
Summary Review & Outlook

Summary View

- In April, the MSCI China Total Return Index (“MSCI China Index”) fell 4.1% (in USD unless otherwise stated). MSCI China Value fell 5.7% while MSCI China Growth fell 2.4%.
- Total Covid cases in China peaked in April and have slightly dropped in May, with more cities locking down early to avoid a similar fate to Shanghai. Importantly, a cluster of Covid cases were detected in Beijing, leading to significant restrictions on movement in the capital. These lockdowns and restrictions incur a significant economic cost, explaining the weak economic data coming through.
- The NBS Purchasing Managers Index (National Bureau of Statistics PMI), which is more geared towards state-owned firms, fell from 49.5 in March to 47.4 in April, where a level below 50 indicates contracting economic activity. The Caixin PMI, which is more geared towards private firms, fell from 48.1 in March to 46.0 in April. The Caixin services PMI fell from an already weak reading of 42.0 in March to 36.3 in April.
- The Required Reserve Ratio (RRR) was cut by 0.25%, freeing some liquidity. But short-term interest rates were not lowered which was a surprise to markets.
- We remain focused on the long-term structural growth themes which persist despite the weak macro environment. These seven themes are: Rise of the Middle Class, Sustainability, Manufacturing Upgrades, Healthcare, Cloud Computing & Artificial Intelligence, Next Gen Consumer and Financial Services. We believe these themes will persist even as China continues with its zero covid policy. Investors can get access to these themes at historically low levels, as the Fund trades at 12.5x on estimated 2022 earnings.

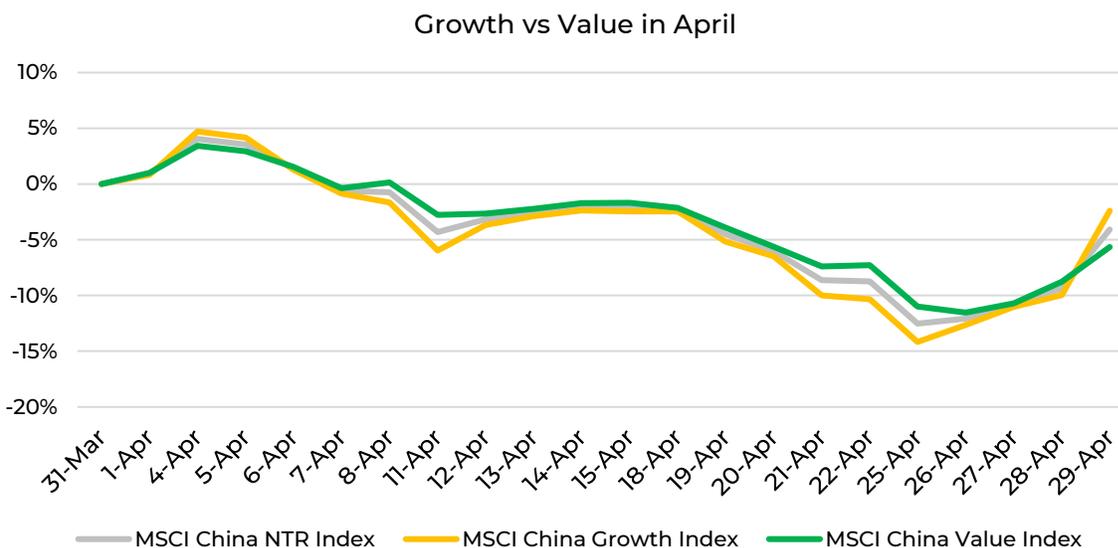
Market Commentary

In April, Chinese markets fell but were outperformers relative to its developed market counterparts. The MSCI China Index fell 4.1% while the S&P 500 Index fell 8.7%. The Chinese government continues to promise it will stimulate the economy but markets remain unconvinced. At the end of April, the Politburo released a statement saying it would improve its economic policies to help growth, vowing to accelerate measures which have already been announced. It also repeated its stance that the period of tighter regulation affecting the tech platform stocks would soon come to a close, and that it supports the healthy development of the sector. However, the statement also reiterated its support for China’s dynamic zero covid policy which suggests the economic disruptions from lockdowns will continue. We have not yet seen a significant easing in monetary or fiscal policy, so market sentiment remains poor.



(Data from 03/31/22 to 04/30/22, returns in USD, source: Bloomberg, Guinness Atkinson calculations)

In April, value stocks did worse than growth, as the MSCI China Value Index fell 5.7% while the Growth Index fell by 2.4%. But this masks the significant sell-off in the middle of the month, where at its weakest, Growth was down 14.2% and Value was down 11.0%.



(Data from 03/31/22 to 04/30/22, returns in USD, source: Bloomberg, Guinness Atkinson calculations)

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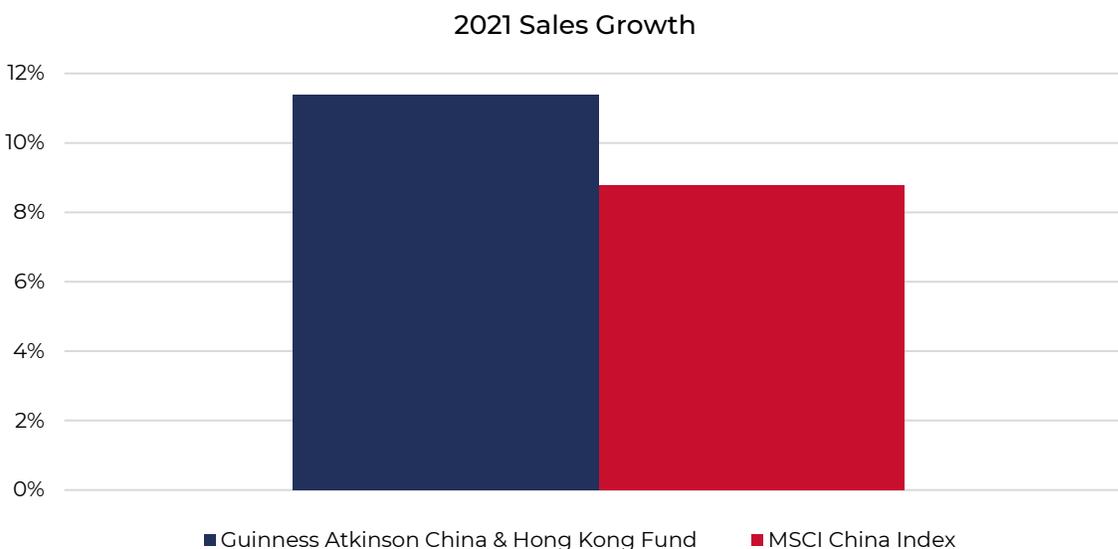
In April, the strongest sectors were Communication Services, Real Estate and Consumer Staples. The weakest were Information Technology, Health Care and Materials. Information Technology was weak across subsectors due to weakening end demand and rising costs.



(Data from 03/31/22 to 04/30/22, returns in USD, source: Bloomberg, Guinness Atkinson calculations)

Company Operating Performance

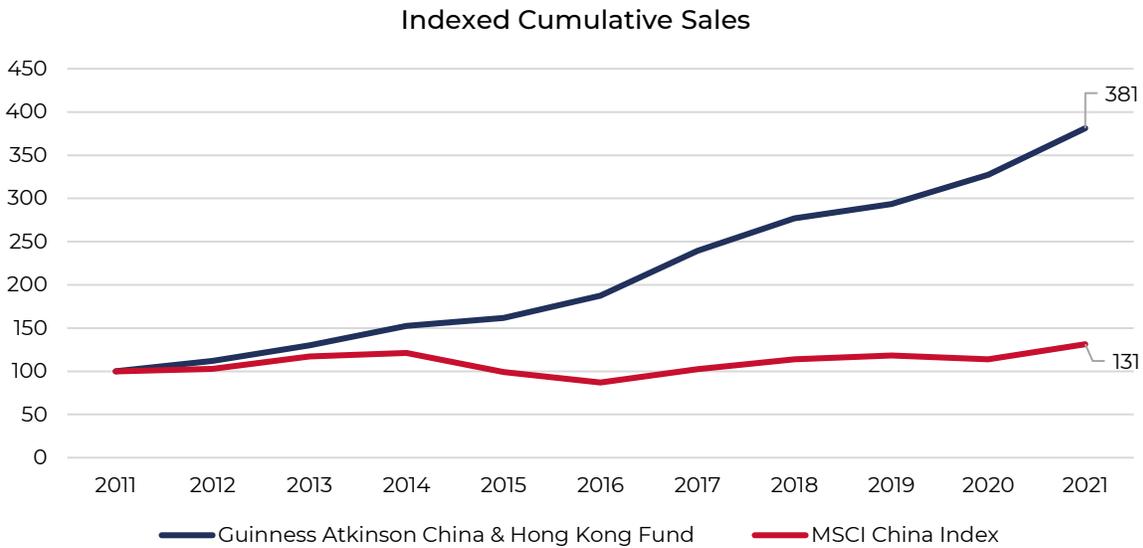
In 2021 the aggregate sales growth of the Fund's current holdings was 11%, which was higher than the aggregate sales growth of the MSCI China Index, which was 9%.



(Data as of 04/30/22, sales in USD, source: Bloomberg, Guinness Atkinson calculations.)

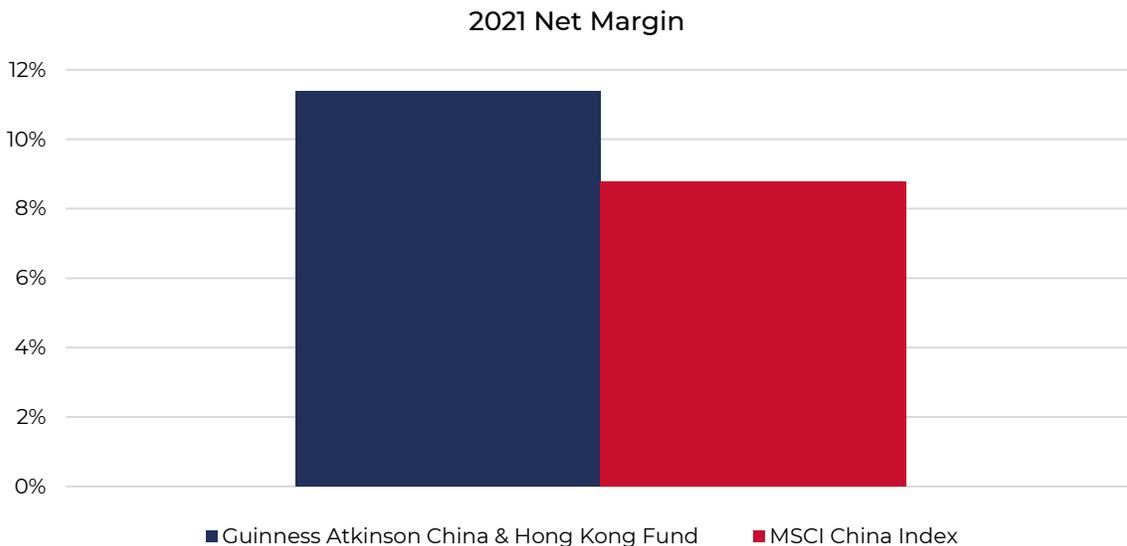
We argue the higher growth is no coincidence. Our focus on structural growth themes means the Fund's current holdings have, over the past 10 years, grown sales at a much higher rate than the broader market. (Note for the cumulative calculations for the Fund, we look at the aggregate sales growth of the current holdings over the past 10 years. When calculating the aggregate sales growth for the MSCI China Index, the holdings and weights do change each year, so the companies on which 2021 sales are calculated for, are different to those on which 2011 sales are calculated for). Below we show the aggregate sales of the Fund's current companies, over the last 10 years, have grown by a total of 281%. This is higher than 31% aggregate sales growth of companies in the MSCI China Index.

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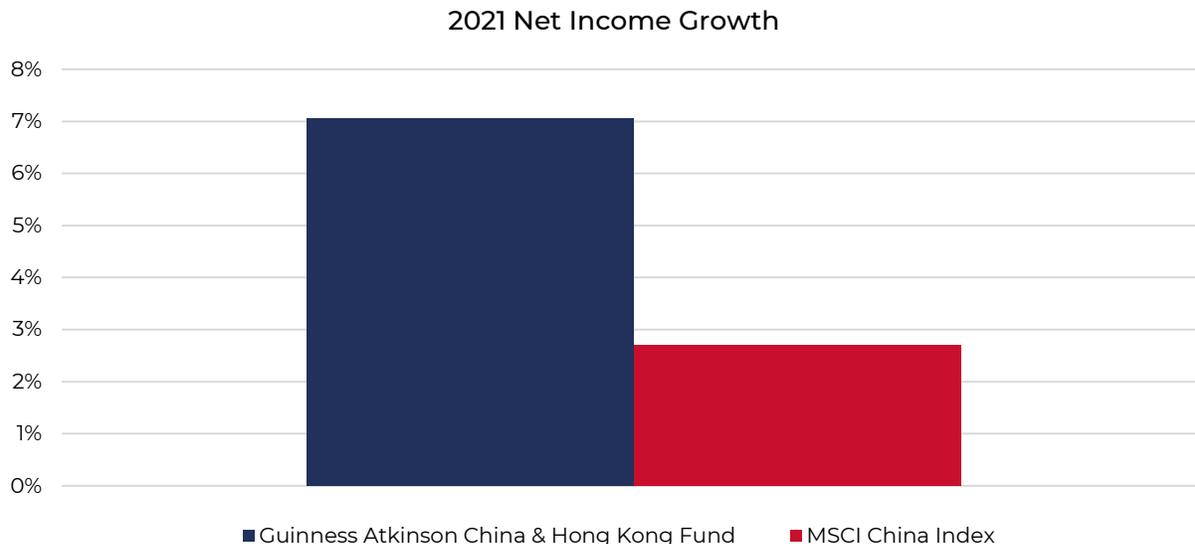
(Data as of 04/30/22, sales in USD, source: Bloomberg, Guinness Atkinson calculations.)

In 2021, the net margin of the Fund’s current companies was 11.4% compared to 8.8% for the companies in the MSCI China Index. So not only was the Fund able to grow sales at a higher rate than the broader market but it was also able to do so with much higher profitability.



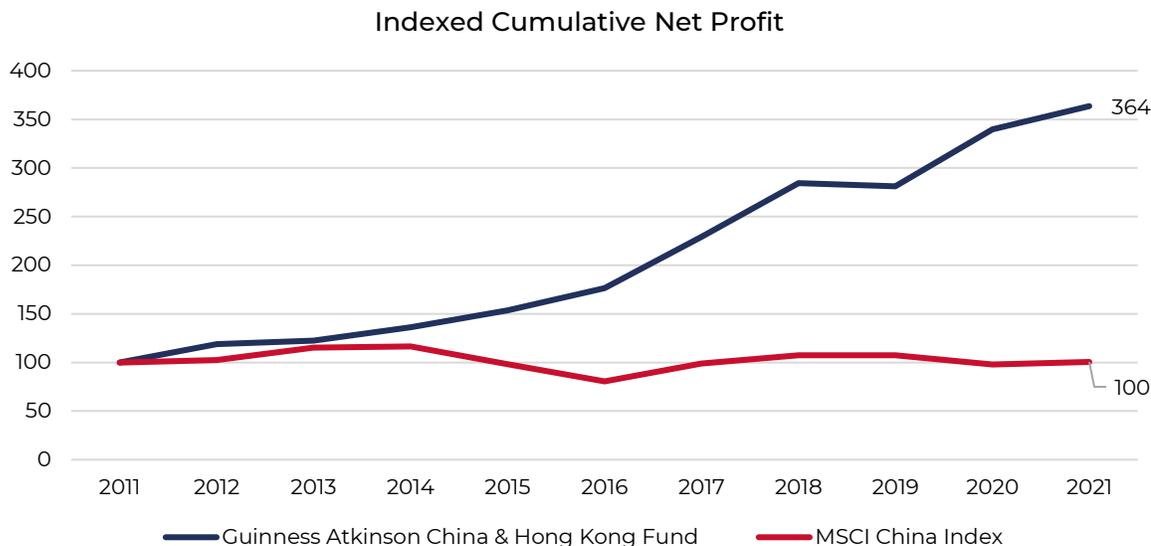
(Data as of 04/30/22, source: Bloomberg, Guinness Atkinson calculations.)

As a result, the aggregate net income growth of the Fund’s current companies was 7% in 2021, compared to aggregate net income growth of only 3% for the companies in the MSCI China Index.



(Data as of 04/30/22, net income in USD, source: Bloomberg, Guinness Atkinson calculations.)

The aggregate net income of the Fund's current companies, over the last 10 years, has grown by 264%. This compares to essentially no growth in the aggregate net income of the companies in the MSCI China Index. We do occasionally see articles arguing China is not investable because of the lack of long-term earnings growth in the broader market. We agree that the earnings growth of the broader market is poor, which is what made the Fund so attractive. We are not investing in the broader market – we are investing, with high conviction, in a set of well-run companies which give exposure to the structural growth themes in China. This has resulted, as we have shown, in much higher aggregate sales and earnings growth for the Fund's holdings over the past 10 years.



(Data as of 04/30/22, sales in USD, source: Bloomberg, Guinness Atkinson calculations..)

Outlook

With regards to valuation multiples, we do carry out a valuation discipline to ensure we do not overpay for growth. We carry out two disciplines – a discounted cashflow (DCF) approach and an earnings sensitivity approach. In the DCF approach, we assume various revenue growth rates and earnings before interest, taxes, depreciation, and amortization (EBITDA) margins to assess upside in each scenario. We factor in, for example, the upside if growth and/or margins are lower than expected. We also model in the effect of rising discount rates, which would be prompted by rising interest rates, which we are seeing in the US. In the earnings sensitivity approach, we assume various earnings growth rates and ending valuation multiples. Again, here we assess upside if growth is lower than expected, or if multiples fall due to mean reversion or rising global discount rates.

China is trading at valuations that are one standard deviation below its average since November 2015 – we use this starting point because this is when the China ADRs (Chinese American Depositary Receipts) were added to the index. To put this into context, China was last trading at these levels during the trade war and late 2015/early 2016. The portfolio is valued at 13.9x on estimated 2022 earnings, which puts it at a 29% premium to the MSCI China Index which trades at 10.8x. We hope we have shown in this update that this premium is worth paying for.

Edmund Harriss (portfolio manager)

Sharukh Malik (portfolio manager)

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Performance

As of 04/30/2022	YTD	1 Year	3 Year	5 Year	10 Year
China & Hong Kong Fund (ICHKX)	-20.00%	-30.96%	-2.92%	2.64%	2.79%
Hang Seng Composite Index TR	-12.34%	-28.46%	-4.42%	1.73%	4.09%
MSCI China Net Total Return Index	-17.70%	-36.18%	-5.04%	2.12%	3.75%

As of 03/31/2022	YTD	1 Year	3 Year	5 Year	10 Year
China & Hong Kong Fund (ICHKX)	-15.16%	-25.13%	0.31%	3.97%	3.58%
Hang Seng Composite Index TR	-8.83%	-24.19%	-2.49%	2.88%	4.77%
MSCI China Net Total Return Index	-14.19%	-32.54%	-3.01%	3.51%	4.54%

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

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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 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 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 EM ex China is the same as the MSCI Emerging Markets Index but excludes China.

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".

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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 Golden Dragon is a composite of the MSCI China, Hong Kong and Taiwan Indices which are free float-adjusted market capitalization weighted indices that is designed to measure the equity market performance of the respective markets.

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.

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

Discounted cashflow measures future cashflows in terms of today's value using discount rates.

Standard deviation (SD) is a statistic that measures the dispersion of a dataset relative to its average.

The Required Reserve Ratio (RRR) is how much of a bank's capital that must be kept as reserves.

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 4/30/2022:

1. China Overseas Land & Investments Ltd	4.66%
2. NetEase Inc	4.55%
3. JD.com Inc	4.29%
4. NARI Technology Co Ltd	4.00%
5. AIA Group Ltd	3.83%
6. Chongqing Fuling Zhacai Group Co Ltd	3.79%
7. Haier Smart Home Co Ltd	3.68%
8. Shenzhou International	3.67%
9. Inner Mongolia Yili - A Shares	3.62%

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10. China Medical System Holdings Ltd 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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