HSZ China Fund

Newsletter June 2009

- China's real estate investment sees continued recovery
- Anta enters exclusive sponsorship deal with China Olympic Committee
- Ping An expands banking channels through acquisition
- Weichai engine ignited by stimulus package

Figures as of June 30, 2009

Net Asset Value

Per Share: USD 95.78, CHF 83.22, EUR 87.37
Market Capitalization: USD 67.6 million

Share Price in USD since Nov 17, 2006

Performance

	June	YTD	1Y	Nov 17, 06
USD-Class	4.51%	69.43%	3.58%	(4.22%)
CHF-Class	4.76%	73.92%	10.36%	(16.78%)
EUR-Class	3.97%	69.03%	16.56%	(12.63%)

Largest Holdings

China Merchants Bank	7.8%
Shui On Land	7.0%
Shimao Property	5.9%
Epure International Ltd	5.8%
Lonking Holding Ltd	5.7%
Ports Design	5.4%

Exposure

Industrials	33.2%
Consumer Discretionary	26.4%
Financials	24.9%
Energy	3.7%
Consumer Staples	2.5%
Cash	9.3%

The nominal fixed asset investment growth in China accelerated to 32.9 percent year-on-year for the first five months this year from 30.5 percent in the January to April period. While the government-led infrastructure investments made the biggest contribution to the growth, real estate investment growth accelerated further to 6.8 percent from 4.9 percent in the January to April period. Property developers have resumed buying land after several months of strong sales. Together with the robust retail sales, domestic consumption will continue to support growth of the economy and is sufficient to offset the weakness in external demand. For the first half this year, HSZ China Fund gained 69 percent in USD while MSCI China index was up by 35 percent.

Anta was appointed the 2009-12 official sportswear partner of the Chinese Olympic Committee and the China sports delegation. In the coming four years, the China sports delegation will be wearing sportswear sponsored by Anta to eleven influential international competitions, including the London 2010 Olympic Games. This agreement enables Anta to elevate its brand equity and make Anta's brand more visible to the Chinese consumers and the world. We believe the alliance will bring positive impacts on Anta's operations and further promote Anta's brand products.

Ping An announced an agreement to subscribe new Shenzhen Development Bank (SDB) shares on June 12, 2009. The first step to subscribe 585 million shares issued by SDB for CNY 18.26 per share had been approved by SDB shareholders on June 29, 2009. This represents 18.8 percent of SDB's current share capital and will increase Ping An's SDB holdings from 4.7 percent to 19.8 percent, making it the largest shareholder. Followed by that, Ping An will purchase 14.1 percent of SDB from a private equity fund Newbridge and will own up to 30.0 percent of SDB. This enables Ping An to benefit from the cross selling synergy and accelerates its diversification into a leading one-stop financial conglomerate.

Weichai's heavy duty truck (HDT) sales were 85'000 units for this year through May, compared to 65'000 units in the second half of 2008. The strong sequential improvement was attributed to the demand from the massive infrastructure investment as part of the CNY 4 trillion stimulus package. With its dominant market position as a diesel engine and gearbox manufacturer in China, Weichai is set to benefit from the improving outlook for both the HDT and construction machinery segments. The recent launch of the more market adaptive EGR engines should also help Weichai to maintain its competitiveness in terms of low cost Euro III compliant HDT engine supply.

General Information

Characteristics

Fund Name	HSZ China Fund
Structure	Open-end Swiss investment fund, "Kategorie: Übrige Fonds"
Approved	August 2006 by Swiss Financial Market Supervisory Authority
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.falconpb.com Neue Zürcher Zeitung (NZZ)
Bloomberg	HSZCHIFD, HSZCHEUR, HSZCFCHF
Monthly Reports	Subscription
Fund Administrator	Falcon Fund Management (Switzerland) Ltd.
Custodian Bank	Falcon Private Bank Ltd.
Investment Manager	HSZ Group
Main Distributor	Falcon Fund Management (Switzerland) Ltd.
Auditors	PricewaterhouseCoopers Ltd.
Subscriptions	All Banks

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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 based in Hong Kong and is majority owned by its partners. 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.