

Figures as of	June 30, 2017
Net Asset Value	USD 154.15, CHF 115.72, EUR 172.23
Fund Size	USD 107.7 million
Inception Date*	May 27, 2003
Cumulative Total Return	366.3% in USD
Annualized Total Return	11.5% 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

	June	YTD	1 Year	Nov 17, 06
USD Class	6.6%	35.7%	40.5%	64.0%
CHF Class	4.8%	27.4%	37.5%	22.7%
EUR Class	4.5%	25.1%	36.9%	81.7%

Largest Holdings

Gree Electric Appliances	10.8%	
Ping An	8.9%	
Yili Company	8.4%	
Alibaba	8.3%	
Tencent	6.6%	
China Resources Beer	5.9%	

Exposure

TMT	34.2%	
Consumer Discretionary	19.8%	
Financials	15.9%	
Consumer Staples	14.3%	
Industrials	8.0%	
Cash	5.4%	

## Newsletter June 2017

- MSCI finally accepted China A-share inclusion
- Sunny Optical showcased its MOB / MOC packaging technology
- Ping An's new business of individual life insurance surged 72%
- Gree benefits from strong shipment of air-conditioners

MSCI finally accepted China A-share inclusion in its fourth review on 20 June 2017. The inclusion implementation will be conducted into two batches in May 2018 and August 2018. With 5% inclusion factor assigned by MSCI, the eligible 222 A-shares account for 2.6% of MSCI China Index, or 0.7% of MSCI Emerging Market Index. It is estimated that there would be USD 14 billion benchmark allocation requirement, which is not significant compared with the USD 112 billion A-shares already held by foreign investors as at first quarter 2017. The long-term impact is more meaningful if 5% inclusion factor will be raised to 100%, at which time A-shares would account for 12% of MSCI Emerging Market Index. For reference, it took Korea and Taiwan 6 to 9 years for the process of full inclusion in MSCI indices.

Sunny Optical showcased its MOB / MOC packaging technology. The Chinese leading camera module supplier has developed the latest packaging capability, including a good yield rate of molding on board (MOB) and molding on chip (MOC), as solutions for the top tier smartphone vendors which make the size of camera module smaller in exchange of a larger screen size on the mobile phone. We expect cameras on smartphone will play a bigger role in the future, for example 3D sensing and augmented reality, which will require more complicated engineering capabilities, which will open up opportunities for Sunny Optical to grow.

Ping An's new business of individual life insurance surged 72% YoY in terms of year-to-date gross premium income. In addition to the long term favorable trend of increasing insurance penetration and higher consumers' awareness of protection, we believe the disciplinary actions against aggressive insurers (eg. Foresea, Anbang) and tightened regulation on banks' wealth management products have increased demand for traditional insurance products. Moreover, as the government tightened liquidity to facilitate deleveraging, funds which used to borrow short term money to invest in long term bond have reversed their positions, driving long-term bond yields higher. We believe Ping An as a prudent, reputable insurer benefits from government's promotion of a more rational competition.

Gree benefits from strong shipment of air-conditioners. According to Industry Online, a 3<sup>rd</sup> party statistic institution, China's domestic air conditioner shipment increased 65% to 33.8 million units in the first five months of 2017. Apart from the low base effect due to channel destocking last year, the retail sales volume growth is also strong in 2017 (mid-teen growth for the industry and 20%~30% growth for industry leaders Gree and Midea), thanks to quick urbanization of rural populations, increased replacement demand and favorable weather conditions.

## 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	None
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 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.