

# GCA Greater China Fund – September 2007 +5.98%<sup>1</sup> (Month 22)

## 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	1.54	5.98	aa	na	na	35.00

## Performance Summary – September 2007

Return Data <sup>1</sup> :	GCAGC	MSCI Golden Dragon	S&P 500
NAV per share (\$)	1,727.39	179.6	1,526.75
Monthly Return (%)	5.98	13.74	3.58
YTD Return (%)	35.00	37.70	7.65
Best Month (%)	8.22	13.74	4.33
Worst Month (%)	-2.56	-6.51	-3.20
Since Inception Return (%)	72.74	93.66	22.19
Annualized Since Inception Return (%)	34.74	43.41	11.55
<b>Risk/Return:</b>			
Sharpe Ratio (x) <sup>2</sup>	3.42	2.65	0.93
Ann. Std Deviation (%)	8.93	15.33	7.15
Max Drawdown (%)	-3.70	-7.91	-4.92
% Positive Months	77.27	77.27	77.27
Market Correlation	1.0	0.951	0.728
<b>Exposure:</b>	(% NAV)		
Long	94.45	n/a	n/a
Short	0	n/a	n/a
Gross	94.45	n/a	n/a
Net	94.45	n/a	n/a
Cash	19.78	n/a	n/a
Gross Assets	114.23	n/a	n/a
<b>Risk Indicators:</b>	(% NAV)		
1 day 95% VAR <sup>3</sup>	2.61	n/a	n/a
1 day 99% VAR	3.69	n/a	n/a
30 day 95% VAR	12.51	n/a	n/a
30 day 99% VAR	17.69	n/a	n/a
Loss @ fire sale/avg. Days <sup>7</sup>	-0.02/1day	n/a	n/a

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

Allocation by Asset Class:	% NAV	Allocation by Region:	% NAV
Equity	78.38	China <sup>8</sup>	77.64
FX	n/a	Hong Kong	11.77
Options	n/a	Taiwan	5.04
Cash	19.78	Other	n/a
Bonds	n/a	Cash	19.78
Derivatives	16.06		
Commodities	n/a		
<b>Allocation by Sector:</b>	<b>% NAV</b>	<b>Attributables:</b>	<b>P&amp;L (% NAV)</b>
Cash	19.78	Cash	0.06
Oil & Gas	15.78	Oil & Gas	1.07
Metals & Mining	3.30	Metals & Mining	0.93
Banking & Finance	19.96	Banking & Finance	1.16
Consumer Cyclical	4.67	Consumer Cyclical	-0.22
Telecom	n/a	Telecom	0.30
Technology	9.42	Technology	-0.38
Other	25.25	Other	2.14
Derivatives	16.06	Derivatives	1.73
<b>Allocation by Market Cap:</b>	<b>% NAV</b>		
Small (<\$500m)	5.96		
Mid(\$500m-\$2bn)	4.98		
Large (>\$2bn)	67.44		
Derivatives	16.06		

## Monthly Commentary

**September Overview:** The announcement of plans to allow domestic individual Chinese investors to invest in Hong Kong listed securities and capital inflows from QDII (Qualified Domestic Institutional Investors) has been having a major impact on the Hong Kong market. In the first half of September, the Hong Kong market traded in a narrow range with the HSCEI (Hang Seng China Enterprise Index) boxed between 14000 and 14800 and the HSI (Hang Seng Index) between 23000 and 24000; then a decisive breakout on Sept. 19 led the market into new territory with the HSCEI ending up at over 17000 and the HSI Index over 27000 by the end of the month. The HSI Index was up by 13.2% in September, led by China related issues. The HSCEI Index was up by 18.7% during the month due primarily to the expectations of substantial funds flowing from the A-share to the H-share market and the current increase in investment in anticipation of that investment shift. These factors have resulted in both an increase in volatility and higher valuations for the Hong Kong market and contributed to a more trading like environment similar to the China A-share market. With the sub-prime storm lessening and ample liquidity, the Hong Kong stock market is still capable of upward movement. We continue to have a positive market bias but expect to see higher volatility in the Hong Kong market continuing for some time, therefore will remain cautious in terms of our market exposure preferring a net exposure in the 30-80% range, focusing on big cap stocks with greater liquidity.

After a sharp decline of 3.3% in August due to sub-prime woes, the Taiwan market rebounded with the TAIEX Index up 5.4% to close at 9476.52 in September. However trading volume at NT \$2502.9b didn't increase proportionally with the index; instead, the volume declined by 30% month over month. Sector-wise, Cement, Transportation and Paper performed the best with gains of 21.6%, 12.4% and 10.9%. Steel, Plastic and Electronics followed with gains of 9.3%, 7.4% and 4.5%. Finally, Financials gained 3.3%, underperforming the index; and Construction lost by 2.4%, being the worst performing sector in the Index. We anticipate the index to trade within 9400 to 9800.

Hedge fund strategies outperformed mutual funds and the broader stock market indexes in September with the S&P 500 index gaining 3.6% and the Dow Jones Industrial Average up by 4.1% for the month. The Eurekahedge Asia Hedge Fund Index showed a return of 4.67% (YTD +18.53%) and the Eurekahedge Emerging Market Index was up by 5.25% (YTD +23.67%).

**Politics** A major impact on the Hong Kong stock market will be the establishment of China Investment Corporation ("CIC"). CIC is a mainland US \$ 200 billion sovereign entity with its strategic objective to develop its foreign investment portfolio. Investments into the Hong Kong stock market will be one of its top priorities and along with the QDII program will together contribute in our view, further upward momentum in Hong Kong stocks. The US \$200 billion fund was allocated from the US \$1.4 trillion of foreign reserves, the largest held by any country in the world.

In September, The China Securities Regulatory Commission ("CSRC") approved the initial public offering (IPO) application for four large H-share companies (China Construction Bank Corp., China Shenhua Energy Co., PetroChina Co., and China Oilfield Services). Bringing H-share back to the A-share market in mainland China is regarded as one way of mitigating the liquidity problem for the A-share market and has also created trading opportunities for the H-share stocks.

**Attributions:** In China, we ended the month with a long exposure of 61.96% and no short exposure. We held 19 stocks at the end of the month. The largest daily drawdown was -1.51% on September 25th, the biggest daily gain was +1.80% on September 27th. Within the 19 stocks, the best performing stocks were AMVIG HILDGS LTD (2300) and LINING CO ORD (2331) and JIAODA HIGHTECH (0300) in that order.

In Taiwan, we ended the month with a long exposure of 5.04% and no short exposure. We ended with 17 stocks, all large caps in the technology sector. The largest daily drawdown was -1.4% on September 17th, and the best daily gain was +2.3% on September 21st. Within the 17 stocks, the best performing stocks were SAS (5483), AMTRAN (2489) and WPG (3702) in that order.

**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.

## 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*
Associate Portfolio Manager	Mary Lu*
Chief Strategist	Gary Tan*
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	Valerie Rios
Legal/Compliance	G. Madding, P. Britto, L. Jian,
Back Office/Administration	Angela Chen, Carla Boy

### \*Investment Committee

Hong Kong Address:	Room 1003-4 10F Tower 1 18 Harcourt Road Admiralty Center, HK Room
Investment Committee:	Lou Gerken, Gary Tan, Sean Tseng, Mary Lu
Directors:	Lou Gerken, Dakshesh Patel
Contact Person:	Mary Lu, Associate Portfolio Manager Mary@gerkencapital.com Valerie Rios, Client Services 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:	None
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:	250% & 150%
Listed on Exchange:	No
Minimum Investment Size:	\$1,000,000
Manager Investment:	Yes from inception; no withdrawals
Tax Reporting:	U.S. PFIC
AIMA Compliant:	Yes (Member)

## 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 (Mid-cap)
- 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

## 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.