SHENYIN WANGUO CHINA POLICY FOCUS FUND

(A sub-fund of SWS Strategic Investment Funds)

Semi-Annual Report (Unaudited)

For the six months ended 30 June 2013

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Manager's Report

Market Review

In the first half of this year, we saw divergence in Equity markets performance between Developed markets and Emerging markets. Developed US & European Equity markets continue to break new highs on positive economic data readings which surprised on the upside. Emerging markets showed lower gains compared to their Developed market peers but a cataclysm event in June saw Emerging markets took a big tumble.

The US job market showed strong employment numbers which surprised many market watchers. In the first half of this year, US average monthly non-farm payroll was an addition of 200,000 jobs. US unemployment also slid from 7.9% since the start of this year to June's 7.6%. It is believed that employment and inflation are the two foremost factors which influence US Fed's policy decisions. Given the encouraging job numbers, US Fed took the cue to announce unexpectedly that they may taper their Quantitative Easing (QE) earlier than anticipated. Markets watchers are fearful that the fragile global market reflation which had been fed by US's QE may then lose its impetus. These news took markets completely by surprise and as envisaged, the market reaction was violet, send Equity markets globally into a spiral. Some deeper pessimists' even prophesise of a much faster and higher rate hike which they fear will then completely take the steam off global market reflation. Emerging markets which have higher elasticity, beta, sensitivity to global trade bore the full brunt of the market pessimism and sell-off.

In China, the domestic economy continued to decelerate as evident from its quarterly descending sliding ladder GDP: 7.9% (4Q2012) to 7.7% (1Q2013) to 7.5% (2Q2013). Global markets which were comfortable with China's GDP 8-10%, also had to adjust to PBoC hawkish GDP 7% ish, which the new leaders later set 2013 GDP 7.5%. China's PMI was also anaemic, persistently gasping just above 50. What was encouraging and dovish though was CPI which fell from the year's start of 3.2% to June's CPI reading of 2.7%.

However what was different in the first half of this year was that despite the sliding quarterly GDP, weak PMI and benign inflation; PBoC did not loose its monetary policies. Unlike previous year where we saw policy loosening, this time round PBoC maintained its reserve requirement ration (RRR) at 20.0%, the benchmark 1 year deposit rate at 3.0% and the 1 year lending rate at 6.0%.

In terms of market action for 1H2013, two particular industries and themes stood out: Natural Gas and Media sectors.

The stock prices of Downstream natural gas Distributors' recorded an average gain of 20% in 1H2013. It is believed that the Government's thrust for higher environmental protection, green awareness and cleaner emission will drive up Distributor's margin. In addition the anticipation of recent rapid technology advancement in shale gas exploration, which will ensure steady supply to possibly glut, which will in turn, then drive down natural gas cost, benefiting the Distributors.

Media names also did well. This is due to the higher perceived earnings growth potential vis-à-vis its other peer industries with lacklustre growth potential. In addition, changing consumer patterns, more frequent and higher on-line spending habits also saw the industry ride the momentum well. It is also believe that a structural change in spending patterns have emerged and will be a multi-year re-rating story.

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Manager's Report - Continued

Market Review - continued

At the other end of the market spectrum of market under-performers, suffering the brunt of market doldrums is Basic materials, posted the worst average returns of 30%. The decelerating quarterly GDP which has yet to bottom to show any inflexion point, failed to persuade investors to invest in the sector. Fixed Asset Investment (FAI) which was also anaemic was another moot point. Energy sector which is also higher geared to industrial production also saw weak investor interest with average declines of 27%.

Portfolio Review

Shenyin Wanguo China Policy Focus Fund (referred to as "CPF") was down by 8.4% in the first six months of 2013. In that comparative period, HSI dropped 8.2% whilst the HSCEI plunged by a bigger magnitude of 18.6%. As the later HSCEI would be a better proxy for the CPF, hence it can be said comparatively, CPF outperformed HSCEI by a wide margin of 10.2%.

CPF's out-performance is largely attributed to our astute strategic top-down allocation and well complimented by our nifty bottom-up stock selection. We also adopted a prudent stance in anticipation of market volatility, hence our conservative low exposure mode and capital preservation status, helped us avoid the market carnage.

By the end of the 1H2013, CPF over-weighted three sectors and their respective weight: Capital Goods (17.9%), Real Estate (13.8%) and Banks (9.4%). We avoided or have very low weighting in the highly cyclical industrials like Energy (Nil), Materials (2.8%) and Retailing (Nil).

CPF is also well diversified with 32 names. Our Top 10 holdings make up 39% of our portfolio. Notably, some of our stand-out winning picks which registered good returns include: China State Construction (+36.1%), AAC Technologies (+32.2%), Tencent (+30.3%), fast surpassing the HSI decline of 8.2% and HSCEI even greater decline of 18.6%.

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Manager's Report - Continued

Market Outlook and Portfolio Strategy

The incumbent new leaders will have a delicate task of balancing growth with inflation, whilst juggling with much needed quicker structural reforms on all levels. Asset inflation in particular bubbles in property prices will be hawkishly watched.

We believe the slower pace GDP 7-8% whilst lower than the previous upper GDP 8-10%, would instead promote a steadier healthier economy with lower occurrences of undesirable extreme wide market swings.

In the second half of 2013, we believe monetary policy will be loose and accommodative. Given the benign inflation, we do not envisage any major adverse interest rate movement which will spook Equities market. In terms of market sentiment, the A-share Equity IPO market which has been suspended since 3Q2012 is believed to restart in 2H2013, which will in turn revive interest in Equity markets. A-H shares which trade on different Equity bourses still have a high degree of correlation.

As with most structural reforms which may be momentarily painful, we believe it would create structural multiple-year investment opportunities for the right industries and their beneficiaries.

We do not envisage another large fiscal stimulus package like the previous RMB 4 trillion boost in 2009. However, we are convinced that government can and will stimulate the economy via nationwide infrastructure construction to prime-pump the domestic economy.

Premier Li voiced his support to increase railway investment spending for the next three years. PRC's Railway network is still fairly under-supplied as well as antiquated in many 2nd & 3rd tier provinces. Thus is a real need to build (where it never exist) as well as to replace (old), a powerful double bonus. The whole supply-chain industry from the rail to the carriages to the electrical wiring components, mechanical, safety aspects will all be prime beneficiaries. Hence the Capital Goods sectors will also be another prime investment candidate of the imminent structural reform.

China has also released its strict directives to curb over-capacity on many Basic materials sectors. We believe this is healthy on many aspects as it would ensure industry supply discipline, higher pricing power and minimise misallocation of resources. For example, guidelines have been given that Cement capacity must shrink by 5% in 2013. We expect this consolidating trend will continue into 2014 and beyond. Basic materials with better demand-supply fundamentals will see their unit prices being well supported.

We are also positive on the Real Estate on both a policy stance as well as on fundamental valuation grounds. The Chinese Central government is shifting the property price control measures to be more direct effective market-driven (i.e. increase supply, restrict lending, impose taxes) as opposed to indirect policies. The government is constantly tinkering with effective mechanisms to successfully rein property prices without causing systemic real estate collapse. On fundamentals valuation wise, given the undemanding current valuation with on average 35% discount to NAV (exceeds the historical 15-30% discount to NAV), we find the sector compelling.

As such we are likely to increase our exposure to these Capital Goods, Materials, Real Estate sectors in the second half of this year.

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Manager's Report - Continued

Market Outlook and Portfolio Strategy - continued

As investor sentiment is fickle and fragile, we would prefer to invest in sectors with higher earnings visibility. We would steer clear from those industries or companies with poor earnings visibility or have corporate governance issues.

CPF has also recently applied in July to the Immigration Authorities to qualify itself as Capital Investment Entrant Scheme (CIES) product/Fund. Once the approval is given, CPF can be offered to clients/investors as a valuable investment alternative.

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Statement of Financial Position (Unaudited)
As at 30 June 2013

	30 Jun 2013 HKD	31 Dec 2012 HKD
Assets		
Cash and cash equivalents	6,372,231	7,192,457
Financial assets at fair value through profit or loss	52,134,100	48,770,200
Amounts due from brokers	3,761,536	1,694,613
Prepayments and other receivable	16,936	3,077
Dividends receivable	340,045	-
Total assets	**62,624,848**	**57,660,347**
Liabilities		
Amounts due to brokers	7,376,379	-
Management fee payable	48,735	37,174
Trustee fee payable	61,545	63,423
Audit fee payable	63,473	116,556
Accruals and other payables	1,371	-
Total liabilities	**7,551,503**	**217,153**
Net assets attributable to unitholders	**55,073,345**	**57,443,194**
Represented by:		
Net assets attributable to unitholders (calculated in accordance with IFRSs)	55,073,345	57,443,194
Adjustment for preliminary expenses recognized	477,232	543,090
Net assets attributable to unitholders (calculated in accordance with the Sub-Fund's explanatory memorandum)	**55,550,577**	**57,986,284**
Net asset value (calculated in accordance with the Sub-Fund's explanatory memorandum)		
Class A	4,531,090	1,555,083
Class I	51,019,487	56,431,201
Number of units in issue		
Class A	454,703.012	142,002.000
Class I	5,088,061.953	5,133,674.068
Net asset value per unit (calculated in accordance with the Sub-Fund's explanatory memorandum)		
Class A	9.964	10.951
Class I	10.027	10.992

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Investment Portfolio (Unaudited)
As at 30 June 2013

Investments	**Holdings**	**Fair Value HKD**	**% of Net Asset Value**
Equities			
Listed in Hong Kong			
AAC Technologies Holdings Inc	40,000	1,752,000	3.15%
Anhui Conch Cement Co Ltd	75,000	1,575,000	2.84%
Beijing Jingneng Clean Energy Co Ltd	140,000	410,200	0.72%
China Construction Bank Corp	200,000	1,098,000	1.98%
China Dongxiang Group Co	1,400,000	1,750,000	3.15%
China Eastern Airlines Corp Ltd	700,000	1,680,000	3.02%
China High Speed Transmission Equipment Group Co Ltd	500,000	1,765,000	3.18%
China Medical System Holdings Ltd	150,000	1,038,000	1.87%
China Minsheng Banking Corp Ltd	320,000	2,428,800	4.37%
China Overseas Land & Investment Ltd	100,000	2,035,000	3.66%
China Pacific Insurance Group Co Ltd	70,000	1,732,500	3.12%
China Power International Development Ltd	500,000	1,455,000	2.62%
China Railway Construction Corp Ltd	300,000	2,022,000	3.64%
China Resources Land Ltd	90,000	1,908,000	3.43%
China State Construction International Holdings Ltd	200,000	2,416,000	4.35%
CITIC Securities Co Ltd	150,000	2,067,000	3.72%
GCL-Poly Energy Holdings Ltd	1,000,000	1,670,000	3.01%
Haier Electronics Group Co Ltd	150,000	1,854,000	3.34%
Haitian International Holdings Ltd	70,000	793,800	1.43%
Haitong Securities Co Ltd	160,000	1,504,000	2.71%
Hua Han Bio-Pharmaceutical Holdings Ltd	800,000	1,648,000	2.97%
Industrial & Commercial Bank of China Ltd	350,000	1,711,500	3.08%
Lenovo Group Ltd	270,000	1,898,100	3.42%
Longfor Properties Co Ltd	150,000	1,731,000	3.12%
NVC Lighting Holdings Ltd	800,000	1,912,000	3.44%
Ping An Insurance Group Co of China Ltd	20,000	1,044,000	1.88%
Sinotruk Hong Kong Ltd	300,000	1,140,000	2.05%
Sunac China Holdings Ltd	400,000	2,032,000	3.66%
Tencent Holdings Ltd	10,000	3,042,000	5.48%
Trigiant Group Ltd	320,000	755,200	1.36%
Xinjiang Goldwind Science & Technology Co Ltd	200,000	1,060,000	1.91%
Xinyi Glass Holdings Ltd	200,000	1,206,000	2.17%
Total investment portfolio		52,134,100	93.85%

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Investment Portfolio (Unaudited) – Continued
As at 30 June 2013

	Fair Value HKD	% of Net Asset Value
Other net assets	3,416,477	6.15%
Net assets value as at 30 June 2013 (calculated in accordance with the Sub-Fund's explanatory memorandum)	55,550,577	100%
Total investments, at cost	51,070,591	

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Statement of Movement in Portfolio Holdings (Unaudited)
For the six months ended 30 June 2013

Industry Sector	Holdings as at 30.06.2013	Holdings as at 31.12.2012
Basic Materials	-	9.96%
Communications	5.48%	6.09%
Consumer, Cyclical	13.74%	10.86%
Consumer, Non-cyclical	4.84%	2.38%
Energy	3.74%	5.76%
Financial	34.73%	31.42%
Funds	-	3.80%
Industrial	25.29%	10.57%
Technology	3.42%	3.27%
Utilities	2.61%	-
Total investment portfolio	93.85%	84.11%
Other net assets	6.15%	15.89%
Net assets	100%	100%