

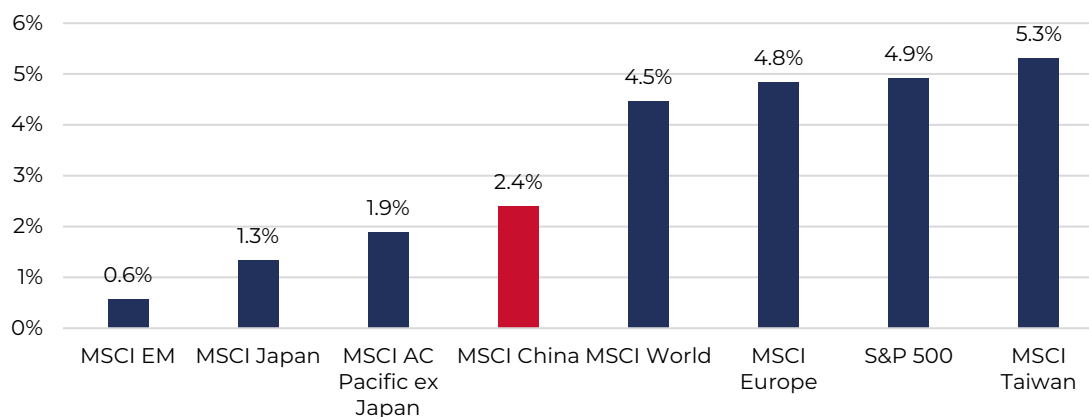
**Summary View**

- In May, the MSCI China Index rose by 2.4% versus the MSCI World Index which rose 4.5%. The first half of the month saw a strong rally for China, with the market rallying as high as ~11% before giving back much of the gains towards the end of the month.
- During the May Labor Day holidays, 295 million tourists traveled within China which was 8% higher than last year and 28% higher than 2019 levels. Tourism revenue increased 13% year-on-year and was 14% higher than 2019 levels, meaning tourism spend per capita increased on a year-on-year basis but still remains below pre-COVID levels.
- President Xi Jinping visited Europe, meeting the leaders of France, Serbia and Hungary. Soon afterwards, Putin met Xi in China.
- More loosening measures were announced for the property market. Loans obtained from the Housing Provident Fund had their interest rates cut by 0.25 percentage points. The Fund is a social security savings scheme modeled on the Central Provident Fund run in Singapore. China's scheme provides loans to employees working in urban areas, where the loans are used to fund purchases of property. Both employees and employers contribute to the Fund. Additionally, for families buying commercial housing, minimum downpayment ratios were cut to 15% and the interest rate floor was eliminated, allowing mortgage rates to fall further.
- The large cities of Hangzhou (population 10.4 million) and Xi'an (population 13.0 million) removed virtually all restrictions on property purchases. In April, Chengdu (population 16.3 million) did the same.
- China's National Integrated Circuit Industry Investment Fund raised a further CNY 344 billion (~\$47bn), which will be used to invest in strategically important semiconductor companies, with a particular focus on equipment manufacturers. For the first time, the country's state owned banks contributed to the fund.
- The US increased tariffs on imports from China, targeting goods such as electric vehicles (EVs), lithium-ion EV batteries, solar panels, steel and aluminium. The US is also to lift an exemption on tariffs on solar panels imported from Malaysia, Cambodia, Thailand and Vietnam – these are countries where Chinese panel manufacturers have expanded production into.

**Market Commentary**

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

**Returns by Market in May**

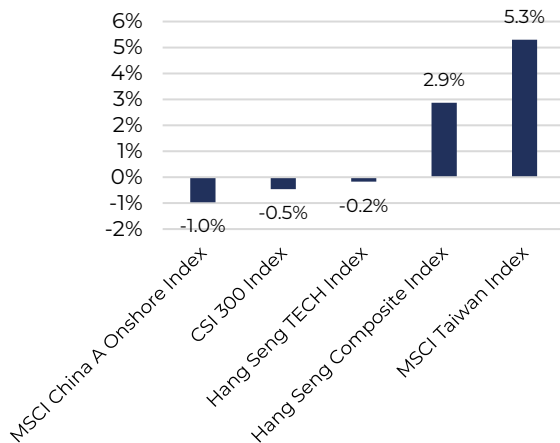


(Data from 04/30/24 to 05/31/24, returns in USD, source: Bloomberg, Guinness Atkinson calculations)

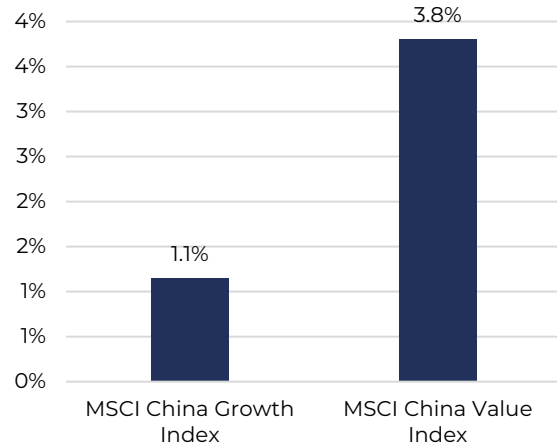
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In May, the MSCI China Index rose by 2.4% versus the MSCI World Index which rose 4.5%. The first half of the month saw a strong rally for China, with the market rallying as high as ~11% before giving back much of the gains towards the end of the month.

Returns by Local Market in May



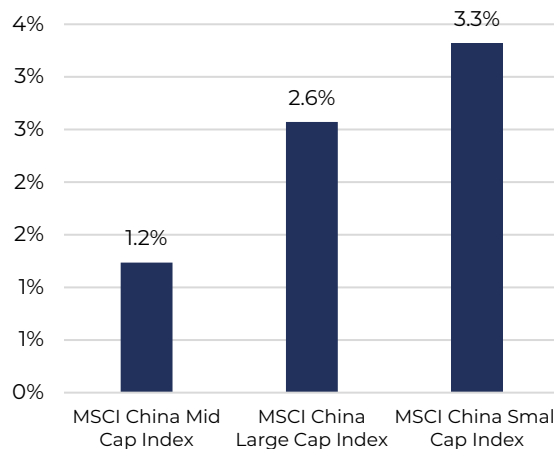
Value vs Growth in May



(Data from 04/30/24 to 05/31/24, returns in USD, source: Bloomberg, Guinness Atkinson calculations)

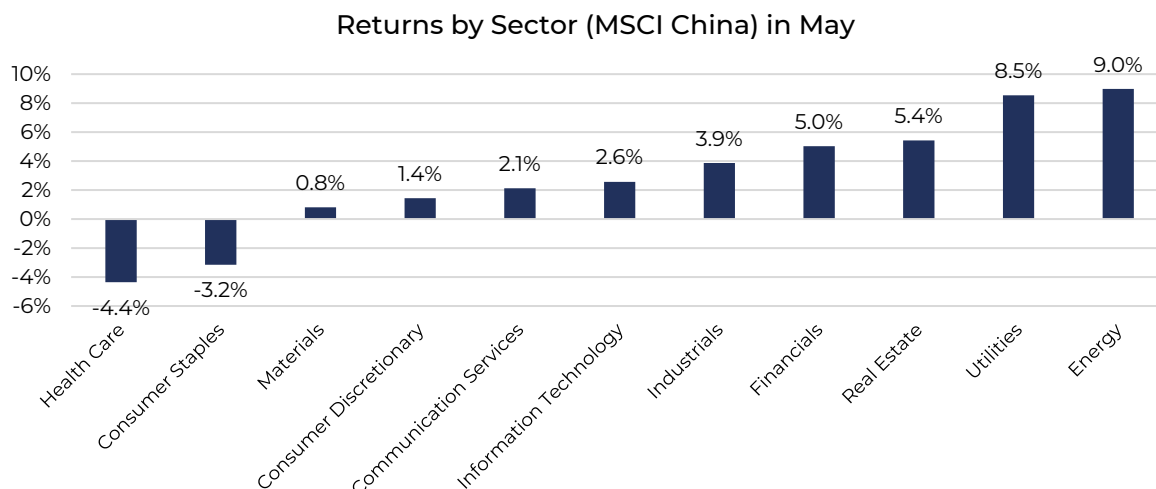
Offshore stocks, as measured by the Hang Seng Composite Index, rose 2.9%. Onshore stocks, as measured by the MSCI China A Onshore Index, fell by 1.0%. Therefore offshore stocks outperformed their onshore counterparts. The MSCI China Growth Index rose 1.1%, underperforming the value index which rose by 3.8%.

Returns by Market Size in May



(Data from 04/30/24 to 05/31/24, returns in USD, source: Bloomberg, Guinness Atkinson calculations)

Small caps outperformed, rising 3.3% while mid caps rose 1.2% and large caps rose 2.6%.



(Data from 04/30/24 to 05/31/24, returns in USD, source: Bloomberg, Guinness Atkinson calculations)

In May, the best performing sectors in the MSCI China Index were Energy (total return +9.0%), Utilities (+8.5%) and Real Estate (+5.4%). Strength in the Energy sector was led by the coal names, driven by greater demand for air conditioning in the summer season. In the Utilities sector, gas and water companies in 10 cities were permitted by the regulator to increase prices by 10-50%. In Real Estate, further loosening policies from the government led to a rebound for the sector.

The weakest sectors were Health Care (total return -4.4%), Consumer Staples (-3.2%) and Materials (+0.8%). Within Healthcare, the Biosecure Act in the US led to weakness for affected Chinese names. The Act essentially does not allow federal agencies from working with companies with links to certain Chinese biotech companies. Weaker names in the Consumer Staples sector were Mengniu Dairy, China Resources Beer and Foshan Haitian.

### Trip to China

We spent two weeks in China seeing a range of companies across the country.



In Qingdao, we met with Haier Smart Home who are one of the world's largest household appliances companies. While the company's sales are linked to the domestic real estate cycle, the company is still expecting solid growth going forward. For example, washing machines have an average life cycle of 8-10 years, after which they need to be replaced regardless of how the real estate market is doing. To boost sales, Haier has launched its own trade in program where customers can trade in older products for a discount on new products. Meanwhile, the company is expanding its air conditioning (AC) business to catch up with its larger peers. In the past three years, the research team has doubled within the AC segment and CNY 200m (~\$28m) has been spent on quality control labs. Management aim to grow revenue for the AC business from CNY 46bn in 2023 to CNY 80-90bn by 2028, with operating margins in the segment to expand from ~4% in 2023 to 7-8% in 2028.

Near Hangzhou we saw a prospective company which manufactures forklifts. The company was relatively early in focusing on electric forklifts and this move is now paying off as revenue and profit growth has accelerated. The company's exports are increasing rapidly and the company's brand is gaining a

reputation for quality. Management is aiming for revenue to increase from CNY 16bn in 2023 to ~CNY 30bn in three years' time. The company's products are sold in Europe and the US, with management focusing on quality and after sales service to catch up with its established competitors. We were given tours of two manufacturing sites which were impressive, as well as a run through of the various models the company sells.



We also saw Hangzhou First Applied Material which is the world's largest manufacturer of solar film, which protects solar modules. While much of the solar industry is in significant oversupply, in the solar film segment the supply imbalance is less pronounced. Smaller companies are loss making and are likely to eventually leave the industry, meaning First Applied may increase its market share. Next year the company plans to open two new manufacturing plants in China and one in Vietnam.



In Suzhou we visited a plant run by Shenzhen Inovance Technology, which makes automation equipment. We saw the high level of automation in the plant, partly driven by the company's own robots. We also communicated some of the reasons behind our proxy voting, where we voted against one director as he was an insider on the audit committee, and another director as the company does not have a nomination or remuneration committee. In response, the company said it has recently refreshed its board and this year is planning on creating a nomination and remuneration committee.



We met with China's two largest video game developers, Netease (in Hangzhou) and Tencent (in Hong Kong). With Netease, we discussed the latest quarterly results and the company's approach to shareholder return. With Tencent, the company's video accounts (equivalent to Tiktok) have relatively few ads compared to Douyin and Kuishou so there is potential for revenue in this segment to increase significantly. On semiconductors, the business has a stockpile of cutting-edge chips which management expect to last a few generations. Tencent's large language model (LLM) *Hunyuan* is being used by all teams as the foundational model, which teams can then tailor according to their specific needs. On capital management, the company argues its shares are undervalued and higher buybacks and dividends generate a better internal rate of return than other investments at this moment in time.



In Chengdu, we saw Sino seal which manufactures mechanical seals mostly used in petrochemical applications, with use cases also in pipelines, nuclear, water and paper making industries. The company explained that it has taken market share from foreign competitors in the domestic market by focusing on lower prices, investment in R&D and very good after sales service. Management thinks that from a technical perspective, their products are now nearly at the same level as their foreign competitors. To

increase export sales, the aim is now to catch up on the technical front and then increase brand awareness abroad in countries on the Belt and Road path. On capital management, Sino seal is cautious on M&A and will not grow at all costs. The dividend frequency has now increased to a semi-annual payment with a higher payout ratio.



Near Chongqing, we met with Chongqing Fuling Zhacai which makes pickled condiments. Due to climate change the company is seeing more volatility in supply of mustard roots. To deal with this greater volatility, when input prices are low the company likes to put mustard roots into storage. But current storage capacity is limited so the company is building a new state of the art production facility with significantly greater storage capacity. On ESG, we made numerous suggestions on where disclosure could improve and our sense is that we can have a genuine impact on the company's disclosures.



In Guangzhou we saw Suofeiya Home Collection which makes kitchen cabinets and cupboards. Given that it is smaller than the primary market, the secondary market (purchases of older homes) is a channel that Suofeiya has not previously focused on. However, as the primary market continues to weaken, management now views the secondary market as a growth driver for the business. In contrast to some of its competitors, Suofeiya has much more control of its sales process which management believes is one of the main drivers behind its good reputation with customers. For example, Suofeiya owns its own software, logistics and after sales service, whereas some of its competitors use third parties for some of these services. By focusing on good service, the aim is that customers enhance the reputation of the business through word of mouth.

#### Portfolio Switches



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. Management expect it will take until 2025 for revenue to beat 2022's amount, and until 2026 for net profits to do the same.



For a slightly higher valuation multiple, we initiated a position in Midea. 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

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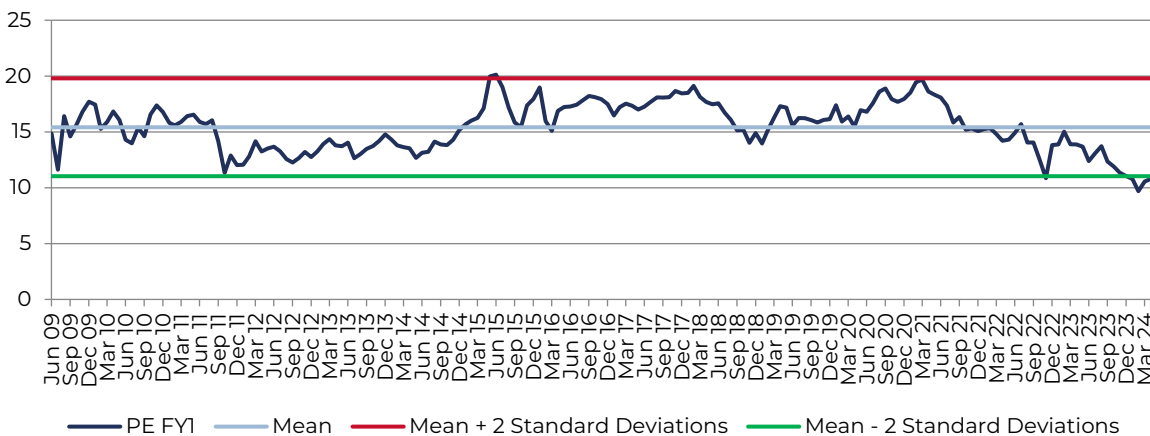
base at a high cash return on capital. We expect revenues and profits to continue to grow, which is attractive in the current economic environment in China.

**Outlook**

Following our trip to China, we remain of the view that while the economy is weak by China's standards, the quality companies that we are interested in are generally doing fine. In contrast to the gloomy macro news, our companies overall have a growth mindset, investing both domestically and internationally to secure future growth. For our manufacturing companies in particular, the general trend is they are moving up the value chain and from a quality perspective, are catching up to their Western competitors. Export sales are becoming more of a focus for our companies and we expect Chinese companies across the board to become more competitive on the global front.

Our view is that investors, both domestically and abroad, are significantly undervaluing the high quality companies in China that we target. These companies have strong balance sheets with relatively little debt, and so can weather the next few years of relative weakness, as China completes its transition away from real estate and towards the new pillar industries. The companies we own give exposure to the structural growth themes in China and while earnings expectations have been falling, importantly these companies are still expected to grow. Based on consensus analyst estimates, the Fund's holdings in aggregate are expected to grow net income by 25% in 2024 and 12% in 2025. On a valuation basis, the Fund is trading on a forward year price earnings ratio of 12.2x. For the holdings in aggregate, this valuation is one of the lowest levels we have seen since the financial crisis, which presents one of the best risk reward ratios we have seen for some time.

Historic Forward Year Price/Earnings Ratio for Current Holdings



(Data from 12/31/08 to 06/24/24, source: Bloomberg, Guinness Atkinson calculations. Calculations assume an equally weighted portfolio)

Edmund Harriss (portfolio manager)

Sharukh Malik (portfolio manager)

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**Performance**

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

- Individual stock performance, led by Ping An Insurance (total return +10.0%), Suofeiya Home Collection (+7.5%) and AIA Group (+6.6%).
- Stock selection in the Health Care sector, driven by Sino Biopharmaceutical (total return +5.2%) and CSPC Pharmaceutical (+4.5%).

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

- As discussed earlier, offshore stocks outperformed onshore stocks, as the Hang Seng Composite Index rose by 2.9% while the MSCI China A Onshore Index fell by 1.0%. As of the end of March, the Fund was ~25% underweight to stocks listed in Hong Kong and ~18% overweight to A shares. Therefore, the Fund benefited from less of the rally in the Hang Seng Composite than the MSCI China Index.
- Structural underweight to Tencent (total return +4.5%). The Fund is run on an equally weighted fund so each position has a neutral weight of 3.2%. As of the end of May, Tencent's weight in the MSCI China Index was 15.5%. Tencent's share price rose 4.5% so the index benefited much more from Tencent's rally than the Fund.
- Stock selection in the Information Technology sector, driven by Venustech (total return -7.2%), Xinyi Solar (-5.9%), Shenzhen H&T Intelligent (-5.7%) and Hangzhou First Applied Material (-4.8%).
- Stock selection in the Industrials sector, driven by Wuxi Lead Intelligent Equipment (-10.4%), Nari Technology (-4.4%) and Shenzhen Inovance Technology (-1.9%).
- 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 10.3%. 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 were strong in the month were related to metals and cement – these companies do not generally make the quality threshold we target in the Fund. Relevant companies were China Hongqiao (aluminium), Aluminium Corp, China National Building Material and Anhui Conch Cement. The Fund holds no companies in the Utilities sector.

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As of 05/31/2024	YTD	1 Year	3 Year	5 Year	10 Year
China & Hong Kong Fund (ICHKX)	-2.33%	-5.97%	-18.14%	-3.76%	0.42%
Hang Seng Composite Index TR	7.07%	3.24%	-13.36%	-2.45%	1.65%
MSCI China Net Total Return Index	6.76%	4.26%	-16.66%	-2.39%	1.90%

As of 06/30/2024	YTD	1 Year	3 Year	5 Year	10 Year
China & Hong Kong Fund (ICHKX)	-8.16%	-16.65%	-18.79%	-6.17%	-0.61%
Hang Seng Composite Index TR	5.67%	-1.99%	-13.45%	-3.91%	1.35%

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. 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](http://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](http://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.

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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.

Standard deviation is a statistic that measures the dispersion of a dataset relative to its mean and is calculated as the square root of the variance. If the data points are further from the mean, there is a higher deviation within the data set. A volatile stock has a high standard deviation, while the deviation of a stable blue-chip stock is usually rather low.

The compound annual growth rate (CAGR) is the rate of return (RoR) that would be required for an investment to grow from its beginning balance to its ending balance, assuming the profits were reinvested at the end of each period of the investment's life span.

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 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.

The Basel Accords are a series of three sequential banking regulation agreements (Basel I, II, and III) set by the Basel Committee on Bank Supervision (BCBS). Basel III is an international regulatory accord that introduced a set of reforms designed to mitigate risk within the international banking sector by requiring banks to maintain certain leverage ratios and keep certain levels of reserve capital on hand. Basel III is an internationally agreed set of measures developed in response to the financial crisis of 2007-2009.

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.

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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".

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 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.

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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 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.

The MSCI Taiwan Index is designed to measure the performance of the large and mid cap segments of the Taiwan market. With 90 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in Taiwan.

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.

American depositary receipt (ADR) refers to a negotiable certificate issued by a U.S. depositary bank representing a specified number of shares—usually one share—of a foreign company's stock. The ADR trades on U.S. stock markets as any domestic shares would.

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

M2 is the U.S. Federal Reserve's estimate of the total money supply including all of the cash people have on hand plus all of the money deposited in checking accounts, savings accounts, and other short-term saving vehicles such as certificates of deposit (CDs). Retirement account balances and time deposits above \$100,000 are omitted from M2.

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 5/31/2024:

1. Tencent Holdings Ltd	4.40%
2. Geely Automobile Holdings Ltd	3.95%
3. Inner Mongolia Yili - A Shares	3.84%
4. Xinyi Solar Holdings Ltd	3.70%
5. Sany Heavy Industry Co	3.62%

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6. Shenzhou International	3.60%
7. China Merchants Bank Co Ltd - H Shares	3.60%
8. Hong Kong Exchanges & CL	3.44%
9. Suofeiya Home Collection - A Shares	3.43%
10. TravelSky Technology Ltd	3.41%

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

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