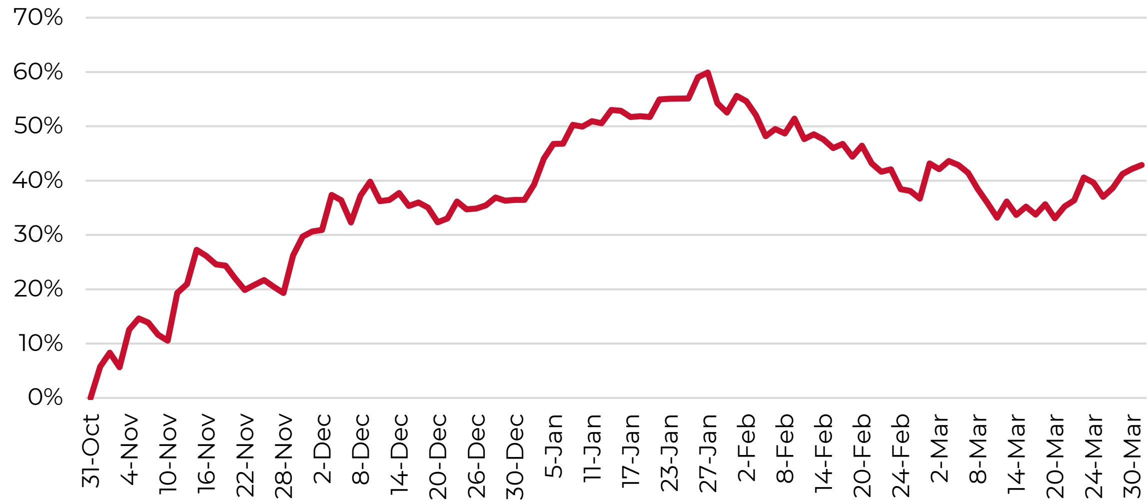


(Data from 12/31/22 to 03/31/23, returns in USD, source: Bloomberg, Guinness Atkinson calculations.)

China started the year strongly, as investors targeted the reopening trade. In January the MSCI China Index rose 11.8% compared to the MSCI World Index which rose 7.1%. However, China gave back the gains made in January over the course of February and much of March. In our view, this was driven by multiple factors. First, after an exceptionally strong rally, it was natural to see Chinese markets give back some of their gains. Below we show that from the trough in October to the peak in January, the MSCI China Index rose 60%.

Secondly, much of the post-reopening rally was led by a valuation rerating for China, which was trading at very attractive prices before the zero-COVID policy was dismantled. At the end of October, the MSCI China Index was valued on a forward year price/earnings ratio of 9.2x. At the peak in January, it was valued at a price/earnings ratio of 13.5x, meaning valuations increased by 47%. Or, in other words, the valuation rerating accounted for more than three quarters of the China rally. By January, Chinese markets were no longer cheap and so the next driver of returns moved onto earnings growth.

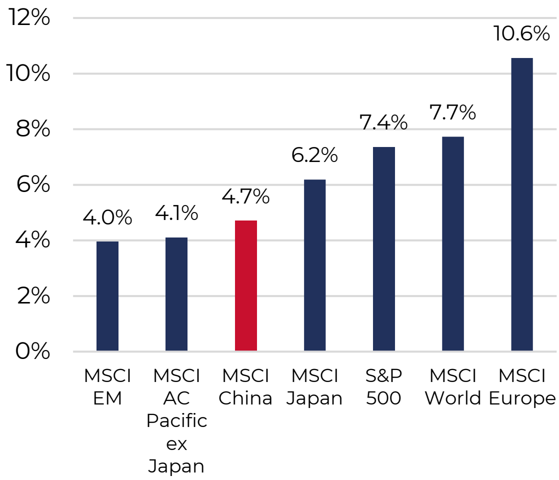
MSCI China Performance Since Reopening



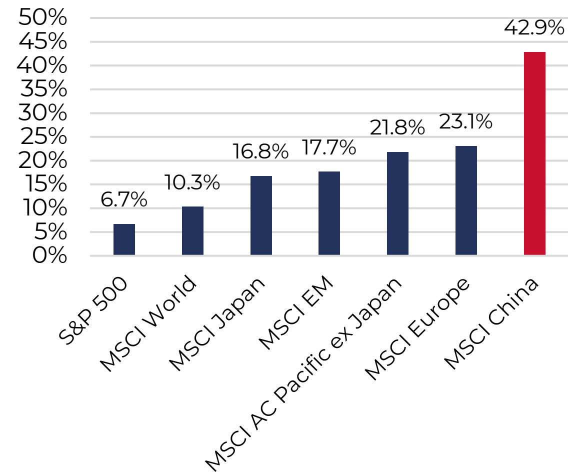
(Data from 10/31/22 to 03/31/23, returns in USD, source: Bloomberg, Guinness Atkinson calculations)

Thirdly, developments outside of China led to a global sell-off. Initially, persistently high inflation in the US led to rising expectations of further increases in interest rates in developed markets. This is generally negative for investment strategies that rely on low interest rates, as higher rates lead to lower present values of future expected cashflows. But the collapse of Silicon Valley Bank, and the emergency takeover of Credit Suisse in Switzerland, led to concerns over the viability of America's and Europe's banking system. This led to weakness in global equity markets and raised debate over whether the Federal Reserve would pause increases in interest rates.

Returns by Market in the First Quarter

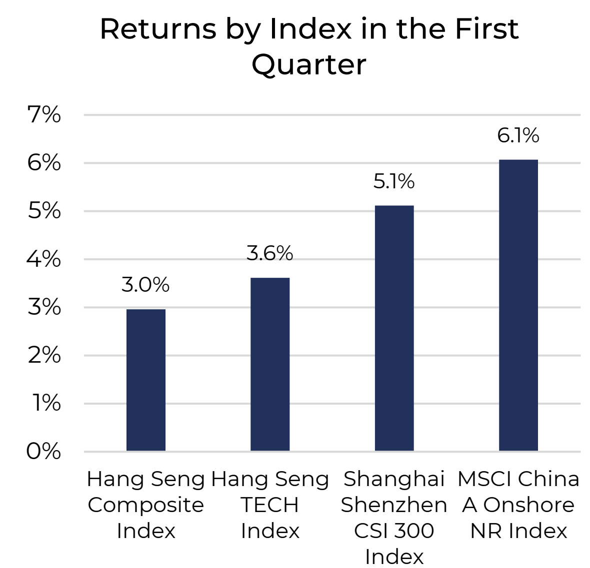


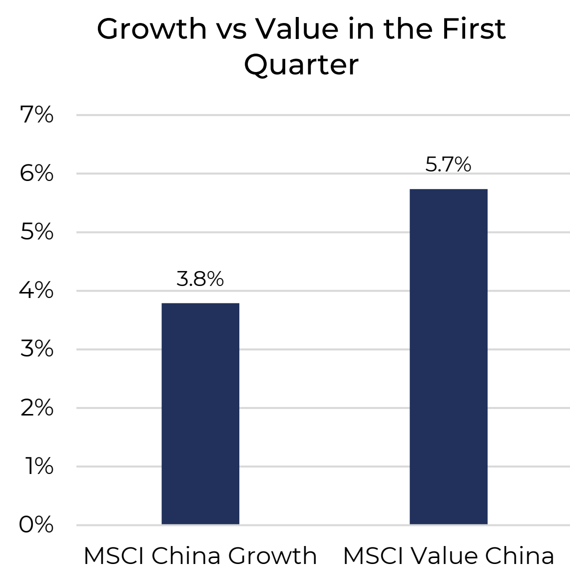
Returns by Market Since China Started Reopening



(Left-hand chart: data from 12/31/22 to 03/31/23, right-hand chart: data from 10/31/22 to 03/31/23. Returns in USD, source: Bloomberg, Guinness Atkinson calculations)

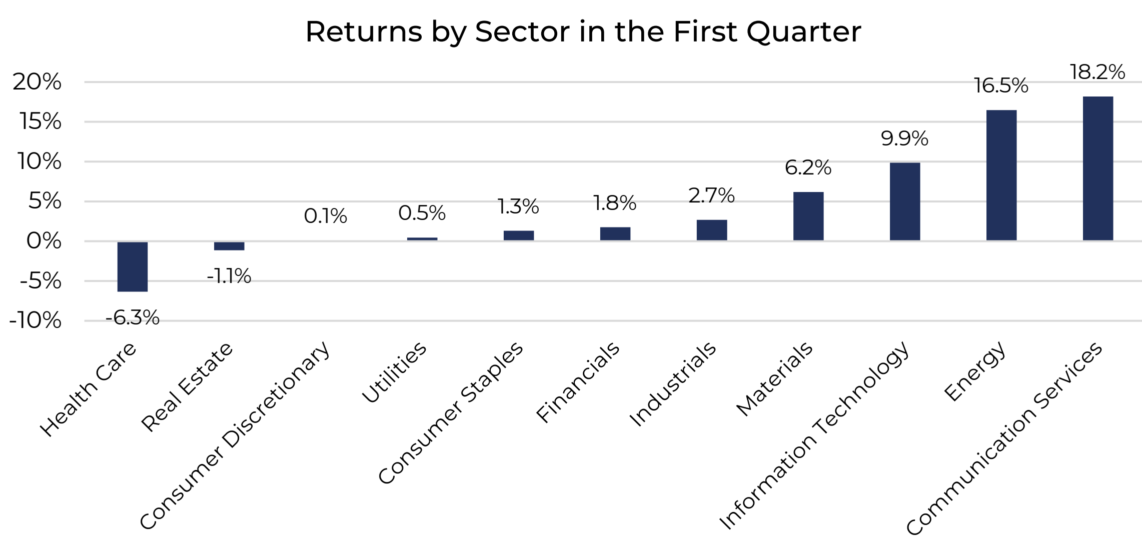
In the quarter, the MSCI China Index rose by 4.7% compared to the MSCI World Index which rose 7.7%. The chart also shows performance of each major market since China started easing its COVID policies at the end of October. From this perspective, China's performance has been excellent, with the MSCI China Index rising 42.9% compared to the MSCI World Index rising 10.3%.





(Data from 12/31/22 to 03/31/23, returns in USD, source: Bloomberg, Guinness Atkinson calculations)

Onshore markets were outperformers: the MSCI China A Onshore Index rose 6.1% and the Shanghai Shenzhen CSI 300 Index rose 5.1%. Offshore markets, as measured by the Hang Seng Composite Index, slightly lagged, rising 3.0%. Value stocks outperformed, as the MSCI China Value Index rose 5.7% compared to the MSCI China Growth Index which rose 3.8%.



(Data from 12/31/22 to 03/31/23, returns in USD, source: Bloomberg, Guinness Atkinson calculations)

In the quarter, the strongest sectors were Communication Services, Energy and Information Technology. Communication Services was boosted by greater attention towards artificial intelligence stocks as investors look for China's answer to ChatGPT. Here Baidu seems to be China's most advanced competitor. Video gaming companies Tencent and NetEase have been receiving approvals for new releases, leading to good share price performance. Energy stocks were strong, boosted by reform plans for state-owned enterprises, good results, and Saudi Aramco's plans to build refineries in China. Information Technology names were also outperformers due to restocking demand from Chinese consumers.

The weakest sectors were Health Care, Real Estate and Consumer Discretionary. Within Health Care, concerns over geopolitical risks led to weakness for biotech names with US exposure. In addition, pricing pressure on generic drugs led to weakness for generic pharmaceutical companies. The Real Estate sector was weak as property demand has yet to significantly increase even as China has reopened. Meanwhile, the National People's Congress meeting failed to unveil any noteworthy stimulus policy. Most of the e-commerce names in the Consumer Discretionary sector were weak over fears of price wars leading to lower profitability and a decline in operating efficiency.

Stock Commentary

In the quarter, the Fund's strongest stocks were Baidu, Venustech and Netease.

Baidu was the strongest stock in the Fund as investor attention turned towards China's answer to ChatGPT. Baidu has China's strongest company in this field, driven by years of investment into artificial intelligence. Its chatbot, called Ernie, was demonstrated in March. Baidu is already attracting corporate interest from government, financial, e-commerce and tourism companies where there are specific use cases. For example, Ernie is able to conduct tasks such as quickly condense financial statements into their key elements and create itineraries for travel agents.

Venustech is benefiting from stricter data security rules in China which likely increase demand for its cybersecurity services. New laws came into effect in January covering industrial, telecoms and radio data where data must be classed as regular, important or core. The classification is essentially determined by the severity of the consequences in the event of a data breach. Once classified, companies must establish appropriate systems and procedures, including appointing dedicated data security staff. Meanwhile, Venustech continues to build new lines of business with subsidiaries of shareholder China Mobile, allowing Venustech to grow its security business across the cloud and industrial internet.

Netease is one of China's largest video game companies. The industry has been receiving approvals to release new titles which should drive future earnings growth. New games utilizing existing intellectual property around the Westward series are expected to do well. In addition, Netease is to launch new franchises across both mobile and PC platforms. This should offset the mature profile of the company's legacy games.

In the quarter, the Fund's weakest stocks were JD.com, Geely and Hangzhou First Applied Material.

JD.com is one of China's largest e-commerce companies. The company is planning to spend at least CNY 10 billion (around USD 1.5 billion) on subsidies to fund price cuts. This is to allow it to better compete with competitors such as Pinduoduo. Given that the return on capital profile of the business is already relatively low, as the business is still scaling up, the share price reacted poorly. We continue to hold JD.com as it is one of the few well-run businesses which give exposure to e-commerce.

Geely is an automobile manufacturer making the transition towards electric vehicles. In 2022, electric vehicles (which include plug-ins) accounted for 23% of its sales volume. The market is worried about the impact of fierce price competition on profitability in the EV market. In January, Tesla cut its prices by up to 14%, leading others to follow. At the same time, the government is gradually removing subsidies for EVs, affecting demand even as China recovers from COVID. We were encouraged to see Geely launch two new EV brands, Galaxy and L7, giving the company exposure to the various segments of the market. The Geometry brand targets the low end of the market, Galaxy will target the mid to high-end, while the existing Zeekr brand targets the high end of the market.

Hangzhou First Applied Material is the world's largest manufacturer of solar film, which is used to protect solar modules. The share price did well in the rally in January but gave back its gains in February and March, on no stock-specific news. Given the global demand for solar energy, we think the company has a long path of growth ahead of it.

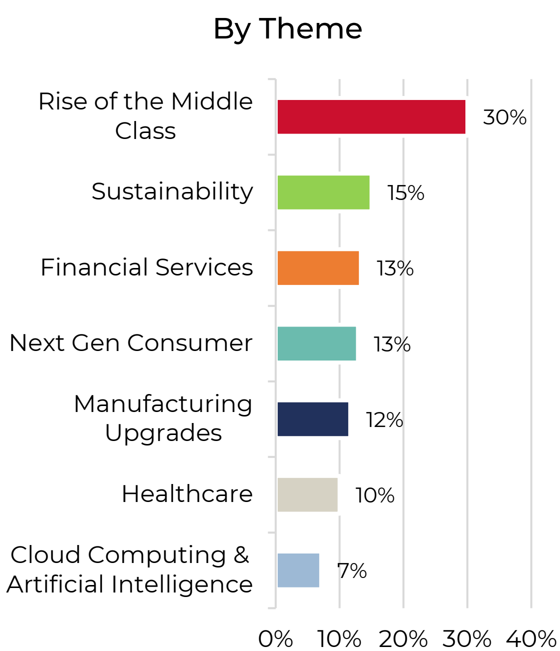
Portfolio Changes

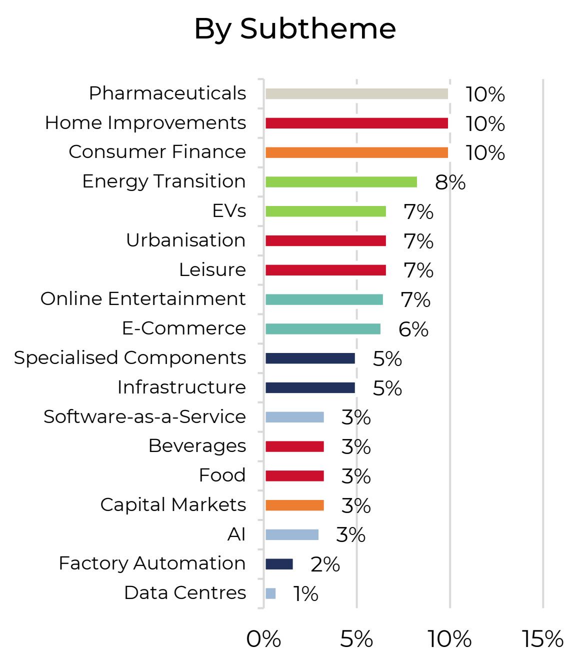
In the quarter we bought TravelSky, which provides services used for flight bookings such as ticket pricing, reservation and inventory systems and airport passenger processing. It also operates a centralized settlement service between airlines and travel agents. Now that China has moved on from its zero- COVID policy, we are expecting a large rebound in both outbound and inbound tourism, which is likely to bode well for TravelSky.

We sold Shengyi Technology which makes copper clad laminates (CCLs) for printed circuit boards (PCBs). Given weaker global demand for consumer technology, the earnings outlook for the business had deteriorated. On a total return basis, the prospects for TravelSky were more attractive.

Portfolio Positioning

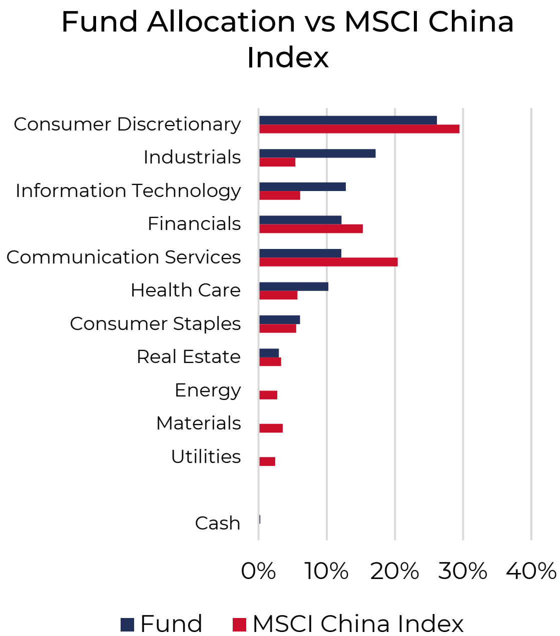
By theme, the Fund's largest exposures are to the Rise of the Middle Class, followed by Sustainability and Financial Services. Important subthemes include Pharmaceuticals, Home Improvements, Consumer Finance and Energy Transition.

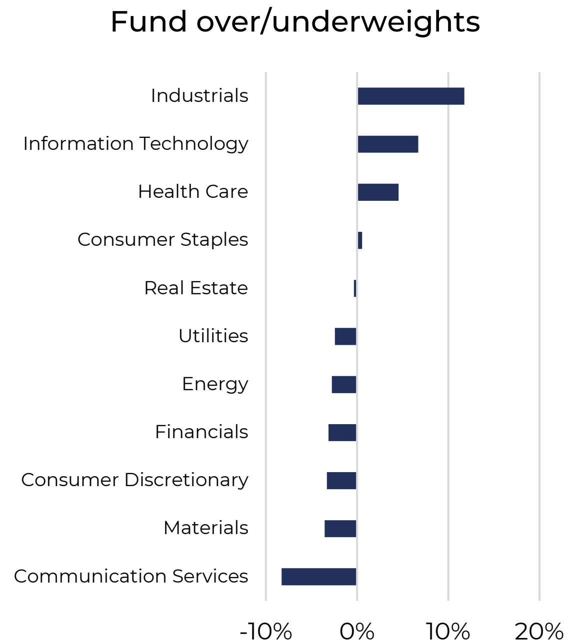




(Weighted exposure of portfolio holdings to themes and sub-themes, assuming each position is equally weighted. Data as of 03/31/23, source: Guinness Atkinson calculations)

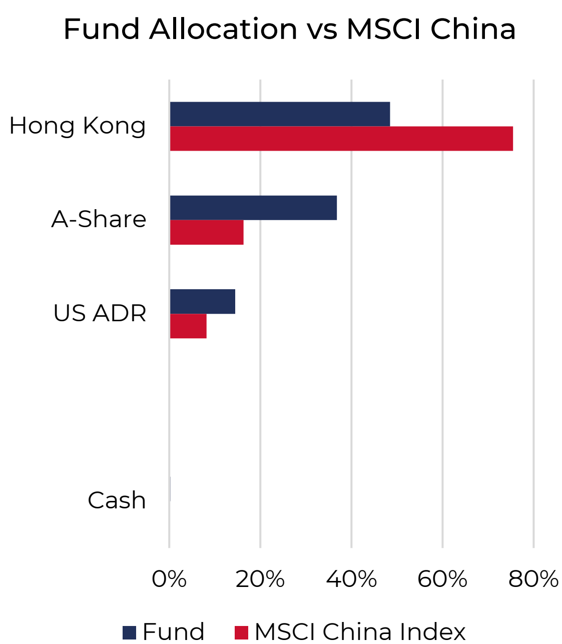
On a sector basis, the Fund's largest exposures are to Consumer Discretionary and Industrials. The Fund has no exposure to Utilities, Energy or Materials. Relative to the MSCI China Index, the Fund is overweight in Industrials and underweight in Communication Services.

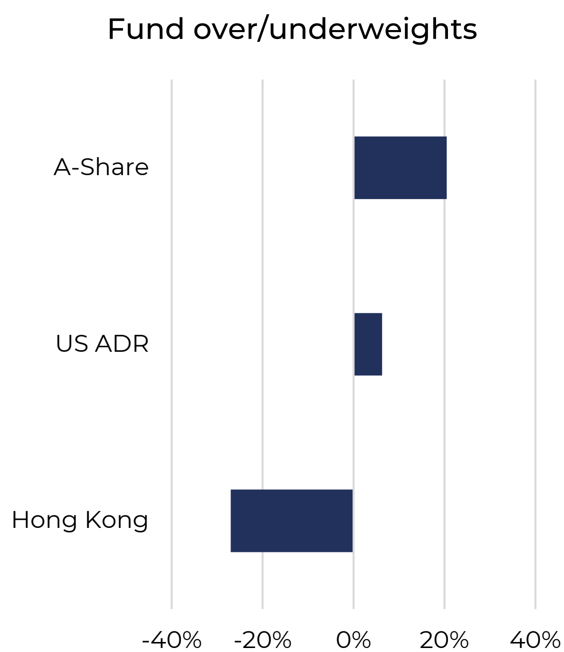




(Data as of 03/31/23, source: Guinness Atkinson calculations, Bloomberg)

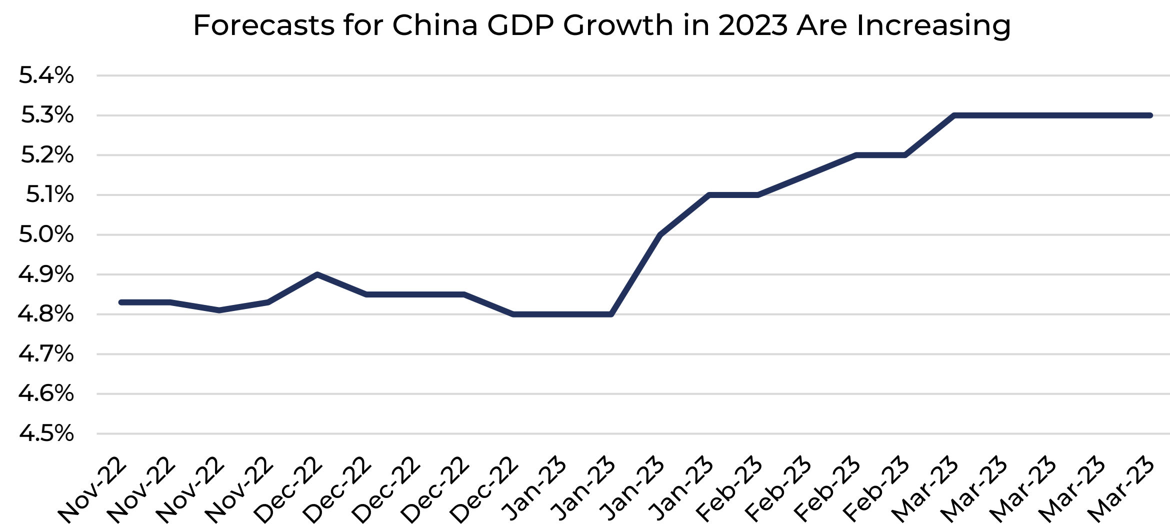
On a listing basis, the Fund has 48% exposure to stocks listed in Hong Kong, 37% exposure to the A share market and a 14% allocation to American Depository Receipts (ADRs) in the United States.





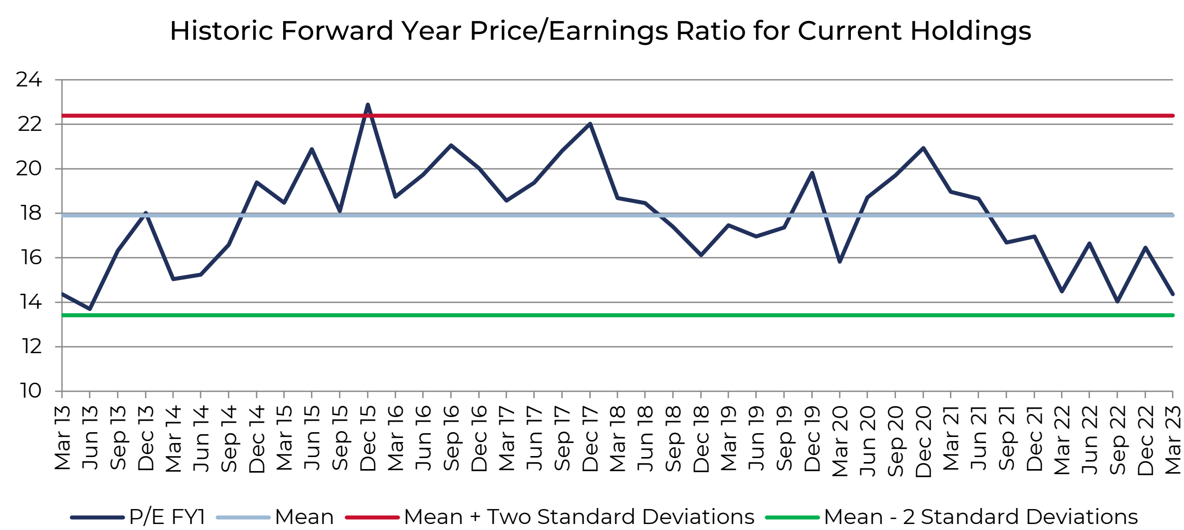
(Data as of 03/31/23, source: Guinness Atkinson calculations, Bloomberg)

Outlook



(Data from 10/31/22 to 03/31/23, source: Bloomberg average of broker estimates)

China remains the only major economy expected to see an acceleration in economic growth this year and forecasts for 2023 are increasing. Now that Chinese markets has given back some of their gains after a very strong rally, investors have another opportunity to invest in China at attractive prices. As of 03/31/23, the Fund was trading on a forward year price/earnings ratio of 14.7x. Compared to the existing holdings' historic valuations, the Fund's is trading at nearly two standard deviations below its historic average.



(Data from 03/31/13 to 03/31/23, source: Guinness Atkinson calculations, Bloomberg)

At such prices, we believe now is a good time to be buying the Fund, which invests in high-quality, growing companies which give exposure to China's structural growth themes.

Edmund Harriss (portfolio manager)

Sharukh Malik (portfolio manager)

Performance

As of 03/31/2023	YTD	1 Year	3 Year	5 Year	10 Year
China & Hong Kong Fund (ICHKX)	2.83%	-7.47%	1.06%	-2.98%	3.13%
Hang Seng Composite Index TR	2.96%	-4.20%	0.56%	-2.98%	3.15%
MSCI China Net Total Return Index	4.71%	-4.73%	-2.64%	-4.00%	3.37%

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.

Standard deviation is the statistical measure of market volatility, measuring how widely prices are dispersed from the average price. If prices trade in a narrow trading range, the standard deviation will return a low value that indicates low volatility.

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 National Bureau of Statistics (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.

Forward price-to-earnings (forward P/E) is a version of the ratio of price-to-earning (P/E) that uses forecasted earnings for the P/E calculation. While the earnings used in this formula are just an estimate and not as reliable as current or historical earnings data, there are still benefits to estimated P/E analysis.

The Consumer Confidence Index (CCI) is a survey administered by the not-for-profit research organization, The Conference Board. CCI measures how optimistic or pessimistic consumers are regarding their expected financial situation. The CCI is based on the premise that if consumers are optimistic, they will spend more and stimulate the economy but if they are pessimistic then their spending patterns could lead to an economic slowdown or recession.

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 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 Onshore Index captures large and mid cap representation across China securities listed on the Shanghai and Shenzhen exchanges.

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 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.

The Hang Seng TECH Index ("the Index") was launched on 27 July 2020 and tracks the 30 largest technology companies listed in Hong Kong.

American depositary receipt (ADR) refers to a negotiable certificate issued by a U.S. depositary bank representing a specified number of shares—usually one share—of a foreign company's stock. The ADR trades on U.S. stock markets as any domestic shares would.

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

Mean as a basic statistical measure is defined as an average value attained.

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 3/31/2023:

1.	NetEase Inc Venustech Group Inc	4.46%
2.	China Medical System Holdings Ltd	4.12%
3.	Baidu Inc	4.07%
4.	Shenzhen Inovance Technology Co Ltd	4.07%
5.	Venustech Group Inc	4.00%
6.	NARI Technology Co Ltd	3.92%
7.	Tencent Holdings Ltd	3.59%
8.	Zhejiang Supor Cookware - A Shares	3.58%
9.	Suofeiya Home Collection - A Shares	3.51%
10.	Hangzhou First Applied Materials	3.38%

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

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