

Newsletter January 2009

- China's growth softened further in fourth quarter
- Industry consolidation strengthens China Yurun's growth
- Mindray is a beneficiary of Chinese healthcare system reform
- Golden Eagle strategy helps its same-store-sales growth

Figures as of January 31, 2009

Net Asset Value

Per Share: USD 54.22, CHF 50.14, EUR 53.80
Market Capitalization: USD 39.1 million

Share Price in USD since Nov 17, 2006



Performance

	December	YTD	1Y	Nov 17, 06
USD-Class	(4.09%)	(4.09%)	(48.34%)	(45.78%)
CHF-Class	4.79%	4.79%	(44.82%)	(49.86%)
EUR-Class	4.08%	4.08%	(40.33%)	(46.20%)

Largest Holdings

Epure International Ltd	7.2%
Lonking Holdings Ltd	7.0%
Zhuzhou CSR	7.0%
China Merchants Bank	6.4%
Anta Sports Products Ltd	5.4%
Weichai Power	3.9%

Exposure

Industrials	37.1%
Consumer Discretionary	21.6%
Financials	18.4%
Consumer Staples	7.4%
Energy	3.5%
Cash	12.0%

China's real GDP growth moderated to 6.8 percent year-on-year in the fourth quarter last year from 9.0 percent in the third quarter. For the whole year of 2008, the annual GDP growth was 9.0 percent compared with 13.0 percent in 2007. The full-year nominal GDP level reached CNY 30 trillion, surpassing Germany as the world's third largest economy even measured in term of exchange-rate based GDP. Though far from a strong figure as a reading below 50, the purchasing manager index has been improving for two consecutive months from the trough level of 38.8 in November 2008 to 45.3 in January 2009. This may indicate signs of stabilization in manufacturing where de-stocking process has been taking place since September last year provoked by the disruption of trade finance.

The fund initiated a position in China Yurun Food, one of China's leading hog processors and meat product suppliers. Yurun's net profit during the first half of 2008 was up 71 percent year-on-year to HKD 672 million due to strong earnings from upstream business; higher average selling price in downstream business; negative goodwill recognized; and foreign exchange gain. Yurun's growth will remain sustainable because its upstream business will largely benefit from the consolidation trend among hog slaughters in China. Together with Yurun's strong brand recognition, excellent distribution channels and research & development capability, we believe Yurun is an attractive investment.

The fund initiated a position in Mindray, a leading China-based developer, manufacturer and marketer of medical devices worldwide. Mindray expects 2008 net revenue to be in the range of USD 540 million to USD 550 million, compared to USD 294.3 million in 2007. The Chinese healthcare industry has long-term growth potential due to the rapid economic development, aging population and rural reform. The government plans to spend CNY 850 billion on healthcare system reform from 2009 to 2011. We believe Mindray, as one of the key players, could gain from enlarged equipment demand driven by the reform.

Golden Eagle recorded double-digit same-store-sales growth during January 5 to 24, 2009, in-line with its full year target at mid-teens rate. Unlike some other department stores with unified discount rates, Golden Eagle's stores launched promotions with various discount magnitudes strategically for selective brands. As a result, the company's concessionaire rates were stable and its margin pressure was minimal. Given the recent tough macro backdrop, the management plans to delay the introduction of some high-end brands at the newly managed Oriental department store.

General Information

Characteristics

Fund Name	HSZ China Fund
Structure	Open-end Swiss investment fund, "Kategorie: Übrige Fonds"
Approved	August 2006 by Federal Banking Commission (EBK)
Launch	November 2006
Fund Volume	Launched at USD 130 million
Fiscal Year End	December 31
Reporting	Semi-annually in USD
Currency Classes	USD, CHF, EUR (all unhedged)
ISIN, Valor USD-Class, WKN	CH0026828035, 2682803, A0LC13
ISIN, Valor EUR-Class, WKN	CH0026828092, 2682809, A0LC14
ISIN, Valor CHF-Class, WKN	CH0026828068, 2682806, A0LC15
Issue price (all classes)	100
Distributions	Income annually
Issuance/Redemption	Daily
Management Fee	1.5% annually
Performance Fee	10% above hurdle rate of 5%, high water mark
Issuance Fee	Maximum 5%
Redemption Fee	None

Information

Prospectus/By-Laws	Available upon request
Publication of NAV (daily)	www.hszgroup.com www.aigprivatebank.com Neue Zürcher Zeitung (NZZ)
Bloomberg	HSZCHFID, HSZCHEUR, HSZCFCHF
Monthly Reports	Subscription
Fund Administrator	AIG Fondsleitung (Schweiz) AG
Custodian Bank	AIG Private Bank AG
Investment Manager	HSZ Group
Main Distributor	HSZ (Schweiz) AG
Auditors	PricewaterhouseCoopers AG
Subscriptions	All Banks HSZ (Schweiz) AG

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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 fuelling 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 Group 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 by investing in at least 15 companies. Each position represents a weight of between 5 to 10% of total assets with 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 Group is an independent investment management company with offices in Hong Kong and Zurich. The company is majority owned by its partners and employs a total staff of thirteen. The team has managed Asian equity portfolios since 1994. HSZ Group acts as a bridge for European capital invested in Asia and has a long-standing experience in serving institutional and private clients in Europe.

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