Guinness Atkinson

China & Hong Kong Fund

Managers' Update – Review of July 2023

Summary View

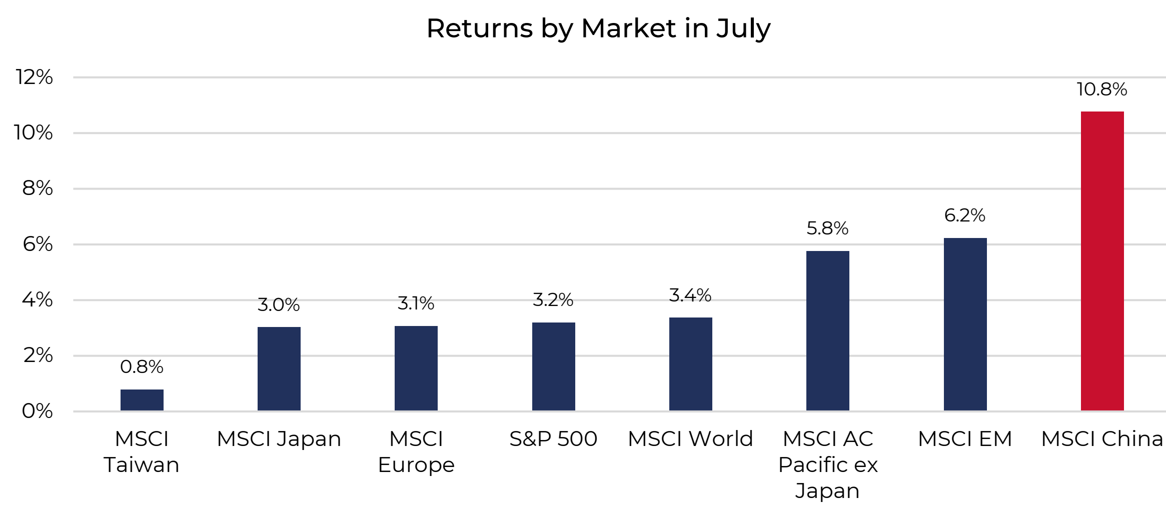
- Following supportive statements by the Politburo, Chinese markets rallied sharply. While these statements are encouraging, we now await specific policies to improve confidence in the Chinese economy.
- Within the Fund, the e-commerce names in the Fund were also strong as the government becomes more accommodative towards the sector. On the other hand, weaker stocks were Wuxi Lead Intelligent Equipment (electric vehicle exposure) and Xinyi Solar, which reported weaker interim results. Most of our holdings report their latest results in August.

Macro Commentary

- Foreign Minister Wang Yi and US Secretary of State Antony Blinken met in Jakarta. US Secretary of the Treasury, Janet Yellen, visited Beijing. John Kerry met with Chinese leaders to discuss climate change. It is clear the US administration is trying to engage more with the Chinese to put a floor under US-Chinese relations.
- China imposed export restrictions on gallium and germanium, two key materials used for semiconductors. Gallium is used in many applications such as LEDs, power semiconductors, 5G and satellites. Most of the world's refinement of gallium is done in China.
- The Ministry of Commerce announced it will reduce the size of the negative list for foreign investment, which is a list of industries that foreigners cannot invest in.
- Both the National Bureau of Statistics (NBS) Manufacturing Purchasing Managers Index (PMI) and Caixin PMI came in below 50, indicating weakening activity. However, the trends are worth noting. The NBS PMI, which has more of a bias towards domestic facing firms, increased by 0.3 percentage points to 49.3 on a month-on-month basis. On the other hand, the Caixin PMI, which has more of a bias towards private, exporting firms, dropped by 1.3 percentage points to 49.2. This suggests export demand was weak in July. Also note both PMIs saw a large increase in the price sub-component, which may indicate weakening deflationary pressure in China.

Market Commentary

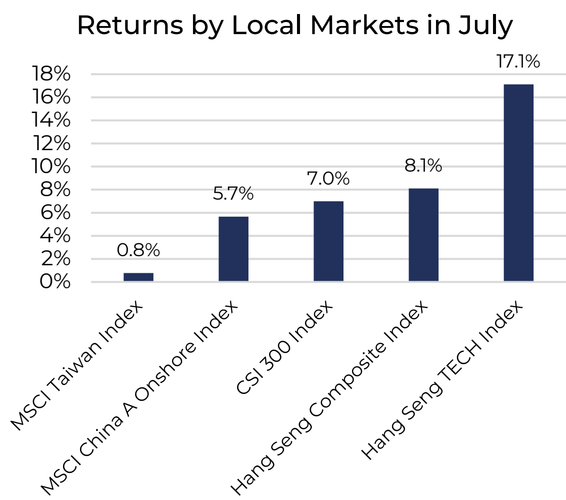
(Performance data in the section in USD terms unless otherwise stated)

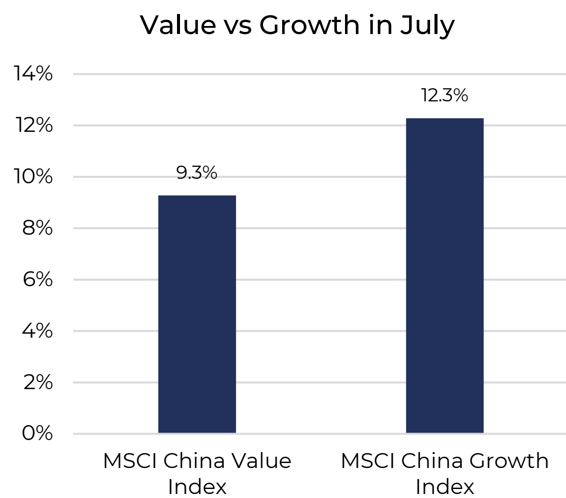


(Data from 06/30/23 to 07/31/23, returns in USD, source: Bloomberg, Guinness Atkinson calculations)

In July, the MSCI China Index rose by 10.8% compared to the MSCI World Index which rose by 3.4%. Chinese markets were strong on expectations of greater stimulus for the housing market and wider economy. The readout from the Politburo's meeting acknowledged "insufficient domestic demand" and mentioned the need for counter-cyclical economic policy. The need to support the private sector was mentioned, though actions rather than rhetoric are needed at this point. The phrase "housing is for living, not for speculation" was removed from the statement, which was interpreted by most as a sign more easing measures for the property market are on the way. We saw relief measures for the property market extended for a year. For example, banks can extend the maturity of loans to developers and do not need to raise the risk classification of loans. While this is encouraging, we await more specific easing policies.

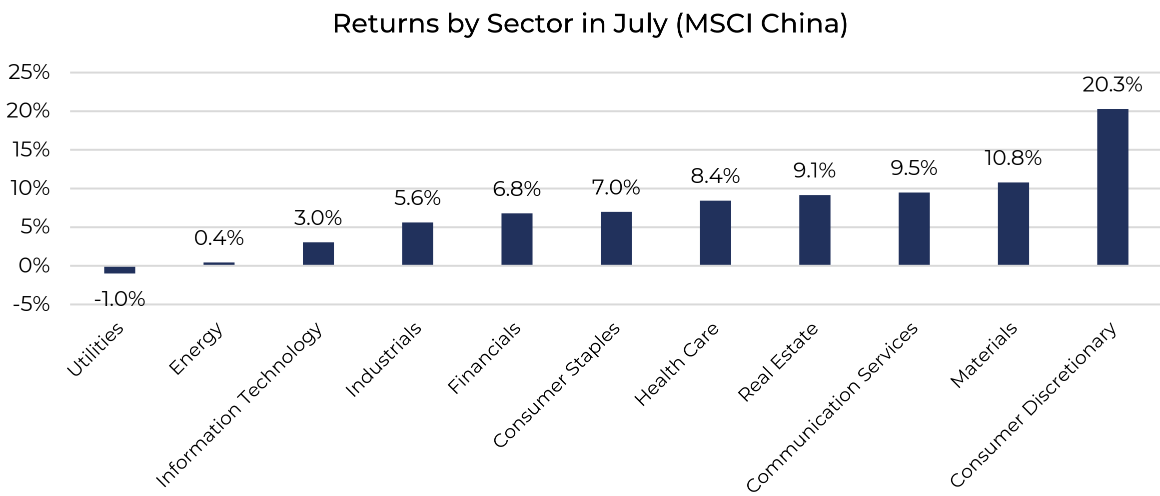
The National Development and Reform Commission (NDRC) put forward 20 broad measures to boost consumption. Some of the measures called for greater purchases of smart home appliances, the development of retail channels in rural areas and the continued buildout of charging infrastructure of EVs. Again, these are encouraging aims but specific policies are required to build confidence.





(Data from 06/30/23 to 07/31/23, returns in USD, source: Bloomberg, Guinness Atkinson calculations)

Offshore markets rose by more than onshore markets, as the Hang Seng Composite Index rose by 8.1% while the MSCI China A Onshore Index rose by 5.7%. Growth stocks outperformed, with the MSCI China Growth Index rising 12.3% and the MSCI China Value Index rising 9.3%.



(Data from 06/30/23 to 07/31/23, returns in USD, source: Bloomberg, Guinness Atkinson calculations)

The best performing sectors were Consumer Discretionary, Materials and Communication Services. Consumer Discretionary names were strong due to favorable tax policy for EVs. Until the end of 2025, consumers will receive a tax break of a maximum of CNY 30,000 per Electric Vehicle (EV) ($4,170). In 2026 and 2027, the maximum tax break will be halved to CNY 15,000 per vehicle and so therefore EV automobile manufacturers were strong. Also within the sector are the internet platform names which were boosted by positive statements made by Premier Li Qiang and expectations of consumption enhancing policies.

The weakest performing sectors were Utilities, Energy and Information Technology. Utilities underperformed in a strong risk-on environment. Within Information Technology, the solar names were weak across the board – Xinyi Solar (held in the Fund), GVL Technology, JA Solar and Flat Glass were the weakest stocks in the industry. While falling polysilicon prices encourages greater demand for solar panels, it tends to lead to lower prices for firms in the supply chain, impacting profitability.

Fund Commentary

The e-commerce companies Alibaba and JD.com were also strong. Premier Li Qiang made positive statements regarding the internet platform companies at a meeting with representatives from companies in the sector. Furthermore, fines were issued to the fintech companies Alipay and Tenpay, which are owned by Alibaba and Tencent respectively. This marks a conclusion into the probe by the government into their business models, signalling that from a regulatory perspective, the probe into their business models appears to be over.

Weaker stocks were Wuxi Lead Intelligent Equipment and Xinyi Solar. Wuxi Lead Intelligent Equipment makes battery production equipment, with sales coming from China and Europe. There was no stock specific news driving the share price and instead, the share price may have simply lost momentum after a sharp rally in the second half of June. Based on consensus analyst estimates, Wuxi Lead Intelligent is expected to grow earnings by 32% this year and 30% next year.

Xinyi Solar is the world's largest manufacturer of solar glass. In its interim results the company reported year-on-year volume growth of 50%, revenue growth of 25% but a net income contraction of 27%. Volume growth was strong as demand for solar energy continues to grow both domestically and abroad. Revenue growth of 25% is attractive in the current macro environment, but lagged volume growth as greater solar glass capacity within the industry led to lower selling prices. The company's gross margin fell by 8.7% percentage points. Natural gas and natural gas and soda ash prices remained elevated in the first quarter, but the company did not benefit from falling raw prices in the second quarter. This is because it signed natural gas contracts at the end of last year at fixed prices, when concerns over gas shortages were at their highest. In the second half of the year, management expect to benefit from cheaper gas prices as the contracts roll over. Despite the results, Xinyi Solar is continuing to add capacity in order to gain market share. As the lowest cost producer in the space with a strong balance sheet, the company is in a good position to take advantage where its smaller competitors are struggling. We expect the supply-demand imbalance to gradually adjust as smaller peers are unlikely to be able to afford expansion, putting Xinyi Solar in a favorable position.

Outlook

While the Politburo has signaled that stimulus is needed for the economy, we wait for specific details. We believe it is the property market which needs targeted support in the short-term, but we also acknowledge that is not in China's long-term interest to repeat the same boom-bust cycle we have repeatedly seen over the past decade. In our view, tax cuts should be extended for consumption given China's consumption share of GDP lags other major markets. Extending tax cuts for the manufacturing sector may work in the short-term but makes the long-term rebalancing project more difficult.

Edmund Harriss (portfolio manager)

Sharukh Malik (portfolio manager)

Performance

As of 06/30/2023	YTD	1 Year	3 Year	5 Year	10 Year
China & Hong Kong Fund (ICHKX)	-5.80%	-19.14%	-5.34%	-3.87%	2.80%
Hang Seng Composite Index TR	-3.71%	-11.54%	-4.99%	-3.68%	2.99%
MSCI China Net Total Return Index	-5.46%	-16.82%	-10.26%	-5.27%	3.04%

As of 07/31/2023	YTD	1 Year	3 Year	5 Year	10 Year
China & Hong Kong Fund (ICHKX)	0.33%	-5.27%	-5.92%	-2.25%	3.21%
Hang Seng Composite Index TR	4.08%	4.10%	-4.15%	-1.97%	3.36%
MSCI China Net Total Return Index	4.71%	1.79%	-9.90%	-2.83%	3.69%

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

Expense Ratio: 1.71%

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 compound annual growth rate (CAGR) is the rate of return (RoR) that would be required for an investment to grow from its beginning balance to its ending balance, assuming the profits were reinvested at the end of each period of the investment's life span.

The Producer Price Index (PPI) program measures the average change over time in the selling prices received by domestic producers for their output. The prices included in the PPI are from the first commercial transaction for many products and some services.

The Consumer Price Index (CPI) is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services. Indexes are available for the U.S. and various geographic areas. Average price data for select utility, automotive fuel, and food items are also available.

USD/CNY is the abbreviation for the US Dollar and Chinese Yuan pair. It shows how much the USD (base currency) is worth as measured against the CNY (counter currency).

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.

The Hang Seng TECH Index launched on 27 July 2020 and tracks the 30 largest technology companies 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.

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 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 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 MSCI Taiwan Index is designed to measure the performance of the large and mid cap segments of the Taiwan market. With90 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in Taiwan.

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.

Many investors use the price-to-book ratio (P/B ratio) to compare a firm's market capitalization to its book value and locate undervalued companies. This ratio is calculated by dividing the company's current stock price per share by its book value per share (BVPS).

The dividend yield, expressed as a percentage, is a financial ratio (dividend/price) that shows how much a company pays out in dividends each year relative to its stock price.

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

M2 is the U.S. Federal Reserve's estimate of the total money supply including all of the cash people have on hand plus all of the money deposited in checking accounts, savings accounts, and other short-term saving vehicles such as certificates of deposit (CDs). Retirement account balances and time deposits above $100,000 are omitted from M2.

USDCNY exchange rate refers to how many Renminbi one US dollar is worth.

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.

Dividends are not guaranteed and may fluctuate. Earnings growth and Income growth are not a measure of future performance.

Top Fund Holdings as of 7/31/2023:

1.	NetEase Inc	5.26%
2.	Baidu Inc	4.34%
3.	China Medical System Holdings Ltd	3.94%
4.	Shenzhen Inovance Technology Co Ltd	3.89%
5.	NARI Technology Co Ltd	3.87%
6.	Tencent Holdings Ltd	3.55%
7.	TravelSky Technology Ltd	3.53%
8.	Suofeiya Home Collection - A Shares	3.51%
9.	Ping An Insurance Group Co of China Ltd - H Shares	3.48%
10.	Sany Heavy Industry Co	3.42%

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

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