HSZ China Fund

Newsletter July 2008

- Weak external trade slows China's growth
- China Merchant Bank announced strong first half results
- Comba stands to benefit from the mainland telecoms reform
- China Overseas Land posted strong contracted sales
- Weichai to surprise on the positive side

Figures as of July 31, 2008

Net Asset Value

Per Share: USD 94.05, CHF 78.96, EUR 77.28

Market Capitalization: USD 72.8 million

Share Price in USD since Nov 17, 2006

Performance

	July	YTD	1Y	Nov 17, 06
USD-Class	1.70%	(27.23%)	(29.80%)	(6.00%)
CHF-Class	4.70%	(32.26%)	(38.90%)	(21.00%)
EUR-Class	3.10%	(31.31%)	(38.24%)	(22.70%)

Largest Holdings

Epure International Ltd.	9.99%
China Merchants Bank	9.58%
Fu Ji Food & Catering	6.02%
Shui On Land	5.59%
China Infrastructure	5.45%
Espirit	3.76%

Exposure

Industrials	38%
Financials	21%
Consumer Discretionary	15%
Consumer Staples	7%
Telecom Services	4%
Cash	13%

China's real GDP growth in the second quarter of 2008 slowed to 10.1 percent compared to 10.6 percent in the first quarter, on the back of the slowdown in export growth. Robust consumer demand and fixed asset investment helped offset the negative contribution from the weaker external trade. On the other hand, CPI eased to 7.1 percent in June, from 7.7 percent in May. Whilst we saw some softening in the food inflation, non-food inflation was on the upward trend amid rises in energy and raw material costs. This suggests an accommodative policy toward sustaining growth away from preventing overheating, while keeping inflation under control.

China Merchants Bank (CMB) announced that its net profit for the first half ended June 2008 have more than doubled from the corresponding period in 2007. The rise in profit was attributed to net interest margin expansion, growth in interest and non-interest income, reduced credit cost as well as lower effective income tax rate. We believe CMB could continue to outperforming the peers due to its proven risk management capability, high reserve for non-performing loans and sizable fee-based income.

Comba Telecom Systems Holdings expects to gain from the new third-generation mobile networks (3G) capital expenditure of CNY 500 billion in the next two years. The restructuring of the mainland telecommunications industry will increase the number of mobile operators to three and Comba could benefit from increasing orders. Management also expects revenue from overseas operators to double by the end of this year, accounting for 15 percent to 20 percent of the group revenue.

China Overseas Land & Investment (COLI) announced that its total contracted sales grew by 85 percent to CNY 13.5 billion, in line with the full year target of CNY 27 billion. 50% of contracted sales target has been achieved for the first half of the year. The strong results reconfirm COLI's quality and leadership in the industry and more importantly its strong cashflow and sales management, which are critical amid the current tightened credit environment.

Weichai Power issued a positive profit warning, expecting net profit for the first half of 2008 to rise by more than 50%, better than the market expectation. The strong growth was mainly driven by the strong sales volume growth of engines, and improvement in operating margin. We expect Weichai continue to benefit from the resilient fixed asset investment in China.

General Information

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.

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	HSZCHIFD, 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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