

B China Fund Beats Peers Betting on Shoes, Developers (Update1)

(Adds name of co-manager in fourth paragraph.)

By Bloomberg News

June 2 (Bloomberg) -- Hans-Rudolf Schmid's bet that Chinese demand for sports shoes and housing would persist amid an economic slump helped his HSZ China Fund beat 98 percent of its peers in 2009. He's sticking to that strategy.

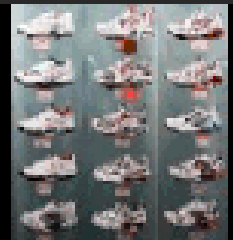
Anta Sports Products Ltd., based in China's southern Fujian province and among the fund's holdings, has jumped 149 percent this year in Hong Kong, compared with a 35 percent gain by the MSCI China Index. Among the fund's other stock picks, developers Shimao Property Holdings Ltd. and Shui On Land Ltd. have more than doubled.

"China's rise will continue for a long time," Schmid, 53, chairman and president of HSZ Group, said in a phone interview from Hong Kong today. "The focus is now on consumer industries, companies that serve the local markets. The closer you get to the basics, the better. I'm not changing my strategy."

The \$70 million HSZ China Fund, which Schmid manages with Paul Chu, invests more than two-thirds of its assets in equities

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Hans-Rudolf Schmid (HSZ Lt)
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and companies in China. The fund has returned 68.5 percent this year, beating 98 percent of the 611 China-focused funds tracked by Bloomberg.

Among the fund's other top holdings are Hunan-based Zhuzhou CSR Times Electric Co., which makes electrical systems for trains, Nanjing-based department-store operator Golden Eagle Retail Group Ltd. and Singapore-based water-treatment company Epure International Ltd., according to a presentation provided by the company.

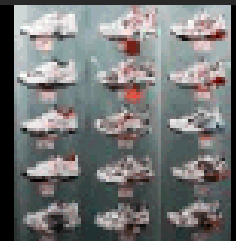
China has offered tax breaks for small-car buyers and given subsidies to rural purchasers of some home appliances to spur consumption and revive growth as the global slowdown curbs exports. New home sales in Shanghai reached a 21-month high in May, the Shanghai Daily reported, citing data from E-House (China) Holdings Ltd.

'More Positive'

"We are turning more positive on China consumer discretionary stocks," Goldman Sachs Group Inc. analysts led by Joshua Lu wrote in a report today. "We now believe the trough

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could have been reached in February-March, earlier than we expected.”

The world's third-largest [economy](#) grew 6.1 percent in the first quarter of this year, the slowest pace in almost a decade. A measure of stocks that depend on discretionary consumer spending gained 61 percent on the [MSCI China Index](#) this year.

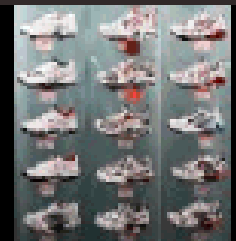
The HSZ China fund holds between 20 to 30 stocks and prefers companies that are majority-owned by individual entrepreneurs, because they tend to better serve shareholder interests, said Schmid, a Swiss national who moved to Hong Kong from Zurich three years ago.

Schmid was a member of the executive committee at Zurich-based HSBC Geyerzeller Bank AG from 1993 to 2000 before leaving to set up HSZ Group. Before HSBC Geyerzeller, he was a partner at BZ Group, also in Zurich, and worked in corporate finance and mergers and acquisitions at Salomon Brothers Inc. in New York.

He also favors infrastructure-related companies as the government spends to build railways, roads and improve water quality in the country. The fund sold its entire holdings of [Fu Ji Food & Catering Services Holdings Ltd.](#), which offers catering services in Shanghai and Suzhou, this year.

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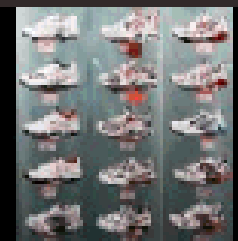
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