Guinness Atkinson
China & Hong Kong Fund
Managers' Update – Review of May 2025

GUINNESS ATKINSON FUNDS

Macro Review

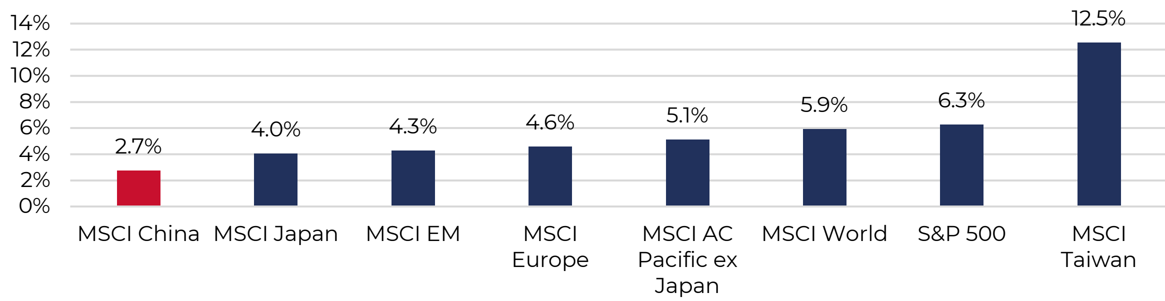
- After talks in Geneva, the US lowered tariffs on China to 30% and China lowered its tariffs to 10%. Taking into account existing tariffs from Trump's first term, as well as sectoral tariffs applying to all countries, the US' effective tariff on China is now ~39% and China's effective tariff on the US is ~30%. But tensions between the two countries have increased on other fronts. The US accused China of being slow to remove non-tariff countermeasures, such as the restriction of rare earth metal exports and blacklisting of US companies. In turn, China accused the US of going against the spirit of the Geneva deal, such as by pushing against other countries using Huawei chips, prohibiting American chip design software companies from selling to China and canceling visas for Chinese students.
- April macro data was mixed. Industrial production rose by 6.1% year-on-year (all growth figures yoy unless otherwise stated). Retail sales growth decelerated, from 5.9% in March to 5.1% in April. Bright spots were in goods eligible for government subsidies such as household appliances and smartphones, while data was generally soft for non-eligible goods. Fixed asset investment grew by 3.6%, with 8.2% growth in manufacturing investment and 5.8% growth in infrastructure investment offset by a 11.3% contraction in real estate investment.
- Consumer price inflation (CPI) was -0.1% in April. Core CPI, which excludes food and energy prices, was 0.5%. Producer prices continued to fall, at a rate of -2.7% in April.
- The real estate market remains weak. In May, the top 100 developers' contract sales fell 10% versus the 9% fall in April. State owned developers outperformed with a 4% fall compared to a 15% fall for private developers.
- The Caixin Manufacturing Purchasing Managers' Index (PMI) fell by 2.1 percentage points (pp) to 48.3 in May - a reading below 50 indicates weakening activity. Meanwhile, the official NBS PMI rose by 0.5pp to 49.5, which still indicates a contraction but an improvement from April. The Caixin PMI has more exposure to private, export facing firms while the NBS has more exposure to domestic state firms. Therefore, the different movements in each PMI may have been driven by these differences in exposure. The output and forward-looking components in the Caixin PMI fell notably while they rose slightly in the NBS PMI. More encouragingly, the future output reading increased in both PMIs, suggesting production may rise, potentially on the back of the deal reached in Geneva.
- The People's Bank of China (PBOC) cut short-term interest rates (seven-day reverse repo) by 0.1 percentage points (pp) to 1.4%. This was followed by a similar cut in the one- and five-year loan prime rates. The one-year loan prime rate is used to price household and corporate loans while the five-year rate is used to price mortgages. Deposit rates were also cut by 0.1pp, preserving net interest margins for the banks. Rates for relending programs were cut by 0.25pp, providing cheaper funding to banks. The required reserve ratio was cut by 0.5pp, releasing a further CNY 1 trn of liquidity (assuming USDCNY 7.20, this is equivalent to ~$139bn).
- The PBOC will launch a relending facility worth CNY 500bn ($69bn) to support elderly care and consumption of services such as catering, culture, sports, entertainment and education. This represents further support for the consumer. Earlier in the year, funds allocated to the household trade in program were doubled to CNY 300bn ($42bn). Along with increases to the basic pension and medicare worth CNY 384bn ($53bn), that now totals CNY 1.2 trn ($164bn) of support. Compared to last year's retail sales of CNY 49 trn ($6.8 trn), the government support is now worth 2.4% of retail sales which is meaningful.
- Relending quotas are to be increased by CNY 300bn ($42bn) for technological innovation, the funds of which are used to support equipment and technical upgrades in key sectors. Funds are also used to support tech firms who are in an earlier stage of development.
- Relending quotas will also be increased by CNY 300bn ($42bn) for small and medium enterprises (SMEs) and the agricultural sector. Cheaper relending loans will be provided to technological companies intending to issue bonds.

- The first ever law promoting the private sector was passed. The law requires private companies and state owned enterprises (SOEs) to be treated equally in areas such as market access, financing and procurement. The rights and interests of the private sector, including intellectual property, were formally outlined. Delayed payments from the government and its various branches to the private sector were also discouraged.

Market Commentary

Performance data in the section in USD terms unless otherwise stated)

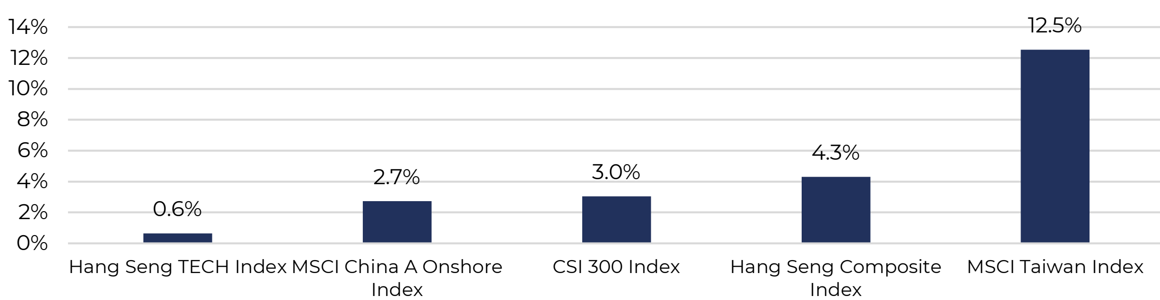
Returns by Market in May



(Data from 04/30/25 to 05/31/25, returns in USD, source: Bloomberg, Guinness Atkinson calculations)

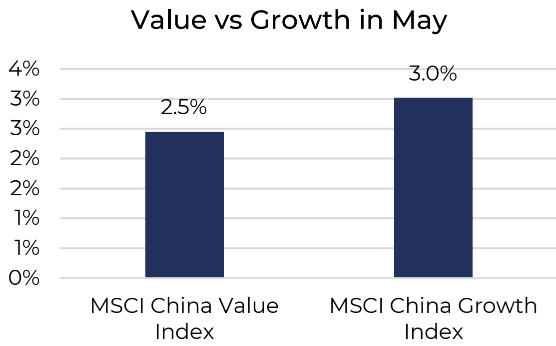
The MSCI China Index rose by 2.7% in April versus the MSCI World Index which rose by 5.9%.

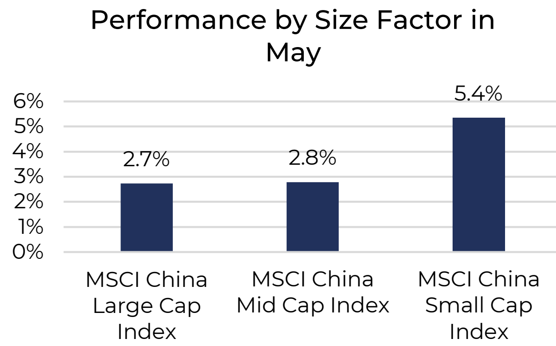
Returns by Local Market in May



(Data from 04/30/25 to 05/31/25, returns in USD, source: Bloomberg, Guinness Atkinson calculations)

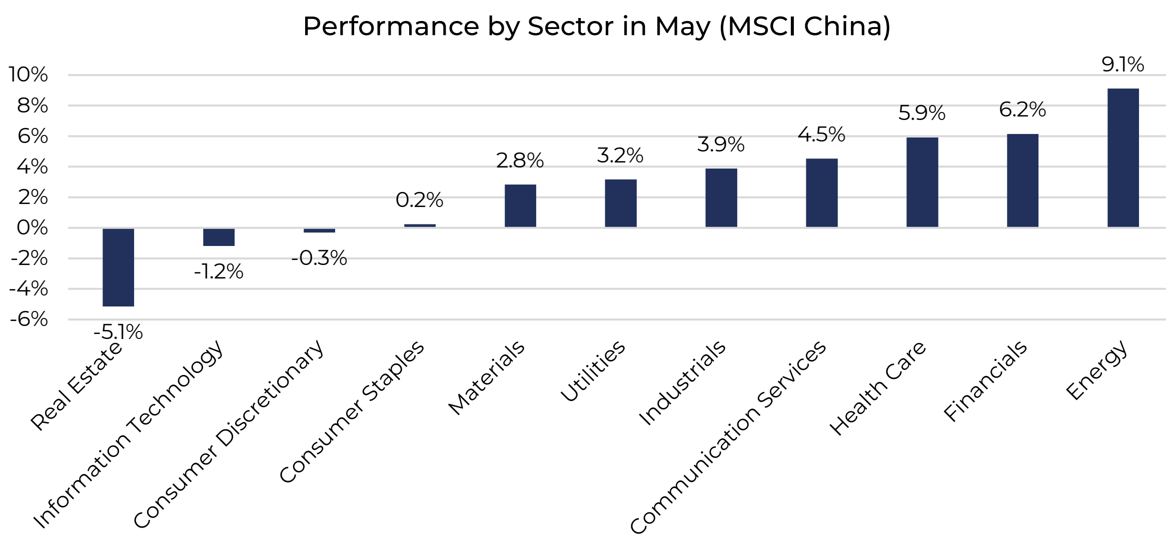
Offshore markets outperformed as the Hang Seng Composite Index rose by 4.3% while the MSCI China A Onshore Index rose by 2.7%.





(Data from 04/30/25 to 05/31/25, returns in USD, source: Bloomberg, Guinness Atkinson calculations)

Value and growth stocks performed similarly, rising 2.5-3.0%. Small caps outperformed, rising 5.4%.



(Data from 04/30/25 to 05/31/25, returns in USD, source: Bloomberg, Guinness Atkinson calculations)

The best performing sectors were Energy (total return +9.1%), Financials (+6.2%) and Health Care (+5.9%). The strength in Financials was led by the large state owned banks as well as insurance companies. In Healthcare, certain companies reported good progress on pipeline drugs and/or licensed out early stage drugs.

The weakest sectors were Real Estate (-5.1%), Information Technology (-1.2%) and Consumer Discretionary (-0.3%). In the Real Estate sector, the absence of further stimulus was likely the reason for subdued performance. In the Information Technology sector, Sunny Optical, Kingdee International Software and Hua Hong were the main laggards. In the Consumer Discretionary sector, Alibaba, Pinduoduo and Nio were weak.

Switches

Sells

CSPC Pharmaceutical has for some years been transitioning away from its generics portfolio towards its new innovative set of products. Due to government policy, CSPC's generics drugs have faced significant pricing pressure. Our expectation was the company's new innovative drugs, which face much lower pricing pressure, would offset the weakness from the generics segment. But this has not been the case and management admitted it would take another year or two for the new drugs to come through. We have given the business some time to show it could deliver but after the fourth quarter results, we came to the conclusion that the business is likely to face a constant drag from the generics business.

Chongqing Fuling Zhacai is a condiment manufacturer which is well known for its *zhacai* pickled condiments. The business certainly has pricing power but has found it difficult to grow volume outside of its core regions. Fuling Zhacai has tried to find new growth drivers through other condiments such as *paocai* but this has not delivered, so now the company is turning to acquisitions to drive growth. Overall, the business has failed to deliver the structural growth we aim for in a subdued macro environment.

Buys

Meituan operates China's largest food delivery platform and also has other services including:

1) Bookings for in-store dining, hotel and travel.
2) Instashopping, which is on-demand delivery in tier one cities, covering both food and non-food items.
3) Meituan Select, which is a community group buying business focused on supermarket goods in lower tier cities.

In response to Meituan's progress in on-demand delivery, JD.com (held in the Fund) has entered the food delivery industry. JD.com has provided significant subsidies to both customers and drivers, allowing it to rapidly gain market share. This has forced Meituan to respond by also subsidising prices, leading to likely lower margins in coming quarters and a reduction in its valuation multiple.

We think Meituan has strong competitive advantages which should allow it to handle JD's entry into the market. One of Meituan's strongest advantages is the network it has built up - it has the most merchants, customers and drivers in China. For many customers, Meituan is the app they naturally think of when it comes to food delivery. The more merchants Meituan signs up to its app, the more entrenched its position becomes. As a result of having the most drivers, it also has lower wait times which further increases its attraction to both customers and merchants. Another competitive advantage of Meituan is its technological infrastructure – this allows it to deliver orders quicker than its competitors. There is also likely a limit to how much JD.com may spend on subsidies.

Though there are new competitive threats to Meituan, for the lower valuation now on offer, we believe the risk reward ratio is more favorable than existing holdings in the Fund.

BYD

Ranked by sales volume, BYD is the world's largest EV company. In China, so far this year it has 27% market share (measured by volume) in the EV market. For context, the next largest company is Tesla with 5% market share. Though China's EV market is the world's largest, competition remains intense and so the export market is a key source of future growth. Here BYD is doing well - in the first four months of this year, exports accounted for more than 20% of BYD's total sales volume, versus 12% last year. The largest EV markets in the world outside of China are the US, Germany, UK and France. BYD does not sell its cars in the US so is not directly exposed to US tariffs – an attractive trait from our perspective. In the first four months of this year, BYD's sales volume in Germany and the UK was:

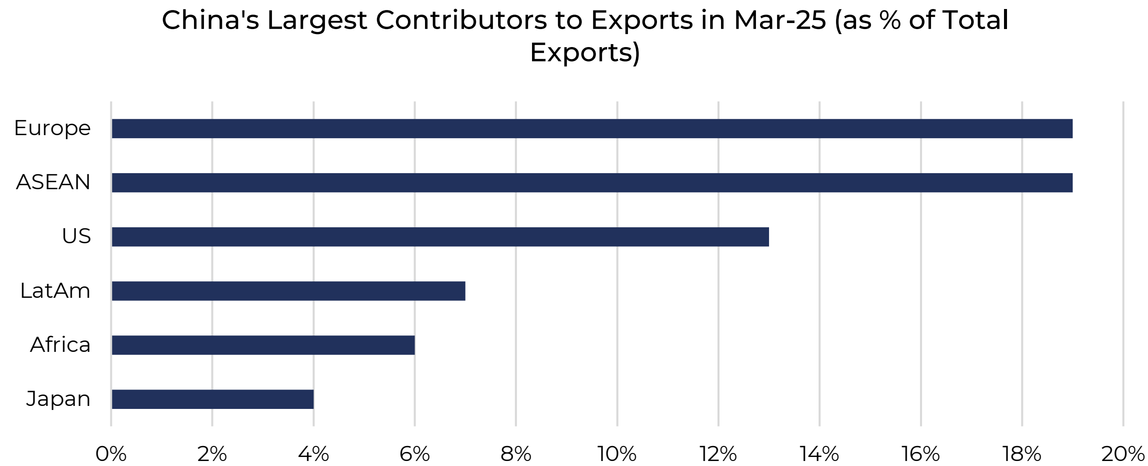
- Germany: 2,800 cars sold (vs 576 cars in the first four months of 2024). Current market share 0.3%, vs Chinese brands' total market share 0.6%.
- UK: 12,000 cars sold (vs 1,600 cars in the first four months of 2024). Current market share 1.7%, vs Chinese brands' total market share 3.9%.

BYD's management say their competitive advantages include technological leadership, cost advantages and efficient decision making. On technology, at the same price point BYD cars generally have longer range than most of their competition. BYD has cost advantages due to its lower battery costs which are made in house, a more advanced EV platform and architecture, a far more competitive local supply chain and economies of scale. This means BYD's margins are higher than their competitors, allowing them to cut prices and maintain profitability.

While we do think the competition is likely to gradually catch up, we think it may take several years for Western and Asian competitors to do so. Despite its strong share price performance, BYD's earnings estimates have also increased and so for the growth on offer, valuations are compelling from a risk-reward perspective.

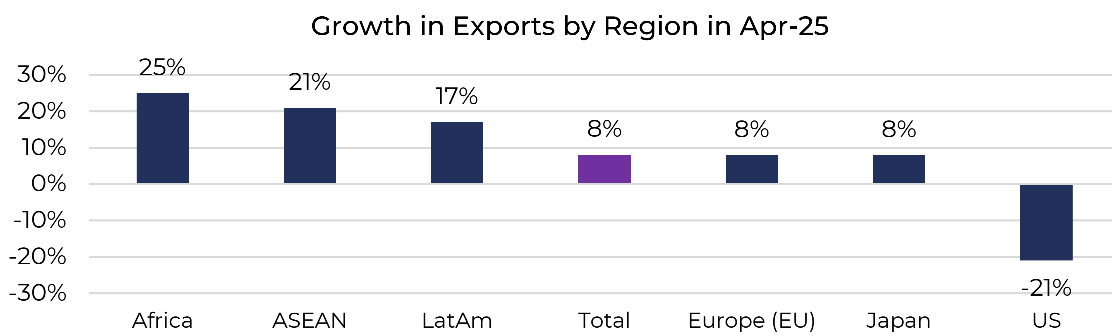
Outlook

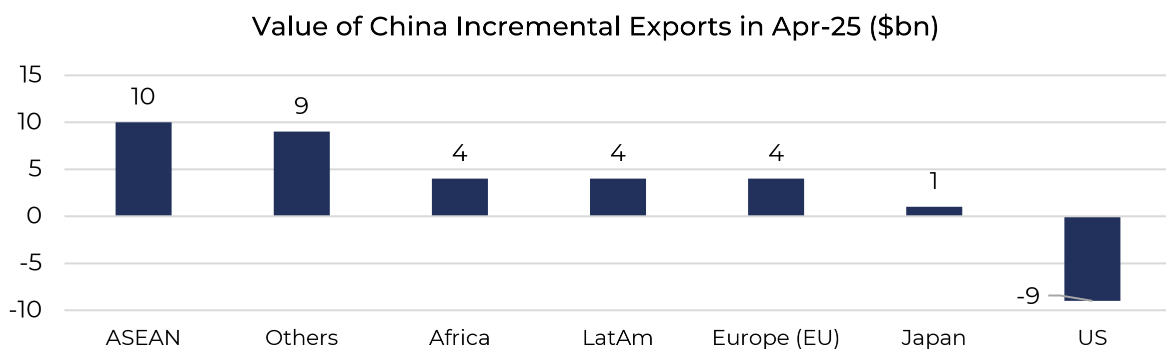
In March (before US tariffs on China rapidly increased), exports to the US accounted for only 13% of China's total exports. Or in other words, 87% of China's exports were to the rest of the world. Despite the higher tariffs Chinese exports currently face, and even assuming that they rise from the current 30% level to say 80% as suggested by Trump, we argue China's exports are now diversified enough to weather the storm.



(Source – China Customs, UBS, Guinness Atkinson calculations)

Regardless of the high tariffs on Chinese exports to the US, Chinese exports in total still rose by 8.1% in April. Exports to the US fell by 21% which in absolute terms represented a drop of $9bn. But exports to ASEAN (Association of Southeast Asian Nations) grew by 21% which in absolute terms was an increase of $10bn; to Latin America exports rose by 17% ($4bn); to Africa exports rose by 25% ($4bn) and to Europe exports rose by 8% ($4bn).





(Source – China Customs, UBS, Guinness Atkinson calculations)

Edmund Harriss (portfolio manager)
Sharukh Malik (portfolio manager)

Performance

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

- Stock selection in the Consumer Discretionary sector, driven by Alibaba, Midea and Pinduoduo (not held).
- Stock selection in the Financials sector, driven by Hong Kong Exchanges & Clearing, AIA Group and China Merchants Bank.

In April, areas which detracted from the Fund's relative performance were:

- Underweight to Tencent. 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 May, Tencent's weight in the MSCI China Index was 17%, making it the largest stock by far in that index. It outperformed and so the Fund benefited from less of its outperformance than the index.

As of 05/31/2025	YTD	1 Year	3 Year	5 Year	10 Year
China & Hong Kong Fund (ICHKX)	8.95%	11.62%	-5.14%	-2.39%	-0.55%
MSCI China Net Total Return Index	13.13%	26.55%	4.00%	-0.01%	1.15%

As of 03/31/2025	YTD	1 Year	3 Year	5 Year	10 Year
China & Hong Kong Fund (ICHKX)	10.36%	16.31%	-5.29%	-1.07%	0.77%
MSCI China Net Total Return Index	15.02%	40.59%	3.53%	1.46%	2.51%

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

Expense Ratio: 1.94%

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.

P/E ratio is a current stock price over its earnings per share. The forward P/E ratio is a current stock's price over its "predicted" earnings per share. If the forward P/E ratio is higher than the current P/E ratio, it indicates decreased expected earnings.

The Producer Price Index (PPI) program measures the average change over time in the selling prices received by domestic producers for their output. The prices included in the PPI are from the first commercial transaction for many products and some services.

The Consumer Price Index (CPI) is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services. Indexes are available for the U.S. and various geographic areas. Average price data for select utility, automotive fuel, and food items are also available.

USD/CNY is the abbreviation for the US Dollar and Chinese Yuan pair. It shows how much the USD (base currency) is worth as measured against the CNY (counter currency).

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 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. A nonperforming loan (NPL) is a loan that is in default due to the fact that the borrower has not made the scheduled payments for a specified period.

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 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". The index is designed for international investors and is calculated using China A Stock Connect listings based on the offshore RMB exchange rate (CNH).

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

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 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.

The Hang Seng Composite Index ("HSCI") offers a comprehensive Hong Kong market benchmark that covers about the top 95th percentile of the total market capitalisation of companies listed on the Main Board of the Stock Exchange of Hong Kong ("SEHK").

Hang Seng TECH Index represents the 30 largest technology companies listed in Hong Kong that have high business exposure to technology themes and pass the index's screening criteria.

The MSCI Taiwan Index is designed to measure the performance of the large and mid cap segments of the Taiwan market. With90 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in Taiwan.

The MSCI China Small Cap Index is designed to measure the performance of the small cap segment of the China market. With 241 constituents, the index represents approximately 14% of the free float-adjusted market capitalization of the 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 397 constituents, the index covers approximately 15% of the free float-adjusted market capitalization in China.

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. American Depositary Receipts). With 305 constituents, the index covers about 85% of this China equity universe.

Privately owned enterprise (POE) is a business that is managed by an independent company or private individual — rather than the Chinese Government or the host country government. While these companies may issue stock and have shareholders, their shares are not listed on public exchanges.

Earnings per share (*EPS*) is calculated as a company's profit divided by the outstanding shares of its common stock.

Many investors use the price-to-book ratio (P/B ratio) to compare a firm's market capitalization to its book value and locate undervalued companies. This ratio is calculated by dividing the company's current stock price per share by its book value per share (BVPS).

The dividend yield, expressed as a percentage, is a financial ratio (dividend/price) that shows how much a company pays out in dividends each year relative to its stock price.

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

USDCNY exchange rate refers to how many Renminbi one US dollar is worth.

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.

Dividends are not guaranteed and may fluctuate. Earnings growth and Income growth are not a measure of future performance.

Top Fund Holdings as of 5/31/2025:

1.	Tencent Holdings Ltd	4.53%
2.	Geely Automobile Holdings Ltd	4.29%
3.	Shandong Himile Mechanical Science & Technology Co Ltd	4.28%
4.	NetEase Inc	4.08%
5.	AIA Group Ltd	3.86%
6.	Sino Biopharmaceutical Ltd	3.79%
7.	Midea Group Co Ltd	3.74%
8.	Hong Kong Exchanges & CL	3.74%
9.	Weichai Power Co Ltd - H Shares	3.54%
10.	TravelSky Technology Ltd	3.44%

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

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