Guinness Atkinson
China & Hong Kong Fund
Review of March 2021

GUINNESS ATKINSON FUNDS

Summary Review & Outlook

Market

- In March MSCI China fell 6.6% and MSCI Hong Kong rose 0.6%. The Shenzhen Component Index fell 6.1% while the Shanghai Stock Exchange Composite Index fell 3.6%.
- The sell-off that started in February continued in March, as MSCI China Growth fell 8.2% while MSCI China Value fell 4.9%.
- In MSCI China, the strongest sectors were Utilities (total return of +3.9%), Financials (+0.3%) and Real Estate (+0.3%) while the weakest were Materials (-10.0%), Communication Services (-9.8%) and Consumer Discretionary (-9.5%).
- In MSCI Hong Kong, the Real Estate and Financials indexes fell 2.9% and 0.9% respectively.
- In the Fund, strong performers were China Medical System, China Lesso and CPSC Pharmaceutical. Weaker stocks were Baidu, Xinyi Solar, Geely and New Oriental Education.

Fund Objectives

The Fund is designed to give exposure to the structural growth opportunities present in Greater China. We identify industries we think can grow earnings over the long-term, giving us more confidence that companies in these industries can grow their earnings over time. We then apply a set of quantitative filters to identify quality, profitable companies with strong balance sheets. Quality is defined as a return on capital above the cost of capital while a strong balance sheet is defined as debt/equity less than 150%. Note that the Fund itself has debt/equity of 33% and net debt/equity of -18% i.e. our companies have enough cash on the balance sheet to pay off their low levels of debt. We are interested in profitable, high return on capital businesses that can take advantage of the structural growth opportunities we have defined. In the portfolio, we are looking for companies that we think can grow earnings over time, and by enough to offset mean reversion in the valuation multiple.

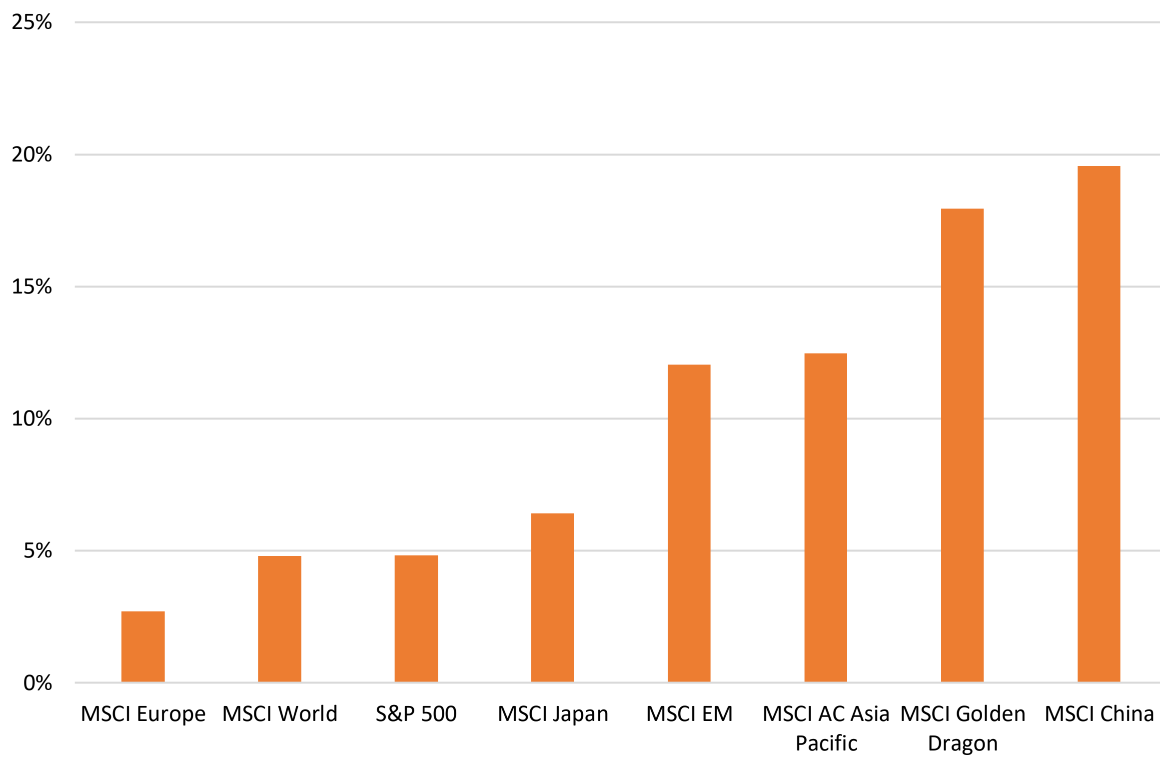
This process results in an equally weighted portfolio of 32 positions. The Fund trades at a P/E ratio of 16.5x on estimated 2021 earnings which puts it at an 3% discount to the MSCI Golden Dragon Index. Thus, relative to its benchmark, the Fund offers higher expected earnings growth at a slightly cheaper price. It does so at a return of equity (ROE) of 21% compared to 10% for the benchmark. The Fund manages to achieve this without allocating a large allocation to Tencent and Alibaba, which each make up ~14-15% of the index.

Market Review

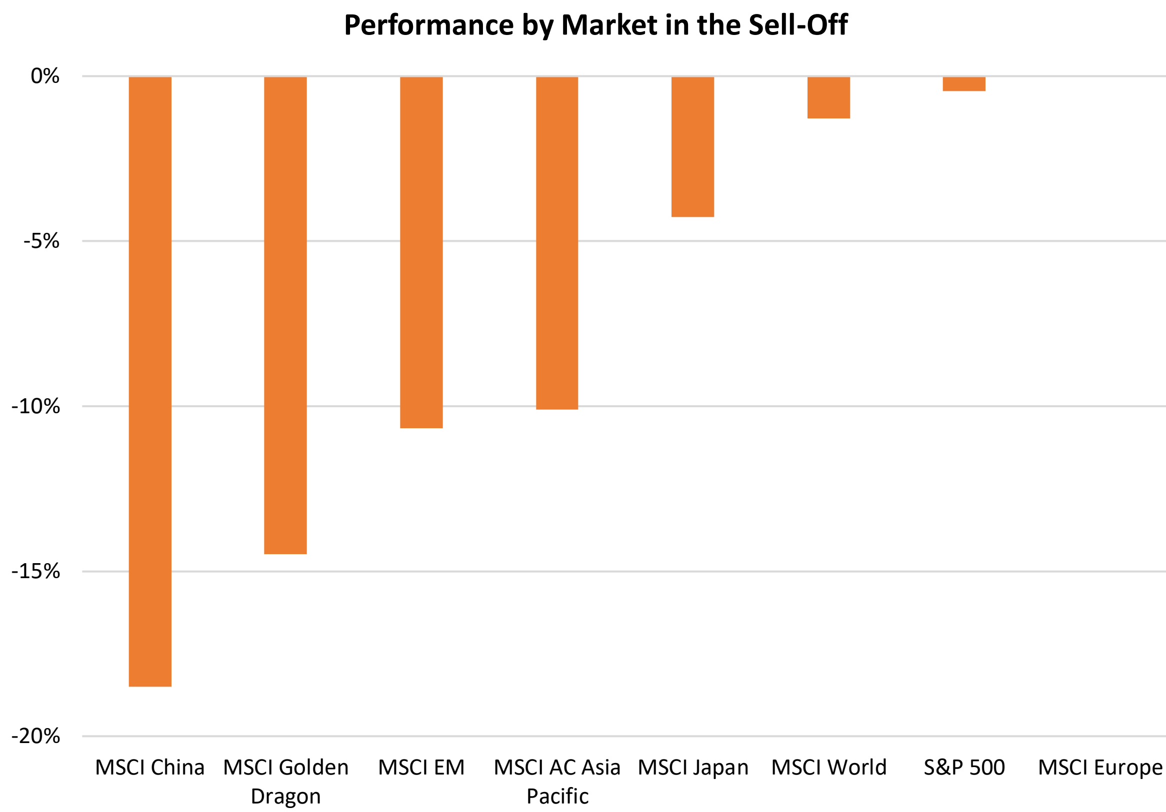
Market performance in the first quarter can be split into two halves. In the first half, which lasted to mid-February, Chinese markets were the strongest compared to the major markets shown below. The rally was led by large-cap tech stocks such as Tencent, Alibaba and Meituan Diapning, which contributed to 67% of MSCI China's increase in January. The rally in Hong Kong listed stocks was also partly driven by southbound flows from the mainland, where assets in the mutual fund industry rose 48% to $3.1tn in 2020.

After markets reopened following the Chinese New Year holidays, they sold off sharply. The main cause was rising bond yields in the US which led to a sell-off in higher growth stocks whose valuations have benefited from lower discount rates. Comments by the People's Bank of China (PBOC) also indicated monetary policy was unlikely to be loosened further, adding upward pressure to the discount rates used by market participants.

Performance by Market in the Rally



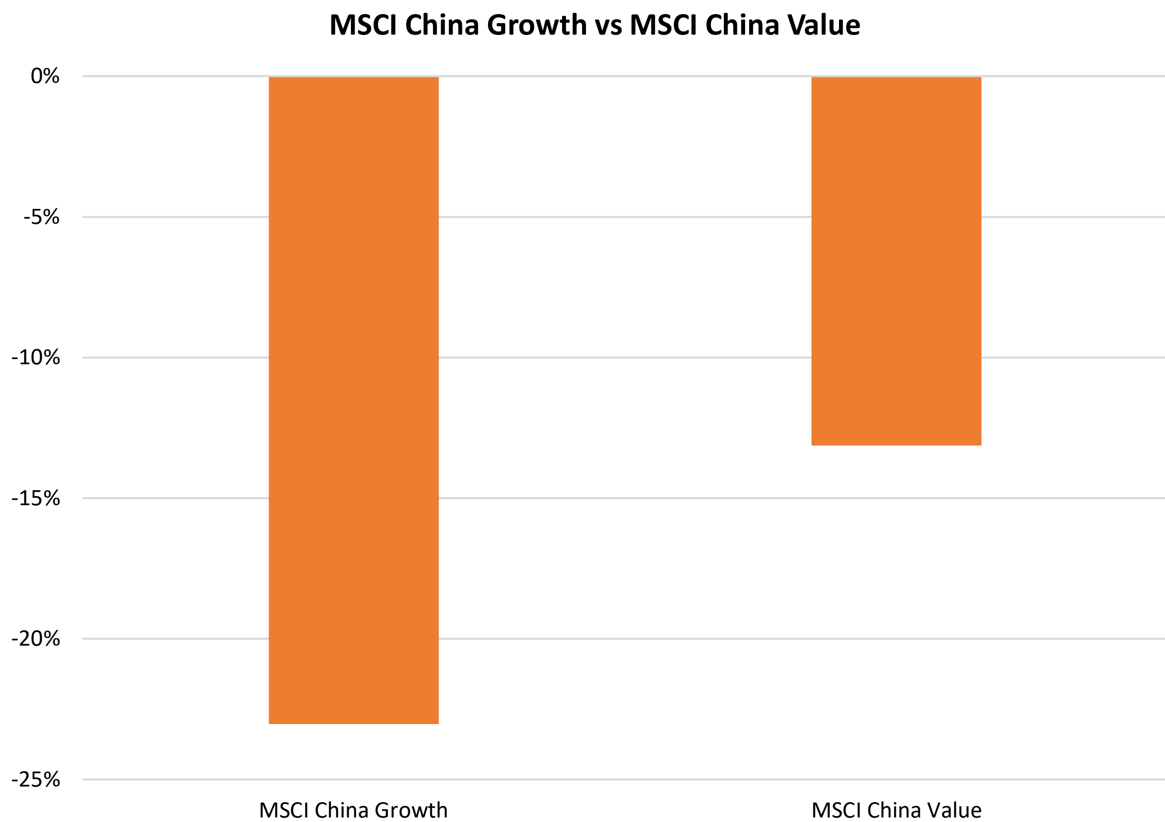
Source: Guinness Atkinson Asset Management, Bloomberg. Returns in USD. Data from 12/31/20 – 02/17/21



Source: Guinness Atkinson Asset Management, Bloomberg. Returns in USD, 02/17/21 – 03/25/21.

In the sell-off, China was consequently the weakest market relative to major markets. MSCI China Growth fell 23% while MSCI China Value fell 13%. When valuing companies using a discounted cash flow (DCF) approach, we are careful with the discount rates we use. Market implied discount rates in Hong Kong, which are driven by rates in the US, have dropped to their lowest level in the past ten years. While we think in the short-term interest rates are unlikely to rise, we do think there is a possibility in the medium-term they could increase which would have the effect of lowering valuations. We are therefore, using a higher discount rate when carrying out our sensitivity analysis using the DCF approach, in order to build a margin of safety[1]; if interest rates do modestly increase, we think there is still room for meaningful upside potential in the companies we own.

[1] Buying with a "margin of safety," a phrase popularized by Benjamin Graham and Warren Buffet, is when a security is purchased for less than its estimated value. This helps protect against permanent capital loss in the case of an unexpected event or analytical mistake. A purchase made with a margin of safety does not guarantee the security will not decline in price.



Source: Guinness Atkinson Asset Management, Bloomberg. Returns in USD, 02/17/21 – 03/25/21.

Company Updates

Venustech is a provider of cybersecurity services and it released its preliminary 2020 results. Revenue grew 18% while net profit grew 22%, implying the expected acceleration of revenue and earnings came through in the fourth quarter. New growth drivers include cloud security and industrial security.

China Resources Gas's (CRG) second half revenue grew 16% while net income grew 30%. A recovery in industrial activity led to a rebound in sales from this segment. While the government had forced price cuts to stimulate the economy, upstream prices were also lower so actually the company's gross margin increased. Looking forward, management is guiding for high teens growth in gas volume in 2021. CRG is in a net cash position so is also looking for acquisitions which can add value of the business.

Sino Biopharmaceutical (SBP) reported 2020 revenue which was down 2% while earnings per share (EPS) was flat. The hepatitis business has been affected by price cuts and so the segment, which used to account for 44% of sales in 2017, now only contributes to 16% of sales. On the other hand, the oncology segment has grown to account for 32% of sales. SBP has switched is marketing focus towards these newer segments such as oncology where the company has more pricing power. Its novel drug, Anlotinib, can be used to treat different forms of cancer and the product is expected to become a blockbuster drug. The company is also expecting its orthopedic and respiratory segments to become growth drivers in the future. To achieve this objective, SBP bought Softhale, which is based in Belgium, to boost its presence in the respiratory market.

China Lilang, a retailer of men’s suits and casualwear, had a weak 2020. Its online presence is relatively trivial compared to its physical stores, and so revenue fell 27% in 2020. However, the company is seeing a gradual recovery in sales, with retail sales up 10-15% in the fourth quarter. Management has a positive outlook for the company and is aiming to increase its store count by 100 to 150 in 2021. Overall, the company is targeting retail sales growth of at least 10% in 2021.

Sany Heavy Industry reported revenue growth of 31% and EPS growth of 33% in 2020. It is China’s largest manufacturer of excavators and concrete machinery, which includes mixers and pumps. The market was concerned about a drop in Sany’s gross margin, but we think much of the drop can be explained by changes in accounting treatments and higher sales of lower margin excavators. Sany increased its R&D spending by 33% to focus on electrification and automation technology. Using its flagship factory as an example of the benefits of automation, it expects to save 30% floorspace and 50% labor, while increasing production capacity 50%.

Supor reported a revenue decline of 6% and net profit decline of 4% in 2020. As a manufacturer of kitchen appliances and small household appliances, Supor’s sales suffered in the first half of the year as retail stores were shut. But looking at results over 2020, we can see a gradual recovery as revenue growth accelerated from 1% in the third quarter to 7% in the fourth quarter. Sales have additionally been supported through export orders for parent Group SEB in France.

Portfolio Switches

We bought Fuling Zhacai, a condiment company focused on the production of zhacai and paocai. Zhacai is made using mustard roots and is commonly eaten with rice and buns. Fuling Zhacai has a long history of manufacturing zhacai and has a market share of 36%, when defined by value. 28% of sales are from the South where the company is based, but there is a fairly even split between the other major regions of China. Fuling Zhacai has been able to pass on cost increases to its customers which is a strong indicator of its pricing power, allowing the company to earn a high return on capital over time.

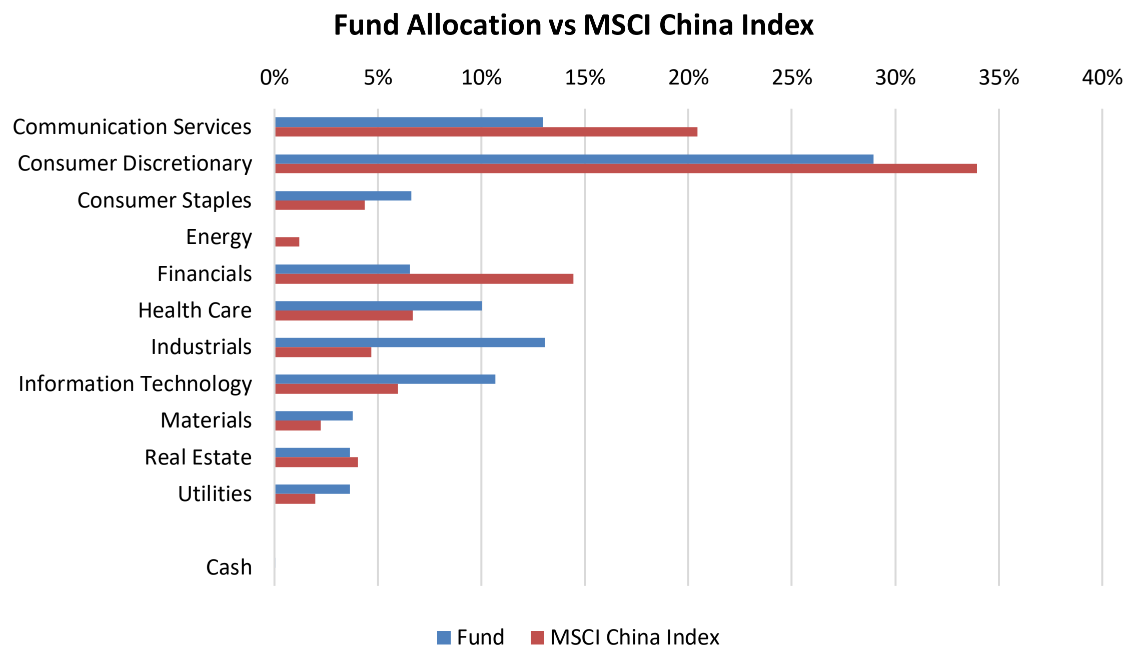
In the current ESG process we employ, when looking at Environmental and Social risks, we look at the material risks for the company and then assess how well management is responding to these risks. For Fuling Zhacai, the key risks include Raw Material Sourcing, Packaging Material & Waste and Product Safety Quality. The problem with Fuling Zhacai, along with many Chinese companies, is the lack of disclosure relating to these risks. This makes it very difficult to carry out genuinely useful ESG analysis which aids the investment process.

So, we wrote directly to the company to ask about their approach to the identified ESG risks. For example, in its annual report the company does not disclose its waste policies. However, in response to our questions, the company revealed that based on local laws it has to ship relevant waste materials to qualified waste treatment firms. After hearing back from the company, we concluded that though management could be more proactive on certain issues, overall its operates in accordance with national laws and has some form of risk management in place. We thought the business seemed well positioned to cope with the major Environmental risks relevant to the business. Therefore, we initiated a position in March.

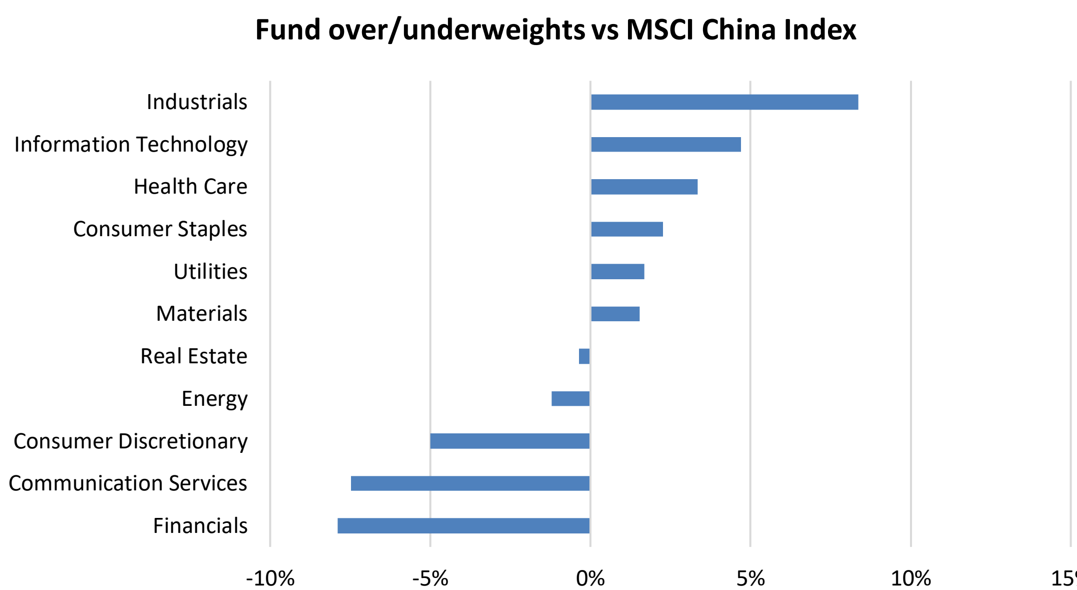
Since the end of 2019, when we shifted the Fund's focus towards structural growth, we have sold 15 positions and bought 13 positions. For a portfolio of just over 30 stocks, this is significant turnover. For each new position in the Fund, the due diligence process is extensive. We break down the income statement and "clean" it to reflect the true state of finances, where the aim is to identify recurring earnings e.g. we typically strip out government subsidies from earnings. We break down the balance sheet to identify sources of resilience and risk e.g. assessing the risk of a write-off for intangible assets. Detailed accounting checks are conducted to make sure we are not investing in a fraudulent company. The qualitative review is where we look at the history of the company and management. It is also where we interpret much of the financial data e.g. how has operating cashflow evolved, and what is the business doing with this cash? ESG considerations naturally fit in with this part of the process as we learn more about the company. Finally, valuations are considered. Markets are relatively expensive relative to their long-term average and we are looking for companies that can grow earnings by enough to offset mean reversion in the valuation multiple.

Portfolio Positioning

Relative to the MSCI China Index, the Fund is underweight in Financials, Communication Services and Consumer Discretionary, while overweight in Industrials and Information Technology.



Source: Guinness Atkinson Asset Management, Bloomberg. Data as of 03/31/2021.



Source: Guinness Atkinson Asset Management, Bloomberg. Data as of 03/31/2021.

Outlook

We believe the portfolio offers exposure to companies that are well placed to take advantage of the structural growth opportunities in China. We expect these companies to grow their earnings over time while earning a high return on capital. This expectation is not based on hope and is instead based on these companies already achieving a high return on capital over time. We are not interested in businesses which are in growing industries, but where the growth has yet to lead cashflow coming through. Additionally, we pay close attention to valuations. Due to loose monetary policy, discount rates are at low levels relative to history. We assume that at some point in the medium-term, they will increase and so are not using these ultra-low rates as the basis for our valuation. Tackling the problem from another angle, we are expecting valuation multiples to fall at some point in the future. Therefore, we are looking for companies that can grow earnings by enough to offset this multiple compression.

We are watching several interesting ideas on our watchlist. These are companies with good business models but where we think valuations are currently too demanding. Some of these companies sold off much more sharply than the broader market in the sell-off. Despite this fall, we feel they still do not offer higher upside than the current holdings in the Fund. We continue to conduct due diligence on these companies on the watchlist so that if valuations become more attractive, we are ready to act.

Edmund Harriss (portfolio manager)

GUINNESS ATKINSON FUNDS

Performance

In March, the Guinness Atkinson China & Hong Kong Fund fell 4.3% while the Hang Seng Composite Index fell 3.0%. Therefore the Fund underperformed by 1.3%.

As of 03/31/2021	YTD	1 Year	3 Year	5 Year	10 Year
China & Hong Kong Fund (ICHKX)	**5.71%**	**48.99%**	**7.46%**	**15.30%**	**4.31%**
Hang Seng Composite Index TR	**3.50%**	**39.77%**	**1.79%**	**10.22%**	**5.58%**

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

Expense Ratio: 1.69%

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. Earnings growth is not representative of the fund's future performance.

One cannot invest directly in an Index.

Hang Seng Composite Total Return Index is a market capitalization weighted index that monitors the performance of stocks listed in Hong Kong.

The MSCI Zhong Hua Index is a composite index that comprises the MSCI China and MSCI Hong Kong Index. The index captures large and mid-cap representation across all China securities (B shares, H shares, Red Chips, PChips and foreign listed shares) as well as Hong Kong securities.

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.

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.

Shanghai Composite Index, also known as SSE Index, is a stock market index of all stocks that are traded at the Shanghai Stock Exchange.

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 03/31/2021:

1	China Lesso Group Holdings Ltd	3.88%
2	Beijing Oriental Yuhong	3.76%
3	Venustech Group Inc	3.75%
4	CSPC Pharmaceutical Group Ltd	3.73%
5	NARI Technology Co Ltd	3.71%
6	China Merchants Bank Co Ltd - H Shares	3.68%
7	Wuxi Lead Intelligent Equipment Co Ltd	3.67%
8	China Overseas Land & Investments Ltd	3.65%
9	China Resources Gas Group Ltd	3.65%
10	JD.com Inc	3.61%

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

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Shenzhen Component Index is an index of 500 stocks that are traded at the Shenzhen Stock Exchange (SZSE). It is the main stock market index of SZSE.

Shanghai Stock Exchange Composite Index is a stock market index of all stocks that are traded at the Shanghai Stock Exchange.

MSCI Hong Kong Index is designed to measure the performance of the large and mid cap segments of the Hong Kong market.

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.

MSCI China Index captures large and mid cap representation across China A shares, H shares, B shares, Red chips, P chips and foreign listings.

Return on Capital (ROC) is a measure of the profitability and value-creating potential of companies relative to the amount of capital invested by shareholders and other debtholders.

Earnings Growth is the annual compound annual growth rate of earnings from investments.

MSCI Golden Dragon Index captures the equity market performance of large and mid cap China securities as well as securities classified in Hong Kong and Taiwan.

Price Earnings Ratio (P/E Ratio) is the ratio of a company’s share price to the company’s earnings per share.

Return on Equity (ROE) is a measure of the profitability of a business in relation to the equity.

MSCI Europe Index captures large and mid cap representation across 15 Developed Markets countries in Europe.

MSCI World Index captures large and mid cap representation across 23 Developed Markets countries.

MSCI Japan Index is designed to measure the performance of the large and mid cap segments of the Japanese market.

MSCI Emerging Markets (EM) Index captures large and mid cap representation across 27 Emerging Markets countries.

MSCI AC Asia Pacific Index captures large and mid cap representation across 5 Developed Markets countries and 9 Emerging Markets countries in the Asia Pacific region.

S&P 500 Index is a free-float, weighted measurement stock market index of the 500 large companies listed on stock exchanges in the United States.

Discounted Cash Flow is a valuation method used to estimate the value of an investment based on its expected future cash flows.

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

Cash flows are the net amount of cash and cash-equivalents being transferred into and out of a business.