HSZ China Fund

Figures as of	September 30, 2013
Net Asset Value	USD 116.38, CHF 82.14, EUR 110.79
Fund Size	USD 129.0 million
Inception Date*	May 27, 2003
Cumulative Return	230.9% in USD
Annualized Return	12.3% in USD

* The track record is the combination of two consecutive track records of China Investment Corporation (CIC) and HSZ China Fund (HCF). From May 27, 2003 to November 17, 2006 it is the performance of CIC, a trust account managed by HSZ (Hong Kong) Limited for listed Chinese equities. Since the launch of HCF on November 17, 2006 it is the performance of HCF.

Net Asset Value (Monthly)

Performance

	September	YTD	1 Year	Nov 17, 06
USD Class	5.2%	(1.5%)	11.5%	16.4%
CHF Class	2.4%	(2.3%)	7.5%	(17.9%)
EUR Class	3.1%	(3.5%)	6.5%	10.8%

Largest Holdings

Sands China	8.4%
China Merchants Bank	7.3%
Wharf Holdings	6.8%
Ping An Insurance	6.7%
Mindray Medical	5.4%
Belle International	5.0%

Exposure

Financials	33.5%
Consumer Discretionary	32.9%
Industrials	12.8%
Consumer Staples	11.6%
Communications	4.6%
Cash	2.5%

Newsletter September 2013

- State Council unveils pilot free trade zone in Shanghai
- Vinda receives cash offer from SCA
- Times Electric benefits from resumption of MU orders
- Yum! Brands is leading fast food restaurant chain in China

On September 27, the State Council unveiled the blueprint for the pilot free trade zone in Shanghai. It is a bonded area of only 29 square kilometers but represents an important test ground for next stage of reforms. The pilot scheme is focused on opening up of a range of service sectors to both private and foreign capital through diminishing the government's role on governance. It also aims to experiment with financial liberalization in areas such as currency convertibility and cross-border financing. Though the near term impact is negligible, the scheme will facilitate leveling the playing field for entrepreneurs and does represent a meaningful step in the direction of structural reforms to boost the intrinsic vigor of the economy.

Vinda received a voluntary conditional cash offer from SCA Group, the second largest shareholder of Vinda and one of the top three household paper producers in the world, to acquire all of the outstanding shares at HKD 11 per share or 38 percent premium over the last trading price. The offer price implies multiples of 19x PE and 2.2x PB in 2013, which we believe is attractive to investors. The transaction should be positive to both parties since Vinda will benefit from SCA's centralized procurement system while SCA will leverage on Vinda's vast distribution network to sell its self-owned baby diapers and sanitary napkins in China.

Times Electric has benefited from the recent resumption of tenders for locomotives and high speed multiple unit (MU) trains in China. CSR Group, the parent company of Times Electric, received 100 percent of all the 250 km/hr MU orders and 60 percent of the locomotive orders. With a clear focus on accelerating railway development under the new leadership, the government has revised up the railway investment budget in the 12^{th} Five Year Plan from CNY 2.8 trillion to 3.3 trillion. Its industry-leading profitability, consistent high return on equity, strong operating cashflow and strong order potential should be positive to its share performance.

We initiated a position in Yum! Brands, the largest fast food restaurant operator in China and in the world, because it will benefit from China's expanding consuming class which is expected to grow from 300 million to more than 600 million in the next 10 years. With stronger income growth and more benign cost and competition environment in the lower tier cities in China, its accelerating expansion in tier 3-6 cities would improve its overall profitability. The company also aims to drive aggressive expansion in emerging markets while increasing the proportion of franchise stores in developed markets like America in order to deliver earnings growth and better return on invested capital. With a strong track record of double digit earnings growth in the past decade, a high dividend payout of 40 percent and a continuous share buyback program, Yum will be able to deliver industry-leading results and return to investors.

General Information

Investment Opportunity

Once the world's largest trading power, China's gradual decline during the second millennium culminated in the Maoist purgatory. However, since the 1980s economic development has taken center stage. China has become the engine of the fastest growing region in the world attracting substantial foreign investments and developing into the world's manufacturing hub. Furthermore, an increasing middle class is fuelling demand for consumer products. The growth momentum is set to continue as China strives to catch up with mature economies, producing attractive investment opportunities.

Investment Strategy

The objective of HSZ China Fund is to create sustained shareholder value by acquiring and managing equity and equity-linked investments in a select number of high-quality companies that are rooted in China. At least two-thirds of the total assets are to be invested in companies which are domiciled in China or participate as holding companies in enterprises domiciled there. At most one-third of the total fund volume can be invested in equity oriented stocks and money market instruments of issuers worldwide. Based on fundamental analysis and a bottom up approach, investment opportunities are identified that are assessed to provide above-average return on invested capital, have strong earnings per share growth and are priced attractively.

Risk Management

The Chinese stock market has many of the particular risks and characteristics of emerging markets. HSZ (Hong Kong) Limited exerts itself for reducing specific risks by accurately screening and monitoring high quality assets. That is why the long-lived experience of its specialists based locally is invaluable for investors. The fund is well diversified to avoid concentration risk. The weight of each position in the portfolio is subject to a maximum limit of 15%. No portfolio leverage is employed. The fact that HSZ China Fund invests in listed equity provides the investor with a reasonable degree of liquidity.

Investment Manager

HSZ (Hong Kong) Limited is a Hong Kong based independent investment management company. Its investment team has been managing Asian equity portfolios since 1994.

Name	HSZ China Fund
Theme	Entrepreneurial China
Nature	Long-only equity fund, actively managed
Focus	Listed Chinese equities focusing on privately controlled companies

Structure	Swiss investment fund, regulated by FINMA, open-ended
Distributions	Income annually
Fiscal Year End	December 31
Reporting	Semi-annually in USD
Currency Classes	USD, CHF, EUR (all unhedged)
Trading	Daily issuance and redemption, based on net asset value

Fund Manager	Credit Suisse Funds AG
Custodian Bank	Credit Suisse AG
Investment Manager	HSZ (Hong Kong) Limited
Auditors	KPMG AG
Management Fee	1.5% annually
Performance Fee	10% above hurdle rate of 5%, high water mark
Issuance Fee	0.5%
Redemption Fee	None

USD Class	ISIN CH0026828035, Valor 2682803 WKN A0LC13 Bloomberg HSZCHID SW Equity
CHF Class	ISIN CH0026828068, Valor 2682806 WKN A0LC15 Bloomberg HSZCFCH SW Equity
EUR Class	ISIN CH0026828092, Valor 2682809 WKN A0LC14 Bloomberg HSZCHEU SW Equity
Orders via Banks	Credit Suisse AG Mrs. Anita Wobmann Execution CS Fonds & 3rd Party SEBF 12, 8070 Zurich, Switzerland Tel: +4144 644 4254 Fax: +4158 205 7097

Contact & Website	HSZ (Hong Kong) Limited Unit 605A, 6/F, Tower 2 Lippo Centre, 89 Queensway Hong Kong Tel: +852 2287 2300 Fax: +852 2287 2380 www.hszgroup.com mail@hszgroup.com