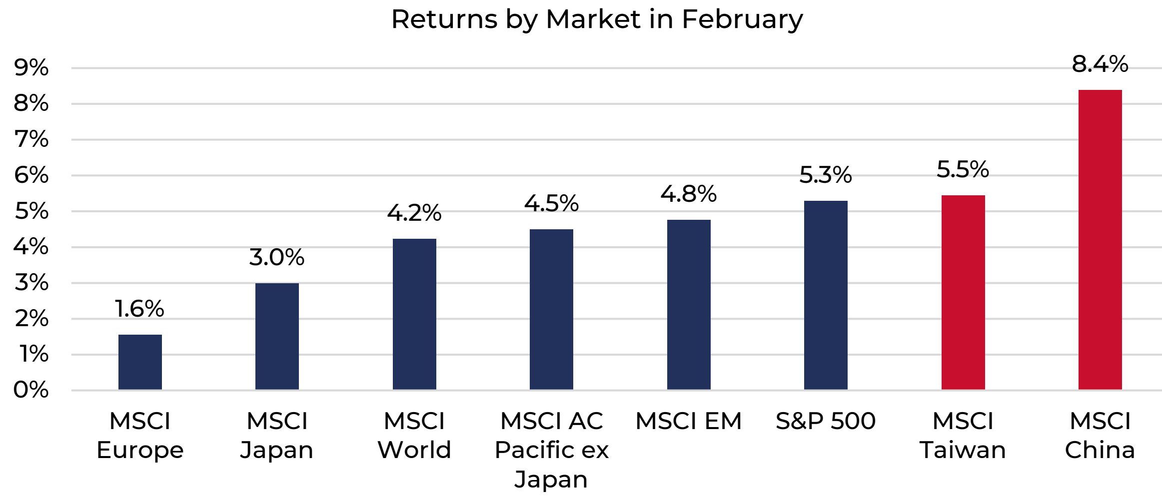
Guinness Atkinson
China & Hong Kong Fund
Managers' Update – Review of February 2024

Summary View

- Based on analysts' consensus estimates, the Fund is trading on a price to earnings ratio of 10.0x on 2024 earnings and 8.7x on 2025 earnings. The current set of holdings is trading at more than two standard deviations below their 15-year average.
- 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 20% in 2023, 15% in 2024 and 15% in 2025. At current valuations, we believe the Fund represents outstanding value to investors for the growth we believe to be on offer.

Market Commentary

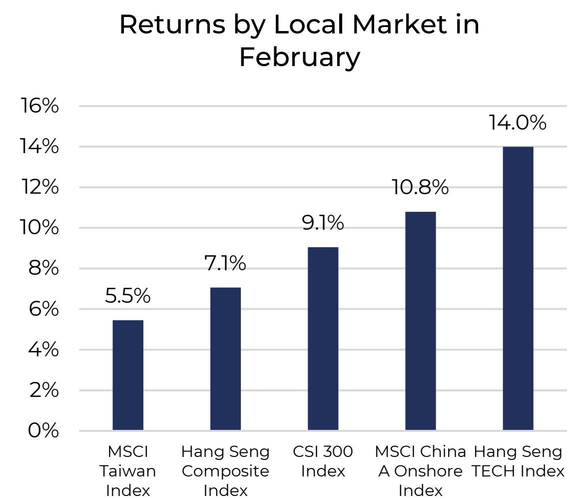
(Performance data in the section in USD terms unless otherwise stated)

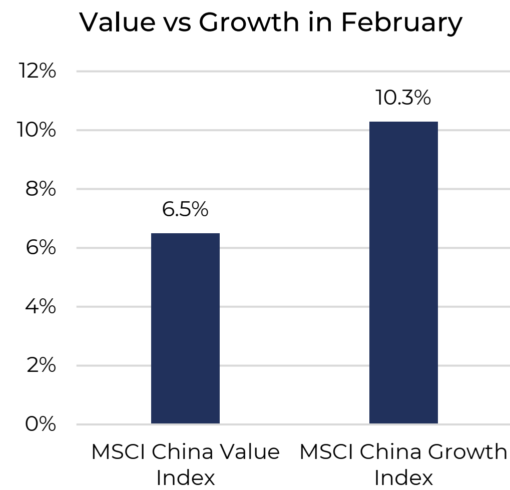


(Data from 01/31/24 to 02/29/24, returns in USD, source: Bloomberg, Guinness Atkinson calculations)

In February, the MSCI China Index rose by 8.4% compared to the MSCI World Index which rose by 4.2%. Chinese markets had a strong rally as the "National Team" stepped up support in the onshore market. The National Team represents state funds such as Central Huijin Investment (a sovereign wealth fund) as well as funds owned by state owned insurance companies and banks. To support the market, the National Team started to buy local ETFs in mid-January but most of the buying was concentrated in ETFs tracking the CSI 300 Index, which tracks the largest 300 China A shares. Retail investors followed the National Team's lead, selling small- and mid-cap stocks, and rotating into large cap stocks. Hence small- and mid-caps underperformed significantly in January. At the beginning of February, the National Team stepped up the size of its support and also began to diversify their purchases, buying more ETFs tracking small and mid-cap stocks. Therefore, there was a very strong rally in February as retail investors moved back into small and mid-cap stocks, before the Chinese New Year holidays.

The government also made it harder to conduct short selling, which reduced selling pressure on the market. Some practices we consider to be genuinely risky – for example, some investors go short on a stock, and then use margin loans to buy the stock back. Some brokers have stopped providing margin loans for this purpose. Other practices are considered standard, and these have been restricted. For example, now investors are not allowed to buy a stock and go short on the same day. Brokers are not allowed to borrow shares that will be used for short selling. Restricted shares (such as those granted in an employer shareholder ownership plan) can no longer be lent.

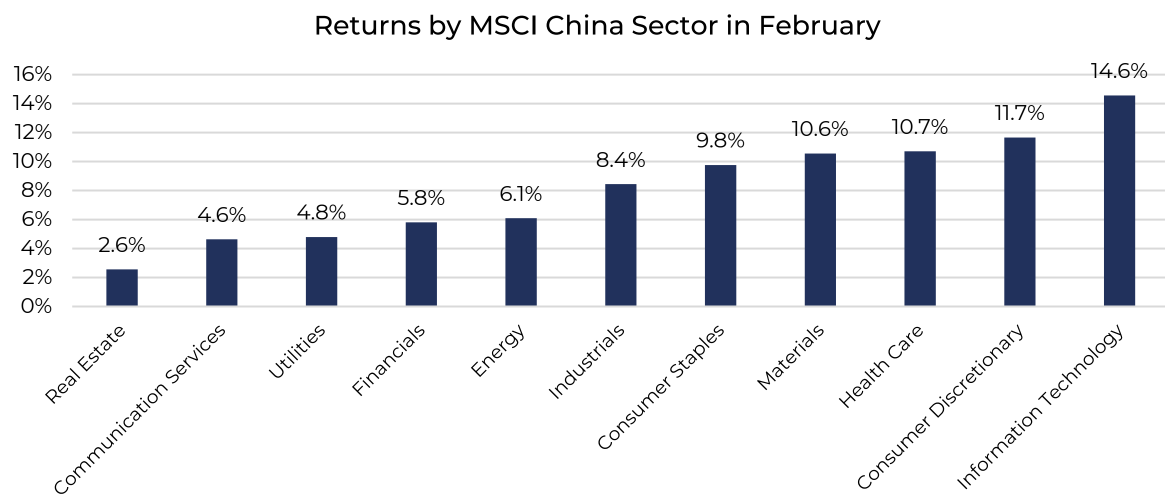




(Data from 01/31/24 to 02/29/24, returns in USD, source: Bloomberg, Guinness Atkinson calculations)

Onshore stocks outperformed in February, as the MSCI China A Onshore Index rose by 10.8% while the Hang Seng Composite Index rose by 7.1%. Meanwhile the MSCI Taiwan Index, which outperformed significantly in January, was a laggard in February, increasing by 5.5%.

The China growth index significantly outperformed in February, as the MSCI China Growth Index rose 10.3% against the value index which rose by 6.5%.



(Data from 01/31/24 to 02/29/24, returns in USD, source: Bloomberg, Guinness Atkinson calculations)

In February, the best performing sectors in the MSCI China Index were Information Technology (total return +14.6%), Consumer Discretionary (+11.7%) and Health Care (+10.7%). These were the weakest sectors in January and so outperformed in a risk-on environment. The weakest sectors were Real Estate (total return +2.6%), Communication Services (+4.6%) and Utilities (+4.8%). No signs of a rebound in Real Estate sales explained the sector's relatively weaker performance, while Utilities lagged in a risk-on environment.

Results

Some of our companies have reported earnings for 2023, which we briefly discuss below. Most of our offshore holdings report in March, while most of our onshore holdings report in April.

Xinyi Solar – in 2023, revenue grew by 30% and earnings per share (EPS) grew by 10%. Xinyi Solar is the world's largest manufacturer of solar glass, which is used to make solar panels. The first half of 2023 was weak but there was a clear recovery in the second half as volumes continued to increase and importantly margins improved. The margin improvement was driven by lower soda ash and natural gas prices, an increase in average selling prices and a better product mix. In 2023 volumes of solar glass sold by the company increased by 49% and so to deal with continued growth, Xinyi Solar is building new plants in China, Malaysia and Indonesia. Management expect demand to increase by 20-30% in 2024.

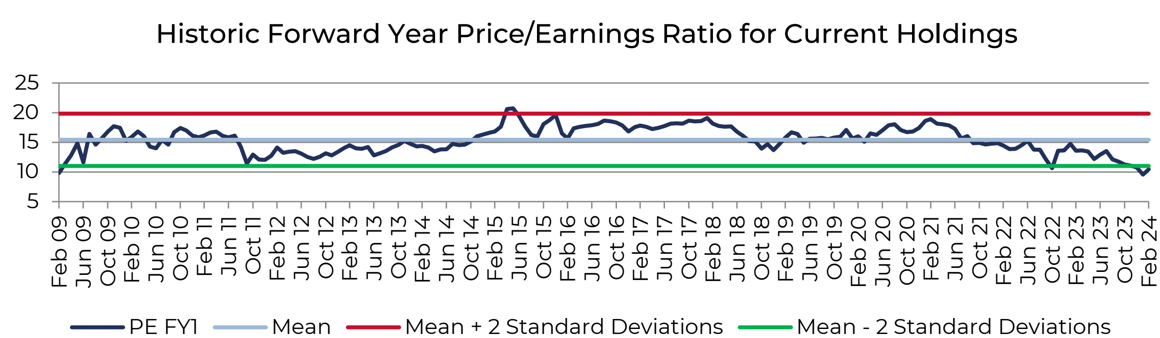
Baidu – in 2023, revenue grew by 9% and EPS grew by 157%. Baidu runs China's largest search engine and has one of the country's strongest capabilities in AI. While a lot of attention is being paid to its chatbot, Baidu has reminded investors that for now, most of its revenues are still derived from its ads business. Given the weak macro environment, there is likely to be pressure here as advertising budgets are generally under strain. In light of this Baidu is remaining disciplined on costs across the business. In the fourth quarter, revenue from AI segments was worth CNY 0.6bn (approx. $83m), which is likely to increase significantly in the coming quarters. Management say that they have stockpiled enough advanced chips from the US to drive the next upgrade of their chatbot *Ernie*, and so for now will not be buying many of the H20 chips from Nvidia, which are permitted under US export controls.

Netease – in 2023, revenue grew by 7% and EPS grew by 47%. Netease is China's second largest video game developer. In the fourth quarter, sales from legacy PC games were impacted from the expired deal to publish Blizzard games; excluding this, revenue from legacy games was likely stable. Netease is expected to release several new games this year which should drive earnings growth.

JD.com – in 2023, revenue increased by 4% and EPS increased by 132%. JD.com is one of China's largest e-commerce companies, and along with Alibaba, is facing more competition from Pinduoduo. JD's fourth quarter results were better than expected, with growth in revenue and earnings. Management is targeting revenue growth in 2024 while due to higher investments, net profits are likely to grow at a much slower rate.

Outlook

From an investment perspective, valuations remain attractive. The Fund's holdings in aggregate are trading at a forward price/earnings ratio of 10.4x which is more than two standard deviations below the holdings' 15-year average. Based on consensus analyst estimates, the Fund's holdings in aggregate are expected to have grown earnings by 20% in 2023, 15% in 2024 and 15% in 2025. At current valuations, we believe this represents outstanding value to investors for the growth on offer.



(Data from 12/31/08 to 02/29/24, source: Bloomberg, Guinness Atkinson calculations. Calculations assume an equally weighted portfolio)

Edmund Harriss (portfolio manager)

Sharukh Malik (portfolio manager)

Performance

Areas which helped the Fund's performance in February were:

- Both stock selection and an overweight to Information Technology, driven by Xinyi Solar (total return +32.8%), Shenzhen H&T Intelligent (+22.3%), Hangzhou First Applied Material (+22.1%) and Venustech (+18.7%).
- Stock selection in Industrials, driven by Shenzhen Inovance (+12.6%), Wuxi Lead Intelligent Equipment (+14.0%) and Nari Technology (+10.0%).
- Stock selection in Health Care, driven by China Medical System (+14.7%) and Sino Biopharmaceutical (+11.2%).

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

- Stock selection in Consumer Discretionary, driven by not holding Meituan, Li Auto, Trip.com and Yum China.
- Underweight to Materials, where the Fund has no exposure.

As of 02/29/2024	YTD	1 Year	3 Year	5 Year	10 Year
China & Hong Kong Fund (ICHKX)	**-4.66%**	**-20.28%**	**-19.31%**	**-5.26%**	**0.17%**
Hang Seng Composite Index TR	**-3.74%**	**-13.76%**	**-16.18%**	**-5.52%**	**0.70%**
MSCI China Net Total Return Index	**-3.11%**	**-14.12%**	**-20.85%**	**-6.05%**	**0.97%**

As of 12/31/2023	YTD	1 Year	3 Year	5 Year	10 Year
China & Hong Kong Fund (ICHKX)	**-14.51%**	**-14.51%**	**-15.25%**	**-1.94%**	**0.04%**
Hang Seng Composite Index TR	**-10.69%**	**-10.69%**	**-13.31%**	**-2.72%**	**0.79%**
MSCI China Net Total Return Index	**-11.20%**	**-11.20%**	**-18.46%**	**-2.80%**	**0.85%**

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.

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.

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

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 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. With90 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 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.

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.

Top Fund Holdings as of 2/29/2024:

1.	NetEase Inc	4.26%
2.	China Medical System Holdings Ltd	4.18%
3.	NARI Technology Co Ltd	4.06%
4.	Weichai Power Co Ltd - H Shares	3.94%
5.	Haier Smart Home Co Ltd	3.87%
6.	Inner Mongolia Yili - A Shares	3.87%
7.	Tencent Holdings Ltd	3.78%
8.	Xinyi Solar Holdings Ltd	3.71%
9.	Zhejiang Supor Cookware - A Shares	3.70%
10.	Sany Heavy Industry Co	3.66%

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

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