

### Investment Review

The Hereford Funds Bin Yuan Greater China Sub-Fund depreciated 3.22% for the month of December compared to a 4.95% negative return for the MSCI All China Index including dividends. Since inception, the Sub-Fund recorded a return of -24.39%, among which -16.0% was due to stock price decrease, -4.8% was due to RMB depreciation and -4% was impacted by subscription in October inflow. During the same period, the benchmark was down by 25% in USD term. At the end of December, the Sub-Fund was invested primarily in the Consumer, Financials and technology sectors, with little weights in the energy, materials, utility, real estates sectors. For the month, the Sub-Fund outperformed the benchmark by 1.73%. In December, the positions that contributed the most to the portfolio's return were Yuyue, Nari and Haitian. The positions that contributed the least in the month were Baba, Livzon Pharm and CM Bank.

### Manager's Commentary

Chinese stocks went down in December. Shanghai Composite Index was down 3.64% in December while Hang Seng China Enterprise Index was down 4.68%. Our current portfolio PE ratio is 15.1x estimated 2019 earnings, and the expected earnings growth rate is 17.8% through 2022. The valuation is very attractive and we have high conviction of the holdings in our portfolio.

The magnitude of negative impact of trade issues went beyond expectation of many. President Trump's sharp turn on trade relation with China is very disruptive. China has not handled the issue very intelligently and got hurt, but the result of the trade war will be like a very tightly pressed spring (China pressed by US) bouncing back to hurt the US economy and will cause ripple effect as both economies today have a high level of inter-connection. The transparency of President Trump's next move is very low which should continue press the confidence level of the investors and cause a continued volatile stock market.

We believe China will make some concessions to reduce trade problems with the US and a deal will be made. We also believe that Chinese government will continue the economic reform, not only to meet US demand but also to cope with weak domestic economy caused by the economy hitting development bottleneck. China will implement fiscal, tax and market-oriented economy reform. The long-term uptrend of Chinese economy has not changed. We will take advantage of this over pessimistic time period to accumulate great companies at much cheaper prices. Our focus will be on identifying, evaluating and adding to those companies that generate high ROE with sustainable competitiveness and deliver long term growth with strong cash flow and healthy balance sheet.

Two major investment opportunities we position for the next three years are upgraded consumption and advanced manufacturing.

#### ● Upgraded Consumption

With a population of 1.4 billion, China can be divided into three layers according to income level. The first layer group has 400 million population that reside in large cities (tier 1 and tier 2) with GDP per capita of 12 thousand USD and above. The second layer group is close to 500 million in median and small cities (tier 3 and tier 4) with GDP per capita of 5 thousand USD. The rest layer three with more than 500 million people still reside in rural areas. Households consumption habits in layer one is close to those in developed countries while in lower-tier cities, people targeting the larger cities living standards as their objectives. This upgrading cycle will continue for many years to come. Our attention not only pay to the young generation who spend their cash to match their inspiring spirits, elderly people in first layer cities possess stronger purchasing power due to enlarging population and abundant savings.

- **Consumption Upgrade in Low-Tier Cities:** Seasonings, household tissue, household small appliances, E-commerce in lower tier cities.
- **Silver-haired Economy:** Household Medical devices, retail pharmacy, insurance – healthcare insurance.
- **Entertainment Consumption:** Online entertainment, Sports.

#### ● Advanced Manufacturing

As the World Factory, China's manufacturing industries were the engine of the economy in the past. Although China began to lean more on domestic consumptions in recent years, manufacturing continued to play an important role but is moving up the global value chain. Consistent with previous years, we shall leverage our abundant experiences in this sector focusing on advanced manufacturing industries as follows:

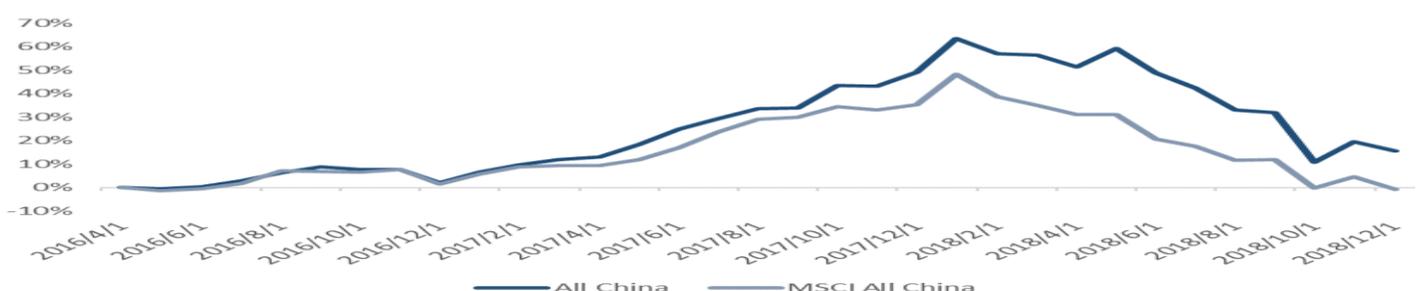
- 5G, semiconductor, ultra-high-voltage (UHV) transmission, smart terminals.

### Key Information

NAV (31/12/18)	US\$ 75.22 (L1) /75.35 (L2)	Strategy Assets	US\$ 218 m <sup>(a)</sup>
Total Fund Size	US\$ 33.0m	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	-3.3	-24.8
MSCI All China Index <sup>(c)</sup>				-1.5	0.1	-8.0	-2.5	-5.1	0.2	-10.8	4.8	-5.0	-25.3

Period Performance (%)					
	2018	2017	2016	Cumulative	Annualized
Bin Yuan All China Strategy <sup>(b)</sup>	-22.46	44.69	1.07	15.54	5.57
MSCI All China Index <sup>(c)</sup>	-26.64	33.37	1.47	-0.72	-0.27



Top Ten Holding	
ICBC - H	Nari Technology
Jiangsu Yuyue	Fuanna Bedding
Alibaba	C&S Paper Co.
Ping An	Yongda
Livzon Pharm	Little Swan

Sectoral Breakdown	% of Assets
Consumer Discretionary	26
Financials	17
Consumer Staples	14
Industrials	9
Health Care	9
Information Technology	8
Communication Services	5

## 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 <sup>(d)</sup>	Bin Yuan All China	MSCI All China
Volatility	15.99%	14.98%
Sharp Ratio	0.47	-0.02
Information Ratio	1.27	
Tracking Error	6.07%	
Beta	0.99	

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	
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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