HSZ China Fund

Newsletter December 2018

- China promised more tax cuts and infrastructure spending
- Moutai announced 2018 net profit up 23% yoy to CNY34 billion
- Ctrip announces over 200 million monthly active users
- SITC ranked as the 18th largest containerships operator

China promised more tax cuts and infrastructure spending. On 28th December, after the three days of Central Economic Work Conference, China's top economic policymakers pledged for an even larger scale of tax cuts and increased funding for infrastructure in 2019. The Chinese leadership's emphasis on high-quality economic growth in the future through expanding domestic consumer spending, upgrading its vast manufacturing industry and increasing spending on infrastructure amid an increasingly hostile climate. The conference agreed that China must eventually rely on its home market alone for future prosperity. The Chinese leadership also concluded that the country needs significant amounts of additional investment to upgrade the manufacturing sector, to roll out new 5G telecommunication networks, to develope artificial intelligence as well as improving infrastructure in rural areas.

Moutai announced 2018 net profit up 23% yoy to CNY34 billion. The company also provide year 2019 targets with revenue expected to be up 14% year over year and production volume of the high-end Moutai spirits would be 31k tons, which reliefs the market concern of a slowdown. In December, as usual Moutai held its annual meeting with distributors for next year planning. The company announced that 17k tons out of the 31k tons will be sales through distributors, while the remaining 14k tons will be sales through four direct sales channels namely self-owned franchise stores, supermarket chains, e-commerce platforms and franchise stores in airports and high-speed railway stations. We expect direct sales channel will increase the profitability of the company with a much higher average selling price.

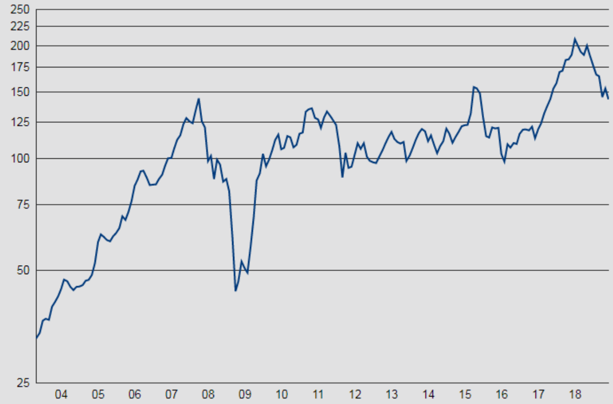
Ctrip announces over 200 million monthly active users. The Chinese leading travel-booking company is growing rapidly in the overseas market through its subsidiaries such as Skyscanner and Trip.com. Skyscanner has covered more than 200 markets globally and its number of monthly active users reached a year over year growth of 26 percent. While Trip.com was expanding in the Asian-Pacific region, investment in MakeMyTrip, WingOnTravel, ezTravel helped it to tap into the Indian, Hong Kong and Taiwan markets. Ctrip, the parent company, has achieved 200 million monthly active users where nearly half of them were contributed by the overseas market.

SITC ranked as the 18th largest containerships operator globally with its fleet capacity in December. The Hong Kong-based shipping firm has increased its container capacity of 1'011 Twenty-foot Equivalent Unit (TEU) after the new ship delivery recently. The capacity expansion allows SITC to further enhance its dominant position in the Asian regional market. The fourth quarter is traditionally the peak season for the shipping industry. The company is expected to perform well as the freight rate has started to rise.

Figures as of	December 31, 2018
Net Asset Value	USD 143.63, CHF 111.41, EUR 160.96
Fund Size	USD 112.8 million
Inception Date*	May 27, 2003
Cumulative Total Return	336.7% in USD
Annualized Total Return	9.9% 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	May 2003
USD Class	(6.5%)	(24.0%)	(24.0%)	336.7%
CHF Class	(7.5%)	(23.3%)	(23.3%)	225.5%
EUR Class	(6.9%)	(20.4%)	(20.4%)	345.7%

Largest Holdings

Ping An	9.6%
China Merchants Banks	6.7%
China Resources Beer	6.0%
Alibaba Group	5.9%
Tencent Holdings	5.7%
SSY Group	5.7%

Exposure

Information Technology	23.1%
Financials	20.5%
Consumer Staples	15.7%
Consumer Discretionary	15.3%
Health Care	6.9%
Cash	8.1%

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 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
Orders via Banks	UBS Switzerland AG Fund Order Desk Tel: +4144 239 1930 Fax: +4144 239 4804

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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.