

Figures as of	July 31, 2018
Net Asset Value	USD 177.19, CHF 137.87, EUR 193.77
Fund Size	USD 131.3 million
Inception Date*	May 27, 2003
Cumulative Total Return	438.7% in USD
Annualized Total Return	11.7% 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

	July	YTD	1 Year	May 2003
USD Class	(5.9%)	(6.2%)	11.6%	438.7%
CHF Class	(6.5%)	(5.1%)	14.0%	302.7%
EUR Class	(6.6%)	(4.2%)	11.7%	436.5%

## Largest Holdings

Ping An	8.7%	<div style="width: 8.7%;"></div>
China Resources Beer	8.6%	<div style="width: 8.6%;"></div>
Alibaba	7.8%	<div style="width: 7.8%;"></div>
Tencent	6.5%	<div style="width: 6.5%;"></div>
SSY Group	6.3%	<div style="width: 6.3%;"></div>
China Merchants Bank	6.2%	<div style="width: 6.2%;"></div>

## Exposure

TMT	28.5%	<div style="width: 28.5%;"></div>
Financials	18.1%	<div style="width: 18.1%;"></div>
Consumer Staples	14.2%	<div style="width: 14.2%;"></div>
Consumer Discretionary	13.2%	<div style="width: 13.2%;"></div>
Health Care	7.6%	<div style="width: 7.6%;"></div>
Cash	5.2%	<div style="width: 5.2%;"></div>

## Newsletter July 2018

- China eased fiscal and monetary policy to cushion slowdown
- China Merchants Bank's asset quality continued to improve
- TAL Education reported net profit growth of 132% YoY in 1Q2018
- Hikvision Digital reported 2Q2018 results with net income up 29%

China eased fiscal and monetary policy to cushion slowdown. China's second quarter GDP growth dropped marginally to 6.7% YoY, in line with market expectation. The State Council said fiscal policy would be more proactive and it would accelerate plans to reduce taxes by more than CNY1.1 trillion and to issue CNY1.35 trillion in local government special bonds for infrastructure. Meanwhile, the PBOC's neutral monetary policy has tilted toward easing in the recent months. The clarification on execution details for the New Asset Management Rules will moderate the process of shadow banking crackdown. We believe the government is proactively controlling the pace of orderly deleveraging without creating too strong stimulus.

China Merchants Bank's asset quality continued to improve. According to its preliminary results for 1H2018, the net profit increased 14% YoY, 12% above consensus. Despite the concerns on worsened credit market in China in the second quarter, the non-performance loan ratio continued to decline 5 basis point QoQ to 1.43%. It is also worth noting that the deposit growth accelerated to 4.7% QoQ and non-interest income recovered strongly at +32.6% YoY. The bank's annualized ROE in 1H2018 further increased to 19.6%, compared to ROE contraction trend for most peers.

TAL Education reported net profit growth of 132% YoY in 1Q2018. The education leader in K-12 after-school tutoring services reported its 1Q18 result with revenue up 71% YoY to USD550.6 million and net profit up 132% YoY to USD 66.8 million. Total student enrollments increased by 89% YoY to 1.9 million and the physical network increased to 630 learning centers in 34 cities across China. Looking forward, TAL Education targets to add 5 to 10 learning centers with 200 small class classrooms in the next quarter.

Hikvision Digital reported 2Q2018 results with net income up 29% YoY to CNY 2.3 billion. With the temporary slowdown of "Xueliang Projects" under the public security industry in China, Hikvision's revenue only grew 22% YoY to CNY 11.5 billion. Despite the pressure on domestic business from both macro-level deleveraging and company-level inventory reduction, the company believes its destocking initiative will come to an end in 4Q2018. Interestingly, Hikvision is closing the gap between themselves with the international competitors namely Honeywell and Axis, and the company is opening up its AI cloud platform to third parties on the application layer. Such platform allows software developers to make customized solutions through data mining, intelligent analysis and algorithm optimization which could create tremendous opportunities for retailer business.

## 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
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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.

#### Disclaimer

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