Guinness Atkinson

China & Hong Kong Fund

Review of September 2020

Summary Review & Outlook

Market

- In September, MSCI China fell 2.7% while MSCI Hong Kong fell 5.1%. The Shenzhen Component Index fell 5.4% while the Shanghai Stock Exchange Composite Index fell 4.4%.
- This compared to the S&P falling 3.8%, MSCI Europe falling 3.3% and MSCI Japan rising 1.0%.
- In MSCI China, the strongest sectors were Consumer Discretionary (total return of +1.0%), Utilities (-2.0%) and Real Estate (-2.9%) while the weakest were Energy (-9.4%), Consumer Staples (-6.6%) and Information Technology (-5.9%).
- In MSCI Hong Kong, the Real Estate and Financials indexes fell 4.3% and 5.4% respectively.

Events in September

- Oracle agreed to invest in TikTok, which President Trump threatens to ban unless it is sold by its parent company. Oracle and Walmart have agreed to invest 20% in a newly formed TikTok Global business, where TikTok will become the new business cloud provider. There is, however, confusion over who will control the business. Oracle says American groups will control the company whereas Bytedance, the current owner of Tiktok, says it will control the new entity. Furthermore, US courts are due to decide if Trump can even ban Tiktok in the first place, while the Chinese government may ban the deal.
- Semiconductor Manufacturing International Corporation (SMIC), China's largest foundry, had restrictions imposed on it by the US government. The US argues SMIC produces chips for the Chinese military, which acts as justification for the controls.
- HSBC was alleged to have allowed money launderers to move millions which led to weakness in its share price. The Global Times, a state-run newspaper, said HSBC could go on China's first "unreliable entities" list which will contain foreign companies judged to be operating against national interests.
- Industrial production rose 5.6% year-on-year (yoy) in August while industrial profit grew 19.1% yoy. Fixed assets investment increased 9.3%, driven by a 5.0% increase in manufacturing investment.
- Retail sales grew 0.5% yoy in August, an acceleration from the previous month. Offline consumption showed a notable rebound.

Portfolio Switches

The changes we have made to the Fund this year are summarized below:

Sells	
Name	**Sector**
Travelsky	Information Technology
CNOOC	Energy
Tongda Group	Information Technology
AAC Technologies	Information Technology
Dali Foods	Consumer Staples
Qualcomm	Information Technology
Yangzijiang	Industrials
BOC HK	Financials
China Construction Bank	Financials
Noah	Financials

Buys	
Name	**Sector**
Supor	Consumer Discretionary
JD.com	Consumer Discretionary
Yuhong	Materials
Yili	Consumer Staples
Suofeiya	Consumer Discretionary
Venustech	Information Technology
CSPC Pharmaceutical	Healthcare
Sany Heavy Industry	Industrials

Five changes were made in the quarter. With the exception of Qualcomm, the focus was predominantly on selling businesses which have lost their competitive advantage and where we feel the prospect for earnings growth is poor.

Qualcomm was sold as its share price recovered from its recent declines. While the company is likely to benefit from the rollout of 5G, we think there are several threats on the horizon that the market is not paying attention to. China's determination to achieve self-sufficiency could lead to import substitution, negatively impacting Qualcomm. Greater tensions with the US may mean the Chinese government retaliates against American companies like Qualcomm and we felt this risk was too high.

Yangzijiang's return on capital has been poor for some time and in the current climate, we think it is unlikely many new orders will be coming in. In the present low interest rate environment, we think **BOC HK** is likely to find it difficult to grow earnings. Growth headwinds for the big banks in China also led to the sale of **China Construction Bank**.

In June, we significantly increased the Fund's exposure to the A share market by buying three positions. **Yili** is China's largest dairy company and should benefit as dairy consumption rises with economic growth. Yili also is the largest domestic infant formula provider. **Suofeiya** is a designer and manufacturer of furniture and kitchen cabinets. It is one of the more well-known brands in the industry and is expanding through partnerships with developers, to take advantage of the rising trend of furnished apartments in China. Suofeiya has generated a high return on capital for many years and we feel the share price is undervaluing this persistence in the business. **Venustech** is one of China's largest software security providers. Its main customers are various government departments, telecoms companies and financial institutions. Recently cybersecurity standards were strengthened and firms in critical sectors will need to conduct more stringent cybersecurity tests, which should expand the addressable market for the company.

In July we bought **CSPC Pharmaceutical** which is in the process of shifting its business away from generics towards more innovative drugs. It has a well-diversified portfolio and has several new drugs in the pipeline. CSPC has rapidly increased its spending on research and development (R&D) and in 2019 spent 9% of its revenue on R&D. This is close to what Sino Biopharmaceutical, an existing holding in the Fund, spends. CSPC plans on increasing its R&D spend to 10-15% revenue in the coming years which should further push the business away from low margin generics.

In August we sold **Noah**, a wealth and asset management business. The company is still feeling the effects related to a credit fund which was in default. The issues have dragged on for a year and combined with the businesses' ongoing shift in distribution, we felt **Sany Heavy Industry** was a better stock to be in. Sany is China's largest manufacturer of excavators and concrete machinery. We think the company can benefit from infrastructure stimulus and the downside risk is minimal at current valuations.

So far, the changes we have made this year have, for the most part, outperformed the benchmark. We have seen particularly strong outperformance from Oriental Yuhong and JD.com. Both have shown strong earnings growth along with positive earnings revisions this year, boosting momentum. Yili and Sany Heavy have also added to performance. Yili's results recovered after a weak first quarter while Sany Heavy's results were also positive.

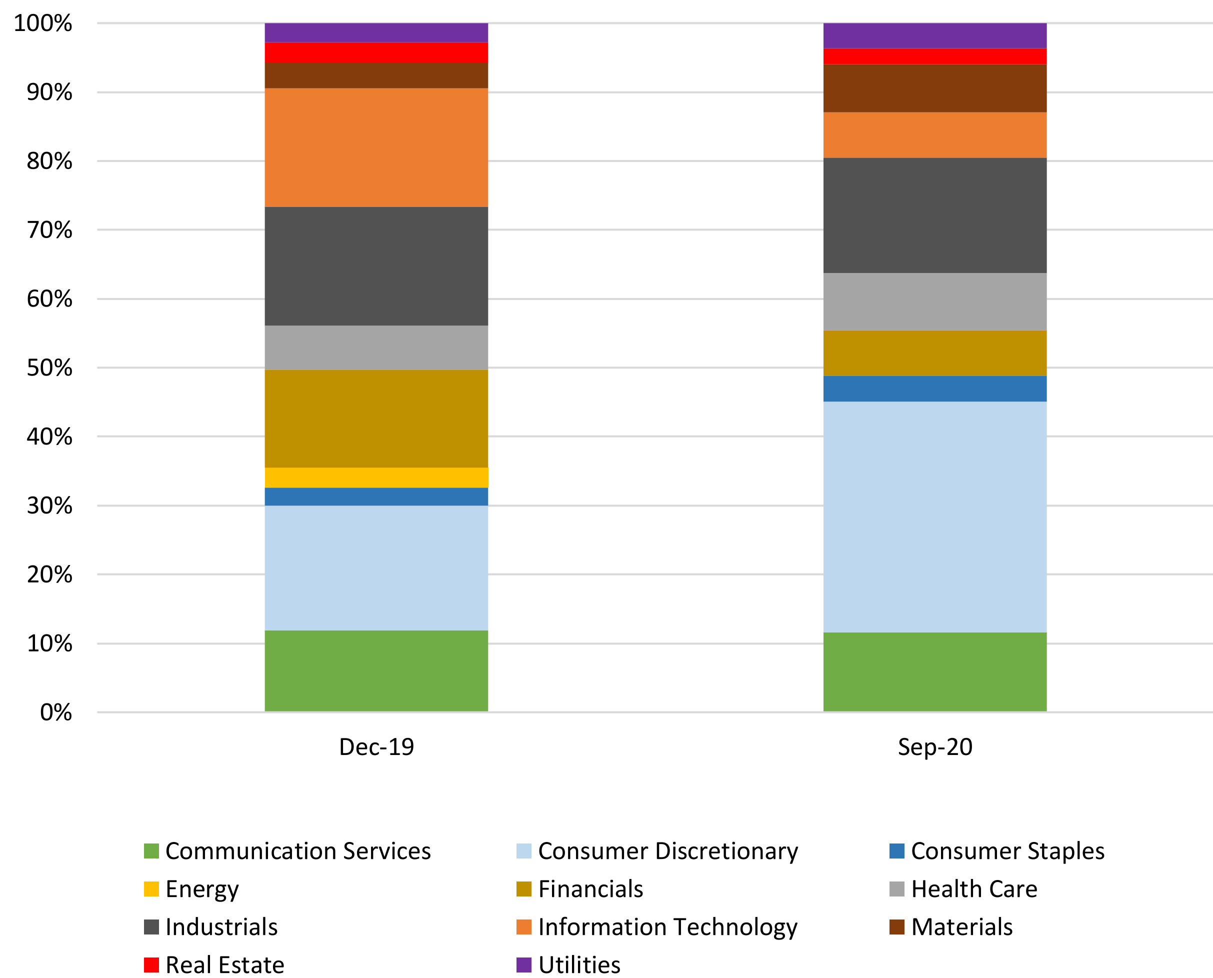
On the other hand, CSPC Pharmaceutical and Venustech have lagged. CSPC's interim results were good as it reported revenue growth of 14% with contributions from products across the cardiovascular and oncology franchises. CSPC is planning on increasing its R&D spend by 50% to RMB 3.0 billion in 2020 which should place it as one of the highest spenders on R&D relative to revenue in China. Despite good results, the healthcare sector has lagged as more cyclical sectors have rallied.

In the case of Venustech, we have taken advantage of weakness in the share price to add to the position. The position gives the Fund exposure to cybersecurity which we have identified as an industry with much potential to grow, and we expect the second half of the year, where the bulk of revenue and earnings come through, to show strong earnings growth for the company.

Portfolio Positioning

As a result of the changes made this year, the Fund's allocations to Information Technology and Financials have fallen by 10.6% and 7.6% respectively, compared to December 2019. Consequently, the allocations to Consumer Discretionary and Materials have risen by 15.6% and 3.3% respectively.

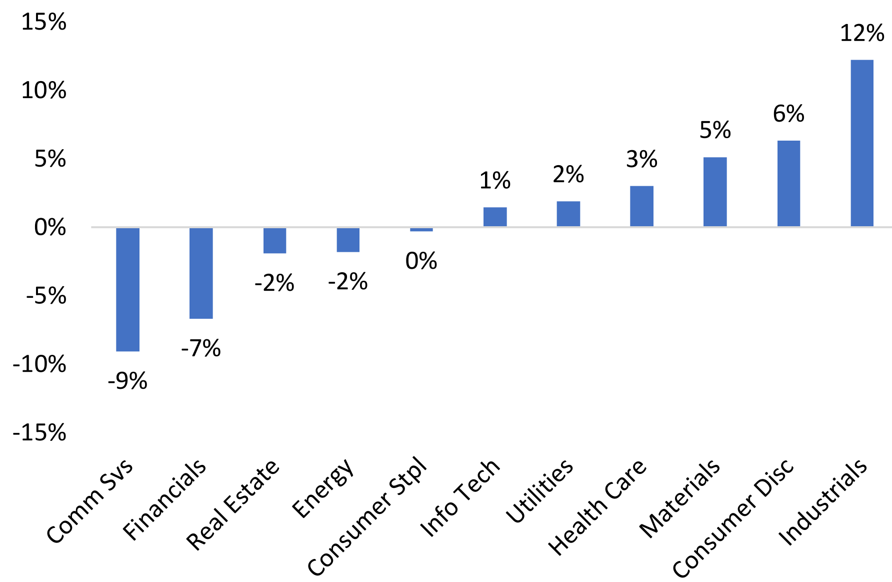
Fund Breakdown by Sector



Source: Guinness Atkinson Asset Management. Data as of September 30, 2020.

Relative to the MSCI China Index, the Fund is most overweight in Industrials, Materials and Health Care. The Fund is most underweight in Communication Services, Financials and Consumer Discretionary.

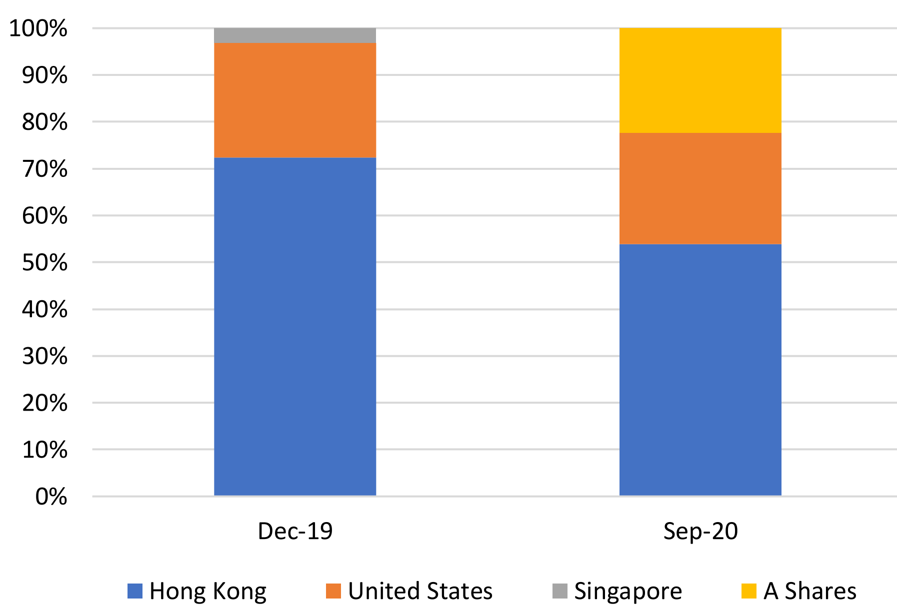
Fund Positioning Relative to MSCI China Index



Source: Guinness Atkinson Asset Management, Bloomberg. Data as of September 30, 2020.

The Fund has increased its allocation to the domestic A share market by 22.4% this year, while the allocation to Hong Kong has fallen by 18.1%.

Fund Breakdown by Exchange



Source: Guinness Atkinson Asset Management. Data as of September 30, 2020.

Outlook

The focus this year has been selling companies where either the competitive advantage has been lost or the prospect of earnings growth is unlikely. The replacements, we feel, all have a definable competitive advantage, have managed to grow their earnings in the past (pre-COVID) and are likely to do so in the current environment. The Fund has significantly increased its allocation to the A share market which we expect should give it exposure to any rallies in the mainland. We believe the Fund is now better placed to capture the growth opportunities present in China. These growth opportunities lie in structural growth areas such as e-commerce (JD.com), infrastructure stimulus (Yuhong and Sany), cybersecurity (Venustech) and consumption upgrades (Supor and Suofeiya).

Though we have made many switches this year, our aim is to continue to shift the Fund towards sectors which have structural growth as the main driver. The opportunity set includes industries such as electric vehicles, renewable energy, consumer lending and import substitution. We expect to make more changes over the course of the rest of the year to move the fund to some of these structural growth areas.

Edmund Harriss (portfolio manager)

Performance

As of 9/30/2020	YTD	1 Year	3 Year	5 Year	10 Year
China & Hong Kong Fund (ICHKX)	-1.23%	16.84%	4.29%	10.88%	2.47%
Hang Seng Composite Index TR	-0.42%	9.68%	2.21%	8.67%	4.92%

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.

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 9/30/2020:

1	Alibaba Group Holding Ltd	4.54%
2	JD.com Inc	4.18%
3	Sany Heavy Industry Co	3.99%
4	NetEase Inc - ADR	3.68%
5	Geely Automobile Holdings Ltd	3.68%
6	Inner Mongolia Yili	3.63%
7	Tencent Holdings Ltd	3.62%
8	Zhejiang Supor Cookware	3.59%
9	New Oriental Education & Technology Group Inc	3.55%
10	Suofeiya Home Collection	3.55%

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

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