HF Hereford Funds

Bin Yuan Greater China Fund
May 2019

Investment Review

The Hereford Funds - Bin Yuan Greater China Fund depreciated 9.83% for the month of May compared to a 11.05% negative return for the MSCI All China Index including dividends. Since inception, the Sub-Fund recorded a return of -13.78%, among which -5.4% was due to stock price decrease, -5.3% was due to RMB depreciation and -4% was impacted by subscription in October inflow last year. During the same period, the benchmark was down by 16% in USD term. At the end of May, the Sub-Fund invested primarily in the Consumer, Financials and Industrial sectors, with little weights in the Energy, Utilities, Materials and Real Estates sectors. For the month, the Sub-Fund outperformed the benchmark by 1.22%. Compared to the benchmark, Consumer Staples and Financials outperformed while Information Technology lagged. In May, the positions that contributed the most to the portfolio's return were Vitasoy, Moutai and Fortune Ng Fund. The positions that contributed the least in the month were Alibaba, Bilibli and Sunny Optical.

Manager's Commentary

It is clear that the US China relationship has moved beyond standard trade disputes during the second quarter. Lifting tariffs on USD200 billion worth of Chinese exports from 10% to 25% on 10th May 2019 and threatening to slap a 25% tariff on all the remaining USD325 billion Chinese products to the US by the Trump administration looks an escalation beyond the main trade issue when the US government initiated a full crack down on Huawei Technologies, a telecom equipment provider, who it believes has more advanced 5G technology. It is obvious at this stage that the US government views China as a strategic competitor and US security as a global power is threatened by China's economic and technology development. US requests China to reform State Owned Enterprises (SOEs) as part of the trade negotiation is also a strategic call that China will not be able to entertain in the short run. As a result, the trade negotiation, in which US wants to solve strategic issues and uses tariff as a technical tool, is less likely to have a full conclusion, and both sides are preparing for more longer-term relationship rebalancing.

As the view that the real US intention is to curb a Chinese strategic threat is becoming a consensus, any analysis and expectation on the outcome of the trade talks are just speculative. The market is already thinking beyond the trade issues, preparing for the worst and planning for the long term. Any sort of deal will be a short-term relief to the equity market.

As we have indicated in the past the US campaign to curb China development is disruptive to the global economy because it will slow down growth in both the two largest economies. China is lagging in innovation and upstream technologies, but very strong in application technology. The US multinational companies are not immune to this US campaign and may result in long term damage to their business. China has been the most important market for many US companies. If US technology products cannot be sold to China, it will slow new products upgrade in short term. Unless Europeans follow the US to block China growth, China will not suffer substantive economic difficulties. Even in the most bearish scenario, Chinese companies could still survive by shifting to lower end domestic suppliers and it may bring long term positive to China as it will force China to speed up technology development. The huge domestic market should be able to support producers to climb up the learning curve and the trend will be a strategic loss for US companies as once they lose the market, it will be difficult to get back.

In the short run, to curb the impact of the US tariff increase, the RMB will not go stronger but at manageable level. We expect weaker economy in the following quarters if the dispute continues. Global markets are vulnerable with low transparency of US policy moves. We believe that as long as China continues to open and reform, China should be able to move out of this cloud. The valuation of market has contracted to an attractive level for a long-term horizon. Our portfolio is well positioned to be driven by structural trend of domestic market, and the stocks we hold are less impacted by global market. Our current portfolio PE ratio is 16.8x estimated 2019 earnings, and the expected earnings growth rate is 17.6% through 2022. In our portfolio, we stick to the consumer and healthcare companies with steady demand and consolidation trend. We are selective in technology space investing in high quality companies that are domestically driven, less impacted by global value chain and benefiting from the trend of import substitution. We have conviction that our holdings will deliver decent earnings growth to get through any further turbulence.

Key Information

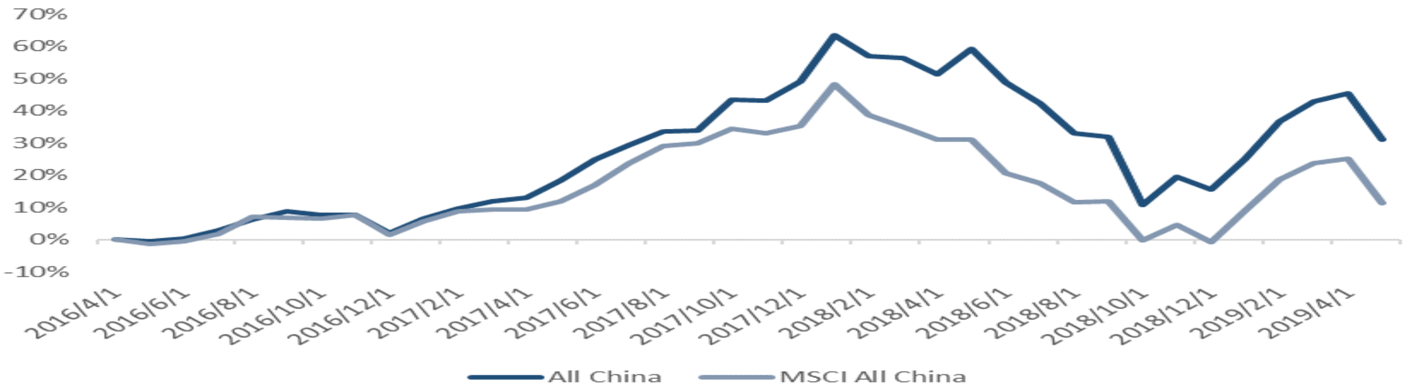
NAV (31/05/19)	US$ 85.30 (L1) /85.63 (L2)/92.79 (CB)	Strategy Assets	US$ 224 m[(a)]
Total Fund Size	US$ 55.9m	Fund Launch Date	16-Apr-18

Monthly Performance (%)

	Jun	Jul	Aug	Sep	Oct	Nov	Dec	2018	Jan	Feb	Mar	Apr	May	2019
Bin Yuan GC Fund	**-6.6**	**-4.3**	**-6.5**	**-1.1**	**-15.9**	**7.9**	**-3.3**	**-24.8**	**8.4**	**9.1**	**4.5**	**1.9**	**-9.9**	**13.4**
MSCI All China Index[(c)]	**-8.0**	**-2.5**	**-5.1**	**0.2**	**-10.8**	**4.8**	**-5.0**	**-25.3**	**9.9**	**8.7**	**4.3**	**1.2**	**-11.1**	**12.2**

Period Performance (%)

	2019	2018	2017	2016	Cumulative	Annualized
Bin Yuan All China Strategy[(b)]	**13.43**	**-22.46**	**44.69**	**1.07**	**31.06**	**9.17**
MSCI All China Index[(c)]	**12.18**	**-26.64**	**33.37**	**1.47**	**11.38**	**3.56**



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Top Ten Holding					
1	Ping An	6.54%	2	Nari Technology	5.89%
3	C&S Paper Co.	5.39%	4	Jiangsu Yanghe	5.22%
5	Alibaba	5.18%	6	CM Bank – H	5.16%
7	Jiangsu Yuyue	4.75%	8	Shanghai Intl Air	4.32%
9	Livzon Pharm	3.97%	10	ICBC	3.95%

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[d]	Bin Yuan All China	MSCI All China
Volatility	16.44%	17.16%
Sharp Ratio	0.62	0.21
Information Ratio	1.26	
Tracking Error	5.78%	
Beta	0.96	
PE ex ADRs	16.81	

Sectoral Breakdown	% of Assets
Consumer Discretionary	24
Financials	21
Consumer Staples	15
Industrials	11
Health Care	9
Communication Services	7
Information Technology	6

Market Breakdown	% of Assets
A Share	52
Hong Kong (Discounted Dual Listing)	21
Hong Kong	11
US ADR	9

Valuation	Portfolio				Benchmark	Benchmark (excluding Financials)
Period	**20081031**	**20130630**	**20160229**	**20190531**	**20190531**	**20190531**
Forward PE (X)	18.2	16.7	18.5	16.8	11.8	19.1
Forward PB (X)	2.7	2.7	3.1	3.3	1.5	3.2
Forward Div. Yield (%)	1.6	1.9	1.9	2.4	2.4	2.0
Forward ROE (%)	14.7	16.0	16.6	19.8	12.4	16.5
Earning Growth (%) Forward 3 YR	22.0	27.0	21.0	17.6	14.0	14.7
Forward PEGY	0.8	0.6	0.8	0.8	0.7	1.1
FCF Yield	3.0	5.0	10.0	6.9	8.5	3.0

UCITS Fund Performance (%)														
YEAR	**2018**	**2019**												
MONTH		**01**	**02**	**03**	**04**	**05**	**06**	**07**	**08**	**09**	**10**	**11**	**12**	**ITD**
Net Performance (Local FX)	-16.0	7.3	9.1	4.6	2.0	-8.5								-5.4
FX Impact	-4.7	1.1	0.1	-0.2	-0.1	-1.5								-5.3
Subscription Impact	-4.0													-4.0
Net Performance	-24.7	8.4	9.1	4.5	1.9	-10.0								-14.7
Net Performance Excl. Subscription Impact	-20.7	8.4	9.1	4.5	1.9	-10.1								-10.7
Benchmark	-25.3	9.9	8.7	4.3	1.2	-11.1								-16.2

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Fund Codes			
Share Class	L1	L2	CB
Bloomberg	HFBYL1U LX	HFBYL2U LX	HFBYCBYLX
TK	040149745	040149751	040149740
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 C & L1	0.75%
Share Class L2	0.25% with 15% performance fee

Minimum Investment	
Share Class A & L	$100,000 initial/$10,000 subsequent
Share Class B	$5,000,000 initial/$100,000 subsequent
Share Class C	$10,000,000 initial/$100,000 subsequent

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) Total USD return including dividends.
(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.