

Figures as of	August 31, 2017
Net Asset Value	USD 170.94, CHF 129.04, EUR 183.29
Fund Size	USD 118.2 million
Inception Date*	May 27, 2003
Cumulative Total Return	417.1% in USD
Annualized Total Return	12.2% 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

	August	YTD	1 Year	Nov 17, 06
USD Class	7.1%	50.4%	42.7%	81.9%
CHF Class	6.7%	42.1%	39.7%	36.9%
EUR Class	5.7%	33.2%	33.6%	93.4%

## Largest Holdings

Gree Electric Appliances	9.5%
Alibaba	9.2%
Yili Company	8.5%
Ping An	8.3%
Tencent	7.0%
China Merchants Bank	6.6%

## Exposure

TMT	38.3%
Financials	18.7%
Consumer Discretionary	17.9%
Consumer Staples	13.9%
Industrials	5.5%
Cash	1.0%

## Newsletter August 2017

- CNY appreciated 5.5% against USD in the past 4 months
- Wuliangye achieved accelerated growth and improved margin
- CICC's earnings surged despite industry headwinds
- Kingdee targets to break even on its cloud business in 2019

CNY appreciated 5.5% against USD in the past 4 months, reversing the downward trend since the Exchange Rate Reform in August 2015. The major reason for the appreciation is the weakness of the USD. The USD depreciated against EUR by 8% during the same period as the expectation of Fed's balance sheet reduction was pared down. In combination with the higher commodity prices, we are cautious with manufacturing companies especially those who rely heavily on selling to the US.

Wuliangye achieved accelerated growth and improved margin in 2Q2017. The revenue increased by 23.3% YoY, accelerated from 15.1% in 1Q2017. The advance payments were also growing rapidly at 25% YoY, signaling satisfactory retail demand as well as distributors' strong confidence in Wuliangye's brand. Despite the unfavorable consumption tax rate in 2Q2017, Wuliangye managed to expand its operating profit margin by 670 basis point YoY, thanks to its higher ex-factory price and reduced expense due to streamlined brand offering. We believe Wuliangye will continue to benefit from the consumption trade-up trend in baijiu and its better incentivized management in the next few years.

CICC's earnings surged despite industry headwinds. Excluding the effects from the merger with CISC, CICC's total revenue and net profit recorded strong organic growth of 42.2% and 58.0% YoY in 1H2017 while the industry generally declined 9% and 12% YoY respectively. Although A-shares' turnover declined 16% and commission rate dropped 10% in 1H2017, CICC is less impacted by poor brokerage business thanks to its diversified nature. Wealth management and asset management business performed particular well and the segments' revenue increased 46% and 169% YoY respectively, due to strong demand in option products and PE fund products. The management expects the realization of synergy with CISC will be earlier than expectation given the smooth restructuring of CISC.

Kingdee targets to break even on its cloud business in 2019. In 1H2017, Kingdee's total cloud service revenue grew 45% YoY to CNY 283 million, while its cloud ERP service reported 70% growth YoY. The increasing demand from Chinese enterprises for digital transformation technology, including cloud computing, continued to gain momentum. Looking forward, Kingdee's management believes that the losses of cloud services will be narrowing with a good chance of generating profits in 2019, as the peak of investment stage has passed and the user base is ramping up rapidly. We expect the company will be a leader in the cloud ERP supplier in China with the potential to open up more business opportunities through the use of big data, including building up credit profile for enterprises and credit financing.

## 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.