

Figures as of	July 31, 2014
Net Asset Value	USD 122.91, CHF 87.07, EUR 117.61
Fund Size	USD 112.6 million
Inception Date*	May 27, 2003
Cumulative Total Return	264.5% in USD
Annualized Total 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

	July	YTD	1 Year	Nov 17, 06
USD Class	8.1%	1.6%	18.0%	28.2%
CHF Class	10.3%	3.7%	15.1%	(9.5%)
EUR Class	10.2%	4.5%	16.7%	20.8%

Largest Holdings

Tencent Holdings	8.4%	
China Merchants Bank	7.5%	
Ctrip.com International	6.9%	
Baidu Inc.	6.9%	
Ping An International	6.9%	
KWG Property	6.8%	

Exposure

Financials	29.6%	
Communications	26.5%	
Consumer Discretionary	23.5%	
Industrials	8.3%	
Consumer Staples	7.1%	
Cash	5.0%	

## Newsletter July 2014

- China July HSBC flash PMI at 18-month high
- Baidu's 2Q14 earnings beat estimates by 24.8%
- Ctrip reported 38.4% revenue growth in 2Q14, beating estimates
- Times Electric issued a positive profit alert for 1H14 earnings

The HSBC flash PMI for China rose to 52 in July, beating consensus estimate of 51. The reading is the 18-month high since January 2013. A breakdown of the flash PMI numbers showed most of 11 sub-indices that measure output, domestic and foreign demand improved substantially from June. The historically high PMI number implies that the 'mini-stimulus' measures, which include reducing reserve requirement ratios for selected banks and accelerating the construction of railways and public housing, continued driving the recovery in China's economy.

Baidu Inc. recorded CNY 11.99 billion revenues in 2Q14, representing a 58.5% year-over-year growth. EPS for the quarter is CNY 10.09 per share, beating estimate consensus of CNY 8.08 per share. Mobile search contributed 30% of the total revenues for the quarter, implying that the company made decent progress in monetizing traffic from the mobile side. The company also made progress in building up a convenient online payment system, an effective mobile app distribution platform and a more efficient key word bidding system, which will also drive Baidu's revenue growth going forward.

Ctrip.com reported CNY 1.72 billion revenues in 2Q14, representing a year-over-year increase of 38.4%. Ticketing volume grew significantly year-over-year as the company's investments in boosting brand awareness paid off, with accommodation booking volume rising by 64% & transportation booking volume rising by 83% year-over-year. Management emphasized again that the company's focus this year is acquisition of market share at a faster pace, which will be achieved through marketing campaigns and investments in building up IT infrastructure. As a result of the heavy investments, profit in 2Q14 declined by 36% year-over-year. Management believes the investments will be likely one-off, and a gradual recovery in margins is expected later on.

Zhuzhou CSR Times Electric issued a positive profit alert for 1H14, indicating that the company expected its earnings for the period will substantially increase year-over-year. The strong earnings growth is probably explained by the low base in 1H13 as well as a strong delivery of the company's major products (including electric multiple unit trains and urban railway projects) in 1H14. The company also successfully landed several significant orders for the period, which paves the way for future revenue growth. During 1H14, Times Electric was able to successfully secure contracts for urban railway traction system for city subways in Shenzhen, Hangzhou, Zhengzhou, Beijing, Tianjin and Kunming. The company also made progress in overseas markets by securing a significant order for inter-city rail traction system in Argentina.

## 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
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
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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.