Hereford Funds

Bin Yuan Greater China Sub-Fund
July 2018

Investment Review

The Hereford Funds Bin Yuan Greater China Sub-Fund depreciated 4.26% for the month of July compared to a -2.45% return for the MSCI All China Index including dividends. Since inception, the Sub-Fund recorded a return of -7.3%, among which -3% was due to stock price decrease and -4.3% was due to RMB depreciation. However, the Sub-Fund still outperformed the benchmark by 4.2%. At the end of July, the Sub-Fund was invested primarily in the Consumer Discretionary, Information Technology and Financials sectors, with little weights in the energy, materials and real estates sectors. For the month, the Sub-Fund underperformed the benchmark by 1.80%. This was primarily due to the lag in Consumer discretionary sector. In July, the positions that contributed the most to the portfolio's return were China Merchants Bank, Vitasoy, C&S Paper Co. and Shanghai Airport. The positions that contributed the least in the month were Yongda Auto, Han's Laser Technology, Fuanna Bedding and Sunny Optical Technology.

Consumer discretionary underperformed partly attributable to the fact that the market feared the economic slow-down would affect consumption negatively. However, we found that with the consolidation going on, the market leaders' business continued to grow faster than the average level and the valuation of our holdings in this category was so low that we believed the negative impacts had already been priced-in. For example, Yongda is trading at 5.1x 2018PE, Little Swan at 12x 2018PE and Man Wah at 10.8x 2018PE, all of which are quality companies with abundant cashflow. According to our research, the discount of consumer discretionary to consumer staples has reached 63%, much higher than the average level of 37% in the past 5 years. In the meantime, the average PE of consumer discretionary dropped to 15.2 by July 2018, which was the lowest point in the past 5 years.

Manager's Commentary

China's economy maintained stable in June but signs of slow-down appeared. The Producer Price Index (PPI) rose 4.7% year on year (YoY) in June 2018, up from 4.1% in May 2018. The Consumer Price Index (CPI) was 1.9% in June, up from 1.8% in May. The official manufacturing Purchasing Managers' Index (PMI) decreased from 51.5 in June to 51.2 in July, and the official Non-Manufacturing PMI decreased from 55.0 in June to 54.0 in July. Both manufacturing and non-manufacturing PMI was still well above the expansion/contraction threshold of 50. Rail cargo volume increased by 10.1% YoY in June to reach 329 million tons.

The liquidity concerns were partially relieved after the executive meeting of the State Council on July 23 reached three conclusions. Firstly, the fiscal policy will be more proactive, focusing on reducing taxes and lowering fees. Secondly, prudent monetary policy will be maintained however the incremental tightening impact will be diminished. Thirdly, "zombie enterprises" will be cleared out to free up underused funding.

Consumption upgrade theme is still intact. Total retail sales of consumer goods recorded RMB18 trillion, representing a 9.4% YoY increase in the first half of 2018. Domestic consumption has become a major driver for the economic growth, contributing 78.5% to total economic growth, up 14.2 percentage points from 1H 2017. Sales of quality upgrading products, such as cosmetics, home appliances and tele-communication equipment increased 14.2%, 10.6% and 10.6%, respectively. Service consumption, such as catering and tourism, also showed accelerated growth in H1 2018. However, the growth of automobile dropped from 5.6% in 2017 to 2.7% in 1H 2018.

Our portfolio's stock prices were affected by the low market sentiment and the lag of the mid-cap stocks due to liquidity preferences, although there was little impact on the fundamental. We believe that those mid-cap potential industry leaders will outperform in the long-term and we will continue to accumulate high quality stocks to build our strategic position. Currently, our portfolio's current PE is 18.8x estimated 2018 earnings, which is as low as their PE during the tough period of Oct 2008 or Feb 2016. The expected earnings growth rate is 22.7% through 2021. Considering the predictable quality growth of the portfolio, we believe that our portfolio's valuation is attractive.

Key Information

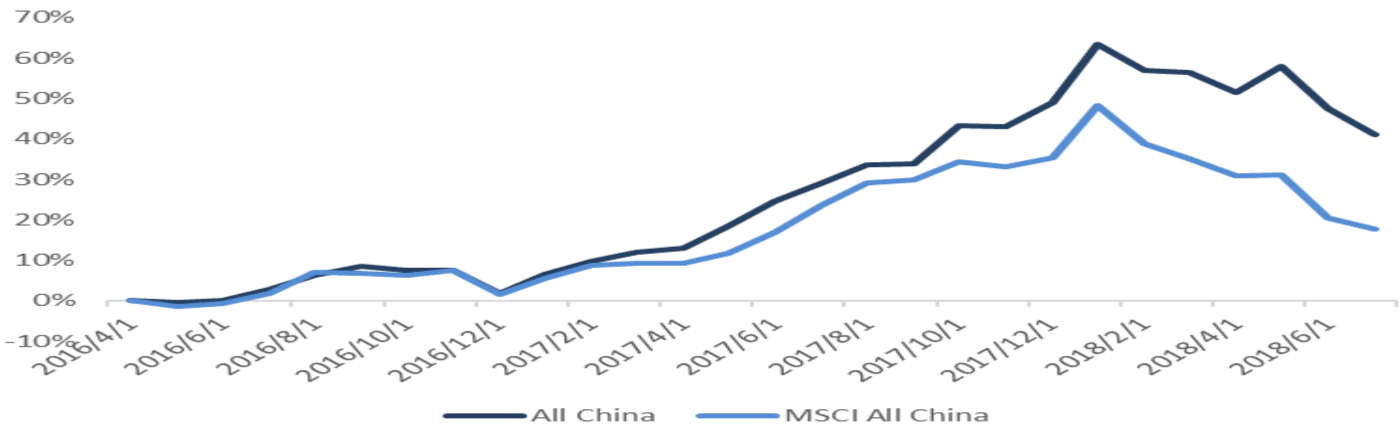
NAV (31/07/18)	US$ 92.69 (L1) /92.73 (L2)	Strategy Assets	US$ 227 m[(a)]
Total Fund Size	US$ 4.2m	Fund Launch Date	16-Apr-18

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						-7.3
MSCI All China Index[(c)]				-1.5	0.1	-8.0	-2.5						-11.5

Period Performance (%)

	2018	2017	2016	Cumulative	Annualized
Bin Yuan All China Strategy[(b)]	-5.42	46.31	1.85	40.92	16.47
MSCI All China Index[(c)]	-13.11	33.37	1.47	17.60	7.47



HF Hereford Funds

Top Ten Holding	
China Merchants Bank	Alibaba
Nari Technology	C&S Paper
Man Wah Holdings	Shenzhen Fuanna
Chaozhou Three Circle	Wuxi Little Swan
Han's Laser Technology	Sunny Optical

Sectoral Breakdown	% of Assets
Consumer Discretionary	27
Information Technology	23
Financials	14
Industrials	12
Consumer Staples	10
Health Care	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	13.09%	13.27%
Sharp Ratio	1.26	0.56
Information Ratio	1.40	
Tracking Error	5.77%	
Beta	0.89	

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

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

Footnote:

(a) This refers to the total assets invested in the reference strategy managed by the Investment Manager.
(b) Data and graph depict the Bin Yuan All China Strategy since inception of May 2016 as of April 2018. The fund follows the same strategy. Historical gross performance of the Bin Yuan All China Strategy returns (the Reference Strategy) are net of modeled fee (0.75% fee) and expenses typical of the Hereford Funds Bin Yuan Great China Fund Share Class L1 is 0.75% fee + 0.40% expense. After a longer period after the fund launch, we will use the Hereford Funds Bin Yuan Greater China Fund Share Class L1 in the graph.
(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.