

# GCA Greater China Fund – July 2007 +8.22%<sup>1</sup> (Month 20)

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

GCAGC	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	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	1.83	5.86	8.22						25.44

## Performance Summary – July 2007

Return Data <sup>1</sup> :	GCAGC	MSCI Golden Dragon	S&P 500
NAV per share (\$)	1,605.14	155.33	1,455.27
Monthly Return (%)	8.22	6.31	-3.20
YTD Return (%)	25.44	19.09	2.61
Best Month (%)	8.22	9.09	4.33
Worst Month (%)	-2.56	-6.51	-3.20
Since Inception Return (%)	60.51	67.49	16.47
Annualized Since Inception Return (%)	32.83	36.27	9.58
<b>Risk/Return:</b>			
Sharpe Ratio (x) <sup>2</sup>	3.16	2.39	0.61
Ann. Std Deviation (%)	8.94	13.59	7.19
Max Drawdown (%)	-3.70	-7.91	-4.92
% Positive Months	75.00	75.00	75.00
Market Correlation	1.0	0.825	-0.393
<b>Exposure:</b>	(% NAV)		
Long	30.66	n/a	n/a
Short	-3.47	n/a	n/a
Gross	34.13	n/a	n/a
Net	27.19	n/a	n/a
Cash	66.72	n/a	n/a
Gross Assets	100.86	n/a	n/a
<b>Risk Indicators:</b>	(% NAV)		
1 day 95% VAR <sup>3</sup>	0.37	n/a	n/a
1 day 99% VAR	0.53	n/a	n/a
30 day 95% VAR	1.71	n/a	n/a
30 day 99% VAR	2.41	n/a	n/a
Loss @ fire sale/avg. Days <sup>4</sup>	-0.06/1day	n/a	n/a

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

Allocation by Asset Class:	% NAV	Allocation by Region:	% NAV
Equity	30.66	China <sup>8</sup>	13.72
FX	n/a	Hong Kong	6.84
Options	n/a	Taiwan	6.64
Cash	66.72	Other	n/a
Bonds	n/a	Cash	66.72
Derivatives	-3.47		
Commodities	n/a		
<b>Allocation by Sector:</b>	<b>% NAV</b>	<b>Attributables:</b>	<b>P&amp;L (% NAV)</b>
Cash	66.72	Cash	-0.02
Oil & Gas	n/a	Oil & Gas	-0.18
Metals & Mining	n/a	Metals & Mining	0.65
Banking & Finance	n/a	Banking & Finance	1.97
Consumer	7.07	Consumer	0.49
Cyclical		Cyclical	
Telecom	3.95	Telecom	0.14
Technology	9.14	Technology	1.99
Other	10.50	Other	4.17
Derivatives	-3.47	Derivatives	-0.12
<b>Allocation by Market Cap:</b>	<b>% NAV</b>		
Small (<\$500m)	10.28		
Mid(\$500m-\$2bn)	7.31		
Large (>\$2bn)	13.08		
Derivatives	-3.47		

## Monthly Commentary

**July Overview:** The Hong Kong market continued its rally and set a new record high in July. With the market staying strong, we kept an all time high net exposure through out most of July trading days. In Taiwan, turnover for the month ballooned substantially by 67.9% month over month to NT \$5020.2 billion as retail investors decided to participate in the market run-up. TAIEX performed admirable behind stellar performance from the Construction sector, which rose 11.66% behind favorable government policies. Later in the month when US credit market turbulence re-emerged, we aggressively cut our net exposure just before a major correction on July 27. The global credit market crunch may not be over yet, therefore we are cautious about trying to bottom fish even though valuations look attractive.

After the strong performance in June and July, our view has turned more cautious as mentioned above due to the impact of US credit concerns on the global stock markets and the fact that they are currently trading in concert with each other. We will evaluate this trading pattern to be opportunistic when we see a decoupling of the US and Greater China markets. We continue to see the outlook for a positive Greater China economy as fundamentals remain bullish however market sentiment seems bearishly biased globally and as such for August, we will maintain a low net exposure until positive directional strength is apparent. One might think to increase one's short positions which would be consistent with our view of a short term market correction however, due to unrelenting market volatility we believe this ill advised. Heroes are hard to find as they say and therefore we think it more prudent to remain cautious and wait for more market clarity.

**Politics:** China issued new rules allowing the nation's insurers to invest up to \$48 billion of their assets in overseas stocks and bonds. On 25th July, China's China Insurance Regulatory Commission raised the cap on investing abroad to 15 percent of assets from 5 percent. The three mainland insurers listed in Hong Kong surged with heavy turnovers. These new rules will have a further impact in increasing the volume of stock traded in Hong Kong.

China's central bank raised interest rates on July 21 for the third time since March to cool the fastest pace of economic growth in 12 years and restrain inflation. The People's Bank of China raised the benchmark one-year lending rate by 0.27 percent point to an eight

year high of 6.84 percent. The deposit rate was increased by the same amount to 3.33 percent. China also announced on July 20 that tax on interest income will be cut to 5% from 20% on Aug. 15 to encourage savings and reduce stock market liquidity and tangentially volatility.

The China Financial Futures Exchange published rules for stock-index futures on June 28th, saying investors are required to deposit 10 percent of a contract's value to buy, sell or short-sell CSI 300 futures. Launch date of the index futures was not announced yet. The stock index is part of an evolving sophisticated financial market in China and is another approach in helping to reduce market volatility.

**Attributes:** In China, we ended the month with a long exposure of 14.5% and a short exposure of 3.47%. We held 9 stocks at the end of the month reflecting the move into cash as a result of a sharp Hong Kong correction. The largest daily drawdown was -1.52% on July 27; the biggest daily gain was +1.73%.

In Taiwan, we ended the month with a long exposure of 6.64% and no short exposure. We ended with 17 stocks, all large caps in the technology sector. The largest daily drawdown was -36% on July 27; the best daily gain was +.45%. Notwithstanding the month end correction, we enjoyed our largest gain since the inception of the fund in December 2005.

**Strategy:** The GCA Greater China Fund is among the best of the risk adjusted Greater China funds. YTD its gross return has been 31% through the end of July and its standard deviation 10.5%, sampled on daily basis versus 29% return for HSCEI index and standard deviation of 26%. YTD our average net exposure has been 52% and our average gross exposure 92%. YTD our sharp ratio is 3.89X versus 1.47X for the HSCEI index. China Fund unique and an attractive investment vehicle for those sophisticated investors looking for above market returns with below market risk.

**DISCLAIMER:** The information and summaries contained herein appear as a matter of record only and are provided for information purposes only. This information does not, and should not be construed to, constitute an offer to sell or a solicitation of an offer to buy any of the shares, or any other interest, in any fund or form the basis of any contract or commitment whatsoever. This summary is based on information and data received from the subjects of each and from other third party sources and no guarantee of completeness or accuracy can be made nor is any representation or warranty made in this regard. We understand that many of the funds may not be sold into, or that their sales may be restricted in, particular jurisdictions (including the United States). Accordingly you are advised to seek independent professional advice before taking any action in relation to any fund mentioned herein. We accept no liability whatsoever for any direct or indirect loss arising out of the use of this directory or reliance on anything found in this directory.

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Admiralty Center, HK Room

## 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, P. Britto
Finance & Accounting	G. Madding, P. Britto
Marketing & Client Services	Bonnie George, Valerie Rios
Legal/Compliance	G. Madding, P. Britto, 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 MF 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 415-383-1464
Hong Kong Address:	Room 1003-4 10F Tower 1 18 Harcourt Road

Investment Committee:	Lou Gerken, Gary Tan, Sean Tseng
Directors:	Lou Gerken, Dakshesh Patel
Contact Person:	Bonnie George, Director of Marketing <a href="mailto:Bonnie@gerkencapital.com">Bonnie@gerkencapital.com</a> Valerie Rios, Client Services <a href="mailto:Valerie@gerkencapital.com">Valerie@gerkencapital.com</a> +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 index 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.