

## Bin Yuan Greater China Fund

SFDR status as of March 2021: Article 8

August 2023

### Investment Review

The Hereford Funds – Bin Yuan Greater China Fund (share class L1) depreciated 8.91% for the month of August (net of fees) compared with a -8.61% return for the benchmark, underperforming the benchmark by 30 bps. Compared to the benchmark, our stock selection in Information Technology, Industrials and Materials contributed positively to the performance while Ecovacs in Consumer Discretionary lagged. In August, the positions that contributed the most to the portfolio's return were SHANGHAI FRIENDESS, SUNRESIN and MAXSCEND. The positions that contributed the least were ECOVACS, KANGJII MEDICAL and CHINA MERCHANTS BANK.

### Manager's Commentary

**August was a weak month for the market with sentiment depressed by the property sector and by macro data missing expectations. However, H1 earnings for our portfolio companies were robust with 93% of our holdings beating or meeting our and street estimates, much higher than the market's growth. They are trading on extremely attractive valuations.**

Weak macro data and overall disappointing Q2 earnings results for the market impacted investor confidence. Sentiment has been weak but there are signs it is stabilizing following a number of government policies to support growth and restore confidence. More detailed policies came out after authorities from various departments vowed support for growth in capital markets, the housing market and residential consumption; among these were:

- ✓ Stamp duty cuts, slowing the pace of initial public offerings (IPOs), tightening of large shareholder selling rules, encouraging share buybacks and lowering margin requirements, all boosted sentiment in the equity market.
- ✓ Reduced rates and downpayment ratios for mortgages in large cities injected some vigor into the housing market and reduced the burden on some previous home buyers at the same time. A total of RMB 300 - 400 billion of mortgage interest is estimated to have been cut, reducing the financial burden on approximately 100 million households.
- ✓ There are also personal income tax deductions for childcare, parental care and children's education spending to boost household consumption.
- ✓ Pre-pandemic restrictions were also lifted on group tours for more countries such as the United States, Japan, South Korea and Australia.

Progress on stabilizing Sino-U.S. relations also continued, with the fourth senior American official, Commerce Secretary Gina Raimondo making her first visit to China. Both sides expressed their intention to find a way forward and to establish new channels for regular communications on commercial issues.

While global investors concerns focus on debt and macro issues in China, we believe the Chinese government has plenty of room to revive the economy. First, the central government balance sheet is very healthy compared with developed economies. Second, the Chinese banking system is adequately capitalized with annual profits amounting to 2.5 trillion RMB, which can be used as a big cushion to absorb potential losses and support the economy. Third, the low-leveraged Chinese SOEs are less vulnerable to the current macro situation and leave room for potential re-leveraging. The recent default by Country Garden is at the tail of the process of government initiatives to control an over-developed and over-leveraged property sector. Non-property private companies, the technology sector in particular, are increasing R&D to move up the value chain, and a batch of high-end technology companies are taking foreign market share domestically as well as globally.

**We believe that we are in the middle of a painful transition from a property and exporting-driven economy to one focused on higher value-added industries. Our portfolio has about 60% exposure to the beneficiaries of import substitution and is concentrated in the high tech, med tech, and green tech areas. Most if not all of the negative news and sentiment is reflected in stock prices over the last 18 months at the same time as the stock market has been driven by momentum trading, as investors chase the latest themes and not many market participants currently pay attention to fundamentals. The positive aspects in certain sectors have been overlooked or ignored. We have visited our companies and reviewed our holdings. We have a great portfolio which has demonstrated robust earnings growth. Despite market conditions remaining poor, we are very confident that our portfolio companies will deliver strong investment returns - as the data that support the fundamental investment theses come through.**

### Key Information

NAV (31/08/23)	US\$ 113.95(L1)/108.56(L2)/78.89(AI)/63.98(AI EUR)/58.43(AI GBP)/81.68(BI)/123.97(CB)/81.84(DB A)/92.22(DB A NOK)/82.74(DI A)/131.55(CI)/60.92(CI GBP)/62.69(PB EUR)	Strategy Assets	US\$ 1,058 m <sup>(a)</sup>
Total Fund Size	US\$ 639.0 m	Fund Launch Date	16-Apr-18

#### Period Performance (%) data from FPS/Pictet/Bin Yuan

	2023	2022	2021	2020	2019	2018	Cumulative	Annualized
Bin Yuan All China Strategy <sup>(b)</sup>	-18.57	-29.45	10.02	83.51	30.60	-22.46	75.03	7.93
Index <sup>(c)</sup>	-5.73	-23.61	-12.91	33.41	29.74	-26.64	7.79	1.03

Signatory of:



**RACE TO ZERO**



Monthly Performance (%) data from FPS/Pictet

	2022					2023								
	Sep	Oct	Nov	Dec	YTD	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	YTD
Bin Yuan GC Fund	-8.76	-7.68	12.87	2.33	-29.45	7.20	-8.07	-2.44	-5.75	-6.03	-1.43	6.51	-8.91	-18.57
Index <sup>(c)</sup>	-12.26	-13.52	21.29	4.02	-23.61	11.06	-7.82	2.58	-3.87	-7.94	1.85	8.99	-8.61	-5.73

## Risk and reward profile



Top Ten Holding					
1	IRAY TECHNOLOG-A	9.81%	2	CHINA MERCH BK-A	5.18%
3	CHAOZHOU THREE-A	4.86%	4	BAIDU - SW	4.57%
5	SHANGHAI FRIEN-A	4.40%	6	NARI TECHNOLOG-A	4.20%
7	PING AN INSURA-A	4.09%	8	HAICHANG OCEAN P	4.04%
9	WUXI AUTOWELL-A	3.96%	10	H WORLD GP LTD	3.87%

Sectoral Breakdown <sup>(e)</sup>	% of Assets
Information Technology	21
Consumer Discretionary	17
Health Care	16
Industrials	15
Financials	9
Communication Services	6
Consumer Staples	6
Materials	1

## Investment Objective

The investment objective of the Compartment is to provide long term capital growth, measured in USD, primarily through investment in equities and equity-linked securities of Greater China Companies, as defined hereafter.

Since Inception <sup>(d)</sup>	Bin Yuan All China	Index
Volatility	20.72%	20.93%
Sharpe Ratio	0.42	0.05
Information Ratio	0.69	
Tracking Error	10.92%	
Active Shares	89%	
Beta	0.90	

Market Breakdown	% of Assets
A Share (Connect + QFI)	64
Hong Kong	26
US ADR	1

Valuation	Portfolio	Benchmark (excluding Financials)	Benchmark
Period	8/31/2023	8/31/2023	8/31/2023
2023 PE (X) – Weighted Average Method*	22.3	22.4	20.0
2023 PE (X) – Integral Method*	15.2	13.1	11.3
2023 PB (X)	4.3	3.1	1.9
2023 Div. Yield (%)	1.5	1.6	2.5
2023 ROE (%)	19.2	13.8	9.6
Earning Growth (%) Forward 3 YR	26.9	11.3	8.1
2023 PEGY	0.8	1.7	1.9
FCF Yield	1.9	-1.2	2.1

Note: Valuation dynamics impacted by corporate quality.

\*PE Weighted Avg. Method: The PE of each security in the portfolio/benchmark is multiplied by its weight and then is summed to a final PE;

\*PE Integral Method: The PE is calculated by dividing the summary of each security's market capitalization in the portfolio/benchmark by the summary of each security's earning.

Fund Codes						
Share Class	AI	AI GBP	AI EUR	BI	CI	CI GBP
Bloomberg	HEYGCAU LX	HEYGCAU LX	HEYGCAE LX	HEYGCBU LX	HFBYCIU LX	HEYGCGA LX
TK	040149630	040149699	040149698		040149734	040149736
ISIN	LU1778252558	LU1778252715	LU1778252632	LU1778253952	LU1778254844	LU1778255064
Lipper ID	68617991	68666625	68677482	68625053	68563916	68684500
Sedol	BMV2Q30	BNLYXY6	BN4BFL5	BMV1994	BMWWFG8	BP466G6

Fund Details	
Dealing Day <sup>(d)</sup>	Daily
Dividends	None – income accumulated within the fund
Investment Manager	Bin Yuan Capital Room 1505, 15/F, 299QRC 287-299 Queen's Road Central Sheung Wan, Hong Kong
Management Company	FundPartner Solutions (Europe) S.A. 15, Avenue John F Kennedy , L-1855 Luxembourg
Custodian	Pictet & Cie (Europe) S.A. 15, Avenue John F Kennedy, L-1855 Luxembourg
Legal Advisors	Elvinger Hoss Prussen S.A. 2, Place Winston Churchill, L-1340 Luxembourg
Auditor	Deloitte Audit S.à r.l. 560, route de Neudorf, L-2220 Luxembourg

Annual Management Charge   TERs as at end September 2021	
Share Class A	1.25%   1.45%
Share Class B	1.00%   1.21%
Share Class C	0.75%   0.95%
Share Class D	0.50%   0.71%

Minimum Investment	
Share Class A	\$100,000 Minimum initial subscription & holding
Share Class B	\$5,000,000 Minimum initial subscription & holding
Share Class C	\$10,000,000 Minimum initial subscription & holding
Share Class D	\$100,000,000 Minimum initial subscription & holding

### Order Transmission Information

FundPartner Solutions (Europe) S.A.

15, Avenue John F Kennedy,

L-1855 Luxembourg

Via fax +352 46 71 71 7667 or SWIFT PICTLULXTAS

Footnote:

- (a) This refers to the total assets invested in the reference strategy managed by the Investment Manager.
- (b) The graph depicts the Bin Yuan All China Strategy (Reference Strategy) from inception in May 2016 to the fund launch on 16/4/18. After launch date actual fund data of Share Class L1 is used. The fund follows the same strategy as the Reference Strategy and simulated returns of the Reference Strategy are net of a modeled fee of 0.75% pa and expenses of 0.40%.
- (c) MSCI Inc. discontinued MSCI All China Index and the transition to MSCI China All Shares Index took effect on 27 November 2019. MSCI All China Index Total USD return including dividends (Bloomberg ticker M1ACN Index) was used as benchmark from the inception of April 2018 to November 26, 2019. MSCI China All Shares Net Total USD Return (Bloomberg ticker MXCNANM Index) is used as benchmark since November 27, 2019.
- (d) Data depict the Bin Yuan All China Strategy since inception of May 2016 as of April 2018. The fund follows the same strategy. After a longer period after the fund launch, we will use the Hereford Funds Bin Yuan Greater China Fund Share Class L1 in the table.
- (e) We set sector exposure according to GICS classification, and the maximum exposure will not exceed 40%. The reason we set at 40% is some industrial and communication service companies are misclassified as information technology in GICS.

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- Risk Disclaimer - This current risk profile is based on historical data and may not be a reliable indication of the future risk profile of the Sub-Fund. - The risk category shown is not guaranteed and may shift over time. - The lowest category, which corresponds to Number 1, cannot be regarded as being risk-free. - The Sub-Fund does not provide any capital guarantee or asset protection measures. Why is this Sub-Fund in this category? The investment objective of the Sub-Fund is to generate long-term capital growth and income by investing in equities and equity-linked securities of Greater China Companies. Hence, the risk/reward profile of the SubFund should correspond to a high risk category on the risk/reward scale. The contents of this document are communicated by, and the property of, Hereford Funds. Hereford Funds is a trading name of Hereford Funds LLP. Hereford Funds LLP is an appointed representative and tied agent of Thornbridge Investment Management LLP which is authorised and regulated by the Financial Conduct Authority (FRN: 713859). This document is for information purposes and internal use only. It is neither an advice nor a recommendation to enter into any investment. Investment suitability must be determined individually for each investor, and the financial instruments described above may not be suitable for all investors. This information does not provide any accounting, legal, regulatory or tax advice. Please consult your own professional advisers in order to evaluate and judge the matters referred to herein. An investment should be made only on the basis of the prospectus, the annual and any subsequent semi-annual-reports of HEREFORD FUNDS (the "Fund"), a société d'investissement à capital variable, established in Luxembourg and registered under Part I of Luxembourg law of 20 December, approved by the Commission de Surveillance du Secteur Financier (CSSF). These can be obtained from the Fund, from FundPartner Solutions (Europe) SA, 15 avenue J. F. Kennedy, L-1855 Luxembourg, and any distributor or intermediary appointed by the Fund. You can obtain a summary of investors rights to the following link : <https://www.group.pictet/media/sd/176b100ab205a6e6aef82b0250138f889675b903>
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