Guinness Atkinson
China & Hong Kong Fund
Review of 2024

Summary

- In 2024, relative to the MSCI China Index, the Fund benefited from stock selection in the Consumer Staples and Consumer Discretionary sectors. Detractors were the underweight position in Tencent, not holding the large state-owned banks in the Financials sector, and no exposure to the Materials, Energy and Utilities sectors.
- In the fourth quarter, relative to the MSCI China Index, the Fund benefited from stock selection in the Consumer Discretionary sector, a combination of the overweight position and stock selection in the Information Technology sector, and lack of exposure to the Materials sector. Detractors included stock selection in the Financials and Industrials sector, and a combination of a slight underweight and stock selection in the Healthcare sector.
- In the Fund, the strongest stocks in 2024 were Geely, China Merchants Bank and Tencent. The weakest names were CSPC Pharmaceutical, Xinyi Solar and Baidu.
- We sold China Medical System, Venustech Group and Wuxi Lead Intelligent Equipment. We bought Midea and Haitian International.
- On estimated 2024 earnings, the Fund is trading on a price earnings ratio of 11.2x. Despite the Fund's low exposure to real estate and the banks, our companies are still facing the "China" macro discount.
- Over the past 10 years, our holdings have grown earnings by 8% a year. This compares favorably to the MSCI China Index, where earnings have actually contracted by 1% a year over the past decade. Based on consensus analyst estimates, the Fund's holdings in aggregate are expected to grow earnings by 12% a year over the next two years. In total, we argue that a combination of a potential valuation re-rating and long term earnings growth make the Fund compelling for investors.

Market Review

(Performance data in the section in USD terms)

(Source – Bloomberg, Guinness Atkinson calculations. Performance in USD. Data from 12/31/23 to 12/31/24)

In January, the MSCI China Index sold off by 10.6% as macro data for December came in weaker than expected and no significant government stimulus was announced. In particular, the small and mid cap stocks sold off sharply while large cap stocks outperformed. This was due to the buying patterns of the "National Team", which represents state funds. To support the market the National Team started to buy local ETFs in mid-January but most of the buying was concentrated in ETFs tracking the CSI 300 Index, which tracks the largest 300 China A shares. Retail investors followed the National Team's lead, selling small- and mid-cap stocks, and rotating into large cap stocks. In February the National Team stepped up the size of its support and began to diversify its purchases, buying more ETFs tracking small and mid-cap stocks. Therefore, there was a very strong rally in February as retail investors moved back into small and mid-cap stocks. The government also made it harder to conduct short selling, which reduced selling pressure on the market. Overall, the MSCI China Index rose by 8.4% in February.

In March, markets stabilized - there were no major events but the macro data covering January and February was generally better than expected. Markets rebounded in April and for the first half of May, before gradually falling over the summer as weak macro data was not followed by major government stimulus.

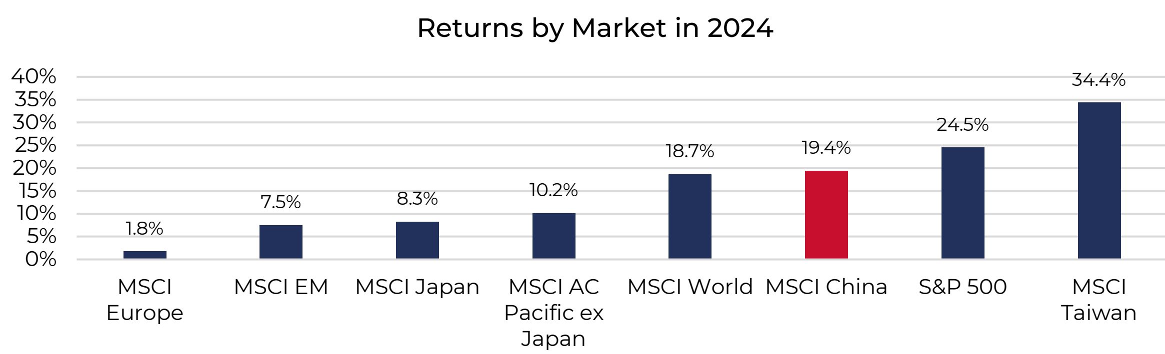
In September, the Federal Reserve in the US cut interest rates which also led to strength in emerging markets. But it was the unexpected stimulus in China which led to a surge in both onshore and offshore markets. We saw a clear change in wording from China's political leadership and monetary and fiscal policies were loosened. With the Federal Reserve cutting interest rates, China had more room to lower its own rates without exacerbating capital outflows or putting significant strain on the Renminbi (holding all other factors constant). The People's Bank of China (PBOC) cut short-term rates by 0.2 percentage points, which was a larger-than-usual cut. It also lowered the required reserve ratio (RRR), injecting approximately (CNY) 1 trillion Chinese yuan renminbi ($138bn, assuming USDCNY 7.25) of liquidity into the economy. But the underlying issue in China is weak demand for credit and so we viewed the RRR cut as not very effective.

It is demand for credit which is the issue and here the fiscal policies aimed towards the property market and consumer are relevant. In the property sector, mortgage interest rates were reduced which were expected to save households CNY 150bn ($21bn) annually. But the impact on demand is expected to be limited as each household is likely to save only CNY 200-300 ($28-41) a month. The government also relaxed down payment ratios for second homes, although previous efforts in this area have only led to short-term boosts.

For the consumer, a trade-in program was introduced earlier in the year for older products, with the aim of stimulating spending. CNY 150bn ($21bn) of subsidies was available, allowing consumers to upgrade older products such as household appliances and passenger vehicles. Consumption vouchers were also handed out in some cities, the proceeds of which were spent on outdoor activities. While this was a start we argued the measures were modest in scale, representing only a small percentage of retail sales. To significantly boost economic growth, the government will have to scale up its support.

Further significant support for the consumer was not forthcoming and so markets sold off in October and November. We do highlight, however, other forms of policy easing have been ongoing. In November, the government announced CNY 10tn ($1.4tn) of funding for debt swaps. Of this amount, CNY 6tn ($0.8tn) was new, while the other CNY 4 tn ($0.6tn) was re-allocated from the quota for existing local government bonds. The funding allowed local governments to issue bonds to replace existing debt. Existing debt is generally less transparent and is mostly held through other entities called local government financing vehicles (LGFV), which is considered as off-balance sheet debt. The debt swap should reduce the interest rate burden on local governments, freeing up funds for spending to support the real economy. To give more context to this point, many local governments were, and still are, facing budget pressures. A substantial portion of their tax receipts are derived from land sales and given the weak property market, tax income from this channel has fallen. Land sales revenue fell by 30% in 2022-2023 and year-to-date (as of Oct-24), land sales revenue had fallen a further 23% and tax revenue had fallen 5%. As a result, local governments have generally been cutting back on spending such as by cutting salaries for staff. They have also been more active on finding new sources of revenue e.g. administrative fines on individuals and companies for fairly trivial oversights, and more aggressive tax collection. To add to the pressure, in some provinces the interest burden on LGFV debt takes up a large portion of local government revenue. In Guangxi, Chongqing and Gansu, the interest burden accounts for ~35-40% of local government revenue.

The debt swap should reduce some of the budgetary pressure local governments are facing, as off-balance sheet debt is more expensive than local governments bonds. The debt swap is expected to reduce the interest burden because local governments are to pay lower interest rates on bonds. This should free up cash to fund daily expenses e.g. pay civil servants on time, pay suppliers in a more timely fashion. The Ministry of Finance estimates the interest burden may fall by ~CNY 500-600bn ($69-83bn) over the next five years. Taking the midpoint and assuming this is split equally each year, an annual saving of CNY 110bn ($15bn) is worth 0.09% of 2023's GDP. However, as Michael Pettis points out, the cost savings enjoyed by local governments through lower interest rates will be offset by lower interest income for the banks, so the net effect on the overall is very marginal.



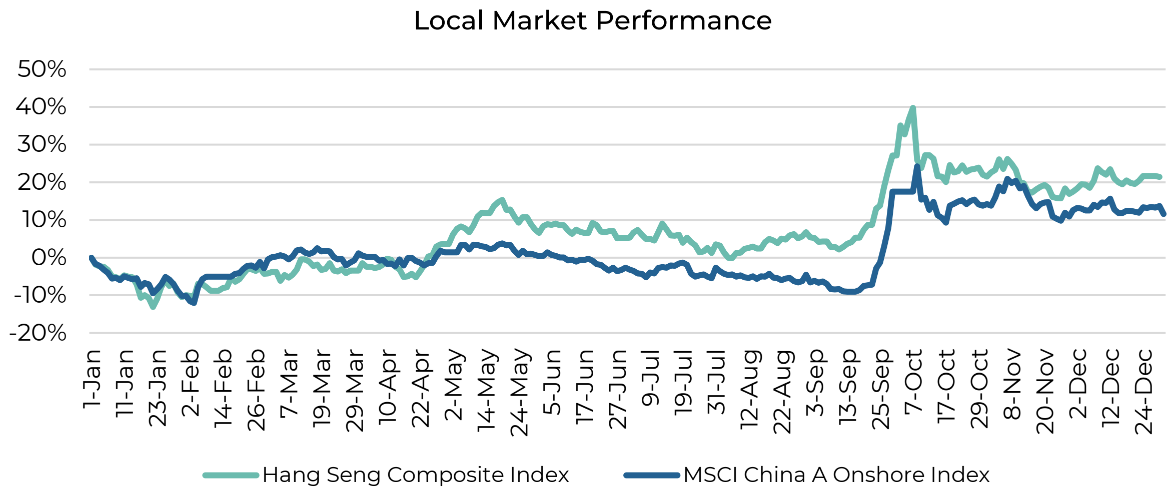
(Source – Bloomberg, Guinness Atkinson calculations. Performance in USD. Data from 12/31/22 to 12/31/24)

Given China's surge in September, it ended the year as one of the relatively better markets. In 2024, the MSCI China Index rose by 19.4%, ahead of the MSCI World Index which rose by 18.7%.

(Source – Bloomberg, Guinness Atkinson calculations. Performance in USD. Data from 12/31/23 to 12/31/24)

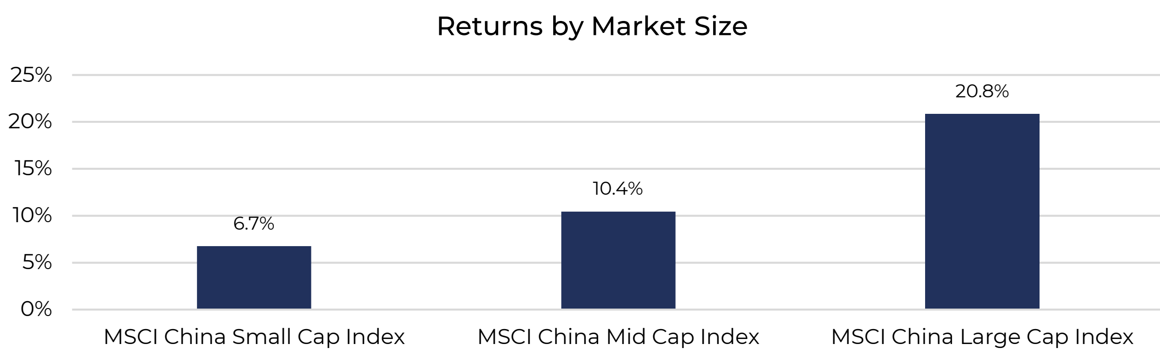
In 2024, value stocks again outperformed growth stocks. The MSCI China Value Index rose by 25.1% compared to the MSCI China Growth Index which rose by 15.0%. As the chart above shows, value outperformed noticeably in months in which Chinese markets were weak. Investors flocked to cheaper and/or more defensive parts of the market. In particular, the large state-owned banks, which trade at a significant discount to the rest of the market, were in demand due to their low valuations and high dividend yields. When government stimulus was announced in September, growth did slightly outperform value and in the proceeding drop, growth and value fell broadly in line.

As a reminder, the Fund targets quality, profitable companies which give exposure to the structural growth themes in China. In an environment where low quality stocks outperform, many of which are classed as value, we would not expect the Fund to outperform.



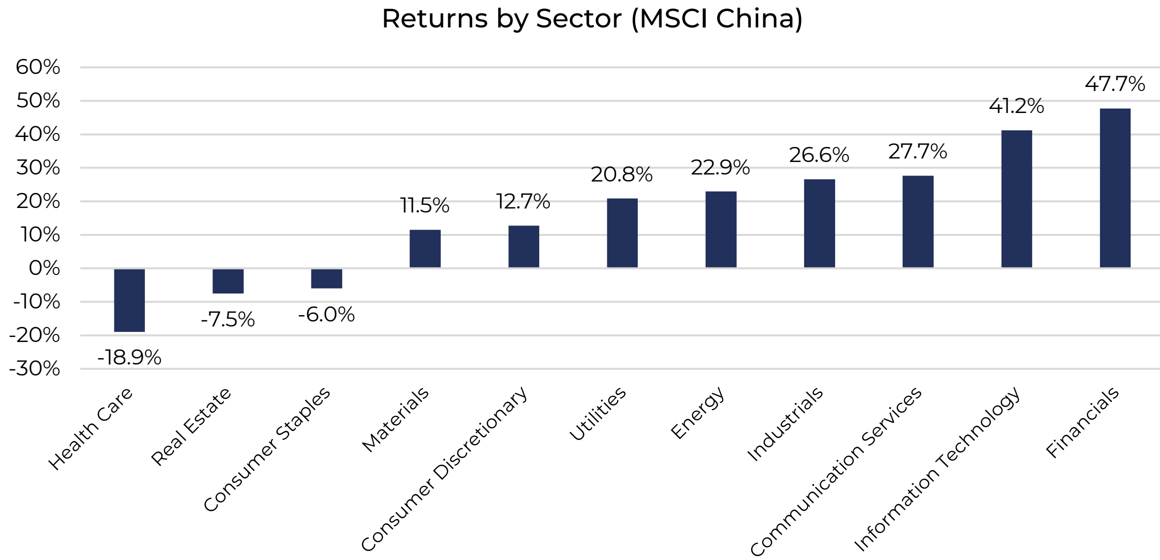
(Source – Bloomberg, Guinness Atkinson calculations. Performance in USD. Data from 12/31/23 to 12/31/24)

Onshore markets, as measured by the MSCI China A Onshore Index, underperformed offshore markets as measured by the Hang Seng Composite Index. In 2024, the MSCI China A Onshore Index rose by 11.7% compared to the Hang Seng Composite Index which rose by 22.1%.



(Source – Bloomberg, Guinness Atkinson calculations. Performance in USD. Data from 12/31/23 to 12/31/24)

There was a significant divergence between small- and mid-caps, and large caps. Large caps, as measured by the MSCI China Large Cap Index, rose by 20.8%. The corresponding small-cap index rose by 6.7% and the mid-cap index rose by 10.4%. Part of the reason for the divergence was due to the outperformance of value stocks. The large state-owned enterprise (SOE) banks were a clear beneficiary of this trade and so large caps did very well. Smaller companies have been perceived to be less defensive in China's current economic weakness too, so lagged.

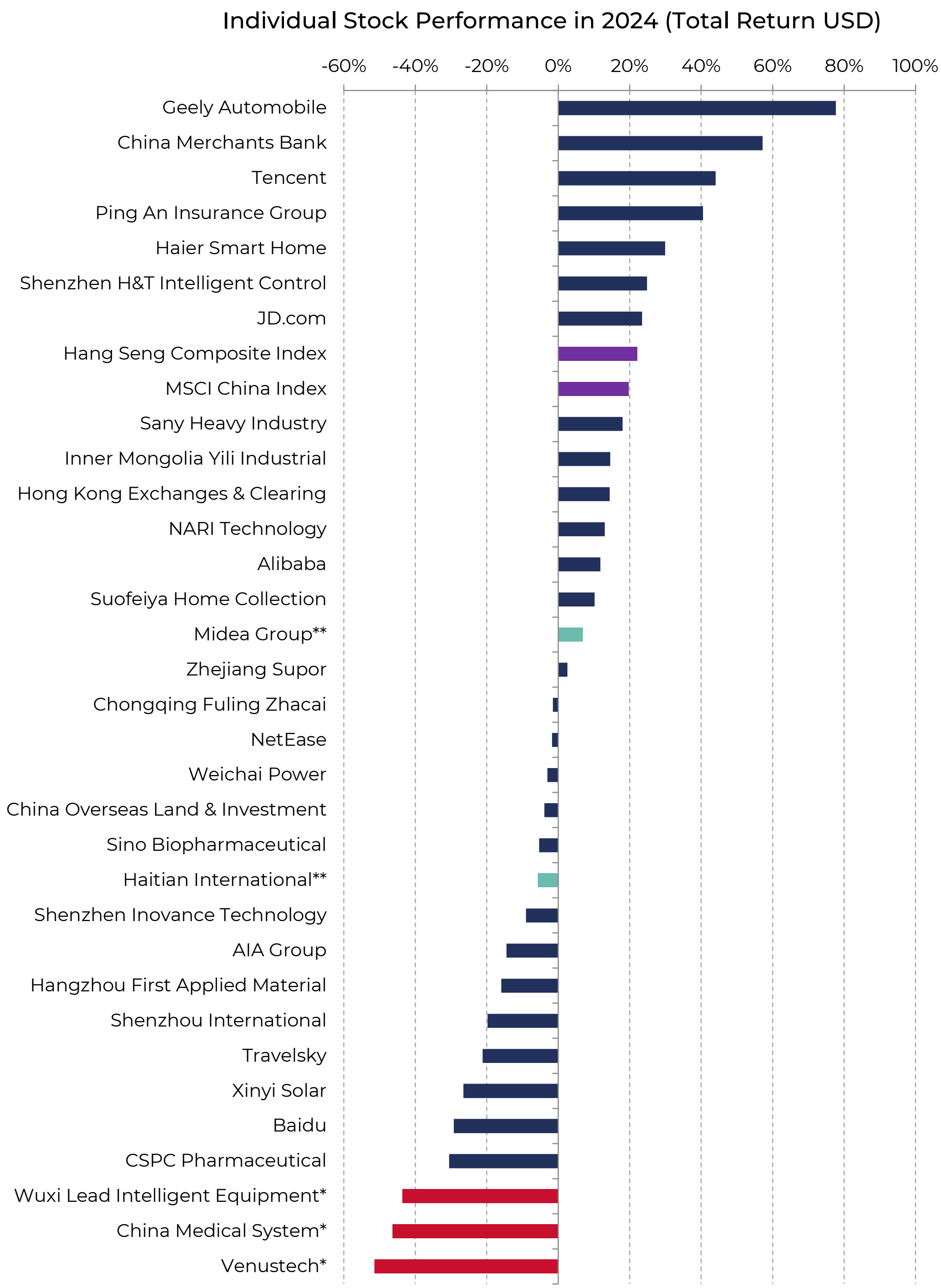


(Source – Bloomberg, Guinness Atkinson calculations. Performance in USD. Data from 12/31/23 to 12/31/24)

The strongest sectors were Financials (total return +47.7%), Information Technology (+41.2%) and Communication Services (+27.7%). Within Financials, the large SOE banks were outperformers, benefiting from the demand for value stocks. The banks' low valuations and high dividend yields made them very attractive in a risk-off environment. Additionally, the large insurance companies benefited from the same characteristics, though their valuations were not as low. Brokers also rallied after the September stimulus as trading volumes in equity markets surged. In the Information Technology sector, the largest contributors to performance were Xiaomi, Cambricon Technologies and AAC Technologies. In the Communication Services sector, Tencent was the primary contributor to strength. In a weak macro economic environment Tencent's positive earnings revisions made it stand out relative to most companies in China. Its video accounts have relatively few ads compared to Douyin and Kuaishou, so the company has room to significantly increase revenue in this area.

The weakest sectors were Health Care (total return -18.9%), Real Estate (-7.5%) and Consumer Staples (-6.0%). In the Health Care sector, the Biosecure Act in the US led to weakness for affected Chinese names. The Act does not allow federal agencies from working with companies with links to certain Chinese biotech companies. Also within the healthcare sector, pharmaceuticals with exposure to price cuts for generic drugs were also weak. Given the ongoing contraction in the Real Estate sector, it should be of no surprise that the sector was weak. The weaker names in the Consumer Staples sector were Nongfu Spring, Kweichou Moutai and JD Health.

Stock Performance



(Source – Bloomberg, Guinness Atkinson calculations. Performance in USD. Data from 12/31/23 to 12/31/24)

* sells, ** buys

Leaders

Below we discuss the best performing stocks that have been held for the entire year.

Geely (total return +77.7%) – after a few years of transition, Geely is making very good progress in its EV segment. Year-to-date (to the end of November), sales volume had increased by 32% to 2.2 million vehicles. Sales of pure EVs had risen by 86% to 0.58 million vehicles (26% of the total) while also including hybrid cars, EVs accounted for 41% of total volume. The company is now targeting sales of 2.7 million vehicles in 2025 which represents 25% growth.

TSMC (total return +71.8%) - as the world's largest and most advanced foundry, TSMC is benefiting from the surge in demand for AI related chips. Large tech firms, mostly concentrated in the US, are rapidly increasing their investments into generative AI. There are only a few foundries worldwide with the knowhow and capacity to meet these orders, and TSMC is the best of this group.

Tencent (total return +44.0%) - in a weak macro economic environment, Tencent's positive earnings revisions made it stand out relative to most companies in China. Its video accounts have relatively few ads compared to Douyin and Kuaishou, so the company has room to significantly increase revenue in this area.

Laggards

CSPC Pharmaceutical (total return -30.5%) – for the past few years, the business has been in the process of transitioning away from generic drugs and towards self-developed innovative drugs. Generic drugs face significant pricing pressure in China as the government attempts to manage health care costs. Meanwhile, to incentivize domestic development of more advanced drugs, there is far less pricing pressure for innovative drugs. CSPC is developing its pipeline but this will take a few years to deliver and in the meantime, the generic portfolio is facing broad based weakness. A combination of price cuts and tighter budgets for hospitals has led to a weak set of results over the past few quarters. In the stock's defence, we estimate that the market price is currently assigning no value at all to CSPC's pipeline which seems extreme. Any positive news may lead to a sharp bounce in the stock price.

Baidu (total return –29.2%) – the company operates China's most popular search engine. It makes the majority of its money through its ad business and given the weak macro environment, revenue here is flat to slightly down. For its generative AI business, management is building a new revenue model where instead of using ads, Baidu earns money through customers directly purchasing products. This new model will take time to build. In the meantime, when customers use AI search, Baidu's take is likely to be minimal.

Xinyi Solar (total return -26.6%) – Xinyi is the world's largest producer of solar glass which is used to make solar panels. Given the oversupply in the business, Xinyi is seeing low prices for its solar glass. The business made a loss in the second half of 2024, driven by low prices, impairments for suspended production facilities and provisions for inventory. This marks the company's first interim loss ever. We continue to hold the stock on the expectation of an improving supply demand dynamic over time. While we wait, we believe the balance sheet is strong enough to weather the current period of weakness - Xinyi's debt/equity ratio is 32%.

Portfolio Changes

We sold China Medical System, Venustech Group and Wuxi Lead Intelligent Equipment. We bought Midea Group and Haitian International.

Sells

We sold the full position in China Medical System following its profit warning at the end of March. CMS reported an unexpected decline in sales in the second half of 2023, as for some of its major drugs the decline in prices was larger than management had previously guided for. The gulf between guidance and reality concerned us, reflecting poor communication from management. The company expects it will take until 2025 for revenue to beat 2022's amount, and until 2026 for net profits to do the same.

Venustech is a cybersecurity company whose largest shareholder is China Mobile. Though cybersecurity standards have been made more stringent in China over the past few years, the industry has struggled. Some local governments, whose incomes are under pressure from the weak property market, have cut budgets for cybersecurity spending. Despite the attractive long-term picture for cybersecurity demand, in the current environment the entire industry has struggled and has failed to provide the secular growth we look for.

Wuxi Lead Intelligent Equipment is a leading manufacturer of battery production equipment. As the domestic battery market may be in a state of overcapacity, the business has looked to foreign markets for growth. But even here, as EV sales have slowed, some battery manufacturers are cutting on capex. For example, Volkswagen is considering closing factories in Germany while Northvolt filed for bankruptcy in the US. Our concern was that some of Lead Intelligent's customers, whether well known or not, may not be able to pay Lead Intelligent. Given the high receivable days, there was a non-trivial chance that the business has to write off some of its receivables, leading to a hit to earnings.

Buys

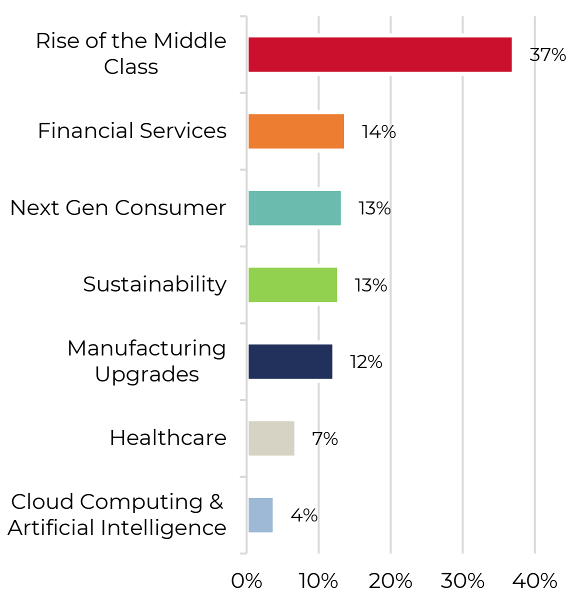
Midea is one of the world's largest household appliances companies, selling items such as fridges, freezers, dishwashers. It is also one of the world's largest air conditioner manufacturers. The company has a long track record of growing its asset base at a high cash return on capital. We expect revenues and profits to continue to grow, which is attractive in the current economic environment in China. We also like Midea because it owns Kuka which it bought from a German company in 2016. As China's working population shrinks and wages rise, greater automation is likely to be a trend and so owning one of the world's most advanced robotics companies makes Midea very attractive.

Haitian International is the world's largest manufacturer of plastic injection moulding machines. It is likely to benefit from government stimulus for its customers to upgrade older equipment. Additionally, Haitian gives indirect exposure to the trade-in of consumer goods, where consumers are given subsidies to trade in their older household appliances for newer products. This should lead to greater capex for some of Haitian's downstream customers, leading to greater demand for their machines. Management also say reshoring is creating opportunities for the business, as if new plants are being created in, for example, Southeast Asia, this should also boost demand for plastic injection moulding machines. Haitian trades at a very favorable risk reward ratio for a consistently high return on capital business.

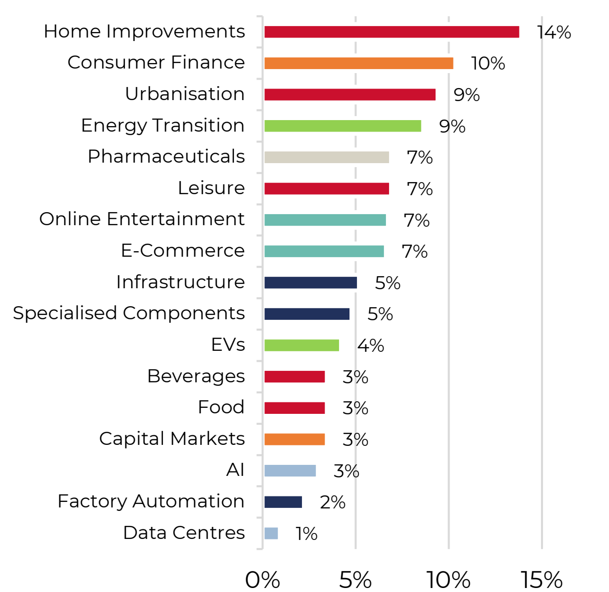
Portfolio Positioning

By theme, the Fund's largest exposure is to the Rise of the Middle Class, followed by Financial Services and Next Gen Consumer. Important subthemes include Home Improvements, Consumer Finance and Urbanization.

By Theme

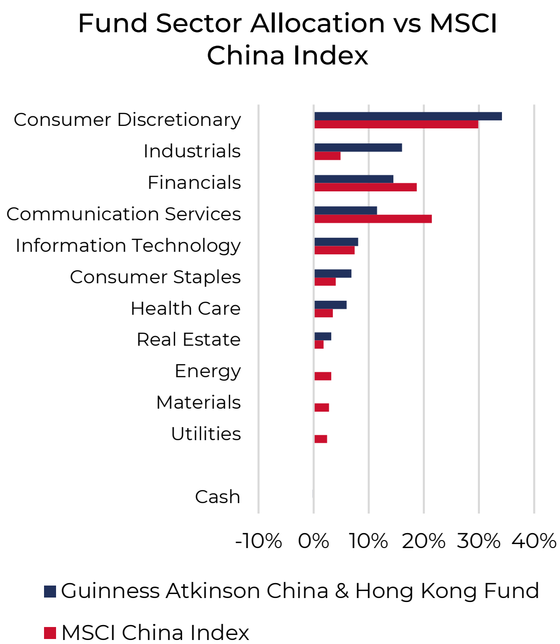


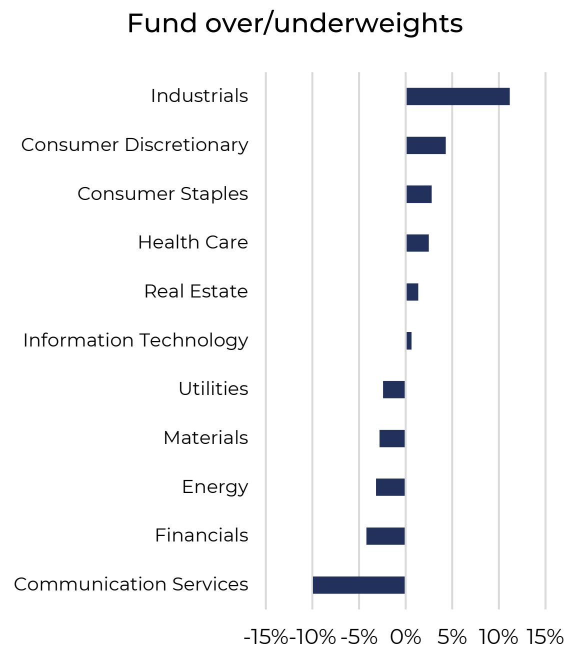
By Subtheme



(Source: Guinness Atkinson Asset Management. As of 12/31/24)

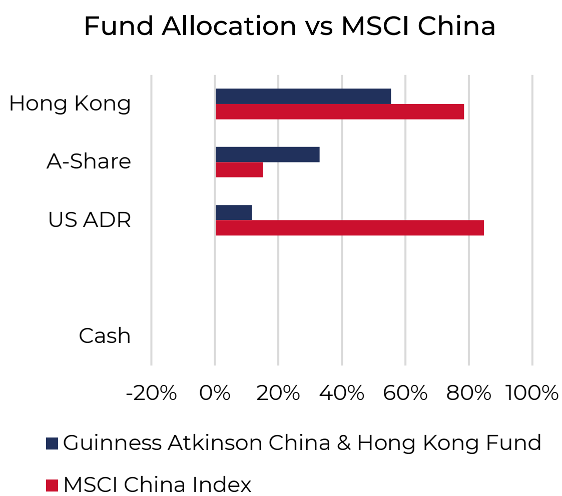
On a sector basis, the Fund's largest exposures are to the Consumer Discretionary, Industrials and Financials sectors. Relative to the MSCI China Index, the Fund is overweight in Industrials and underweight in Communication Services.

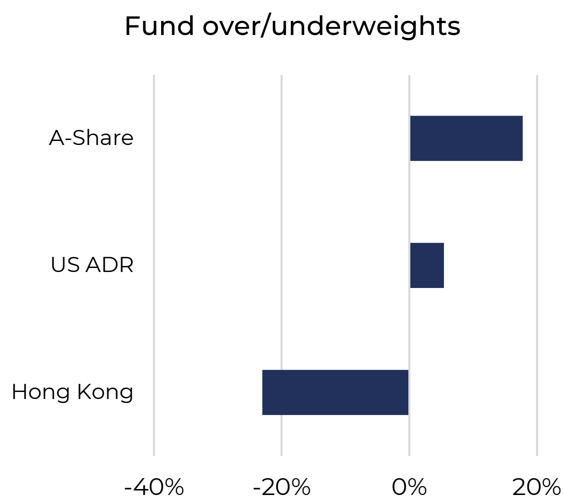




(Source: Guinness Atkinson Asset Management, Bloomberg, MSCI. As of 12/31/24)

On a listing basis, the Fund has 55% exposure to stocks listed in Hong Kong and 33% exposure to the A share market.

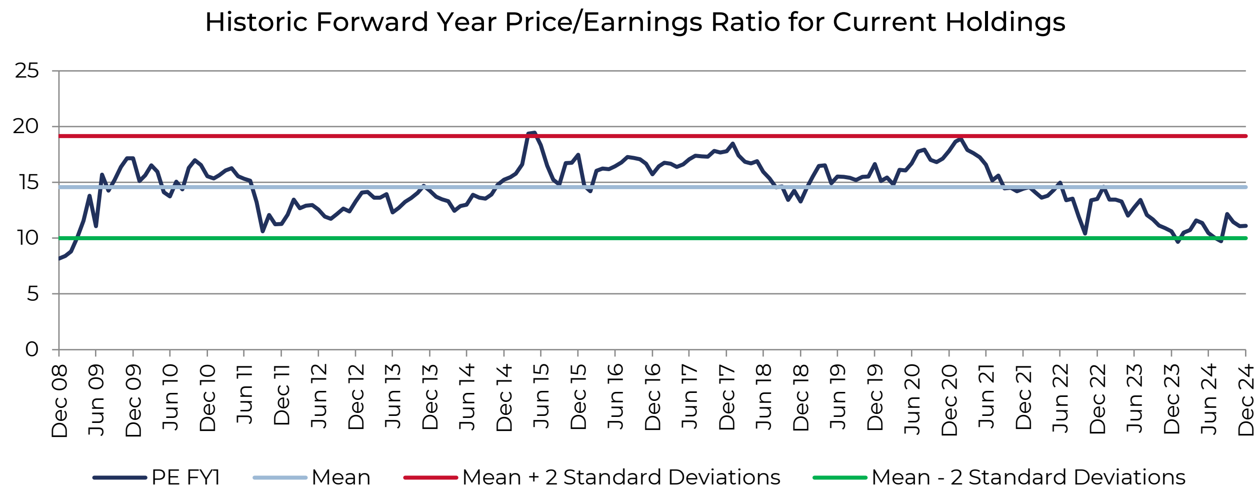




(Source: Guinness Atkinson Asset Management, Bloomberg, MSCI. As of 12/31/24)

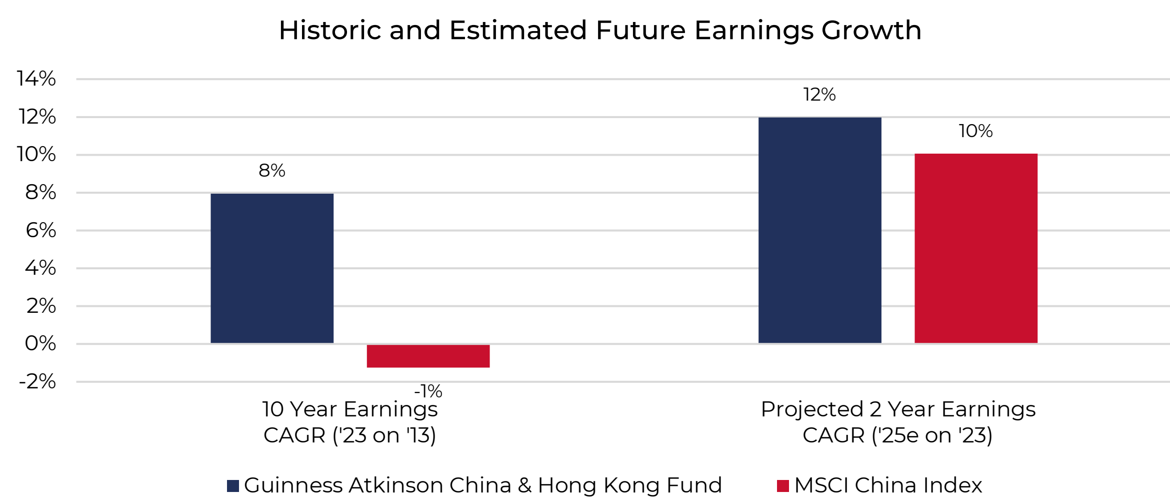
The Case for China Today

From an investment perspective, we remind readers that returns can be broken down into three components: changes in valuation multiples, earnings growth and dividends. Below we break down each component to argue why investors should be allocating to China and specifically, the Fund.



(Data from12/ 31/08 to 12/31/24, source: Bloomberg, Guinness Global Investors calculations. Calculations assume an equally weighted portfolio)

The chart above shows the historic forward year price/earnings ratio, in aggregate, for the current holdings in the Fund. The Fund's holdings, which trade at a forward price/earnings ratio of 11.2x, which is well below their 15-year average. This is despite the fact the Fund has minimal exposure to the areas that investors are most cautious on China - real estate and the banks. Our holdings' valuations are being dragged down by the "China" discount, despite their strong track record of earnings growth across various economic environments. We argue that as more stimulus is announced and China gradually completes its transition away from real estate and towards the new pillar industries, the market is likely to see a valuation rerating.



(Source: Bloomberg, MSCI, Guinness Atkinson calculations. Data as of 12/31/2024. Earnings in USD. Fund series assumes $1m equally weighted into current holdings. Data for the Fund is a simulation based on actual, aggregate, historic data for the Funds' current holdings. Index data uses historic holdings as of the end of each year)

In the long-term, we believe it is earnings growth which is likely to deliver returns for shareholders. Over the past decade, our holdings in aggregate have grown earnings by 8% a year. This compares favorably to the MSCI China Index, where earnings have actually contracted by 1% a year over the past decade. Based on consensus analyst estimates, the Fund's holdings in aggregate are expected to grow earnings by 12% a year over the next two years.

In sum, we argue that a combination of a potential valuation re-rating and long term earnings growth make the Fund compelling for investors.

Outlook

The signals from the government indicate that more support for the economy is forthcoming. In early December the Politburo further strengthened its wording on economic policy, as "more proactive" fiscal policy and "moderately loose" monetary policy was called for. These phrases are important as "more proactive" fiscal policy was last mentioned soon after the covid outbreak started, and "moderately loose" monetary policy was last used after the financial crisis.

The Minister of Finance has said China will expand the number of consumer goods that are eligible for the trade in subsidy, as well as the total value of subsidies provided. Already in January, the scope of the trade in program was expanded to include dishwashers, rice cookers, smartphones, tablets and smart watches. Funding for the trade-in program was increased from CNY 30bn ($4bn) in 2024 to CNY 81bn ($11bn) in 2025.

A Reuters report says China plans to issue CNY 3 trillion ($411 bn) in special government bonds, far higher than the CNY 1 trn ($138bn) issued in 2024. The report argues ~CNY 1.3 trillion is to be used to expand the consumer trade in programs (from the current level of CNY 150bn) and to support unspecified construction projects. More than CNY 1 trillion is to be spent on supporting new pillar industries, leaving ~CNY 700 billion to recapitalise the large SOE banks. The headline budget deficit is also reportedly to be increased from 3% of GDP in 2024 to 4% of GDP in 2025. Bloomberg estimate that taking into account both plans, the aggregate fiscal stimulus would be worth 2.6% of China's GDP, which we view as substantial.

Of course, the new Trump administration coming into power in January is another factor to watch and we believe it is likely the Chinese government is waiting to see how tariffs play out, before they move decisively on policy. China now has a deeper set of tools it can use to retaliate, compared to Trump's first term. From China's perspective, imposing tariffs across the board on imports from the US is not viewed as highly effective. Instead, restricting exports in goods where China dominates the supply chain in critical materials is considered more useful. For example, in December exports of gallium, germanium and antimony to the US were restricted, on the basis of their potential for use in military and civilian applications. This "dual use" argument mirrors the restrictions the US has imposed on Chinese companies, where we have just seen Tencent and CATL have been designated by the Pentagon as companies with links to the Chinese military. There are also other ways the Chinese can apply pressure – for example, in December China started an anti-trust probe on Nvidia.

Performance

Relative to the MSCI China Index, areas which helped the Fund's performance in 2024 were:

- Stock selection in the Consumer Staples sector, driven by Inner Mongolia Yili (total return +14.6%) and Chongqing Fuling Zhacai (-1.5%). Both outperformed the sector which fell 6.0%.
- Stock selection in the Consumer Discretionary Sector, driven by Geely (+77.7%), Pinduoduo (not held, -33.7%), Haier Smart Home (+29.9%), Suofeiya Home Collection (+10.2%) and Midea Group.

Areas which detracted from the Fund's relative performance in 2024 were:

- Within the Communications Services sector, a combination of the underweight to the sector and stock selection, driven by Tencent (+44.0%) and Baidu (-29.2%). The Fund is run on an equally weighted basis and so each position has a neutral weight of 3.3%. As of the end of December, Tencent's weight in the MSCI China Index was 16.4%, making it the largest stock by far in that index. Tencent's share price rose by 44.0% so the index benefited much more from Tencent's rally than the Fund.
- Underweight to Financials, and more specifically the underweight to the large state owned enterprise (SOE) banks. The Fund does not hold any of the large SOE banks which have been significant outperformers as a value play. We do not own these large SOE banks as they do not give exposure to the long-term structural growth themes in China.
- The combined underweight to Materials, Energy and Utilities where the Fund has no exposure, whereas in the index these sectors have a cumulative weight of 8.4% (as of year-end). The Fund targets quality companies which give exposure to the structural growth themes in China. In our universe, there are no Energy names which give this exposure. The Material names which have been strong this year are related to metals and cement – these companies do not generally make the quality threshold we target in the Fund. Relevant companies are Zijin Mining, China Hongqiao (aluminium), Aluminium Corp, Jiangxi Copper and Zhaojin Mining. The Fund holds no companies in the Utilities sector.

- Therefore, of the Fund's underperformance relative to the MSCI China Index, the main sources of underperformance can be attributed as follows:
    - The underweight position in Tencent.
    - The underweight in the large SOE banks.
    - Lack of exposure to the Materials, Energy and Utilities sectors.

- Were these areas to underperform the market, we would expect the Fund's overweight to work in its favor.

- Of the Fund's remaining underperformance, stock specific drags were Venustech, Wuxi Lead Intelligent Equipment and China Medical System.

- Additionally, we point out the Fund's overweight to growth stocks, the onshore markets and small-and -mid caps worked against it. As discussed earlier:
    - The MSCI China Growth Index rose by 15.0% while the corresponding Value Index rose by 25.1%. The Fund is overweight to growth stocks.
    - The MSCI China A Onshore Index rose by 11.7% compared to the Hang Seng Composite Index which rose by 22.1%. The Fund is 18% overweight to the onshore market which worked against it.
    - The small cap index rose by 6.7% and the mid cap index rose by 10.4%. Meanwhile, the large cap index rose by 20.8%. The Fund is overweight to small- and mid-cap stocks.

In the fourth quarter, relative to the MSCI China Index, areas which helped the Fund's performance were:

- Stock selection in the Consumer Discretionary sector, driven by Alibaba (-20.1%, held but Fund underweight), Pinduoduo (not held, -28.1%), Geely (+21.7%) and Meituan (not held, -11.8%).
- In the Information Technology sector, stock selection driven by Shenzhen H&T Intelligent (+52.6%).
- Underweight to the Materials sector, where the Fund has no exposure.

In the fourth quarter, relative to the MSCI China Index, areas which detracted from the Fund's relative performance were:

- Stock selection in the Financials sector, driven by AIA Group (-19.1%), Hong Kong Exchanges and Clearing (-9.6%), and Ping An Insurance Group (-8.2%). Additionally, the Fund's underweight to the large SOE banks, which outperformed and where the fund has no exposure, worked against the Fund.
- Stock selection in the Industrials sector, driven by Sany Heavy Industry (-16.1%), Haitian International (-15.6%), Nari Technology (-11.9%) and Shenzhen Inovance Technology (-9.8%).
- Within the Healthcare sector, a combination of the slight overweight and stock selection, driven by CSPC Pharmaceutical (-18.8%) and Sino Biopharmaceutical (-14.2%).

As of 12/31/2024	1 Year	3 Year	5 Year	10 Year
China & Hong Kong Fund (ICHKX)	**0.07%**	**-13.24%**	**-6.94%**	**0.25%**
Hang Seng Composite Index TR	**22.10%**	**-2.57%**	**-1.60%**	**2.41%**
MSCI China Net Total Return Index	**19.42%**	**-6.10%**	**-3.44%**	**1.88%**

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

Expense Ratio: 1.82%

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. To obtain performance as of the most recent month end, please visit www.gafunds.com or call 1-800-915-6565. Total returns reflect a fee waiver in effect and in the absence of this waiver, the total returns would be lower. 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.

Dividends are not guaranteed and may fluctuate.

Themes:
Sustainability refers to China's efforts to reduce its carbon output and to reduce its impact to the environment. A company falls within this theme if it gives exposure to the ongoing energy transition, electric vehicles or waste reduction.

Healthcare refers to the opportunities arising from China's aging population, which we believe will be increasingly captured by China's own pharmaceutical and medical equipment companies.

The P/E ratio is calculated by dividing the market value price per share by the company's earnings per share. A high P/E ratio can mean that a stock's price is high relative to earnings and possibly overvalued. A low P/E ratio might indicate that the current stock price is low relative to earnings.

Forward P/E is a measure of the P/E using forecasted earnings for the P/E calculation.

Gross domestic product (GDP) is the standard measure of the value added created through the production of goods and services in a country during a certain period.

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

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 Large Cap Index captures large cap representation across China A shares, H shares, B shares, Red chips, P chips and foreign listings (e.g. ADRs). With 250 constituents, the index covers about 85% of this China equity universe.

The MSCI China Mid Cap Index is designed to measure the performance of the mid cap segments of the Chinese markets. With 331 constituents, the index covers approximately 15% of the free float-adjusted market capitalization in China.

The MSCI China Small Cap Index measures the performance of the small cap segment of the China market. With 227 constituents, the index represents approximately 14% of the free float-adjusted market capitalization of the China equity universe.

The MSCI China A Onshore Index captures large and mid cap representation across China securities listed on the Shanghai and Shenzhen exchanges.

MSCI China Net Total Return (NTR) Index calculates the net total return of the MSCI China Index, after taking into account withholding taxes.

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 Emerging Markets Index is used to measure equity market performance in global emerging markets.

MSCI Emerging Markets ex China Index is used to measure equity market performance in global emerging markets excluding China.

Shenzen Component Index, also known as SZSE Index, is an index of 500 stocks that are traded at the Shenzhen Stock Exchange (SZSE).

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

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.

The MSCI Taiwan Index is designed to measure the performance of the large and mid-cap segments of the Taiwan market. With 88 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in Taiwan.

The MSCI AC Asia Pacific ex Japan Index captures large and mid-cap representation across 4 of 5 Developed Markets countries (excluding Japan) and 8 Emerging Markets countries in the Asia Pacific region. With 1,251 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

S&P 500 Index is a market-capitalization-weighted index of leading publicly traded companies in the U.S.

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

The MSCI Europe Index captures large and mid cap representation across developed markets countries in Europe.

Hang Seng TECH Index was launched in July 2020. It represents the 30 largest technology companies listed in Hong Kong that have high business exposure to technology themes.

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.

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.

Debt-to-equity (D/E) ratio is a financial metric that measures the proportion of debt to equity in a company. It's calculated by dividing a company's total debt by its total shareholder equity.

The required reserve ratio (RRR), set by the central bank, is the percentage of a commercial bank's deposits that it must keep in cash as a reserve in case of mass customer withdrawals

In China, the National Bureau of Statistics (NBS) Manufacturing Purchasing Manager Index (PMI) 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.

Expected earnings growth refers to the market's expected earnings growth for a company, based on consensus analyst estimates.

Earnings per share (EPS) is a metric investors commonly use to value a stock or company because it indicates the profitability of a company on a per-share basis. EPS is calculated by subtracting any preferred dividends from a company's net income and dividing that amount by the number of shares outstanding.

The compound annual growth rate (CAGR) is the rate of return that an investment would need to have every year in order to grow from its beginning balance to its ending balance, over a given time interval.

Capital expenditures (CapEx) - How much a company invests in existing and new fixed assets to maintain or grow its business. It's any type of expense that a company capitalizes or shows on its balance sheet as an investment rather than on its income statement as an expenditure

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 12/31/24:

1.	Geely Automobile Holdings Ltd	6.89%
2.	Tencent Holdings Ltd	5.47%
3.	Midea Group Co Ltd	4.03%
4.	China Merchants Bank Co Ltd - H Shares	3.74%
5.	Hong Kong Exchanges & CL	3.58%
6.	Haier Smart Home Co Ltd	3.55%
7.	JD.com Inc	3.52%
8.	Inner Mongolia Yili - A Shares	3.47%
9.	AIA Group Ltd	3.47%
10.	Sany Heavy Industry Co	3.45%

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

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