HSZ China Fund

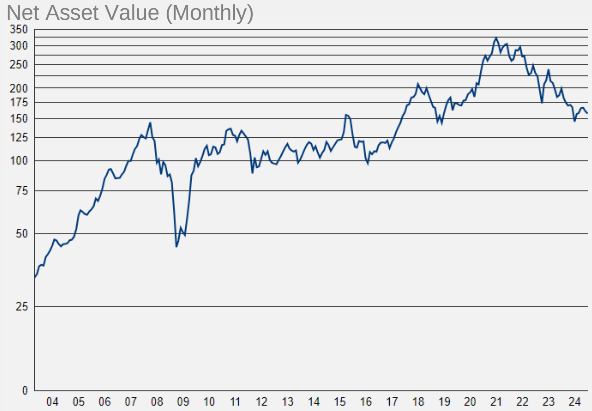
Signatory of: PRI Principles for Responsible Investment

Newsletter July 2024

Figures as of	July 31, 2024
Net Asset Value	USD 157.03, CHF 107.93, EUR 185.85
Fund Size	USD 125.0 million
Inception Date*	May 27, 2003
Cumulative Total Return	377.4% in USD
Annualized Total Return	7.7% 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

	July	YTD	1 Year	May 2003
USD Class	(2.3%)	(6.0%)	(21.2%)	377.4%
CHF Class	(4.3%)	(1.1%)	(20.2%)	217.9%
EUR Class	(3.4%)	(3.9%)	(19.7%)	414.6%

Largest Holdings

China Yangtze Power	6.9%
Midea Group	6.9%
TSMC	6.1%
Ping An	5.9%
Eastroc Beverage	5.5%
Tencent Holdings	5.4%

Exposure

Consumer Discretionary	30.2%
Information Technology	20.0%
Consumer Staples	12.7%
Communication Services	11.6%
Financials	10.2%
Cash	2.3%

- China’s leadership called for measures to boost the economy
- HSZ China Fund was down 2.3% in July
- HKT reported increased adjusted funds flow by 3% YoY for 1H24
- Midea to benefit from China's substantial stimulus program
- TSMC CEO predicts AI chip shortage through 2025

China’s leadership called for measures to boost the economy. At the Politburo meeting in late July, President Xi acknowledged that China is facing economic headwinds that are hindering growth. He conceded that the country will need to take additional measures to achieve its target growth rate of 5% for this year. The Politburo endorsed a suite of fiscal and monetary policies to help boost economic growth, including the issuance of government bonds. The goal of these policies is to stimulate consumption and facilitate the upgrading of industrial equipment. Compared to its meeting held in April, the Politburo appears to be more concerned about the near-term challenges facing economic growth. This suggests a heightened sense of urgency to address the current headwinds impacting the country's growth trajectory.

HSZ China Fund was down 2.3% in July. The biggest positive contribution came from the utilities sector and artificial intelligence industry, namely Yangtze Power, AMEC, Envicool and Alibaba Group. The biggest negative contribution came from the consumer sector, namely Nongfu, Proya Cosmestics and Man Wah.

HKT reported increased adjusted funds flow by 3% YoY for 1H24. Hong Kong's leading telecommunications provider has reported its 2024 interim financial results. It saw a 2% year-over-year (yoy) increase in revenue, reaching HKD 16.7 billion and net income, totaling HKD 2.0 billion. The recently forged partnership with China Merchants Capital is expected to help share the burden of future capital expenditures, to support HKT’s efforts to expand its physical network infrastructure into newly developed areas of Hong Kong, such as the Northern Metropolis and potentially help HKT to extend its reach into the broader Greater Bay Area region as part of its growth strategy.

Midea to benefit from China's substantial stimulus program. The government has unveiled a CNY 300 billion stimulus program aimed at boosting consumer spending. The initiative includes trade-in and equipment upgrade schemes covering eight product categories: refrigerators, washing machines, TVs, air conditioners, computers, heaters, stoves, and kitchen ventilators. Consumers can receive a subsidy of up to 20% of the retail price when trading in one item from each segment. Midea is well-positioned to benefit significantly from this consumer-focused stimulus program.

TSMC CEO predicts AI chip shortage through 2025. TSMC reported Q2 results with revenue up 33% yoy to USD 20.8 billion and net income up 29% yoy to USD 7.7 billion. Management revised its guidance, and the CEO is expecting supply-demand imbalance for advanced chips not to be resolved until 2025 or 2026, suggesting continued robust demand for its products in the coming years.

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	FundPartner Solutions (Suisse) S.A.
Custodian Bank	Banque Pictet & Cie SA
Investment Manager	HSZ (Hong Kong) Limited
Auditors	PricewaterhouseCoopers AG
Management Fee	1.35% 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 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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General Information

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 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.