

Figures as of	December 31, 2014
Net Asset Value	USD 124.76, CHF 96.25, EUR 131.56
Fund Size	USD 112.8 million
Inception Date*	May 27, 2003
Cumulative Total Return	270.0% in USD
Annualized Total Return	11.9% 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

	December	YTD	1 Year	Nov 17, 06
USD Class	3.8%	3.2%	3.2%	30.1%
CHF Class	6.2%	14.7%	14.7%	0.1%
EUR Class	6.2%	16.9%	16.9%	35.2%

Largest Holdings

Times Electric	10.5%	
China Merchants Bank	9.2%	
Yili Company	6.1%	
Tencent Holdings	5.8%	
Ping An (A Shares)	5.8%	
Baidu Inc.	5.3%	

Exposure

Financials	25.4%	
Industrials	23.3%	
Communications	16.8%	
Consumer Discretionary	15.5%	
Consumer Staples	13.8%	
Cash	2.6%	

## Newsletter December 2014

- China further announced easing policies
- KWG on track to meet its full year sales target
- Times Electric's parent CSR to merge with CNR
- Ping An announced mid-to-long term life insurance strategy

China further announced easing policies in late December, following the benchmark rate cut in late November. The People's Bank of China will include savings held by banks for non-deposit-taking financial institutions in banks' deposits, which will expand the base for calculating loan-to-deposit ratios. This will leave more liquidity available for lending and is seen as equivalent to a 1.5% reserve requirement ratio reduction.

KWG is on track to meet its full year sales target. For the first eleven months, KWG has achieved a total of CNY 19 billion of pre-sales value, representing 89% of the company's full year pre-sales target of CNY 21 billion and a year-on-year increase of 25%. Following recent news that property sales in Guangzhou were robust in December, we believe KWG is able to achieve its full year sales target.

Times Electric resumed trading after the announcement of the merger between its parent CSR and CNR. According to the announcement, CSR will issue new shares to buy all existing shares of CNR in the ratio of 1.1-to-1 to complete the merger. Following the merger, CSR will be renamed as CRRC and will be the sole rolling stocks producer in China. As the supplier of key electrical systems to CSR, Times Electric has the right to acquire similar subsidiaries under CNR and hence becomes the sole supplier of electrical systems to the newly formed CRRC. It is expected that Times Electric's addressable market will ultimately double following this deal, as the company is now able to supply electrical systems to rolling stocks factories owned by CNR as well.

Ping An Insurance discussed its life insurance strategy during its 2014 Investor Open Day this month. Life new business premium was up 20% year-over-year till 3Q14, underpinned by strong agent growth, improved agent productivity and better product mix (average 2.2 policies per customer). Ping An is confident that it can achieve 15% growth in its annual new business value and profit in the medium term. The company is also targeting an annual agent growth of 10% over the next five years and an average agent monthly income of CNY 10,000 in 2019, implying a 14% CAGR from the current CNY 5,196. Ping An also elaborated its USER agency customer focus strategy (Understand your needs, Service your needs, Empower your choices and Realize your dreams) with some key metrics such as targeting 27% of its customers to buy a second product in 2019 (up from 20% currently) and 4.5 Ping An policies per customer in 2019 (up from 2.2 currently).

## 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

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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.