HSZ China Fund

Newsletter November 2014

Figures as of	November 28, 2014
Net Asset Value	USD 120.24, CHF 90.61, EUR 123.88
Fund Size	USD 105.3 million
Inception Date*	May 27, 2003
Cumulative Total Return	256.6% in USD
Annualized Total Return	11.7% 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

	November	YTD	1 Year	Nov 17, 06
USD Class	2.9%	(0.6%)	(2.0%)	25.4%
CHF Class	3.6%	7.9%	4.5%	(5.8%)
EUR Class	4.0%	10.0%	7.2%	27.3%

Largest Holdings

China Merchants Bank	8.1%
Ping An Insurance (A)	7.7%
Times Electric	7.6%
Yum! Brands Inc.	6.2%
Baidu Inc.	6.1%
Tencent Holdings	5.8%

Exposure

Financials	23.8%
Communications	22.7%
Industrials	19.2%
Consumer Discretionary	19.0%
Consumer Staples	8.4%
Cash	6.7%

- Shanghai-Hong Kong Stock Connect program finally launched
- Man Wah reported solid interim results
- Global Brands reversed losses in Q314
- Tencent reported 3Q14 result with strong growth in ads revenues

Shanghai-Hong Kong Stock Connect program was launched in mid-November. The program is the most significant development in China's domestic markets for many years as the country opens up its capital account. For the first two weeks, the northbound (from Hong Kong to Shanghai) has received higher interest than the southbound (from Shanghai to Hong Kong), largely due to the fact that stocks in Shanghai generally have a lower valuation.

Man Wah (a recent addition to our portfolio) reported a solid set of interim results for FY2015. Turnover increased by 11% year over year to HKD 3,200 million; while net profit grew by 11% year over year to HKD 566 million. The growth was mainly driven by strong sales in both the US and the China markets. Man Wah declared an interim dividend per share of HKD 25 cents per share and a special dividend of HKD 75 cents per share, given the company's strong financial position and limited capital expenditure. The company's capacity will increase by 18% since the second half of FY15 as its new Tianjin production plant commenced operation in August.

Global Brands reversed losses in Q314. The company reported a core operating profit of USD 113 million in Q314, compared with a core operating loss of USD 63 million in 1H14. The reason for this was partly due to the seasonality of the business, which skews significantly towards the second half of the year. The other reason was the recent decline in gasoline prices, which boosted consumer sentiment in the US. The company's near term outlook remains positive as we approach the festive season in Q4.

Tencent reported its third quarter result in November. Total revenues were CNY 19.8 billion for the quarter, representing an increase of 28% year-over-year. Value-added services revenues rose by 38% year-over-year to CNY 16 billion primarily driven by continuous strength in year-over-year online games growth (online games revenues rose by 34% year-over-year to CNY 11.3 billion while smartphone games revenues rose by 13% quarter-over-quarter to CNY 2.6 billion). Progress in ramping up the advertising services is encouraging, with online advertising revenues up 76% year-over-year and 18% quarter-over-quarter to CNY 2.4 billion. Non-GAAP net profit rose to CNY 6.4 billion, up 47% year-over-year and 10% quarter-over-quarter. Management also highlighted the exciting progress made in its mobile application store business (named 'YingYongBao'), with average daily app downloads up over 200% year-over-year and peak daily downloads reaching 100 million. Management expects revenue contribution from the 'YingYongBao' business in the future to be driven by rising in-game purchases as well as advertising fees.

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.