

Investment Review

The Hereford Funds – Bin Yuan Greater China Fund depreciated 4.28% for the month of March (net of fees) compared to a 6.84% negative return for the benchmark. At the end of March, the Sub-Fund invested primarily in the Consumer, Information Technology, and Health Care sectors, with little weights in the Energy, Utilities, Materials and Real Estates sectors. For the month, the Sub-Fund outperformed the benchmark by 2.56%. In terms of stock selection, we did well in Consumer Staples and Health Care while Information Technology lagged. In March, the positions that contributed the most to the portfolio's return were C&S paper, Cansino Biologics and Fortune NG. The positions that contributed the least in the month were Chaozhou Three-Circle, Hikvision and Hongfa.

Manager's Commentary

Virus Outbreak Updates: While the Coronavirus are getting seriously worse globally, China has achieved tremendous progress in containing the spread of the virus since the outbreak inception in January. From the mid-March, majority of new confirmed cases every day were those coming from abroad. By March 31, the accumulated confirmed cases were 82,545, with 76,225 cures and only 3,006 patients were still under treatment. Even Hubei province, the center of the outbreak in China, started to report 0 new cases. Control measures are gradually removed. The focus of epidemic prevention work is shifted to quarantine and detection of international entry travelers. Work resumption progress has been well on track. More than 80% of companies have resumed work, showing strong resilience of Chinese economy. Reported by the Ministry of Human Resources and Social Security, 120 million migrant workers, 70% of total migrant workers, have returned to their job locations.

Global Epidemic Impact: The coronavirus has spread to countries outside of China and it is obvious that the global economy will be badly hurt and based on China's experience, the situation will not get better until the end of the second quarter. China is the first country to get out of this mud, however, it is difficult for China to fully decouple from the epidemic impact of US and other countries. Thanks to the fast development of the domestic economy, the net export only accounts for 1.5% of GDP. China will rely on domestic economy recovery to wait for the virus situation improving. Besides the tier one cities which have a higher risk of importing virus from travelers that need to be stay in high alert, the rest of the country is gradually becoming normal. The strategy of the government is to balance the speed of the economic revival and at the same time, prevent the virus coming back. The short-term challenge is more on the expected weakening global demand. If the global economy sharply declines and thus the consumption, some of the capacity for export will be idle. Even the domestic economy is dominant today, the number of employees involving in export sector is still large. It is estimated that 20-30% of manufacturing revenues in China are generated from overseas markets and around 8% (60 million employees out of 775mn total) labor force are direct export related. The short-term unemployment issue has to be handled. In the long term, the outbreak will serve as the catalyst to restructure the global supply chain. The trend of the globalization will be slowed, as key manufacturing countries start to prepare for the potential supply chain disruption during times such as this epidemic situation. As we stated in the past letters, China will be more firm to invest in upstream technology on the manufacturing value chain.

Government Actions: Lesson learned from 2008 monetary stimulus package that invested in massive infrastructure projects to boost economy which resulted in large overcapacity, the Chinese government, this time, has used both targeted monetary and expansive fiscal tools to provide liquidity to the economy to support the most vulnerable sectors such as smaller enterprises. China may expand fiscal deficit by 1-2% of GDP which is 1-2 trillion RMB to stabilize the situation of small and medium enterprises and their employment, the issuance of special Treasury bonds and the local government special bonds may potentially provide incremental liquidity of 2-3 trillion RMB to the economy.

Portfolio Impact: The volatility of the China stock market will continue to be influenced by the global headlines and liquidity flows. Domestic economy will still be our investment focus. We are in favor of consumer staples against discretionary. Stocks especially mid cap A share names that are less owned by foreign investors will be less affected by the global liquidity crunch if there is any. We will stay away from businesses that are highly related to international economy for now unless they are over sold in the future. As of end of March, the companies in our portfolio has recovered operation to 88% of normal level, compared with 80% in February end. Breaking that down circa 28% of portfolio (healthcare, entertainment and personal care which are the top 3 beneficiaries) are working at full capacity, 60% are working at 85-90%, and the rest 5% which recover slower than others but catching up recently such as catering, lodging and offline service eye hospital at 40-70% (leaving circa 7% cash). Less than 7% of our holdings' sales are generated outside China. Around more than 35% of our portfolio are associated with the trend of digital transformation accelerated by the epidemic. We are gradually putting money to work but continue to watch for the impact of weak global demand. We are also closely monitoring the new cases in China as import infections are on rise. Our concern could be reduced if China could control it well. Our portfolio will focus on domestic resilient demand and import substitution opportunities.

Key Information

NAV (31/03/20)	US\$ 97.77 (L1) /98.62 (L2)/106.36 (CB)/112.87 (CI)	Strategy Assets	US\$ 457 m ^(a)
Total Fund Size	US\$ 149.4m	Fund Launch Date	16-Apr-18

Period Performance (%)							
	2020	2019	2018	2017	2016	Cumulative	Annualized
Bin Yuan All China Strategy^(b)	-0.48	30.60	-22.46	44.69	1.07	50.18	10.94
Index^(c)	-9.88	29.74	-26.64	33.37	1.47	16.08	3.88



Monthly Performance (%)

	2019											2020			
	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	2019	Jan	Feb	Mar	YTD
Bin Yuan GC Fund	4.5	1.9	-9.9	7.9	1.0	-3.1	0.1	3.3	-0.5	6.1	30.60	1.59	2.34	-4.28	-0.48
Index ^(c)	4.3	1.2	-11.1	6.8	0.0	-4.1	0.4	3.4	0.4	8.2	29.74	-0.71	-3.1	-6.84	-9.88

Top Ten Holding

Rank	Company	Weight	Rank	Company	Weight
1	Jiangsu Yuyue	7.95%	2	Tencent	6.91%
3	C&S Paper Co.	6.62%	4	CM Bank – H	5.75%
5	Ping An – H	4.70%	6	Bilibili	4.64%
7	S F Holding Co – A	4.14%	8	Aier Eye Hsptl-A	4.12%
9	Kweichow Moutai – A	4.10%	10	Chinasoft Intl	3.89%

Sectoral Breakdown

Sector	% of Assets
Consumer Staples	19
Consumer Discretionary	16
Information Technology	15
Health Care	14
Communication Services	12
Financials	10
Industrials	6

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.

Market Breakdown

Market	% of Assets
A Share	51
Hong Kong (Discounted Dual Listing)	10
Hong Kong	19
US ADR	13

Under Discovered Holding

Category	% of Assets
Under Discovered	59
% of A share holding with foreign ownership below 10%	77
Mid Cap Exposure	47

* Mid Cap stands for the market capitalization is below 15 Billion USD.

Since Inception ^(d)	Bin Yuan All China	Index
Volatility	15.50%	16.84%
Sharp Ratio	0.79	0.23
Information Ratio	1.40	
Tracking Error	5.98%	
Beta	0.92	
PE ex ADRs	16.14	

Valuation	Portfolio				Benchmark	Benchmark (excluding Financials)
	20081031	20130630	20160229	20200331	20200331	20200331
Forward PE (X)	18.2	16.7	18.5	19.6	12.15	22.69
Forward PB (X)	2.7	2.7	3.1	3.8	1.59	3.84
Forward Div. Yield (%)	1.6	1.9	1.9	1.3	2.33	1.59
Forward ROE (%)	14.7	16.0	16.6	19.5	13.06	16.92
Earning Growth (%) Forward 3 YR	22.0	27.0	21.0	21.0	14.06	15.95
Forward PEGY	0.8	0.6	0.8	0.8	0.74	1.29
FCF Yield	3.0	5.0	10.0	4.0	9.10	2.70

Fund Codes				
Share Class	L1	L2	CB	CI
Bloomberg	HFBYL1U LX	HFBYL2U LX	HFBYCBYLX	HFBYCIU LX
TK	040149745	040149751	040149740	040149734
ISIN	LU1778255734	LU1778256203	LU1778255494	LU1778254844
Lipper ID	68483958	68483959	68543207	
Sedol	BFXVVR8	BFXVVS9		

Fund Details	
Dealing Day ^(d)	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

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

Annual Management Charge	
Share Class A	1.25%
Share Class B	1.00%
Share Class CI, CB & L1	0.75%
Share Class L2	0.25% with 15% performance fee

Minimum Investment	
Share Class A & L	\$100,000 Minimum initial subscription & holding
Share Class B	\$5,000,000 Minimum initial subscription & holding
Share Class CI & CB	\$10,000,000 Minimum initial subscription & holding

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.