Guinness Atkinson

China & Hong Kong Fund

Review of November 2020

Summary Review & Outlook

Market

- In November, MSCI China rose 2.8% and MSCI Hong Kong rose 11.2%. The Shenzhen Component Index rose 5.1% while the Shanghai Stock Exchange Composite Index rose 7.0%.
- MSCI China Value rose 10.3% while MSCI China Growth fell 2.4%.
- In MSCI China, the strongest sectors were Materials (total return of +14.9%), Energy (+14.7%) and Financials (+12.4%) while the weakest were Communication Services (-2.7%), Consumer Discretionary (-0.9%) and Health Care (+1.4%).
- In MSCI Hong Kong, the Real Estate and Financials indexes rose 14.1% and 12.7% respectively.
- Meanwhile the S&P 500 rose 10.9%, MSCI Europe rose 17.0% and MSCI Japan rose 12.5%.

Events in November

- Positive data came out from various COVID-19 trials. The BioNTech/Pfizer vaccine prevented 90%+ of trial participants from getting COVID-19. A week later, Moderna's results showed 95% of participants were protected. The Oxford vaccine can be up to 90% effective if given in two doses. This news led to a rally in stocks which are deemed to likely benefit from the rollout of the vaccines and a return to normal life. Therefore, the more cyclical stocks in the value index had a much better month than many of the stocks in growth index.
- Biden won the US election while Congress could possibly be split, meaning there is likely to be considerable restraint on the policies he can push through. Biden has already indicated that he will not remove tariffs on Chinese exports and instead is prioritizing a stimulus package for the domestic economy.
- President Trump added SMIC and CNOOC to a list of companies alleged to be owned or controlled by the Chinese military. From next year, US investors will not be allowed to buy the shares of companies on this list.
- Policymakers released their recommendation for the 14th Five-Year-Plan. They are recommending that GDP per capita should double by 2035 which means it needs to grow at an average of 4.7% over the next 15 years. The dual circulation strategy was further promoted, which is policymakers' latest way of saying domestic demand needs to increase. This is necessary if China is to shift away from a predominantly debt funded economy towards a more sustainable, lower growth economy.
- The Caixin manufacturing Purchasing Managers' Index (PMI) rose from 53.0 in September to 53.6 in October, indicating expanding activity. Meanwhile, the NBS PMI, which is geared towards state owned enterprises (SOEs), remained high at 51.4, also indicating healthy economic activity.
- Consumer price inflation fell slightly to 0.5% in October, driven by lower pork prices. Producer price inflation was 2.1%.

Portfolio Performance

Ant Group's public listing was indefinitely suspended. A few weeks before the planned listing, Jack Ma, the company's largest shareholder, gave a speech at the Bund Summit where he criticized various aspects of China's financial system. He argued the banks operate with a "pawnshop" mentality that negatively affects entrepreneurship. He also argued that that regulators are too academic which can stifle innovation, especially in the field Ant happens to operate in. The speech was not received well, and Ant's management were called in for a meeting with the regulators, where new draft rules on microlending were released. The rules limit the amount of credit that lenders like Ant can lend and forces the lender to hold 30% of the capital in reserve. The latter requirement means Ant can no longer be viewed as an asset light platform and so significantly impacts the case for holding the company.

Soon after, a consultation paper was released covering anti-trust activities on Internet platforms. The rules seek to restrict platform exclusive deals, under which merchants have to decide between two different platforms to list their goods on. The regulator seems keen to stamp out persistent periods of pricing below cost, in markets where one company dominates, in order to allow competitors to enter the market. The publication of the draft rules led to a sell-off in the large cap Internet companies such as **Tencent, Alibaba** and **JD.com**. The Fund's equally weighted process meant it suffered less when Tencent and Alibaba, the two largest stocks in the index by far, fell by 6.6% and 11.6%.

Haier Electronics released an operational update showing growth in sales across the washing machine, water heater and water purifier businesses. Haier's brand *Casarte* has continued to benefit from its positioning as a higher-end product, with sales growth continuing to be strong. We now expect that in December, Haier Electronics should be privatized by its parent company, Haier Smart Home. In exchange for our shares in Haier Electronics, we will receive shares in Haier Smart Home which will commence trading in Hong Kong. Owning the parent company should give us greater exposure to the rest of Haier's business, including fridges, kitchen appliances, air conditioners and the overseas business.

Sany Heavy Industry reported good results, with 50%+ growth in both revenue and net profit. Domestic sales are driving growth while overseas sales have been a drag, though management is seeing a visible recovery in South East Asia. The company has a positive outlook over the medium term, driven by greater fixed asset investment in China and strong replacement demand due to stricter emission standards.

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. We have been buying companies where we feel there are structural growth opportunities present. These growth areas include e-commerce (JD.com), infrastructure stimulus (Yuhong and Sany), cybersecurity (Venustech), electric vehicles (Wuxi Lead) and consumption upgrades (Supor and Suofeiya).

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

Edmund Harriss (portfolio manager)

Performance

As of 11/30/2020	YTD	1 Year	3 Year	5 Year	10 Year
China & Hong Kong Fund (ICHKX)	5.53%	17.19%	3.79%	10.65%	3.06%
Hang Seng Composite Index TR	11.70%	20.09%	4.39%	9.96%	5.87%

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 11/30/2020:

1.	Geely Automobile Holdings Ltd	4.80%
2.	Sany Heavy Industry Co	4.47%
3.	Haier Electronics Group Co Ltd	4.22%
4.	China Merchants Bank Co Ltd - H Shares	4.12%

5.	JD.com Inc	4.07%
6.	Wuxi Lead Intelligent Equipment Co Ltd	3.94%
7.	NARI Technology Co Ltd	3.78%
8.	Tencent Holdings Ltd	3.69%
9.	Suofeiya Home Collection	3.57%
10.	China Resources Gas Group Ltd	3.53%

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

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