

## Newsletter February 2016

Figures as of	February 29, 2016
Net Asset Value	USD 98.37, CHF 76.93, EUR 115.56
Fund Size	USD 75.6 million
Inception Date*	May 27, 2003
Cumulative Total Return	197.6% in USD
Annualized Total Return	8.9% 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	Nov 17, 06
USD Class	(4.7%)	(18.8%)	(20.3%)	4.7%
CHF Class	(6.6%)	(18.2%)	(15.8%)	(18.4%)
EUR Class	(4.9%)	(18.8%)	(18.0%)	21.1%

### Largest Holdings

Gree Electric Appliances	7.9%	
Qingdao Haier	7.8%	
Tencent Holdings	6.8%	
AAC Technologies	6.3%	
Baidu Inc.	5.9%	
Yili Company	5.7%	

### Exposure

TMT	29.5%	
Consumer Discretionary	29.3%	
Financials	13.9%	
Industrials	11.2%	
Consumer Staples	8.0%	
Cash	2.0%	

- China's bank lending hit record high in January
- Baidu reported better than expected 4Q15 results
- Alibaba became fourth-largest shareholder in Groupon
- Hikvision reported in-line preliminary FY15 results

China's bank lending hit record high in January, which is a sign that the government is loosening monetary policy more aggressively in an attempt to bolster the slowing economy. The reasons for the high level of lending are 1) strong demand for mortgages as the government cut the down payment ratio in some cities, and 2) more corporates decided to borrow onshore in anticipation of domestic currency depreciation.

Baidu reported better than expected 4Q15 results, with revenue up 33% year over year to CNY 18.7 billion. Mobile search monthly active users (MAUs) were 657 million for December 2015, an increase of 21% year over year and the Mobile maps MAUs were 302 million for December 2015, an increase of 43% year over year. The gross merchandise value (GMV) for online-to-offline (O2O) services totaled CNY 14.7 billion for 4Q15, an increase of 397% year over year. Net income in 4Q15 increased by 663.0% year over year to CNY 24.7 billion, mainly due to a reduction in operating expenses and a one-off gain from the exchange of Qunar shares with Ctrip. Looking forward, Baidu's O2O business, which makes use of Mobile Baidu, Mobile Maps, Nuomi and Baidu food delivery, will remain the key focus of Baidu's strategy.

Alibaba became fourth-largest shareholder in Groupon. According to a regulatory filing, Alibaba has bought 33 million shares of Groupon, which represents a 5.6% stake. Alibaba said its decision of investing in Groupon was to "share ideas between US and China markets" and "exchange experiences" in the O2O space. Alibaba also said this was a passive holding.

Hikvision reported in-line preliminary FY15 results. Sales increased by 47% year over year to CNY 24 billion while its net profit increased by 30% year over year to CNY 5.8 billion. Levering on its strong R&D and distribution network, the company continues to expand in both domestic and overseas markets. The decline in margins was attributable to the increased competition in the domestic market as well as higher tax rates this year. Looking forward, Hikvision should continue to maintain its strong growth in overseas markets on the back of its sales network expansion.

## 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	Credit Suisse 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	0.5%
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
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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 (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.