

Figures as of	May 31, 2018
Net Asset Value	USD 199.95, CHF 155.38, EUR 218.68
Fund Size	USD 147.8 million
Inception Date*	May 27, 2003
Cumulative Total Return	507.9% in USD
Annualized Total Return	12.8% 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

	May	YTD	1 Year	May 2003
USD Class	5.9%	5.8%	39.0%	507.9%
CHF Class	5.7%	7.0%	40.7%	353.9%
EUR Class	9.5%	8.1%	32.7%	505.5%

Largest Holdings

China Resources Beer	8.3%	
Ping An	8.2%	
Alibaba	7.4%	
Tencent	6.5%	
SSY Group	6.3%	
Yili Company	6.2%	

Exposure

TMT	29.9%	
Financials	17.4%	
Consumer Discretionary	16.0%	
Consumer Staples	14.5%	
Health Care	7.3%	
Cash	1.5%	

Newsletter May 2018

- US-China trade tensions escalated again
- Ctrip reported 1Q2018 results with net profit up 19 times YoY
- Gree continues to benefit from the fast-growing industry
- Man Wah's strong sales momentum shadowed by cost pressure

US-China trade tensions escalated again. The US sent a sudden, harsh message to China, saying the US was moving forward with its threat to apply tariffs on Chinese imports and other actions to restrict Beijing from accessing sensitive US technology. It is just a few days after the second round of talks on economy and trade with the agreement to abandon any trade war and back off from threatened tariffs. But China pledges to open markets by cutting import tariffs for some consumer goods from most favored nations, in a bid to avert a trade war with the US. We believe that the trade dispute will finally be settled as China-US cooperation is a win-win situation in the long term. Although more open market may lead to some pressure in certain industries like China's auto market in the short run, it will not damage China's current economy growth and can help improve the efficiency and quality of Chinese brands.

Ctrip reported 1Q2018 results with net profit up 19 times YoY. For 1Q2018, net revenue of the company grew 11% YoY to CNY 6.7 billion and net profit increased by 19 times YoY to CNY 1.1 billion. The recent acquisition of Skyscanner delivered a revenue growth of over 600% YoY in 1Q18. Looking forward, we believe the China outbound travel market would create tremendous opportunities for the company. At the same time we expect earnings recovery due to improvement in pricing and operating efficiency.

Gree continues to benefit from the fast-growing industry. In the first four months of 2018, China's sales growth of air conditioners was stronger than that of refrigerators and washing machines and we forecast the air conditioner market will keep performing well before September this year due to the hot weather. In April 2018, Gree's retail sales volume increased 12% YoY, better than its biggest competitor Midea which increased 10% YoY. Due to the consumption upgrade in China, Gree has been selling more high-end products with increasing average selling price, indicating strong growth for its EPS in 2018.

Man Wah's strong sales momentum shadowed by cost pressure. Man Wah's revenue surged 28.9% in FY2018. However, due to high raw material cost, gross profit margin declined from 41.9% to 37.3%. The shipping expenses also increased with the oil price. Together with a higher marketing expense during the year, operating profit declined 6.5% YoY. Looking forward, we expect the net profit margin to recover as steel prices have stabilized and the management sees room for price increases. The Chinese market remains strong and the company targets to open more than 300 stores every year in China. We believe the worst is over for Man Wah and it can continue its double-digit growth in coming years.

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	UBS Switzerland 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	None
Redemption Fee	None

USD Class	ISIN CH0026828035, Valor 2682803 WKN A0LC13
CHF Class	Bloomberg HSZCHID SW Equity ISIN CH0026828068, Valor 2682806 WKN A0LC15
EUR Class	Bloomberg HSZCFCH SW Equity ISIN CH0026828092, Valor 2682809 WKN A0LC14
Orders via Banks	Bloomberg HSZCHEU SW Equity
	UBS Switzerland AG Fund Order Desk Tel: +4144 239 1930 Fax: +4144 239 4804

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.