

Figures as of	March 31, 2017
Net Asset Value	USD 132.35, CHF 103.74, EUR 157.81
Fund Size	USD 92.8 million
Inception Date*	May 27, 2003
Cumulative Total Return	300.3% in USD
Annualized Total Return	10.5% 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

	March	YTD	1 Year	Nov 17, 06
USD Class	6.4%	16.5%	20.9%	40.8%
CHF Class	5.7%	14.2%	25.4%	10.0%
EUR Class	5.3%	14.7%	28.2%	66.5%

Largest Holdings

Gree Electric Appliances	9.5%	
Ping An	8.8%	
Yili Company	8.4%	
Alibaba	7.5%	
China Resources Beer	6.2%	
Tencent	6.1%	

Exposure

TMT	35.2%	
Consumer Discretionary	19.1%	
Financials	16.7%	
Consumer Staples	14.6%	
Industrials	8.8%	
Cash	3.3%	

Newsletter March 2017

- Another series of property tightening policies were announced
- CICC completed acquisition of CISC
- Tencent sees more monetization opportunities ahead
- CRB outperformed the industry in 2016

Another series of property tightening policies were announced in over 20 cities in March. While policies vary among cities, they generally involve higher down-payment requirements for second home purchases, tightened requirements for non-local residents to buy property, and limiting single person from buying second home. Besides, most banks have raised mortgage rates in those cities. According to National Bureau of Statistics, 56 out of 70 cities recorded a month-on-month rising property price in February, despite tightening policies implemented since September 2016.

CICC completed acquisition of China Investment Securities Company (CISC) on March 21. CICC believes synergies can generate at least 20% growth for CISC every year by: 1. Incorporating CICC's incentive system to the traditional SOE CISC; 2. Selling CICC's products through CISC's extensive network of 200 branches; 3. Becoming part of the CICC brand once CISC service quality has reached CICC's standard; 4. Better utilizing CISC's balance sheet for capital-based business as its operating leverage ratio is low at 3x. In terms of 2016 results, CICC achieved a 10.7% ROE despite poor capital market conditions, much better than sector's average ROE of 8%. CICC targets to achieve 15% ROE in three years.

Tencent sees more monetization opportunities ahead. The company reported solid FY2016 results with earnings growth of 46% YoY to CNY 10.5 billion, mainly contributed by the good performance of online games and advertisement on social platforms. The combined monthly active users of Weixin and WeChat increased 27.6% YoY to 889 million by the end of December 2016. Currently Tencent is building its artificial intelligent and machine learning teams, which is expected to help drive personalization in both advertising and online game businesses. The improvement in accuracy in delivery and customization could further provide more value to its customers.

CRB outperformed the industry in 2016 and started downsizing inefficient assets. CRB recorded FY2016 revenue of CNY 28,694 million, up 2.6% YoY, with sales volume edging up 0.3% YoY to 11.715 million tons and ASP increasing 2.3% to CNY 2,449 per ton on an improved product mix and higher growth of mid-to-high end beer products. CRB's market share increased from 24.8% in 2015 to 26% in 2016. EBIT decreased 2% YoY to CNY 1,757 million mainly due to the large non-cash impairment loss (CNY 464 million in 2016 and CNY 143 million in 2015) to downsize inefficient plants. EBIT margin excluding impairment increased to 7.7% in 2016 from 6.9% in 2015, thanks to solid ASP and lower raw material costs. The asset consolidation reflected more rational competitive landscape and would likely lead to margin uptrend in the long term.

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 (Schweiz) 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
Orders via Banks	Credit Suisse AG Mrs. Anita Wobmann Execution CS Funds & 3rd Party SEBF 12, 8070 Zurich, Switzerland Tel: +4144 644 4254 Fax: +4158 205 7097

Contact & Website	HSZ (Hong Kong) Limited Unit 605A, 6/F, Tower 2 Lippo Centre, 89 Queensway Hong Kong Tel: +852 2287 2300 Fax: +852 2287 2380 www.hszgroup.com mail@hszgroup.com
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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 fueling 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.