

Figures as of	October 31, 2016
Net Asset Value	USD 119.24, CHF 92.32, EUR 139.57
Fund Size	USD 87.2 million
Inception Date*	May 27, 2003
Cumulative Total Return	260.7% in USD
Annualized Total Return	10.0% 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

	October	YTD	1 Year	Nov 17, 06
USD Class	(0.6%)	(1.6%)	(1.8%)	26.9%
CHF Class	1.6%	(1.8%)	(1.8%)	(2.1%)
EUR Class	1.4%	(1.9%)	(1.5%)	46.3%

Largest Holdings

Gree Electric Appliances	9.6%	
Yili Company	8.7%	
Alibaba	8.6%	
Ping An	6.8%	
Tencent Holdings	6.6%	
China Resources Beer	6.1%	

Exposure

TMT	36.0%	
Consumer Staples	18.0%	
Consumer Discretionary	17.9%	
Financials	14.9%	
Industrials	7.1%	
Cash	5.0%	

Newsletter October 2016

- China grew 6.7% year over year in 3Q2016
- Yili announced placement, acquisition and incentive program
- Ping An reported robust growth of 61% in new business value
- Goertek reported 62.5% net profit growth for 3Q2016

China grew 6.7% year over year in 3Q2016. The growth rate of investments accelerated to 9% in September, up from 8.1% in the first eight months of 2016. The growth rate of investments from private sector also rebounded in September to 5%. The quality of investments improved as the economy was investing more in automobiles and special equipment than in low-value-adding industries like steel. The retail consumption value increased 10.7% year over year in September, when the acceleration of automobile, consumer staples made up for the deceleration of housing-related consumption.

Yili announced placement, acquisition and incentive program after Sunshine Insurance acquired a 5% stake and became the second largest shareholder of the company. To ensure its continuous stable operation, 9.7% new shares will be issued, diluting the insurer's stake to 4.56%. Half of the proceeds will be used to acquire Shengmu, the largest organic dairy company in China and the only vertically integrated organic dairy company in China that meets EU organic standards. Meanwhile, an incentive program with a target net profit CAGR over 15% for 2016-2018 was announced. Despite the dilution effect of the equity placement, we are positive on its expansion on organic dairy and its fairly-designed incentive program.

Ping An reported robust growth of 61% in new business value for life insurance in 3Q2016, driven by both volume and margin expansion thanks to the increasing number of agents and a better product mix. For its property & casualty insurance, the combined ratio fell 1.6 ppt to 93.9% in 3Q2016, signaling Ping An's success in adapting to the auto insurance pricing reform. The net investment yield also increased to 6.0% despite declining interest rates. As a result, Ping An's net profit for 3Q2016 has risen 15.4% year over year to CNY 15.7million. It is also worth noting that in the first three quarters of 2016, 8.23 million or 30.7% of new customers were converted from internet users, confirming that its leading online platform has become another strong franchise.

Goertek reported 62.5% net profit growth for 3Q2016. During the period, the company's revenues increased by 64.7% year over year to CNY 6.1 billion. Gross profit margin stayed at a health level of 21.5%. Net profit to shareholders increased by 67.4% year over year to CNY 562 million. The management of the company is committed to invest heavily in the areas of virtual reality, smart audio, wearables and sensor. The participation in Sony's PSVR and Facebook's Oculus Rift have put GoerTek at an advantage start for the upcoming revolution of virtual reality.

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 (Schweiz) 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
CHF Class	Bloomberg HSZCHID SW Equity ISIN CH0026828068, Valor 2682806 WKN A0LC15
EUR Class	Bloomberg HSZCFCH SW Equity ISIN CH0026828092, Valor 2682809 WKN A0LC14
Orders via Banks	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 fueling 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.