

Figures as of	December 30, 2016
Net Asset Value	USD 113.63, CHF 90.81, EUR 138.55
Fund Size	USD 82.9 million
Inception Date*	May 27, 2003
Cumulative Total Return	243.7% in USD
Annualized Total Return	9.5% 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	(6.8%)	(6.2%)	(6.2%)	20.9%
CHF Class	(6.2%)	(3.4%)	(3.4%)	(3.7%)
EUR Class	(5.7%)	(2.6%)	(2.6%)	45.2%

Largest Holdings

Gree Electric Appliances	13.0%	
Yili Company	8.7%	
Kweichow Moutai	6.9%	
Ping An	6.8%	
Alibaba	6.7%	
China Resources Beer	6.0%	

Exposure

TMT	32.5%	
Consumer Discretionary	24.1%	
Financials	18.9%	
Consumer Staples	15.9%	
Industrials	6.7%	
Cash	0.8%	

Newsletter December 2016

- China's annual Economic Work Conference set the tone for 2017
- Moutai revenue growth accelerated in 4Q2016
- Tencent is going to launch its new feature the "In-WeChat apps"
- Ping An's Strategy Day addresses concerns on low rates

China's annual Economic Work Conference set "progress amid stability" as tone for 2017. No GDP growth target for 2017 was announced, signaling government's preference on stability over unrealistic growth. The conference called for further reduction of excess capacity and corporate leverage, better protection of property rights and roll out of mixed ownership reforms for SOEs. Fiscal policy will be more "proactive and effective", while monetary policy will be "prudent and neutral" monetary policy to coordinate with US rate hike.

Moutai revenue growth accelerated in 4Q2016. Moutai reported preliminary 2016 annual results. Revenues in 2016 reached 39.9 billion RMB, up 19% YoY, which beat market consensus by 4 percentage points. Revenue in 4Q2016 increased by 27% YoY, reflecting high demand and low channel inventory in peak season. Net profit in 2016 reached 16.7 billion RMB, up only 7.4%, mainly due to increased recognition of consumption tax and conservative accounting. Moutai also announced its production plan for 2017. It will supply roughly 26 thousand tons of high end liquor in 2017, a 13% growth compared to 2016. The volume growth will support solid growth in 2017.

Tencent is going to launch its new feature the "In-WeChat apps" on 9 January 2017. The In-WeChat apps will be web-based applications which will exist within Wechat and accessed through the scan of QR code. The goal of In-WeChat apps is to provide an all-in-one platform to handle many quick tasks that might appear as individual apps or website on mobile phone, for example purchase of bus ticket by scanning a QR code at bus station. We expect such innovation from Tencent strengthen its ecosystem with monetization opportunity in the future.

Ping An's Strategy Day addresses low interest rate concerns. Ping An provides transparency that for its existing business, 46% margin is investment spread and this will decline as new business grows. In 1H16, 70% of New Business Value (NBV) is from long term protection products. For every 50 basis points fall in investment yields, Ping An's NBV would fall by 8.9%, lower than 10%-20% for its peers. Besides, it revealed that its assumptions on morbidity is much more conservative than the industry. The further transparency from its strategy day confirmed our view of Ping An's superior quality and better resilience against investment yield volatility compared to its competitors.

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.