Guinness Atkinson
China & Hong Kong Fund
Review of March 2020

Summary Review & Outlook

Fund & market

- In March, MSCI China fell 6.6% while MSCI Hong Kong fell 12.2%. The Shenzhen Component Index fell 10.4% while the Shanghai Stock Exchange Composite Index fell 5.7%.
- In MSCI China, the strongest sectors were Consumer Staples (total return of +1.7%), Communication Services (-4.0%) and Financials (-5.5%) while the weakest were Information Technology (-15.9%), Energy (-12.2%) and Materials (-10.6%).
- In Hong Kong, the Financials and Real Estate sectors, which are by far the largest parts of the local index, fell 9.2% and 10.8% respectively.

Events in March

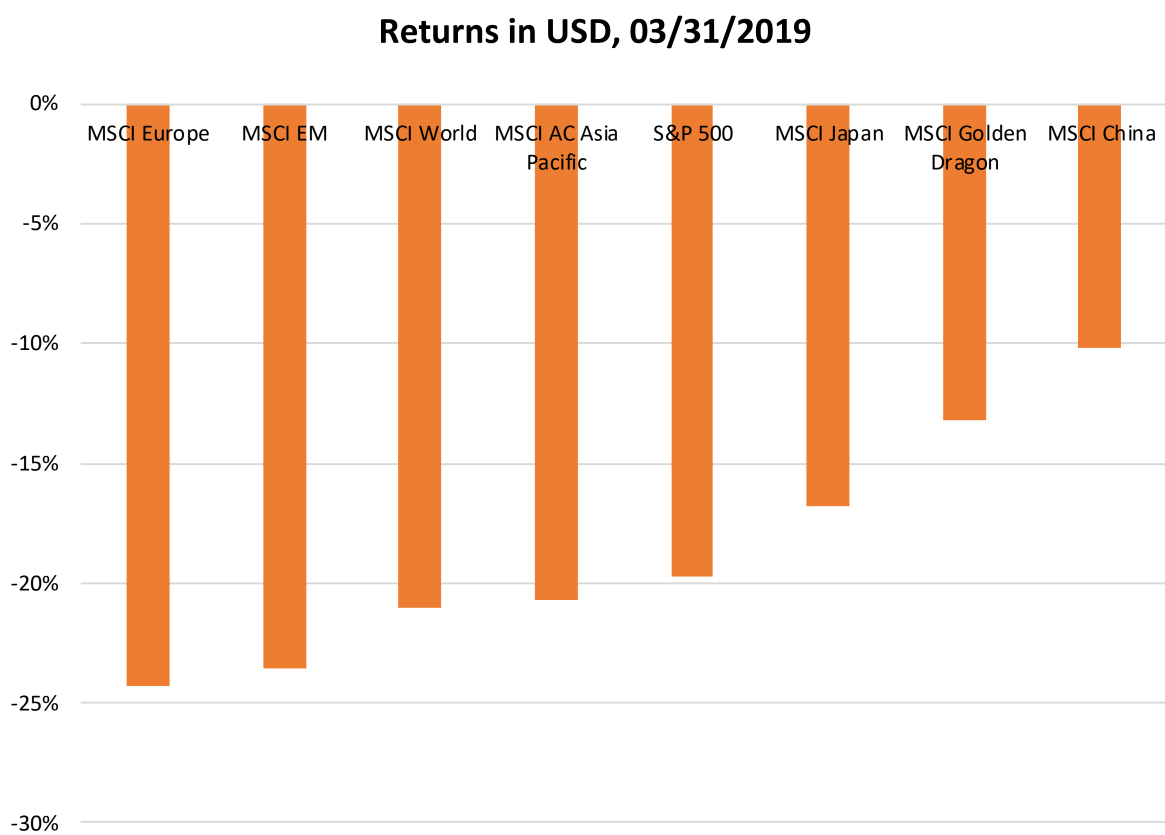
- Xi Jinping visited Wuhan, signalling that the leadership thinks it has control over the spread of coronavirus. Life seems to be getting back to normal in China, but the rest of the world has entered lockdown. Many factories are now in a position to manufacture goods but have seen foreign demand disappear.
- In a sign that China is not completely out of the woods, after partially reopening, cinemas were shut down again. Some provinces have also shut down tourist attractions.
- Recent measures by the government to stimulate growth include:
    - The PBOC cut the reverse repurchase rate by 0.2% to 2.2% to lower the cost of borrowing. It is likely further cuts will follow.
    - The PBOC cut the required reserve ratio (RRR) by 1% for smaller banks, which will be split into one 0.5% cut in April and another in May. The interest rate on excess reserves was lowered from 0.72% to 0.35%. Both measures intend to release liquidity to small and medium sized enterprises (SMEs).
    - The PBOC initially set aside CNY 300bn in refinancing funds to alleviate liquidity pressure for SMEs. This was increased to RMB 1trn.
    - Price subsidies for those on low incomes are to be doubled until June. The unemployed will be also be eligible for the scheme.
    - Subsidies and tax exceptions for new energy vehicles are to be extended for two years.
    - In numerous provinces, state owned enterprises are waiving rental income for several months.
    - Local governments can now issue special bonds to fund a greater range of activities, including refurbishments of old residential areas and renovations of shantytowns.

Market Update

High frequency data shows the Chinese economy is gradually recovering, with some data points showing a better picture than others. Coal consumption of six major power generators is now ~16% below the historical average, compared to the 60% level seen just after Chinese New Year. Housing sales are 4.5%

below their historical average. On the other hand, average retail sales of passenger vehicles is 52% of the long-term average. Though traffic congestion is down 7%, volumes in the subways of six major cities is still down 34%. February was a very weak month, with the Purchasing Managers' Index falling to a historic low of 35.7, before recovering to 52.0 in March.

It seems China is coping better with the virus than Europe and the US, and so China was a source of outperformance in the first quarter:



Source: Bloomberg

Portfolio Update
The companies in the portfolio in aggregate reported earnings in 2019 that were 3.9% higher than in 2019.

AAC Technologies is facing greater competition in its older acoustics and haptics products. It is planning on launching newer versions of these products, but it will take time for these new products to meaningfully reverse the decline. The optics business is growing quickly but is still a small part of the business and the impact on profitability is marginal. Management surprised us by not paying a final dividend, in order to preserve liquidity in the current climate. We do think demand in 2020 will be weak but assuming we can control the spread of the virus, over the medium term, the demand outlook remains strong. 5G phones are becoming more popular and broadly speaking, require slightly more complex components which should lead to both volume and pricing improvements for AAC.

In a tough automobile market, Geely's results are understandable. Car sales in China fell 8% in 2019 while Geely's sales fell 9%. The company sold 1.36m cars in 2019 and despite coronavirus, is aiming to grow this by 4% in 2020. Six new models will be launched over the course of the year, supported by research and development that is industry leading when measured relative to revenue. Geely is now in preliminary discussions to acquire Volvo from its parent company, expanding its global reach. While this is likely to be another weak year for the business, we still think Geely can become a leading Chinese carmaker. The long-term picture remains the same. Per-capita vehicle ownership in China is well behind developed markets, given China's lower GDP per capita. We expect that as China's economy grows over the medium-term, vehicle ownership to grow. As a leading company in the space we think Geely is well placed to take advantage of this trend.

Sino Biopharmaceutical's second half results missed expectations. Sales of *entecavir*, a previous blockbuster drug used to treat hepatitis, fell on pricing pressure. Management is now shifting sales towards the over-the-counter channel to alleviate some of this pricing pressure. On the other hand, oncology sales increased 70% and *anlotinib****,*** used to treat lung cancer, is now a blockbuster drug. Sino Biopharm has received approval to sell 11 generic products, some of which could drive significant sales growth, such as *budesonide* (used to treat asthma) and *sitagliptin* (used to treat diabetes). There is also a pipeline of innovative drugs developed by Sino Biopharm itself, which could begin to be sold from 2021 onwards.

Netease grew earnings by more than 100% in 2019, driven by the sale of the cross border e-commerce business *Kaola* to Alibaba. Net income from continuing operations still grew by 56%, however. Revenue from online games increased by 16%. An expansion pack of the *Fantasy Westward* series, *Fantasy Westward Journey 3D*, was launched and now ranks within the top 5 grossing games on Apple's App Store. The outbreak of coronavirus led to higher demand for online gaming, benefiting Netease's topline growth. The online education service, *Youdao*, was growing quickly before coronavirus and demand has since surged in the first quarter. *Cloud Music* is beginning to make a larger contribution to the business and doubled membership revenues in the fourth quarter.

China Lesso's net profit increased 21%, which was slightly higher than expected. The company sees multiple avenues for further growth. The ongoing shift in energy away from coal and towards gas should drive demand for pipes. New pipes for water supply, drainage, irrigation and heating supply will be required to meet the governments targets. Lesso is now building manufacturing plants in Indonesia and Cambodia, to capture sales in ASEAN.

Portfolio Switches

We sold CNOOC and Tongda Group. We sold CNOOC after the collapse of the OPEC meeting where Russia refused to back the proposal to cut production. The returns of the business have been weak for some time and this event triggered the exit of the position. We have given time to Tongda business to show whether its shift to "glasstic" casings can generate the same level of profitability as the traditional metal casings. This was not the case in the most recent update and Tongda is now facing pricing pressure in its waterproof components business.

We bought Zhejiang Supor, a manufacturer of small kitchen appliances. It marks our first purchase of an A share. Supor has strong brand loyalty and benefits from cooperation with its French parent company, Groupe SEB e.g. Supor can use its parent's Tefal brand in its products. Supor has leading market share in woks, fry pans, pots and steamers. It ranks second in the market for small domestic appliances such as electric rice cookers, slow cookers, garment steamers and dust cleaners. The business has maintained a high return on capital over an extended period of time. It is one of the few A share companies to clearly list the criteria used to determine management's compensation, and we feel we can trust management to grow the company in the future.

Summary view & outlook

We believe we own a set of companies that can navigate the upcoming slowdown in the global economy. Debt/equity for the portfolio, excluding the three banks, is 42% i.e. the Fund is not highly geared. If we look at net debt/equity, which subtracts cash from debt, the figure is -14% i.e. our companies could in theory pay back all of their debt with cash. We measure bank leverage by comparing total assets to total equity. We would consider assets that are 20x the size of equity to be the maximum we would accept for a bank and for an emerging markets bank with their more highly concentrated loan books we think we should be looking at 12-13x. China Merchants Bank is the most leveraged at 12.0x and BOC Hong Kong the least at 9.8x.

Edmund Harriss (portfolio manager)

Performance

As of 3/31/2020	YTD	1 Year	3 Year	5 Year	10 Year
China & Hong Kong Fund (ICHKX)	**-18.73%**	**-9.51%**	**2.89%**	**2.64%**	**1.40%**
Hang Seng Composite Index TR	**-14.17%**	**-12.47%**	**2.89%**	**2.24%**	**4.15%**

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

Expense Ratio: 1.54%

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.

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 3/31/2020:

1.	Tencent Holdings Ltd	4.17%
2.	Alibaba Group Holding Ltd	3.99%
3.	NetEase Inc - ADR	3.83%
4.	Anhui Conch Cement Co Ltd - H Shares	3.74%
5.	Haier Electronics Group Co Ltd	3.53%
6.	Sino Biopharmaceutical Ltd	3.49%
7.	China Merchants Bank Co Ltd - H Shares	3.47%
8.	China Lesso Group Holdings Ltd	3.42%
9.	Weichai Power Co Ltd - H Shares	3.35%
10.	Zhejiang Supor Cookware	3.34%

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

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