HF Hereford Funds

Bin Yuan Greater China Fund

February 2019

Investment Review

The Hereford Funds - Bin Yuan Greater China Fund appreciated 9.22% for the month of February compared to a 8.70% positive return for the MSCI All China Index including dividends. Since inception, the Sub-Fund recorded a return of -10.39%, among which -3.6% was due to stock price decrease, -3.5% 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 11% in USD term. At the end of February, the Sub-Fund was invested primarily in the Consumer, Financials, Technology and Industrial sectors, with little weights in the Energy, Materials, Utility and Real Estates sectors. For the month, the Sub-Fund outperformed the benchmark by 53bps. In February, the positions that contributed the most to the portfolio's return were Yongda Auto, Sunny Optical and Jiangsu Yanghe. The positions that contributed the least in the month were Nari Technology, Tencent and ICBC.

Manager's Commentary

Shanghai Composite Index was up 13.79% in February while Hang Seng China Enterprise Index was up 3.01%. As we expected, the market recovered in February. Economy data issued was still weak, however investors look ahead positively focusing on those promising signs. The pro-growth stands of government, evidenced by the surging credit growth and expansionary tax reform, shall have a long-term positive impact on the economy, and the less pessimistic trade issue with the US also fueled the confidence of the market. If you look at the recovery as a normalization of the sold-off last year when the trade issue started, the market should continue to get on the recovery trend.

As mentioned, China's economy continued to slow down slightly in February. The Producer Price Index (PPI) rose 0.1% year on year (YoY) in January 2019, down from 0.9% in December 2018. The Consumer Price Index (CPI) was 1.7% in January, down from 1.9% in December. The official manufacturing Purchasing Managers' Index (PMI) dropped slightly from 49.5 in January to 49.2 in February 2019, which is still below the threshold of expansion/contraction. The official Non-Manufacturing PMI decreased from 54.7 in January to 54.3 in February.

On 28 February 2019, MSCI announced that it will increase the inclusion of China A shares in the MSCI Indexes from 5% to 20% in three steps in May, August and November 2019. On completion, 253 Large and 168 Mid Cap China A shares (including 27 ChiNext shares) will be in MSCI Indexes. According to our prudent estimation, this change will bring in about USD60 billion to USD70 billion into the China A market.

After a full year's deleverage achieving its purposes, China's central bank shifted its policy to support the growth since the beginning of 2019. Credit growth surged in January. It was a result of the precautionary measures to ease the negative effects of slowing domestic demand and external headwinds. A series of policies have been released in recent months to provide adequate liquidity in the financial sector and accelerated loan issuance to companies. We will continue to monitor where the credit will be channeled and the efficiency of the use of capital. The ease of liquidity and tax cut initiative we discussed in the previous months will have positive impacts on the real economy, especially the small and medium sized private companies and in turn the consumption. Our holdings will become the beneficiaries, including the market leaders in consumption sectors, which have the potential to consolidate and capture the consumption upgrade trend in the third and fourth tier cities, and the top technology leaders in high-end manufacturing industries. We continue to stick to high quality stocks with predictable earnings growth, abundant cashflow and valued at reasonable prices. Those stocks that enjoys a high dividend yield are also very attractive at this point.

Our current portfolio PE ratio is 16.9x estimated 2019 earnings, and the expected earnings growth rate is 17.1% through 2022. The valuation is very attractive and we have high conviction of the holdings in our portfolio.

Key Information

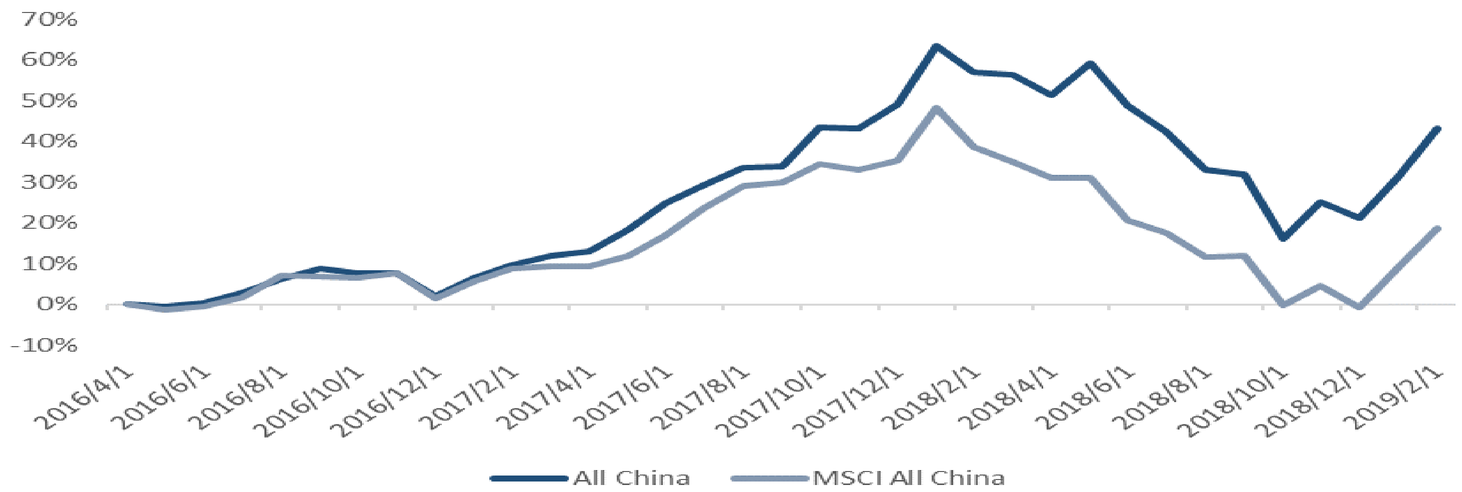
NAV (28/02/19)	US$ 88.96 (L1) /89.19 (L2)	Strategy Assets	US$ 235 m[(a)]
Total Fund Size	US$ 41.7m	Fund Launch Date	16-Apr-18

Monthly Performance (%)

	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	2018	Jan	Feb	Mar	2019
Bin Yuan GC Fund	-1.4	5.1	-6.6	-4.3	-6.5	-1.1	-15.9	7.9	-3.3	-24.8	8.4	9.1		18.4
MSCI All China Index[(c)]	-1.5	0.1	-8.0	-2.5	-5.1	0.2	-10.8	4.8	-5.0	-25.3	9.9	8.7		19.5

Period Performance (%)

	2019	2018	2017	2016	Cumulative	Annualized
Bin Yuan All China Strategy[(b)]	8.39	-22.46	44.69	1.07	25.24	8.53
MSCI All China Index[(c)]	9.94	-26.64	33.37	1.47	9.15	3.24



Top Ten Holding	
ICBC - H	Nari Technology
Yongda	Alibaba
Ping An	Jiangsu Yanghe
Jiangsu Yuyue	Fuanna Bedding
C&S Paper Co.	CM Bank – H

Sectoral Breakdown	% of Assets
Consumer Discretionary	31
Financials	20
Consumer Staples	13
Information Technology	10
Industrials	9
Health Care	9
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[d]	Bin Yuan All China	MSCI All China
Volatility	16.85%	16.38%
Sharp Ratio	0.80	0.38
Information Ratio	1.21	
Tracking Error	6.02%	
Beta	0.96	

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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