

Newsletter October 2008

- PBOC cut benchmark interest rates further
- Golden Eagle demonstrated good earnings visibility
- Zhuzhou CSR won USD100mn order from Kazakhstan
- Parkson continues to strengthen department stores operation and network

Figures as of October 31, 2008

Net Asset Value

Per Share: USD 47.07, CHF 43.24, EUR 47.35
Market Capitalization: USD 34.6 million

Share Price in USD since Nov 17, 2006



Performance

	October	YTD	1Y	Nov 17, 06
USD-Class	(28.35%)	(63.58%)	(69.54%)	(52.93%)
CHF-Class	(25.07%)	(62.90%)	(69.84%)	(56.76%)
EUR-Class	(19.17%)	(57.91%)	(65.42%)	(52.65%)

Largest Holdings

Epure International Ltd	6.7%
China Merchants Bank	6.5%
Lonking Holdings Ltd	6.4%
Zhuzhou CSR	6.0%
Anta Sports Products Ltd	4.2%
Fu Ji Food & Catering	3.8%

Exposure

Industrials	38.6%
Consumer Discretionary	20.3%
Financials	16.6%
Consumer Staples	5.7%
Energy	3.2%
Telecom Services	1.8%
Cash	13.8%

The People's Bank of China (PBOC) announced a cut in the benchmark deposit and lending rates on October 29, 2008. This is the third time in seven weeks while the global financial crisis has seriously deteriorated. The high frequency of monetary adjustments reconfirms the authorities' determination to take aggressive policy measures to prevent a hard landing in the economy. Besides the rate cut, we expect more stimulating fiscal policies to be announced to boost the slowing economy. In October, China saw further moderation in GDP growth with the third quarter figure registering at 9.0 percent compared to 10.1 percent for the second quarter.

The fund initiated a position in Golden Eagle Retail Group, a middle-to-high end chain department stores operator with a strong foothold in the affluent Jiangsu province. Golden Eagle posted a strong performance in Golden Week (September 29, 2008 to October 5, 2008) with same-store sales growth of 35 percent. First-half results showed improvements in margins with recurring net margin up by approximately 10 percentage points year-on-year. Strong first-half results along with moderate store expansion plan and young store portfolio generate decent growth and better visibility. We believe the company is an attractive investment.

Zhuzhou CSR Times won an electric locomotive order worth nearly USD 100 million from Kazakhstan. It has beaten three global competitors in the bidding with its electric locomotives. This is the fifth time China-made electric locomotives penetrate into the central Asia markets. Together with the accelerated government spending on the railway system in China, the company is set to achieve strong growth in revenue in the years ahead.

Parkson Retail Group has continued to execute acquisitions of the minority interests of existing subsidiaries. For the second-half of 2008, the Group has completed acquisitions of Xi'an Shidai Parkson, Tianjin Parkson and Xi'an Lifeng Parkson leading to 100 percent interest of all 4 Parkson branded stores in Xi'an. The Group has also acquired 70 percent interest in Naning Parkson. Management is targeting to open additional new stores in the second-half of 2008 with combined gross floor area of approximately 115,900 square metres.

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.