HSZ China Fund

Newsletter March 2014

Figures as of	March 31, 2014
Net Asset Value	USD 111.21, CHF 76.88, EUR 103.61
Fund Size	USD 109.5 million
Inception Date*	May 27, 2003
Cumulative Total Return	229.8% in USD
Annualized Total Return	11.6% 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

	March	YTD	1 Year	Nov 17, 06
USD Class	(5.7%)	(8.0%)	(1.9%)	16.0%
CHF Class	(5.7%)	(8.4%)	(8.8%)	(20.0%)
EUR Class	(6.0%)	(8.0%)	(8.8%)	6.5%

Largest Holdings

Ping An Insurance	7.9%
China Merchants Bank	7.9%
Tencent Holdings	7.4%
Sands China	7.0%
Shimao Property	6.6%
Melco Crown	6.2%

Exposure

Financials	32.4%
Consumer Discretionary	28.0%
Communications	20.3%
Industrials	9.7%
Consumer Staples	8.4%
Cash	1.2%

- China unveils urbanization targets
- KWG declares generous dividend to shareholders
- Hengan expects earnings growth to accelerate this year
- AAC targets strong ramp-up of its non-acoustic segment

Chinese economy has been slowing in the first two months this year, aggravated by the distortion from the Lunar New Year holidays. Growth in fixed asset investment eased to 17.9 percent year on year, compared to 19.6 percent for 2013. In face of the downward pressure, Premier Li, in a state council meeting, announced to speed up planned projects with a focus on those under the new urbanization plan to boost domestic demand and stabilize growth. Under the plan, China targets to increase the “hukou” urbanization rate from 35.3 percent in 2012 to 45 percent by 2020, which will integrate more than 150 million migrant workers into cities and create spending in the areas of railways, social housing and public service networks with the ultimate aim to improve people’s livelihoods.

KWG posted a solid set of results with the delivered gross floor area increased by 18 percent to 936’000 square meters and the average selling price standing at CNY 11’153 per square meter. Core net core profit grew 20 percent year over year to CNY 2’343 million and KWG declared a generous dividend of CNY 29 cents per share, which implies a dividend yield of 10 percent. As a result of the strong contracted sales growth last year, the company achieved a positive operating cashflow and the net gearing improved sharply from 64 percent in 2012 to 56 percent at the end of 2013. Management is optimistic on the outlook this year and expected contracted sales to grow 38 percent year over year to CNY 22 billion on the back of a 53 percent increase in the saleable resources.

Hengan’s sales increased by 15 percent year over year to HKD 21’276 million on the back of 12 percent, 22 percent and 10 percent sales growth for segments of tissue papers, sanitary napkins and disposable diapers. The improvement in the product mix has led to a margin expansion on the napkin and diaper segments. However, net profit only grew 6 percent to HKD 3’721 million as Hengan stepped up its research budget to improve the quality of its diaper products. Management was excited on the new superabsorbent and pull-up pants series of its diaper segment and expected sales growth to accelerate in 2014. They believed the growth momentum for the napkin segment would continue while the diaper segment would become the largest growth driver for Hengan in the medium term.

AAC reported an in-line result for the fourth quarter of 2013 with sales and net income growing 5 percent and 4 percent quarter on quarter to CNY 2’182 million and CNY 595 million respectively. The positive surprise came from the progress on the non-acoustics segment and management expected sales contribution from non-acoustics will increase from 5 percent in 2013 to over 20 percent in 2014. Moreover, the launch of new smartphone models from its major customers will lead to a double digit sales growth for its core business. AAC remained on track to transform itself from a component supplier to a comprehensive solution provider.

General Information

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
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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.