

Investment Review

The Hereford Funds Bin Yuan Greater China Sub-Fund appreciated 7.95% for the month of November compared to a 4.80% positive return for the MSCI All China Index including dividends. Since inception, the Sub-Fund recorded a return of -21.87%, among which -12.8% was due to stock price decrease, -5.4% was due to RMB depreciation and -4% was impacted by subscription in October inflow. During the same period, the benchmark was down by 22% in USD term. At the end of November, the Sub-Fund was invested primarily in the Consumer, Industrials and Information Technology sectors, with little weights in the energy, materials, utility, real estates sectors and underweight in financial sector. For the month, the Sub-Fund outperformed the benchmark by 3.15%. In November, the positions that contributed the most to the portfolio's return were Vitasoy, C&S Paper and Livzon Pharmaceutical. The positions that contributed the least in the month were Chaozhou Three-Cycle, Fortune NG Fung Food and Fu Shou Yuan.

Manager's Commentary

Chinese stocks performed variably in November. Shanghai Composite Index was down 0.56% in November while Hang Seng China Enterprise Index was up 4.77%. Our current portfolio PE ratio is 16.8x estimated 2019 earnings, and the expected earnings growth rate is 19% through 2022. The valuation is very attractive and we have high conviction of the holdings in our portfolio. We will leverage the short term volatilities to continue to accumulate high quality stocks.

Bin Yuan has organized a very successful investors trip in the month of November to visit holding or potential holding companies in first through fourth-tier cities, located in the east and west of China. Our observations during the trip and communications with those companies' management further strengthened our belief that the trend of consumption upgrade and moving-up along value chain is on track and our positions will continue to be beneficiaries.

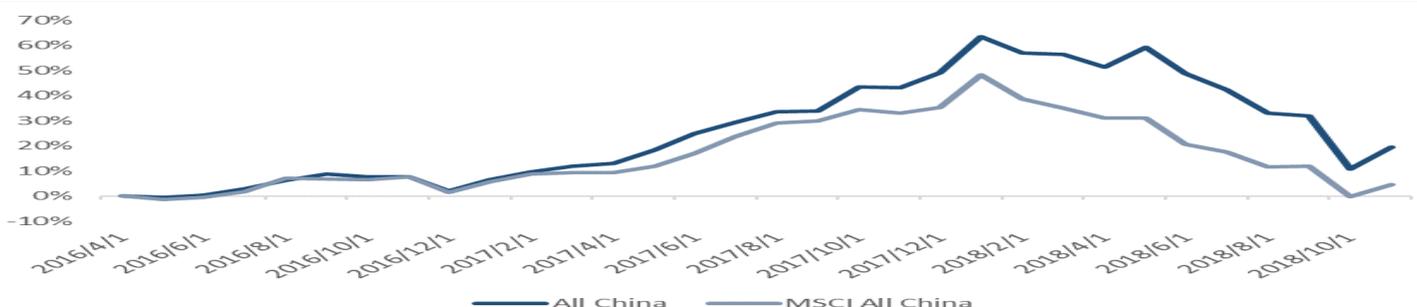
- Consumption Upgrade.** Consumption trending up happens not only in eastern high tier cities but also in mid-west low tier cities and even rural areas. Our observations on the way reflected strong ongoing consumption upgrade and even greater potentials. Currently, disposable income per capita and consumption behaviors in third and fourth-tier cities are similar to those in first-tier cities around 10 years ago. It is realistic for us to expect that the consumption upgrade in low-tier cities will follow the path of the development of first-tier cities. Some of the companies we visited is already benefiting from this trend. For example, C&S Paper's product mix of high-end tissue products continued to increase in the past few years. Fuanna, as a high-end brand in the bedding industry, achieved a 20% sales growth in the mid-west region in the first 10 months. Oppein started its whole-room decorating business in Sichuan, providing a one-stop total solution for customers. Vitasoy's distributors have not yet penetrated well into mid-west China. Although with limited exposure there, the local convenience stores were aware of Vitasoy's products' popularity among young people and showed strong interest.
- Manufacturing Upgrade.** With China's moving-up along the global value chain, the demand for advanced manufacturing is higher than supply. Per the companies we visited, they all planned to expand the capacities for high-end manufacturing, which were still their bottlenecks. Yuyue would add production lines for respirators, blood glucose monitors and medical sterilizing hand sanitizers. Sunny Optical will invest RMB1.2 billion on higher valued added lens production, which accounted for over 60% of their annual CAPEX investment in 2019. Kelun Pharmaceutical has successfully built the largest pharmaceutical institute of more than 2,000 people in Western China, turning its focus from producing drug delivery systems to developing innovative drugs.
- Increased Efficiency.** The increase of efficiency is primarily reflected in two forms, namely infrastructure/logistics and manufacturing automation, which brings the improvement of productivity. Within 6 days, we travelled 4,300 km and visited 12 companies in 9 cities. The high-speed train can move at a speed of as fast as 300 km/h, making it possible for us to travel 1,000 km within 4 hours covering an area of 3 million square kilometers. S.F. Holding's aviation transfer station in Hangzhou Xiaoshan Airport was highly automated and could deliver packages to places all over China within 12 hours by air. Chongqing Brewery Company is now nearly unmanned in their production workshops.
- Environment, Social Responsibility and Corporate Governance (ESG) Improvements.** We were glad to see that top companies are making improvements in ESG, way ahead of their competitors. C&S Paper's waste water discharge quality is better than national standards. Their waste water treatment plant was open to all visitors and even included a processed water tank with fish and a status board transferring real-time water quality data to local the government. Fuanna, as we saw on a recruitment post outside its store, offered full social security packages to its employees, which is a welfare advantage comparing to competitors.

Key Information

NAV (31/10/18)	US\$ 77.80 (L1) /77.91 (L2)	Strategy Assets	US\$ 203 m ^(a)
Total Fund Size	US\$ 16.0m	Fund Launch Date	16-Apr-18

Monthly Performance (%)													
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
Bin Yuan GC Fund				-1.4	5.1	-6.6	-4.3	-6.5	-1.1	-15.9	7.9		-22.2
MSCI All China Index ^(c)				-1.5	0.1	-8.0	-2.5	-5.1	0.2	-10.8	4.8		-21.4

Period Performance (%)					
	2018	2017	2016	Cumulative	Annualized
Bin Yuan All China Strategy ^(b)	-19.80	44.69	1.07	19.51	7.14
MSCI All China Index ^(c)	-22.82	33.37	1.47	4.45	1.70



Top Ten Holding	
ICBC - H	Nari Technology
Alibaba	C&S Paper Co.
China Merchants Bank	Jiangsu Yuyue
Fuanna Bedding	Ping An
Yongda	Tencent

Sectoral Breakdown	% of Assets
Consumer Discretionary	27
Consumer Staples	18
Financials	18
Industrials	11
Information Technology	11
Health Care	8
Communication Services	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.

Fund Codes		
Share Class	L1	L2
Bloomberg	HFBYL1U LX	HFBYL2U LX
TK	040149745	040149751
Lipper ID	68483958	68483959
Sedol	BFXVVR8	BFXVVS9

Since Inception ^(d)	Bin Yuan All China	MSCI All China
Volatility	16.05%	14.89%
Sharp Ratio	0.57	0.11
Information Ratio	1.20	
Tracking Error	6.13%	
Beta	1.00	

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

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.

Order Transmission Information

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