SWS STRATEGIC INVESTMENT FUNDS
Semi-Annual Report (Unaudited)

For the six months ended 30 June 2012

Contents

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Manager's Report

Shenyin Wanguo China Policy Focus Fund

Market Review

The global equities market has been largely driven by the macro news in the first half of 2012. The MSCI AC World Free Index (USD) was up 4.2% in the 1H2012.

Global markets switched to a 'risk on' mode in the 1Q12, with investors taking the optimism from ECB's launch of the 3-year Long Term Refinancing Operation program ("LTRO") as well as the US job market which continued to deliver employment numbers that beat consensus expectations. However, most of the returns in the first quarter were given back in the second quarter and market swung back to a 'risk off' mode. The previous optimistic US non-farm payroll in the 1Q2012 reversed in the 2Q2012. Elsewhere ensuing France and Greece election results gave investors jitters on the possible disintegration of the Eurozone, Euro and broader ramifications.

In China, the domestic continued to decelerate as evident from its quarterly GDP: 8.9% (4Q2011) to 8.1% (1Q2012) to 7.6% (2Q2012). This is consistent with its PMI which also remained sluggish hovering around 50ish level for the first half of the year. Over the last 6 months ending June, the CPI also came down sharply from Jan's 4.5% to June's 2.2%.

The rapidly slowing GDP, PMI and benign inflation, set the tone for People's Bank of China ("PBOC") to begin their interest rate liberalisation process and prime-pump the domestic economy. In the 1H2012, PBOC reduced the reserve required ratio ("RRR") twice by 50bps each time in February & May. PBOC also cut the interest rate once by 25bps in June. The benchmark 1 year deposit rate now stands at 3.0% and the 1 year lending rate at 6.0%.

In terms of market action for 1H2012, two particular industries and themes stood out: Real Estate and Defensive sectors. Real Estate industry recorded a strong 30% gain in the 1H2012. The last few years of high asset inflation, tight monetary and fiscal policy, hawkish PBOC stance, saw the embattled real estate sector languishing. With the slowing GDP, controlled inflation and possible easing of monetary policy; investors expect better affordability (low financing rates) and higher demand (take-up) for property.

Given the uncertain outlook, Defensive sectors became a safe harbour for investors. In the 1H2012, TMT sector was up 27.9%, whilst the Utilities being up 11.9% and Healthcare up 8.6%. In comparison the broader general market HSCEI Index is down 3.6%, and HSI Index up 5.5%.

At the end of the spectrum of market under-performers, suffering the brunt of market doldrums is Diversified Financials (securities brokers) which posted the worst return of 15.9% in 1H2012. This is not surprising given the depressed trading volume and recurrent postponed IPO. Materials also declined 9.4% due to lacklustre industrial activity, with the anecdotal PPI going into the negative territory. Consumer Discretionary also went down 9.4%, suffering a double whammy of declining sales volume as well as compressing margins. To combat the slow sales, stores resorted to offer promotions which hurt average selling price (“ASP”) and same store sales growth (“SSSG”).

Portfolio Review

SYWG China Policy Focus Fund (referred to as “CPF”) commenced in March 2012. From March Fund’s inception to end June, CPF fund was down by 5.3%. In that comparative period, HSI dropped 10.3% whilst the HSCEI fell even more 19.0%. Hence the CPF out-performed HSI by 5% and HSCEI by wider margin 13.7%.

CPF’s out-performance is largely attributed to our astute and prudent asset allocation. We avoided the market carnage by largely going into a conservative capital preservation and low exposure mode.

By the end of the 1H2012, CPF overweighted three sectors: Capital Goods (14.9%), Real Estate (9.9%) and Energy (9.5%). We avoided or have very low weighting in the highly cyclical industries like Consumer Discretionary (Nil), Materials (3.8%) and Diversified Financials (4.2%).

CPF is well diversified with 19 names. Our top 10 holdings make up 38% of our portfolio. Some of our winning picks which registered good returns include: China State Construction (+9.1%), China Overseas (+7.6%).

Market Outlook and Portfolio Strategy

After a concerted effort by the Chinese government to rein in the runaway inflation, CPI peaked at 4.5% in January earlier this year, to the latest July CPI reading of 1.8%. CPI is now subdued to PBOC’s acceptable 3% range. At its peak, China’s obstinate CPI topped at 6.5% in July 2011. We anticipate CPI will stay below sub 2% for most of this year, paving the way for more monetary easing, RRR cuts and interest rate cuts. We believe that PBOC’s previous hawkish stance has gone dovish now as growth takes priority with the anaemic ensuing GDP numbers.

We do not envisage another large fiscal stimulus package like the previous 4-trillion boost in 2009. However we are convinced that government can and will stimulate the economy via nationwide infrastructure construction. This is already seen in June’s Railway infrastructure investment.

June's rebounded data point of only -1% yoy compares well to the cliff-drop 40% yoy decline we have seen in January to May this year. Concurrently Highway infrastructure investment is also showing a similar positive signal. We are convinced that this structural improvement will see the Capital Goods sector being a prime beneficiary, which we will continue to overweight. Over the last few months, we have the provincial government of Chongqing, Guangzhou, Tianjin, Guizhou etc. all announcing stimulus packages etc.

We are also positive on the Real Estate on both a policy stance as well as on fundamental valuation grounds. With inflation being a spectre of the past, PBOC will ease off interest rates to make property more affordable. Property prices have also fallen to more affordable levels from its dizzy heights a few years ago. In addition with such undemanding current valuation (on average 30% discount to NAV), we find the sector compelling.

Elsewhere in the US, economic data is expected to be choppy, hence market will likely trade sideways. Similarly Eurozone's countries are likely to continue to struggle for the rest of the year due to lack of clear initiatives and direction. However, both the US Fed and the ECB have indicated that more monetary supports are likely if their economy still fails to pick up momentum. We see a high probability of further quantitative easing which will boost market sentiment in the short term. In such scenarios Energy prices will usually do well, hence we have taken an early and heavier position in the Energy sector.

As investor sentiment is fickle and fragile, we would prefer to invest in sectors with higher earnings visibility, avoid those with poor earnings visibility or with potential of issuing profit warning.

Shenyin Wanguo RMB Mainland Investment Fund

Market review

Since the launch of the RQFII Fund in March till June, the Chinese bond market traded range bound before it trended upwards again towards the end of June.

The lacklustre range bound trading period started from March till early May with the market remaining relatively directionless as both the myriad of positive and negative factors offset each other.

The weak softer data points from the Chinese economy lend a good hand to support the bond market as investor remain more risk adverse preferring the relatively safer harbour of bonds over equities. Flipside, lingering fears of obstinate inflation, continue to weigh on the bond market. Externally, US economy, showed some signs of economic stability.

On balance with no clear concrete evidence of global relation, investors preferred to err on the side of caution as they await for more sustainable evidence. As such, the bond market remained flat with minimal volatility.

In mid-May, unanticipated poor economy data emerged, which showed the economy was still on a downward course, contrary to previous market's expectation of an economy recovery. The renewed pessimism coupled with fast declining inflation triggered a rally in the Bond market. The 25bp interest rate in June fuelled Bond market rally further and the market then stood a breather subsequently.

Credit market also has a stellar performance during this period. With the slowing economy, abatement of inflation pressures, many participants anticipate the Government to ease fiscal and monetary policy to prime-pump the sluggish economy. Struggling enterprises who were once starved of credit can now find easier and more affordable credit. With better financing options, the health of these enterprises is expected to improve. Hence the market took this positive signal and we witness a gradual narrowing of credit spreads.

The Chinabond Composite Full Price Index (CBCFPI) rose from 111.36 to 112.94 during the period from March to June, an increase of 1.42%. Comparatively over this period, the Shanghai Exchange Composite Index was down by 10.4%.

The 1, 3, 5, 7, 10 year tenor key rate treasury YTMs changed by -61bps, -54bps, -29bps, -33bps and -21bps respectively, showing a bull steepening yield curve.

We also witnessed a narrowing of the credit spread with the spread between 5 year tenor AAA, AA+, AA, AA- corporate bonds and corresponding 5 year treasuries shrinking by -19bps, -54bps, -69bps and-149bps respectively. Notably in the lower end of the credit curve, we saw the credit names there experience a more significant the degree of narrowing.

Portfolio review

Since the Fund's inception to the end of June, the Fund's NAV is up 2.07% for A (Retail) class and up 2.18% for I (Institutional) class. In comparison, the Chinabond Composite Full Price Index (CBCFPI) registered an increase of 1.42%. Hence the Fund's A class NAV saw an out-performance of 0.65% and for the I class NAV an out-performance of 0.76% over the CBCFPI.

We attribute our out-performance to three main contributions.

Firstly, our portfolio has more credit bonds than the CBCFPI, as such we benefited from the higher coupon of the credit bonds.

Secondly, we were astute being early movers and we caught the credit spread narrowing trend, picked up substantial capital gain which boosted our NAV.

Thirdly, we did an important strategic decision to stay away from the equity market, avoided the subsequent carnage there and remain being fully invested in the bond market instead. During this period, the Shanghai Exchange Composite Index witnessed great volatility and capital destruction, being down 10.4%.

In terms of Fund's asset allocation, our portfolio is 92.7% invested in Bonds, and we have 7.3% in Cash & cash equivalents. We have reduced our sovereign bonds weightage to zero and all of our 92.7% bonds exposures are in corporate/enterprise bonds.

Our corporate/enterprise bonds are well diversified across the full investment grade credit spectrum: AAA (22.7%), AA+ (10.9%), AA (34.8%), AA- (24.3%). During the past four months, we made a gradual reduction in our sovereign bonds position and stepped up our exposure to credit bonds, especially those bonds with lower credit rating. In doing so we were able to have higher yield-to-maturity (YTM) as well as benefitting from the ensuing credit spread narrowing.

At the end of June, the Fund has an average duration of 2.01 years with an average yield-to-maturity of 4.62%. The Fund is adequately diversified in 22 names and our top 10 holdings have an aggregate weight of 54.3%.

Our consistent performance has seen our Fund being positioned amongst the top one third percentile of our RQFII fund peers. The Fund aims for a quarterly dividend payout and was successful to distribute its maiden quarterly dividend of 1RMB per unit at the end of June. We hope to maintain our progressive dividend policy, both in terms of frequency of dividend payout as well as a generous dividend payout ratio; for the best interest of our clients.

Market Outlook and Strategy

We remain cautiously optimistic of the Chinese Bond Market prospects though we can see both opportunities and risk ahead in the short and medium-long term horizon.

In the short term, we envisage the Chinese Bond market will witness a rally in the 2H2012. With the continual weak economy, loose monetary policy, interest rate cuts, we see good potential upside for the bond market.

Further out in the medium to long term perspective, we can see potential risks are slowly accumulating. We believe the Chinese economy will likely bottom out in the 3Q2012 or latest 4Q2012. With the healthier risk appetite, we might see a gradual asset allocation shift away from the relatively safer bond markets to the riskier equity markets, which will put downward pressure on the bond markets. Though CPI have been relatively subdued, the recent increase in money supply (M2) coupled with the rising commodity prices especially soft commodities with the drought in US, might see a stronger CPI rear its ugly head again as early in 4Q2012. This will in turn spook the bond market and limit the capital gain potential for the market.

Base on the above analysis, we will aim for a prudent and balanced investment strategy for 2H2012.

We will maintain the duration of the portfolio to be less than 3 years in order to avoid the damaging ascent of long end curve which is commonly observed during the bottoming out phase of the economy.

Concurrently, we will keep our diversified strategy, to build upon our already high quality credit bond pool. We would also move down the credit curve opportunistically for enhanced yield pick-up if we view the reward-risk potential to be attractive.

We aim to continue our progressive dividend and generous payout policy.

Shenyin Wanguo China Policy Focus Fund[1]

Statement of Assets and Liabilities
as at 30 June 2012 (unaudited)
(Expressed in Hong Kong dollars)

	30 June 2012 HKD
Assets	
Cash and cash equivalents	14,781,782
Investments	24,147,840
Amounts due from brokers	4,444,540
Dividends receivable	289,861
Total assets	**43,664,023**
Liabilities	
Amounts due to brokers	1,807,668
Establishment costs payable	34,513
Accruals and other payables	140,152
Total liabilities	**1,982,333**
Net assets attributable to unitholders	**41,681,690**
Net asset value	
Class A	**3,642,716**
Class I	**38,038,974**
Number of units in issue	
Class A	**385,002.000**
Class I	**4,015,378.429**
Net asset value per unit	
Class A	**9.461**
Class I	**9.473**

Shenyin Wanguo China Policy Focus Fund[1]

Portfolio Statement
as at 30 June 2012 (unaudited)
(Expressed in Hong Kong dollars)

Investments	Holdings	Market Value HKD	% of Net Assets
Equities			
Listed in Hong Kong			
CHINA CONSTRUCTION BANK CORP	200,000	1,058,000	2.54
CHINA MINSHENG BANKING CORP LTD	100,000	687,000	1.65
CHINA OVERSEAS LAND & INVESTMENT LTD	60,000	1,078,800	2.59
CHINA PACIFIC INSURANCE GROUP CO LTD	50,000	1,245,000	2.99
CHINA SHENHUA ENERGY CO LTD	50,000	1,352,500	3.24
CHINA STATE CONSTRUCTION INTERNATIONAL HOLDINGS LTD	270,000	1,957,500	4.70
CHINA RAILWAY CONSTRUCTION CORP LTD	200,000	1,282,000	3.08
CITIC SECURITIES CO LTD	109,000	1,772,340	4.25
CNOOC LTD	90,000	1,386,000	3.33
CSR CORP LTD	250,000	1,497,500	3.59
GREATVIEW ASEPTIC PACKAGING CO LTD	100,000	406,000	0.97
GUANGZHOU R&F PROPERTIES CO LTD	120,000	1,221,600	2.93
HAIER ELECTRONICS GROUP CO LTD	170,000	1,570,800	3.77
INDUSTRIAL & COMMERCIAL BANK OF CHINA	100,000	429,000	1.03
JIANGXI COPPER CO LTD	70,000	1,185,800	2.84
LONGFOR PROPERTIES CO LTD	150,000	1,809,000	4.34
PING AN INSURANCE GROUP CO	25,000	1,542,500	3.70
YANZHOU COAL MINING CO LTD	100,000	1,198,000	2.87
ZOOMLION HEAVY INDUSTRY SCIENCE AND TECHNOLOGY CO LTD	150,000	1,468,500	3.52
Total portfolio investments		24,147,840	57.93
Cash and other net assets		17,533,850	42.07
Net assets attributable to unitholders		41,681,690	100.00
Total portfolio investments, at cost		24,223,779	

Shenyin Wanguo China Policy Focus Fund[1]

Statement of Movement in Portfolio Holdings
as at 30 June 2012 (unaudited)
(Expressed in Hong Kong dollars)

	% of Net Assets as at 30 June 2012
Investments	
Equities	
Listed in Hong Kong	57.93
Total portfolio investments	57.93

Shenyin Wanguo RMB Mainland Investment Fund[1]

Statement of Assets and Liabilities
as at 30 June 2012 (unaudited)
(Expressed in Renminbi)

	30 June 2012 RMB
Assets	
Cash and cash equivalents	34,334,866
Investments	194,568,640
Amounts due from brokers	20,384,910
Interest and other receivables	3,519,236
Total assets	**252,807,652**
Liabilities	
Amounts payable on redemption	39,602,065
Establishment costs payable	33,258
Dividend payable	2,075,952
Accruals and other payables	1,107,433
Total liabilities	**42,818,708**
Net assets attributable to unitholders	**209,988,944**
Net asset value	
Class A	**68,194,912**
Class I	**141,794,032**
Number of units in issue	
Class A	**674,684.751**
Class I	**1,401,267.097**
Net asset value per unit	
Class A	**101.076**
Class I	**101.189**

Note – Dividend Payable
The dividend distribution for the calendar quarter ending 30 June 2012 was proposed and the amount of dividend payable was RMB2,075,952.

Share Class	**Currency**	**Dividend per Unit**
Class A	RMB	RMB1.00
Class I	RMB	RMB1.00

Record date : 29 June 2012
Ex-dividend date : 03 July 2012
Payment date : 12 July 2012

Shenyin Wanguo RMB Mainland Investment Fund[1]

Portfolio Statement
as at 30 June 2012 (unaudited)
(Expressed in Renminbi)

Investments	Holdings	Market Value RMB	% of Net Assets
Bonds			
Listed in China			
BJ ENTERPRISE GR HLD 4.69 03/01/2015	20,000,000	20,347,600	9.68
CHINA RAILWAY 22 5.27 03/26/2013	10,000,000	10,081,520	4.80
CHINA RAILWAY GROUP LTD 4.48 01/27/2015	11,096,000	11,145,932	5.31
CHONGQING LIFAN 7.8 04/25/2015	10,000,000	10,289,940	4.90
GUANGDONG BAOLIHUA NEW 6.27 03/14/16	10,000,000	10,413,670	4.96
GUANGXI RAIL INV GRP 4.96 03/06/2013	10,000,000	10,066,810	4.79
GUANGZHOU AUTOMOBILE 3.58 04/13/2014	10,000,000	9,985,940	4.76
HNA GROUP VAR 12/24/2019	5,000,000	5,137,000	2.45
HUARUN DADONG DOCKYARD 7.65 03/19/2015	10,000,000	10,374,440	4.94
JIANGSU FASTEN GROUP 7.3 05/11/2015	10,000,000	10,182,720	4.85
JINGGONG HOLDING GROUP 6.35 03/28/2013	10,000,000	10,114,330	4.82
LIUAN CITY CONSTRUCT INV VAR 03/02/2016	1,000,000	1,034,000	0.49
MUNICIPAL ROAD & BRIDGE 6.55 11/18/2014	10,000,000	10,388,580	4.95
NANJING HS GEAR 6.6 03/22/2013	10,000,000	10,130,870	4.82
QUANXING MINING GROUP VAR 03/21/2019	10,000,000	10,408,840	4.96
SHENZHEN HUAQIANG HLD 6.31 02/24/2015	10,000,000	10,333,430	4.92
TIANJIN CITY CONSTRUCTION 4.78 03/25/16	1,125,000	1,096,650	0.52
TIANRUI GROUP CE 5.8 05/10/15	10,000,000	10,185,480	4.85
YONGCHENG COAL VAL 03/30/2015	5,000,000	5,100,000	2.43
ZHEJIANG ENERGY GROUP 3.98 02/23/2014	5,014,000	5,003,972	2.38
ZHEJIANG MATERIAL INDUST 6.73 01/13/2013	10,000,000	10,111,370	4.82
ZHENJIANG CONSTR INVEST 5.85 03/30/2015	2,592,000	2,635,546	1.26
Total portfolio investments		194,568,640	92.66
Cash and other net assets		15,420,304	7.34
Net assets attributable to unitholders		209,988,944	100.00
Total portfolio investments, at cost		191,402,475	

Shenyin Wanguo RMB Mainland Investment Fund[1]

Statement of Movement in Portfolio Holdings
as at 30 June 2012 (unaudited)
(Expressed in Renminbi)

	% of Net Assets as at 30 June 2012
Investments	
Bonds	
Listed in China	92.66
Total portfolio investments	92.66

[1] Shenyin Wanguo China Policy Focus Fund and Shenyin Wanguo RMB Mainland Investment Fund were launched on 5 March 2012 and there are no comparative figures available for first unaudited semi-annual report.