Funds

CAT FUND

Member of Cat Group

Cat's View

Zurich, 15th May 2007

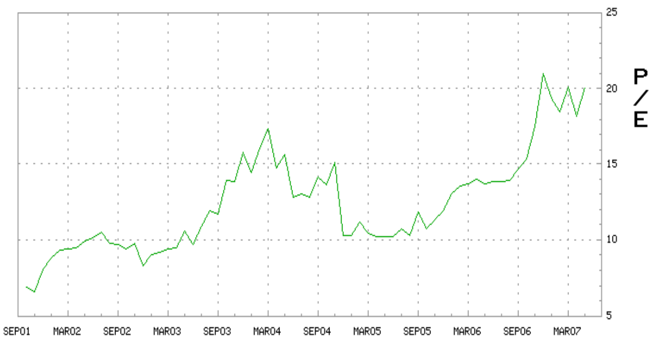
China allows equity investments abroad

The long awaited move of the China Banking Regulatory Commission (CBRC) to allow Chinese institutions to buy "overseas" shares has been announced last Friday (QDII, qualified domestic institutional investors). Chinese commercial banks will be allowed to buy stocks abroad and distribute these in form of funds to the Chinese private investors. The initial amount is relatively small, US$ 7 – 9 bn, but this is only the first step of opening up the so far closed Renminbi for investments abroad. Total savings with commercial banks amount to US$ 4'400 bn which could find new investment homes away from the expensive Chinese equity markets.

Hong Kong is the only stock market which has already signed the Memorandum of Understanding with the Chinese authorities. This means that Chinese banks will be able to buy Hong Kong listed equities. What will they buy?

1. H-Shares which are trading on massive discounts to their relating A-Shares, i.e. China Petroleum (Sinopec) on 62% discount
2. Hong Kong listed stocks which have no mainland listing, i.e. China Mobile

P / E chart H-Shares



P/ E chart Shanghai A-Shares

We strongly believe that the valuation gap between H-Shares and A-Shares will narrow over time. We strongly believe as well that the fundamental growth in China will continue for years to come.

How can you participate in the China story? Cat has two funds with China exposure:

- The Cat Asia Convert Fund CHF as a more defensive instrument with lower volatility has currently 26% exposure in Hong Kong / China. The year-to-date performance stands at +5.4%, in 2006 it was +19%.

- We also have a China fund in US$ which invests in H-Shares. The average P/E of the fund is approx. 13.5x, the year-to-date performance stands at +25% vs. +6% for the H-Share index.

Don't hesitate to contact us for more information.

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