

**SHENYIN WANGUO RMB MAINLAND INVESTMENT FUND**

(A sub-fund of SWS Strategic Investment Funds)

**Semi-Annual Report (Unaudited)**

For the six months ended 30 June 2013

**SHENYIN WANGUO RMB MAINLAND INVESTMENT FUND**

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**Management and Administration**

**Manager**

Shenyin Wanguo Asset Management (Asia) Limited  
28/F Citibank Tower  
Citibank Plaza  
3 Garden Road  
Central  
Hong Kong

**Directors of the Manager**

Chu Xiaoming  
Lu Wenqing  
Lee Man Chun Tony  
Guo Chun  
Bai Youge  
Fu Xingyi

**Trustee and Registrar**

Bank of Communications Trustee Limited  
1/F, Far East Consortium Building  
121 Des Voeux Road Central  
Hong Kong

**RQFII Custodian**

Bank of Communications Co., Ltd.  
188 Yin Cheng Zhong Road  
Shanghai 200120  
The People's Republic of China

**Auditors**

Ernst & Young  
22nd Floor, CITIC Tower  
1 Tim Mei Avenue  
Central  
Hong Kong

**Legal Advisers**

Deacons  
5/F, Alexandra House  
18 Chater Road  
Central  
Hong Kong

## **SHENYIN WANGUO RMB MAINLAND INVESTMENT FUND**

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### **Manager's Report**

#### **Market review**

In review, the PRC Bond market rallied mostly for the first half of the year before it experienced some volatility in June. In totality, the Bond market still returned positively for first six months of the year 2013.

For the first few months of the year, Bond market felt a bull market in the making. We witnessed the traditional start of year Bond market rally which was due to the investment needs from strategic long term investors, their subsequent asset allocation, all of whom provided strong support to the Bond market. From February, we also saw strong demand for Renminbi and continued appreciation of the currency. The robust capital inflow also provided ample liquidity to the Bond market, pushing down the funding cost further.

Poorer than expected economic data also started coming in, exposing softness in the domestic economy. This also attracted further funds flow into the Bond markets. The momentum for Bond market was slightly dented in April when Regulators conducted investigation on insider trading in the Bond market which caused the market to drop momentarily. We also saw good Renminbi foreign currency appreciation in May, when the onshore RMB/USD reached a new high of 6.1211. For the first half of the year, RMB/USD has appreciated 1.49%.

In June, the Bond market had a sharp retracement. Though June is seasonally a tight liquidity season, we witnessed unprecedented heightened tight liquidity which saw the overnight repo momentarily spike up to an unprecedented 30%. To exacerbate matters, PBoC who is usually the lender of last resort, refrained from injection liquidity into the system. Many believe this is a deliberate attempt by the Regulators to discipline over-gearred banks, restrain irresponsible investing behavior as well as to stress test the domestic Bond market. The unanticipated PBoC restrain surprised many market participants and many had to deleverage, which in turn provoked a run, risk aversion 'risk off' mode in both Equity & Bond markets. However PBoC came out on June 25<sup>th</sup> to relief market pressure with public announcement that the panic is unwarranted and that they would provide liquidity where necessary. Market recovered some of its loss subsequently.

In terms of yield curve movement, the 1, 3, 5, 7, 10 year tenor key rate treasury YTM's changed by 58bps, 11bps, 7bps, -8bps and -6bps respectively, representing a general flattening of the yield curve. The short end of the curve was severely impacted by the huge volatility in June's liquidity tightening, while the long end of the curve recovered partially from the June drop and ended slightly lower than the start of year.

We also witnessed a general narrowing of the credit spread with investor preferring to go down the yield curve to chase for higher yields. The spread between 5 year tenor AAA, AA+, AA, AA- corporate bonds and corresponding 5 year treasuries compressed by -31bps, -35bps, -51bps and -52bps respectively.

## **SHENYIN WANGUO RMB MAINLAND INVESTMENT FUND**

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### **Manager's Report – Continued**

#### **Portfolio review**

For the first six month of the year, the Fund's NAV is up 2.28% for A (Retail) class and up 2.50% for I (Institutional) class. In comparison, the Chinabond Composite Full Price Index (CBCFPI) edged up slightly by 0.83%. Hence the A class recorded a 1.45% out-performance over the benchmark index whilst the I class saw a greater magnitude 1.67% out-performance. Aside, sentiment in Equities remained lackluster and volatile with the Shanghai Exchange Composite Index sliding by 12.78% in the comparative period.

We attribute our out-performance to four main contributions.

Firstly, the Fund made an astute correct strategic asset allocation to be 100% invested in Bond market and do not have any Equity exposure. As such we avoided the Equity market sell-off.

Secondly, Fund also made the right decision to overweight credit bonds. We have more credit bonds than the market average; as such we benefited from the higher coupon, enhanced yield pick of these credit bonds.

Thirdly, we anticipated correctly, early, and positioned ourselves well that credit spread would narrow. We caught the gap compression early and picked up substantial capital gain which boosted our NAV.

Fourthly, we envisaged a possibly liquidity crunch in June and commenced early to maintained a relatively conservative position with respect to our duration and security selection. This in turn shielded us somewhat from the sharp downturn which ensued in June.

In terms of Fund's Asset allocation, our portfolio is 97.0% invested in Bonds, and we have 3.0% in Cash & cash equivalents. All of our Bonds exposures are in Corporate/Enterprise bonds.

Our Corporate/Enterprise bonds are well diversified across the full investment grade credit spectrum: AAA (6.8%), AA+ (33.2%), AA (34.6%), AA- (22.4%). We maintained an overweight heavy exposure in Credit bonds. In doing so we were able to acquire higher yield-to-maturity (YTM) pick-up as well as benefitting from the ensuing credit spread narrowing, a double pronged strategy which served us well.

At the end of June, the Fund has an Average Duration of 2.54 years with an Average Yield-to Maturity (YTM) of 5.43%. The Fund is adequately diversified in 41 names and our Top 10 holdings have an aggregate weight of 41.6%.

Our consistent performance has seen our Fund being positioned well amongst our RQFII fund peers and also has one of the lowest volatility. The Fund aims for a quarterly dividend payout and was once again successful to distribute its two quarterly dividend in 1Q2013 & 2Q2013. This would mark our 5<sup>th</sup> consecutive uninterrupted quarterly dividend payout since our Fund's public inception in March 2012. The dividend payout for 1Q2013: RMB 0.60 and 2Q2013: RMB 0.70. (Our FY 2012 total dividend payout was RMB 1.50). All these dividends are paid out of earned income and not capital. 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. Our consistent risk-adjusted performance, uninterrupted quarterly dividend pay-out is a niche investment attraction which stands above and well amongst our peers.

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**Manager's Report – Continued**

**Market Outlook**

Given the elevated yield curve in June, we believe there is higher probability of mean reversion, hence we believe there is good investment opportunities in China's Bond market.

Market's concerns have been centered around two themes: recovering economy and tighter monetary policy. However gauging by the massive market sell-off and extreme pessimism, we believe the market has overreacted.

The speech by Premier Le Keqiang signaled the Government's bottomline for GDP to be 7.5% for 2013, leading to market enthusiasm around a sharp economy rebound from government stimulus. However, with the Central Government's constant emphasis on reformation, it will unlikely initiate another massive stimulus program, the scale we saw earlier in 2008. We believe the economy will continue its weak recovery in the medium term, which will be supportive to the Bond market.

In order to engineer a stable economic recovery, we believe the Regulators need to adopt a neutral to loosen monetary policy as well as provide an ample liquidity environment. Given June's liquidity crunch, we believe lessons would have been learnt by all. Hence PBoC will likely stabilize the volatility in liquidity in the interbank bond market where necessary, so as to avoid a repeat of such unwarranted volatility.

However on balance, the Bond market could face some headwinds in the near term with the market still suffering from the aftermath of the June liquidity squeeze. However, with the elevated yield curve, we think any market weakness is a good long term buying opportunity, which we will position well for our Fund.

**SHENYIN WANGUO RMB MAINLAND INVESTMENT FUND**

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**Statement of Financial Position (Unaudited)**

As at 30 June 2013

	<b>30 Jun 2013 RMB</b>	<b>31 Dec 2012 RMB</b>
<b>Assets</b>		
Cash and cash equivalents	18,675,605	31,693,453
Financial assets at fair value through profit or loss	582,038,142	836,588,550
Accounts receivable on contributions	-	2,094,040
Amounts due from brokers	1,657,493	-
Interest receivable	16,695,060	8,601,268
Deposits	252,000	252,000
Prepayments and other receivable	21,622	2,502
<b>Total assets</b>	<b><u>619,339,922</u></b>	<b><u>879,231,813</u></b>
<b>Liabilities</b>		
Accounts payable on redemptions	15,029,521	3,819,380
Management fee payable	459,567	352,360
Trustee fee payable	59,752	55,429
Sub-custodian fee payable	54,319	43,159
Commission expenses payable	21,141	33,013
Audit fee payable	94,391	175,302
Withholding tax payable	2,509,214	1,153,408
Other payables	4,353	7,900
<b>Total liabilities</b>	<b><u>18,232,258</u></b>	<b><u>5,639,951</u></b>
<b>Net assets attributable to unitholders</b>	<b><u>601,107,664</u></b>	<b><u>873,591,862</u></b>
<b>Represented by:</b>		
Net assets attributable to unitholders (calculated in accordance with IFRSs)	601,107,664	873,591,862
Adjustment for preliminary expenses recognized	488,333	555,441
Net assets attributable to unitholders (calculated in accordance with the Sub-Fund's explanatory memorandum)	<b><u>601,595,997</u></b>	<b><u>874,147,303</u></b>
<b>Net asset value</b> (calculated in accordance with the Sub-Fund's explanatory memorandum)		
Class A	119,001,176	156,153,690
Class I	482,594,821	717,993,613
<b>Number of units in issue</b>		
Class A	1,162,859.129	1,541,394.504
Class I	4,689,437.528	7,063,395.769
<b>Net asset value per unit</b> (calculated in accordance with the Sub-Fund's explanatory memorandum)		
Class A	102.334	101.306
Class I	102.911	101.649

**SHENYIN WANGUO RMB MAINLAND INVESTMENT FUND**

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**Statement of Financial Position (Unaudited) – Continued**

As at 30 June 2013

**Note – Dividend Paid**

The interim dividend distribution for the calendar quarter ending 31 March 2013 was paid and the amount of dividend paid was RMB5,068,366.

<b>Share Class</b>	<b>Currency</b>	<b>Dividend per Unit</b>
Class A	RMB	RMB0.60
Class I	RMB	RMB0.60

Record date : 15 March 2013

Ex-dividend date : 18 March 2013

Payment date : 25 March 2013

The interim dividend distribution for the calendar quarter ending 30 June 2013 was paid and the amount of dividend paid was RMB4,598,678.

<b>Share Class</b>	<b>Currency</b>	<b>Dividend per Unit</b>
Class A	RMB	RMB0.70
Class I	RMB	RMB0.70

Record date : 18 June 2013

Ex-dividend date : 19 June 2013

Payment date : 25 June 2013

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**Investment Portfolio (Unaudited)**

As at 30 June 2013

	<b>Holdings</b>	<b>Fair Value RMB</b>	<b>% of Net Asset Value</b>
<b>Listed exchange bonds</b>			
<b>People's Republic of China</b>			
Milord Real Estate Development Group Co Ltd VAR 11/3/2014	1,000,000	1,014,600	0.16%
Xinhu Zhongbao Co Ltd 9% 7/2/2016	546,000	575,812	0.10%
		<u>1,590,412</u>	<u>0.26%</u>
<b>Listed interbank bonds</b>			
<b>People's Republic of China</b>			
Beijing Automotive Group Co Ltd 5.16% 11/16/2019	20,000,000	20,194,200	3.36%
Black Peony Group Co Ltd 5.49% 10/29/2015	10,000,000	10,069,750	1.67%
China Hi-Tech Group Corp 5.78% 10/31/2019	20,000,000	20,374,560	3.39%
China Water Investment Co Ltd 5.41% 10/25/2017	20,000,000	20,312,660	3.38%
Chinacoal Group Shanxi G-ocean Energy Co Ltd 5.53% 12/26/2017	30,000,000	30,486,750	5.07%
Chinatex Corp 4.39% 7/12/2015	10,000,000	9,915,240	1.64%
CSR Group 4.54% 9/17/2015	10,000,000	9,988,990	1.66%
DongFeng Automobile Co Ltd 5.2% 12/25/2015	10,000,000	10,073,070	1.67%
Evergreen Holdings Group Co Ltd 6.13% 1/8/2014	10,000,000	9,960,190	1.66%
Fujian Electronics & Information Group Co Ltd 5.27% 12/13/2013	10,000,000	9,969,180	1.66%
Guangdong Baolihua New Energy Stock Co Ltd 6.27% 3/14/2016	10,000,000	10,216,350	1.70%
Guangdong Nanhai Holding Investment Co Ltd 5.4% 1/17/2018	30,000,000	30,451,080	5.06%
Guangxi Yuchai Machinery Group Co Ltd 5.54% 12/28/2015	30,000,000	30,238,290	5.03%
Guangzhou Automobile Group Co Ltd 3.58% 4/13/2014	10,000,000	9,870,560	1.64%
Guangzhou Electric Equipment Group Co Ltd 5.6% 9/21/2015	10,000,000	10,092,660	1.68%
Hangzhou Boiler Group Co Ltd 5.21% 12/12/2013	10,000,000	9,969,860	1.66%
Hengli Group Co Ltd 5.8% 12/24/2013	10,000,000	9,966,270	1.66%
Huarun Dadong Dockyard Co Ltd 7.65% 3/19/2015	10,000,000	10,264,450	1.71%
Inner Mongolia Yitai Coal Co Ltd 5.53% 12/25/2017	20,000,000	20,388,280	3.39%
Jiangsu Fasten Group Ltd 7.3% 5/11/2015	10,000,000	10,170,210	1.69%
Jiangxi Provincial Water Conservancy Investment Group Corp 5.4% 1/22/2018	20,000,000	20,179,640	3.35%
Jining Water Supply Group Co 5.27% 12/6/2013	30,000,000	29,910,420	4.97%
Liaoning Yaodu Development Co Ltd 7.35% 12/12/2019	10,000,000	10,214,440	1.70%
Municipal Road & Bridge Construction Holding Group Co Ltd 6.55% 11/18/2014	10,000,000	10,141,370	1.69%

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(A sub-fund of SWS Strategic Investment Funds)

**Investment Portfolio (Unaudited) – Continued**

As at 30 June 2013

		<b>Fair Value</b>	<b>% of</b>
		<b>RMB</b>	<b>Net</b>
<b>Listed interbank bonds (continued)</b>			<b>Asset</b>
<b>People's Republic of China (continued)</b>	<b>Holdings</b>		<b>Value</b>
Nanjing Jiangning District Tap Water General Co 5.24% 12/20/2013	20,000,000	19,933,720	3.31%
Nanjing Yurun Foods Co Ltd 5.49% 10/18/2015	10,000,000	10,005,970	1.66%
Ningbo Fubang Holdings Group Co Ltd 6% 12/25/2013	10,000,000	9,976,870	1.66%
Nonggongshang Real Estate Group Co Ltd 6.29% 10/11/2017	20,000,000	20,452,400	3.40%
Shandong Quanxing Mining Industry Group Co Ltd VAR 3/21/2019	10,000,000	10,310,760	1.71%
Shanghai Lingang Economic Development Group Co Ltd 6.06% 11/28/2017	10,000,000	10,242,210	1.70%
Shenzhen Maoye Trade Building Co Ltd 5.52% 1/9/2016	20,000,000	20,148,900	3.35%
Shenzhen-Huaqiang Holdings Ltd 6.31% 2/24/2015	10,000,000	10,116,820	1.68%
Tianrui Group Cement Co Ltd 5.8% 5/10/2015	10,000,000	10,056,340	1.67%
Wuhan Metro Group Co Ltd 5.7% 2/4/2020	10,000,000	10,046,320	1.67%
Wuhan Zhongyuan Electronics Group Co Ltd 6.12% 1/11/2016	10,000,000	10,071,580	1.67%
Xiwang Group Co Ltd 6.6% 1/10/2018	10,000,000	10,194,820	1.69%
Zhejiang Hengyi Group Co Ltd 6.01% 1/25/2018	20,000,000	20,197,300	3.36%
Zhoushan Port Co Ltd 6.2% 10/23/2015	10,000,000	10,097,560	1.68%
Zhoushan Transportation Investment Co Ltd 6.4% 12/5/2017	10,000,000	10,177,690	1.69%
		<u>565,447,730</u>	<u>93.99%</u>
<b>Unlisted unit trust<sup>1</sup></b>			
<b>People's Republic of China</b>			
China Southern Cash Income Fund – B	15,000,000	15,000,000	2.49%
		<u>15,000,000</u>	<u>2.49%</u>
<b>Total investment portfolio</b>		582,038,142	96.74%
Other net assets		<u>19,557,855</u>	<u>3.26%</u>
<b>Net asset value as at 30 June 2013</b> (calculated in accordance with the Sub-Fund's explanatory memorandum)		<u><u>601,595,997</u></u>	<u><u>100%</u></u>
 Total investments, at cost		 579,997,114	

<sup>1</sup> Not authorized in Hong Kong and not available to Hong Kong Residents

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**Statement of Movement in Portfolio Holdings (Unaudited)**

As at 30 June 2013

	<b>Holdings as at 30.06.2013</b>	<b>Holdings as at 31.12.2012</b>
<b><u>People's Republic of China</u></b>		
Listed exchange bonds	0.26%	2.81%
Listed interbank bonds	93.99%	83.74%
Unlisted unit trust <sup>1</sup>	<u>2.49%</u>	<u>9.15%</u>
Total investment portfolio	96.74%	95.70%
Other net assets	<u>3.26%</u>	<u>4.30%</u>
Net assets	<u>100%</u>	<u>100%</u>

<sup>1</sup> Not authorized in Hong Kong and not available to Hong Kong Residents