

# GCA Greater China Fund – April 2007 2.28%<sup>1</sup>

## Monthly Summary of Net Returns (%)<sup>1</sup>

GCAGC	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	YTD
2005	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	2.62	2.62
2006	3.61	3.72	6.25	1.96	-0.58	-2.56	-0.39	-0.20	2.13	3.10	3.22	2.31	24.69
2007	2.60	3.49	-0.98	2.28									7.53

## Performance Summary – April 2007

Return Data <sup>1</sup> :	GCAGC	MSCI Golden Dragon	S&P 500
NAV per share (\$)	1,375.90	129.98	1,482.37
Monthly Return (%)	2.28	1.66	4.33
YTD Return (%)	7.53	-0.35	4.52
Best Month (%)	+6.25	9.09	4.33
Worst Month (%)	-2.56	-6.51	-3.09
Since Inception Return (%)	37.59	40.16	18.64
Annualized Return (%)	25.26	26.91	12.82
<b>Risk/Return:</b>			
Sharpe Ratio (x) <sup>2</sup>	2.77	1.70	1.23
Ann. Std Deviation (%)	7.60	13.50	6.27
Max Drawdown (%)	-3.70	-7.91	-3.09
% Positive Months	70.59	70.59	82.35
Market Correlation	1.0	0.539	0.730
<b>Exposure:</b>	(% NAV)		
Long	62.03	n/a	n/a
Short	-21.73	n/a	n/a
Gross	+83.76	n/a	n/a
Net	+40.31	n/a	n/a
Cash	32.18	n/a	n/a
Gross Assets	115.94	n/a	n/a
<b>Risk Indicators:</b>	(% NAV)		
1 day 95% VAR <sup>3</sup>	0.63	n/a	n/a
1 day 99% VAR	0.89	n/a	n/a
30 day 95% VAR	2.87	n/a	n/a
30 day 99% VAR	4.06	n/a	n/a
Loss @ fire sale/avg. Days <sup>7</sup>	-0.0379/day	n/a	n/a

## Summary Statistics<sup>3,4</sup> – April 2007

Allocation by Asset Class:	% NAV	Allocation by Region:	% NAV
Equity	62.03	China <sup>8</sup>	15.49
FX	n/a	Hong Kong	8.43
Options	n/a	Taiwan	16.38
Cash	32.18	Other	n/a
Bonds	n/a	Cash	32.18
Derivatives	-21.73		
Commodities	n/a		
<b>Allocation by Sector:</b>	<b>% NAV</b>	<b>Attributables:</b>	<b>P&amp;L (% NAV)</b>
Cash	32.18	Cash	-0.13
Oil & Gas	3.10	Oil & Gas	-0.18
Metals & Mining	5.23	Metals & Mining	2.60
Banking & Finance	9.74	Banking & Finance	0.99
Consumer Cyclical	3.68	Consumer Cyclical	0.23
Telecom	4.12	Telecom	-0.51
Technology	18.68	Technology	0.08
Other	17.48	Other	0.37
Derivatives	-21.73	Derivatives	-0.77
<b>Allocation by Market Cap:</b>	<b>% NAV</b>		
Small (<\$500m)	12.31		
Mid(\$500m-\$2bn)	8.06		
Large (>\$2bn)	41.67		
Derivatives	-21.73		

## Monthly Commentary

**Overview:** The overall market improved in April. The HSI index was +2.6% (YTD +2.5%); the HSCEI index was +4.3% (YTD -0.5%); and the MSCI Golden Dragon was +1.66% (YTD -0.35%). While the China market set new highs along the month, Hong Kong market drew more conservative during the later part of April because investors were cautious on the overheated China A share market. We kept relatively high exposure in the first two weeks and reduced our net exposure after a large market drop on April 19. We added more mid caps stocks to our portfolio to diversify away from major benchmark stocks. Large caps stock hardly moved in the last two weeks in April except Petro China. By the end of April, we had 18 stocks in portfolio, the majority being large caps stocks.

The Taiwan market declined by 0.1% in April to close at 7875. Turnover for the month decreased by 16%. TAIEX moved sideways during April. Consequently, the two most important sectors, Electronics and Financials performed unevenly +0.25% and -2.23% respectively. With first quarter results completely disclosed at the end of April, the market should reflect positive results in the short term. Our current strategy is to focus on and accumulate stocks that will sustain their growth momentum in second quarter.

China Citic Bank Corporation raised USD \$5.4 billion in stock sales in the world's biggest stock offering this year. The stock sale values the company at USD \$28.9 billion. Investors sought more than 200 times the number of shares available. This is another high profile China related IPO which is part of a trend increasing the stature of the Hong Kong/China stock markets on the world markets.

**Politics:** Fueling China investment surge is the transfer of funds from the massive savings in Chinese banks. The majority of individual Chinese household assets are in cash, about USD \$2.5 trillion. To release some savings and cool pressure on the

local market, CBRC has increased QDII to invest in overseas stock exchanges. This means the private investors in China with a minimum investment of USD \$40,000 can invest in overseas equity markets. China banks may use up to 50% of their QDII in overseas equity markets. China's statistic bureau announced the economy grew 11.1% in first quarter. However, a lower growth is forecasted in remaining quarters due to efforts by the Chinese government to slow the growth rate of the economy.

Even though the Taiwan market has underperformed this year we feel the elections will have a positive impact on Taiwan stock market and that coupled with the market's low valuation should result in an improvement in our Taiwan portfolio.

**Attributes:** Our China portfolio had an average net exposure of 40% while gross exposure was 80% in April. The largest daily drawdown was -1.8% during the month. Our Taiwan portfolio ended the month with a long exposure of 16.38% and no short exposure. We ended with 24 stocks, mostly large caps. The Taiwan portfolio was slight gross positive of .11% in April. We are hoping that earning momentum in the electronic sector as well as a better political climate will improve our Taiwan performance over the ensuing quarters. If not in the short-term, we are prepared to shift a greater allocation to our China portfolio until the above discussed growth prospects become evident.

**Strategy:** Fund strategy is to deliver smooth NAV performance with relatively low risk by active hedging and quick adjustments to our portfolio. We actively hedge by adjusting our gross exposure to correlate to changing market conditions and adjust our net exposure to reduce overall beta risk. Additionally, we constantly review sector bias in adjusting our sector weighing to obtain our desired sector exposure.

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## Fund Manager Profile

**•Manager.** Founded in 1989, Gerken Capital Associates (“GCA”) is a San Francisco based alternative asset fund manager. The firm is a recognized emerging market and emerging manager specialist. The firm has nine investment professionals with twenty plus years of investment experience each and long term affiliation. Lou Gerken, founder and chairman has been active in the emerging markets since the mid-70’s where he began his career as an analyst & portfolio manager with emerging markets leader GT Capital. Since inception, GCA and its Principals have managed/advised \$4.7 billion in AUM representing 22 managers. The Firm currently manages/advises \$1.5 Billion in AUM. Funds are structured as separate share classes of BVI-domiciled GCA Funds Limited. GCA is a Registered Investment Advisor. For additional firm details please refer to [www.gerkencapital.com](http://www.gerkencapital.com). As part of its institutional grade manager approach, GCA has entered into a long-term and exclusive investment agreement with the Polaris Group. Taiwan based Polaris Group (“PG”) is a recognized Greater China’s listed financial services conglomerate offering financial services from banking, stock broking, futures, investment banking, mutual funds and asset management. PG employs over 2,000 employees, has presence through 48 branches in Taiwan and offices in Hong Kong and China. PG has a customer base of over one million with international partnerships with State Street Global Advisors, Merrill Lynch and Schroders. PG has managed AUM of USD\$3.8 billion. Since 2002, it has managed an in house proprietary hedge fund portfolio with current AUM of USD \$51 million. PG received Fund House of the Year Award from Asian Investor in 2004.

### Institutional Grade Investment Team:

Chief Investment Officer	Lou Gerken
Portfolio Manager	Sean Tseng
Chief Strategist	Gary Tan
Regional MD/Senior Advisor	Hugh McClung
Taiwan Investment Desk	Nancy Chen, Kenner Wang
China Investment Desk	A. Lai, M. Lee, L. Zhang, Y. Tian, M. Li
HK Investment Desk	James Sa, Changer Ho
Greater China Research	Prof. K.Y. Liang
Risk Management	T. Huang, G. Madding, B. Wada
Finance & Accounting	G. Madding, B. Wada
Marketing & Client Services	Bonnie George, Valerie Rios
Legal/Compliance	G. Madding, B. Wada, L. Jian,
Back Office/Administration	Angela Chen, Carla Boy

## Differentiators

- Greater China footprint (China, HK & Taiwan)
- Top decile, risk adjusted performance with low market correlation
- Emerging markets investment experience spanning five business cycles
- Multi-asset investment strategy and capability
- Four-dimensional strategy (capital preservation, alpha, beta and gamma)
- Actively managed on the ground by institutional grade investment team
- Established research, trading and risk management infrastructure
- Scalable operations with ample investment capacity
- Majority owned by principals with significant investment in fund
- Long term, exclusive JV with recognized regional investment partner
- Access to fasted growing GDP sector (SME)
- Part of GCA “BRIC” Master Fund providing flexibility and alpha

## Manager Details

Fund:	GCA Funds Limited BVI International Business Company Regulated under the BVI Mutual Funds Act 1996
B Share Class:	GCA Greater China Fund Limited
Fund Manager:	Gerken Capital Associates
San Francisco Address:	110 Tiburon Blvd., Suite 5 Mill Valley, CA 94941 +1 415 383 1464
Hong Kong Address:	Room 1003-4 10F Tower 1 18 Harcourt Road

### Investment Committee:

Directors:  
Contact Person:

Admiralty Center, HK  
Lou Gerken, Hugh McClung,  
Gary Tan, Sean Tseng  
Lou Gerken, Dakshesh Patel  
Bonnie George, Director of Marketing  
[Bonnie@gerkencapital.com](mailto:Bonnie@gerkencapital.com)  
Valerie Rios, Client Services  
[Valerie@gerkencapital.com](mailto:Valerie@gerkencapital.com)  
+1 415 383 1464

## Fee and Redemption Structure<sup>1</sup>

Subscription Frequency:	Monthly
Redemption Frequency:	Monthly
Redemption Notification Period:	45 days
Redemption Fee:	3% 1 <sup>st</sup> year; 1% 2 <sup>nd</sup> year, 0% afterwards
Management Fees:	2% p.a.
Performance Fees:	20% p.a.

## Investment Objective & Approach

Investment objective is to achieve optimal, risk adjusted, absolute returns (ann. target return >15% and ann. target volatility <15%) while maintaining a public indice correlation <40%. Fund utilizes a four-dimensional trading strategy consisting of capital preservation, alpha, beta and gamma. Fund combines bottom-up sector/company analysis (alpha generation) and top-down macro derivatives overlay (beta risk management). Additional alpha derived from cross-BRIC trading emanating from GCA’s BRIC fund platform. Fund utilizes all asset classes (equities, fixed income, derivatives & options and foreign exchange) and assets are dynamically managed across Greater China markets (China, Hong Kong and Taiwan). Fund also invests in company securities listed on other international exchanges and accesses China’s fastest growing mid-cap sector by way of its on the ground investment team. Fund adheres to “best of breed” risk controls and fund governance practices.

## Fund Details

Investment Style:	Absolute return, multi-asset/macro overlay
Investment Geography:	Greater China (Hong Kong, Taiwan, China)
Fund Size (\$mn):	Not disclosed
Fund Capacity (\$mn):	500
Firm’s Total Assets (\$bn):	\$1.4bn (managed/advised)
Inception Date:	December 1, 2005 (Actual)
Bloomberg Code:	GCAGRCH VI
Domicile:	BVI
Base Currency:	USD
Equalization/Share Class <sup>6</sup> :	Series shares; Master Feeder Structure
Dividend Policy:	None
Hurdle Rate:	No
High Water Mark:	Yes
Ann. Target Return:	>15%
Ann. Target Volatility:	<15%
Maximum Leverage:	2.5:1 (not currently utilized)
Long & Short Maximum:	150% & 100%
Listed on Exchange:	No
Minimum Investment Size:	US\$1,000,000 (unless waived)
Manager Investment:	Yes from inception; no withdrawals
Tax Reporting:	U.S. PFIC
AIMA Compliant:	Yes (Member)

## Service Providers

Prime Broker:	Citigroup
Administrator:	Fortis Prime Fund Solutions (BVI) Limited
Paying Bank:	VP Bank BVI
Auditor:	Deloitte & Touche LLP
BVI Counsel:	Walkers BVI

<sup>1</sup>Annual results for the Fund and NAV calculations are net of management fee of 1.5% and performance fee of 15% and expenses; Manager and Advisor related and historical track records are available upon request; <sup>2</sup>Risk free rate used for Sharpe-ratio is U.S. 90-day T-bills; <sup>3</sup>Net Allocation by asset class and region represent portfolio net exposure; <sup>4</sup>Exposure data represents Fund’s net exposure including adjustments for options delta. Note that Gross Assets=long+short+cash+gain/loss on derivatives; <sup>5</sup>Value at Risk (VAR) defined as quantitative market or event risk estimate of potential loss to fund. <sup>6</sup>Equalization refers to accounting method designed to insure alignment of incentive fees amongst investors. <sup>7</sup>Percentage daily loss based on the trailing trading volume of the securities within the portfolio. <sup>8</sup>The regions of China include H-shares and Red Chips.

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