

Figures as of	January 31, 2018
Net Asset Value	USD 209.07, CHF 152.67, EUR 214.32
Fund Size	USD 150.0 million
Inception Date*	May 27, 2003
Cumulative Total Return	532.4% in USD
Annualized Total Return	13.4% 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

	January	YTD	1 Year	May 2003
USD Class	10.1%	10.1%	73.9%	532.4%
CHF Class	5.1%	5.1%	62.8%	346.0%
EUR Class	5.9%	5.9%	49.6%	493.4%

Largest Holdings

Ping An	9.7%	
Gree Electric	8.4%	
Alibaba	8.3%	
Tencent	7.5%	
Yili	6.9%	
China Merchants Bank	6.8%	

Exposure

TMT	34.0%	
Financials	20.2%	
Consumer Discretionary	17.1%	
Consumer Staples	13.2%	
Utilities	5.0%	
Cash	1.3%	

Newsletter January 2018

- China's GDP growth rebounded to 6.9% in 2017
- China Merchants Bank's profit returned to a double-digit growth
- Yangtze Power achieved steady growth in 2017
- SITC expects about 50% increase in net profit for 2017

China's GDP growth rebounded to 6.9% in 2017 from 6.7% in 2016. It is the first rebound in annual GDP growth rate after falling continuously since 2011. Nominal GDP growth, which is more related to corporate profitability, surprised much more than real growth. The number rebounded to 11% from 8.0% in 2016 thanks to higher commodity prices. It is also worth noting that manufacturing fixed-asset investment (manufacturing FAI) in December 2017 accelerated strongly to 10.2% YoY, the fastest growth since May 2015. This is an encouraging sign of more self-sustainable growth.

China Merchants Bank's profit returned back to a double-digit growth for the first time since 2014. The net profit increased 13% YoY in 2017 thanks to a decline in provisions for bad loans. We believe there is much room for reducing the provision as its non-performing loan ratio declined to 1.61% at the end of 2017 from 1.87% at the end of 2016. Loans to customers and deposits from customers grew well at 9.3% and 6.8% respectively. The bank's ROE ratio improved to 16.5% in 2017, ending the declining trend of ROE since 2012.

Yangtze Power achieved steady growth in 2017. Total electricity output in 2017 amounted to 210.9 billion kWh, up 2.3% YoY. In 4Q2017, the electricity output grew 10.8% YoY to 53.9 billion kWh, due to stronger water inflow and better utilization skills among different dams. Revenue in 2017 grew 2.4% YoY to CNY 50.1 billion. The increase of contract price in Xiluodu and Xiangjiaba in 2H2017 was partly offset by higher percentage of discounted direct sales. Net profit in 2017 grew 6.9% YoY to CNY 22.2 billion thanks to operating leverage.

SITC expects about 50% increase in net profit for FY 2017. According to its profit alert, the increase was mainly driven by higher shipping volume and increased operating efficiency. One of the reasons is that as more manufacturing companies moved to South-East Asia, the more balanced trade between China and other Asian countries helped to reduce the vacancy rate when the vessels returned back to China. We expect SITC to continue to benefit from the trend and to enjoy better efficiency. Besides, on 26 January 2017, SITC ordered two 2,400 TEU container vessels in view of the increasing intra-Asia trade. They will be delivered in 2020.

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	UBS Switzerland 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
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.