

# GCA Greater China Fund – September 2006 +2.13%<sup>1</sup>

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

| GCAGC<br>S&P 500 | 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<br>-0.10 | 2.62<br>-0.10 |
| 2006             | 3.61<br>2.55 | 3.72<br>0.05 | 6.25<br>1.11 | 1.96<br>1.22 | -0.58<br>-3.09 | -2.56<br>0.01 | -0.39<br>0.51 | -0.20<br>2.13 | 2.13<br>2.46 |     |     |               | 14.52<br>7.01 |

## Performance Summary – September 2006

| Return Data <sup>1</sup> :    | GCAGC    | MSCI<br>Golden<br>Dragon | S&P 500  |
|-------------------------------|----------|--------------------------|----------|
| NAV per share (\$):           | 1,175.20 | 108.62                   | 1,335.85 |
| Monthly Return (%)            | 2.13     | 2.62                     | 2.46     |
| YTD Return (%)                | 14.52    | 12.44                    | 7.01     |
| Best Month (%)                | +6.25    | 7.16                     | 3.52     |
| Worst Month (%)               | -2.56    | -6.51                    | -3.09    |
| Since Inception Return (%)    | 17.52    | 17.12                    | 6.91     |
| Annualized Return (%)         | 21.37    | 22.09                    | 8.54     |
| <b>Risk/Return:</b>           |          |                          |          |
| Sharpe Ratio (x) <sup>2</sup> | 1.91     | n/a                      | n/a      |
| Annualized Std Deviation (%)  | 9.01     | n/a                      | n/a      |
| Max Drawdown (%)              | -3.70    | n/a                      | n/a      |
| % Positive Months             | 60.00    | n/a                      | n/a      |
| 1 day 95% VAR <sup>5</sup>    | -0.630   | n/a                      | n/a      |
| 1 day 99% VAR                 | -1.647   | n/a                      | n/a      |
| 30 day 95% VAR                | -3.45    | n/a                      | n/a      |
| 30 day 99% VAR                | -9.02    | n/a                      | n/a      |
| <b>Exposure (% NAV):</b>      |          |                          |          |
| Long                          | 60.08    | n/a                      | n/a      |
| Short                         | -30.99   | n/a                      | n/a      |
| Gross                         | +91.07   | n/a                      | n/a      |
| Net                           | +29.08   | n/a                      | n/a      |
| Cash                          | 39.92    | n/a                      | n/a      |
| Gross Assets                  | 130.99   | n/a                      | n/a      |

## Summary Statistics<sup>3,4</sup> – September 2006

| Allocation by Asset Class:   | % NAV        | Allocation by Region: | % NAV                  |
|------------------------------|--------------|-----------------------|------------------------|
| Equity                       | 60.08        | China                 | 1.32                   |
| FX                           | n/a          | Hong Kong             | 16.15                  |
| Options                      | n/a          | Taiwan                | 11.61                  |
| Cash                         | 39.92        | Other                 | n/a                    |
| Debt                         | n/a          | China                 | n/a                    |
| Derivatives                  | -30.99       | Cash                  | 39.92                  |
| Commodities                  | n/a          |                       |                        |
| <b>Allocation by Sector:</b> | <b>% NAV</b> | <b>Attributables:</b> | <b>P&amp;L (% NAV)</b> |
| Cash                         | 39.92        | Cash                  | -0.02                  |
| Oil & Gas                    | 2.78         | Oil & Gas             | n/a                    |
| Metals & Mining              | n/a          | Metals & Mining       | n/a                    |
| Banking & Finance            | 11.48        | Banking & Finance     | 1.28                   |
| Consumer Cyclical            | 13.21        | Consumer Cyclical     | 0.79                   |
| Telecom                      | 8.94         | Telecom               | 0.59                   |
| Technology                   | 18.13        | Technology            | 0.31                   |
| Other                        | 5.54         | Other                 | 0.05                   |
| Derivatives                  | -30.99       | Derivatives           | -0.89                  |
|                              |              |                       |                        |
|                              |              |                       |                        |

## Monthly Commentary

Markets increased in September 2006. The HSI index was up 0.068%, the HSCCI index was up 2.75% and the HSCIEI index was up 2.9%. MSCI Golden Dragon (MXGD) which is a free float index with weightings of 40% Taiwan, 30% China and 30% Hong Kong was up 2.62%. On the China side we outperformed the MSCI Golden Dragon index but our overall performance was dragged down by our Taiwan portfolio, weighted toward technology stocks.

September was a smooth month for Chinese equities with PRC moving ahead of Hong Kong Listed Chinese shares. The Shanghai Composite Index gained 6.92%.

Out of 21 trading days in September, China was negative 8 days with the biggest drawdown being -0.55% on September 7. At the end of the month, the China side ended up with a gross exposure of 94.86% and net exposure of 23.74%. Again, the erratic trading made developing a trend exposure difficult. At the end of September we held 18 China related stocks with most holdings in large caps. Our focus has been on China large cap stocks, wanting to maintain liquidity in choppy markets and avoiding downside risks associated with mid caps.

The TAIEX climbed 4.1% in September with the index closing at 6,883. Turnover for the month was NT \$1,578.2 billion, a decrease of 8.7% month on month. TAIEX rose 3% on September 18 after the first Depose march on September 15 and a subsequent DPP rally on September 16 ended in a peaceful manner. All sectors rallied, led by Cement with a 10.8% gain, Construction with 9.7% and Financials with a 7.3% as the market believes bank charge-offs and provision losses have peaked. Steel gained 6.5%, Paper 4.8% and Transportation 4.3%. Tech stocks on the other hand rose by only 2.8%. Since the Tech sector was the best performer in August with 5.9% gain, the market is waiting for company guidance numbers coming out the end of October. Our action plan calls for the market to range between 6,700 to 7,000. The political rancor continues to weigh on the market with a negative bias.

Out of 21 trading days in September 2006, Taiwan was negative 15 days with the biggest drawdown being 1.01% on September 28. At the end of the month we ended up with a net exposure of 38.63% and a gross exposure of 70.73%. Similar to the China side, the daily performance of the indexes were up and down, making directional bets difficult. At the end of September, we held 11 Taiwan related stocks, all large caps.

The Van Global Hedge Fund Index, a widely-followed measure of average hedge fund performance, returned 1.2% net of fees in September according to preliminary results released today by Van Hedge Fund Advisors International, Inc. (VAN), a leading hedge fund advisory firm. The preliminary September Index return is based on approximately 250 early reporting hedge funds.

Our general strategy has been to be one of the top ranked risk adjusted Greater China focused funds. In August, we were number 7 out of 46 Greater China funds shown in the Eurekahedge database in terms of risk adjusted return. We manage risk on a daily basis adjusting our net exposure to given market conditions which means our daily gains/losses are always relatively modest in either direction. Given the frequent daily up and down movement of the China and Taiwan markets in September, we made a decision to keep our net exposure relatively low in September as we had in July and August. Notwithstanding, we are increasing the number of stocks on the China side as well as taking larger positions with the view of taking advantage of market up trends.

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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).

•**Advisor:** GCA has been professionally affiliated with the Polaris Group for nearly a decade and has appointed it as its Greater China Advisor. 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.

•**Fund management team consists of nineteen investment professionals:**

### Investment:

|                             |                                     |
|-----------------------------|-------------------------------------|
| Chair, Investment Committee | Lou Gerken*                         |
| Fund Portfolio Manager      | Hugh McClung*                       |
| Chief Investment Officer    | Gary Tan*                           |
| Chief Strategist            | Sean Tseng*                         |
| Risk Management             | Thomas Huang                        |
| Taiwan Investment Desk      | Nancy Chen, Kenner Wang, K.Y. Liang |
| China Investment Desk       | Albert Lai, Max Lee, Leo Zhang      |
| HK Investment Desk          | Nicole Chien, James Sa, Changer Ho  |

### Administration:

|                         |                            |
|-------------------------|----------------------------|
| President & COO         | Greg Madding               |
| Chief Financial Officer | Bashir Wada                |
| Dir. Marketing & Sales  | Bonnie George              |
| Legal, Compliance & B/O | Lawrence Jian, Angela Chen |

### \*Investment Committee Members

## Differentiators

- Dedicated “Greater China” footprint (China, HK & Taiwan)
- Absolute return, low volatility, multi-asset strategy
- Equity long/short focus for 2006
- Four-dimensional strategy (capital preservation; alpha; beta and gamma)
- Managed on the ground by established team of investment professionals
- Significant research, trading and risk management commitment
- \$300M in capacity and scalable
- Seasoned team with established track record
- Significant investment by Manager and investor alignment
- Long-term partner affiliation and economic alignment
- Part of the GCA “BRIC” Master Share Class Fund structure

## Manager Details

|                |   |
|----------------|---|
| Fund:          | GCA Funds Limited<br>BVI International Business Company<br>Regulated under the BVI Mutual Funds Act<br>1996           |
| B Share Class: | GCA Greater China Fund Limited  |
| Sponsor:       | Gerken Capital Associates   |
| Fund Manager:  | Gerken Capital Associates<br>Louis C. Gerken, CEO<br><a href="mailto:lou@gerkencapital.com">lou@gerkencapital.com</a> |

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|                       |  |
|-----------------------|--|
| Advisor:              | Polaris Investment Management Group<br><a href="http://www.polaris.com.tw">www.polaris.com.tw</a>  |
| Investment Committee: | Gary Tan, President Equity Derivatives<br>Sean Tseng, EVP Research   |
| Directors:            | Lou Gerken, Hugh McClung, Gary Tan, Sean Tseng   |
| Contact Person:       | Lou Gerken, Hunter Ashby Financial Services Ltd., Salinger Holdings<br>Bonnie George, Director of Marketing<br>Valerie Rios                        |
| Email Address:        | <a href="mailto:Bonnie@gerkencapital.com">Bonnie@gerkencapital.com</a><br><a href="mailto:Valerie@gerkencapital.com">Valerie@gerkencapital.com</a> |
| Telephone Number:     | +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.  |

## Strategy

The Fund’s investment objective is to achieve absolute returns greater than 15% per annum, average annual volatility less than 15% whilst only showing a correlation to public indices of less than 40%. Fund to adhere to best of breed risk control and fund governance practices. Fund will utilize all asset classes (equities, fixed income, derivatives & options and foreign exchange). Assets will be dynamically managed across Greater China. At inception, 70% allocated to the Hong Kong and China markets and 30% to Taiwan. The Fund may also invest in other assets and/or international companies headquartered outside of Greater China where Greater China derived turnover exceeds 40%.

## Fund Details

|                             |  |
|-----------------------------|--|
| Investment Style:           | Absolute return, low volatility, multi-asset |
| Investment Geography:       | Greater China (Hong Kong, Taiwan, China)     |
| Fund Size (\$mn):           | 10   |
| Fund Capacity (\$mn):       | 300  |
| Firm’s Total Assets (\$bn): | \$1.5bn (managed/advised)                    |
| Inception Date:             | December 1, 2005 (Actual)                    |
| Bloomberg Code:             | GCAGRCH VI                                   |
| Domicile:                   | BVI  |
| Base Currency:              | USD  |
| Equalization/Share Class:   | N/A  |
| Dividend Policy:            | None   |
| Hurdle Rate:                | No   |
| High Water Mark:            | Yes  |
| Maximum Leverage:           | 2.5:1  |
| Long & Short Maximum:       | 150% & 100%                                  |
| Listed on Exchange:         | No   |
| Minimum Investment Size:    | US\$250,000                                  |
| Manager Investment:         | Yes from inception; no withdrawals           |

## 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.

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