

Guinness Atkinson
China & Hong Kong Fund
 Managers' Update – Review of October 2023



Summary View

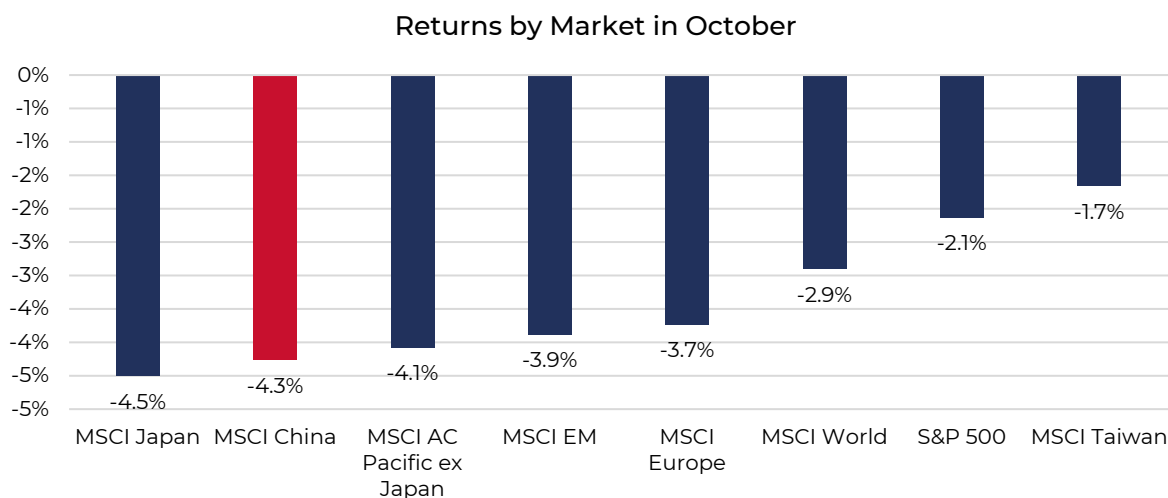
- The Fund is trading on a forward year price earnings ratio of 14.2x. The current set of holdings is trading at one of the lowest levels seen in the past decade.
- Over the past 10 years, our holdings have in aggregate grown earnings by 8% a year. Based on consensus analyst estimates, the Fund is expected to grow earnings by 19% a year over the next two years.

Macro Commentary

- Both sets of manufacturing Purchasing Managers Index (PMI) fell below 50, indicating weakening activity.
- The government is to issue RMB 1 trn (\$137bn) in additional central government bonds, the proceeds of which will be spent on infrastructure in areas with recent natural disasters.
- Chinese and American politicians continue to meet in an attempt to improve relations. California governor Gavin Newsom met Xi Jinping in Beijing. Foreign Minister Wang Yi traveled to Washington to meet Joe Biden. It is expected that Biden and Xi will meet in San Francisco in November.
- The US tightened restrictions on exporting advanced chips and chip equipment to China.
- In Hong Kong, stamp duty on stocks was cut from 0.13% to 0.10%.

Market Commentary

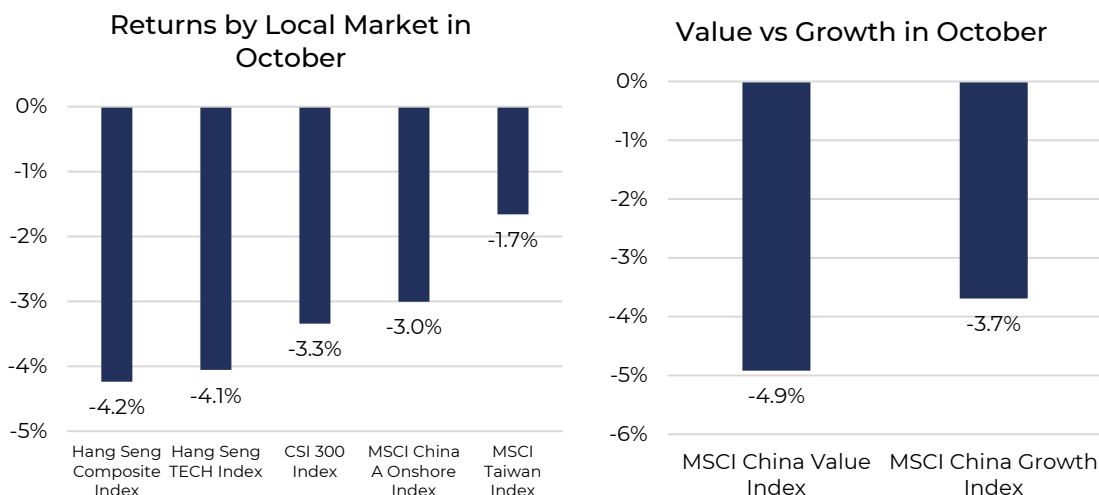
(Performance data in the section in USD terms unless otherwise stated)



(Data from 09/30/23 to 10/31/23, returns in USD, source: Bloomberg, Guinness Atkinson calculations)

In October, the MSCI China Index fell by 4.3% compared to the MSCI World Index which fell by 2.9%. Rising yields in the US led to general weakness for global equities.

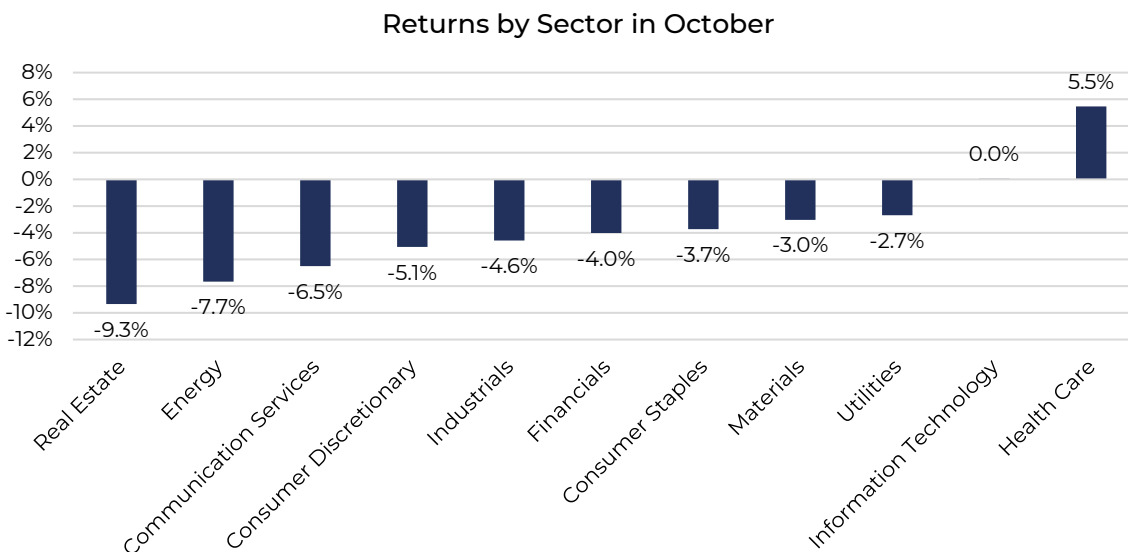
Guinness Atkinson
China & Hong Kong Fund
 Managers' Update – Review of October 2023



(Data from 09/30/23 to 10/31/23, returns in USD, source: Bloomberg, Guinness Atkinson calculations)

Offshore stocks slightly underperformed in October as the Hang Seng Composite Index fell by 4.2% while the MSCI China A Onshore Index fell by 3.0%.

Value stocks, as measured by the MSCI China Value Index, fell by 4.9% compared to the 3.7% fall seen for the growth index.



(Data from 09/30/23 to 10/31/23, returns in USD, source: Bloomberg, Guinness Atkinson calculations)

In October, the best performing sectors were Healthcare (total return +5.5%), Information Technology (flat) and Utilities (-2.7%). The market seems to be looking past the impact of the anti-corruption campaign in the healthcare sector. Additionally, pharmaceutical names rallied as trials for new self-developed drugs were approved. Strong stocks in the Information Technology sector were Xiaomi, Lenovo and Sunny Optical i.e. with exposure to smartphones and PCs. Utilities outperformed in a risk-off environment.

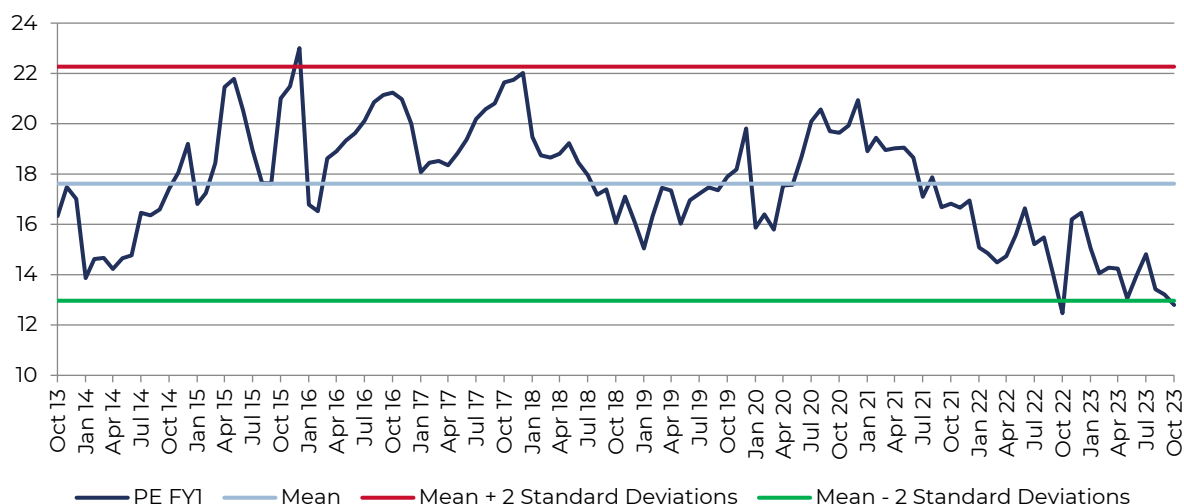
Guinness Atkinson
China & Hong Kong Fund
 Managers' Update – Review of October 2023



The weakest sectors were Real Estate (total return -9.3%), Energy (-7.7%) and Communication Services (-6.5%). Weak property sales explained the performance of Real Estate, while profit-taking was seen for Energy names after a period of strong oil prices. Within Communication Services, Tencent, Baidu and Kuaishou were the biggest detractors.

Outlook

Historic Forward Year Price/Earnings Ratio for Current Holdings



(Data from 10/31/13 to 10/31/23, source: Bloomberg, Guinness Atkinson calculations)

Assuming an equally weighted portfolio, the Fund is trading on a forward year price earnings ratio of 12.8x which is two standard deviations below the current' holdings 10-year historic average. This valuation does not appear often for the high quality, compounding stocks we hold in the Fund. Over the past decade, our holdings in aggregate have grown earnings by 8% a year. Based on consensus analyst estimates, the Fund's holdings in aggregate are expected to grow earnings by 22% in 2023, 17% in 2024 and 15% in 2025. At current valuations, we believe this represents outstanding value to investors for the growth on offer.

Edmund Harriss (portfolio manager)

Sharukh Malik (portfolio manager)

Guinness Atkinson
China & Hong Kong Fund
Managers' Update – Review of October 2023

Performance

Relative to MSCI China Index, areas which helped the Fund's performance in October were:

- Overweight to Healthcare along with stock selection. The sector outperformed as the market looked past the anti-corruption campaign. CSPC Pharmaceutical (held in the Fund) received approval to conduct trials for a new self-developed drug targeting various cancers, as well as for a new covid mRNA vaccine. This boosted sentiment for the sector on the prospects of more pharmaceutical firms also conducting trials for self-developed drugs. Fund holdings China Medical System and Sino Biopharmaceutical therefore rallied.
- Underweight to Communication Services and Energy.

Areas which detracted from the Fund's relative performance were:

- The Fund's solar exposure detracted from performance, where our holdings are Xinyi Solar and Hangzhou First Applied. Though the volumes of goods sold by these companies is increasing, both are facing pricing pressure due to broad overcapacity in the sector. Xinyi Solar's share price has lagged this year and on the back of a further drop in the share price, we took the opportunity to top up on the position. This is a function of the equally weighted approach for the Fund – when positions significantly lag, we view it as an opportunity to take advantage of the value on offer. Based on fairly conservative assumptions for the company growing forward, we believe there is significant upside to the stock at current valuations.

Guinness Atkinson
China & Hong Kong Fund
 Managers' Update – Review of October 2023



As of 10/31/2023	YTD	1 Year	3 Year	5 Year	10 Year
China & Hong Kong Fund (ICHKX)	-15.49%	8.33%	-11.62%	-2.71%	0.27%
Hang Seng Composite Index TR	-11.11%	21.43%	-10.00%	-2.17%	0.87%
MSCI China Net Total Return Index	-11.24%	21.11%	-16.93%	-2.65%	0.98%

As of 09/30/2023	YTD	1 Year	3 Year	5 Year	10 Year
China & Hong Kong Fund (ICHKX)	-12.46%	-0.08%	-10.25%	-3.91%	0.84%
Hang Seng Composite Index TR	-7.18%	8.85%	-7.61%	-3.57%	1.57%
MSCI China Net Total Return Index	-7.29%	5.24%	-14.28%	-4.16%	1.67%

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.

Guinness Atkinson China & Hong Kong Fund Managers' Update – Review of October 2023



One cannot invest directly in an Index.

P/E ratio is a current stock price over its earnings per share. The forward P/E ratio is a current stock's price over its "predicted" earnings per share. If the forward P/E ratio is higher than the current P/E ratio, it indicates decreased expected earnings.

Standard deviation is a statistic that measures the dispersion of a dataset relative to its mean and is calculated as the square root of the variance. If the data points are further from the mean, there is a higher deviation within the data set. A volatile stock has a high standard deviation, while the deviation of a stable blue-chip stock is usually rather low.

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.

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 Basel Accords are a series of three sequential banking regulation agreements (Basel I, II, and III) set by the Basel Committee on Bank Supervision (BCBS). Basel III is an international regulatory accord that introduced a set of reforms designed to mitigate risk within the international banking sector by requiring banks to maintain certain leverage ratios and keep certain levels of reserve capital on hand. Basel III is an internationally agreed set of measures developed in response to the financial crisis of 2007-2009.

Guinness Atkinson

China & Hong Kong Fund

Managers' Update – Review of October 2023



A nonperforming loan (NPL) is a loan that is in default due to the fact that the borrower has not made the scheduled payments for a specified period.

The Caixin PMI (Purchasing Managers Index) measures the performance of the manufacturing sector and is derived from a survey of more private companies.

Renminbi (RMB) is the official currency of the People's Republic of China. A yuan is a unit of the currency.

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.

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". The index is designed for international investors and is calculated using **China A** Stock Connect listings based on the offshore RMB exchange rate (CNH).

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.

Guinness Atkinson
China & Hong Kong Fund
Managers' Update – Review of October 2023



The Hang Seng Composite Index ("HSCI") offers a comprehensive Hong Kong market benchmark that covers about the top 95th percentile of the total market capitalisation of companies listed on the Main Board of the Stock Exchange of Hong Kong ("SEHK").

Hang Seng TECH Index represents the 30 largest technology companies listed in Hong Kong that have high business exposure to technology themes and pass the index's screening criteria.

The MSCI Taiwan Index is designed to measure the performance of the large and mid cap segments of the Taiwan market. With 90 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in Taiwan.

Privately owned enterprise (POE) is a business that is managed by an independent company or private individual — rather than the Chinese Government or the host country government. While these companies may issue stock and have shareholders, their shares are not listed on public exchanges.

American depository receipt (ADR) refers to a negotiable certificate issued by a U.S. depository 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.

Earnings per share (EPS) is calculated as a company's profit divided by the outstanding shares of its common stock.

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.

Guinness Atkinson
China & Hong Kong Fund
Managers' Update – Review of October 2023



Top Fund Holdings as of 10/31/2023:

1. NetEase Inc	5.53%
2. China Medical System Holdings Ltd	4.56%
3. NARI Technology Co Ltd	4.25%
4. Weichai Power Co Ltd - H Shares	3.98%
5. Shenzhen Inovance Technology Co Ltd	3.92%
6. Shenzhou International	3.63%
7. TravelSky Technology Ltd	3.54%
8. Tencent Holdings Ltd	3.51%
9. Haier Smart Home Co Ltd	3.48%
10. Inner Mongolia Yili - A Shares	3.44%

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

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