Hereford Funds

Bin Yuan Greater China Sub-Fund
June 2018

Investment Review

The Hereford Funds Bin Yuan Greater China Sub-Fund depreciated 6.59% for the month of June compared to a -8.04% return for the MSCI All China Index including dividends. At the end of June, the Sub-Fund was invested primarily in the information technology, consumer discretionary and industrials sectors, with little weights in the energy, materials and real estates sectors.
For the month, the Sub-Fund exceeded the benchmark by 1.45%. This was primarily the result of the Manager's selections in Industrials sector. In June, the positions that contributed the most to the portfolio's return were Bilibili Inc., Little Swan and Vitasoy. The positions that contributed the least in the month were China Merchants Bank, Yongda Auto, Yuyue Medical and Fuanna Bedding.

Manager's Commentary

The high volatility of China market during the second quarter was driven by the uncertainty of trade war with the US, concern on RMB depreciation and the domestic liquidity tightening.
Trade war with the US: The concern of an escalated trade war might be a long-lasting overhang and it seems not easy to reach a deal between the US and China in the near term. But we still hold the view that it is too late to stop China to stay at current economically competitive level. The trade war will be in a way to force China to reform and to invest in technology which are long term positive for China. In our portfolio, we stick to those companies with great domestic exposure and strong competitiveness through providing quality products and services. Our holdings have 88% exposure to domestic market on average, with overseas exposure below 12%, among which US exposure is below 3%. The reliance on US import ratio is below 3%, and the companies are actively seeking alternative solutions if the imports are at risk.
RMB depreciation: RMB against USD reversed the previous gain and depreciated quickly in June. The weaker RMB is positive to China exporters by helping them maintain competitiveness. In Bin Yuan investments, we want to avoid those companies with heavy US debt and US denominated cost. Our US denominated revenue is 8% in the portfolio, while US denominated cost is 9%, well-balanced when facing foreign currency risks. The average US debt as % of equity ratio is 2%, indicating tiny currency risk fundamentally.
Domestic Liquidity: The liquidity is getting tight as government is trying to control the leverage in the economy and cleaning up the intermediary channels in financial system. The tightening was triggered by wealth management regulation and clearance of pledge leverage. The total outstanding amount of wealth management product (WMP) in China reached RMB29-30 trillion. According to the new rule of WMP, roughly RMB6 trillion, will need to be brought back to banks' balance sheet in three years and RMB4.5 trillion will be phased out by 2020. The rest of WMP remaining will be non-guaranteed products with pre-identified interest and liability. By our estimate, the total deleveraging size (including both transfer back to book and phase out) scaled RMB1.9 trillion in the first five months of 2018, and the second quarter was the most tough period with a deleverage size of RMB1.5 trillion for April and May. We expect that tightening will continue; however, we think the incremental deleveraging impact will be diminishing coming to the second half of 2018. Clearance of pledged shares also brought pressure on the liquidity. The current scale of pledged shares leverage is RMB5.4 trillion. In our corporate quality identification process, the pledged share risk is one of our focuses. We make big efforts to look for those companies that with strong cash flow and balance sheet, also the high-quality management who focus on the main business. In our portfolio, the pledged shares account for less than 3% of total outstanding shares.
Our portfolio's stock prices was affected by the low market sentiment, although there was little impact on the fundamental. We will take this rare opportunity to accumulate high quality stocks to build our strategic position. Currently, our portfolio's current PE is 18.8x estimated 2018 earnings and expected earnings growth rate is 23.5% through 2021. Considering the predictable quality growth of the portfolio, we believe that our portfolio's valuation is attractive.

Key Information

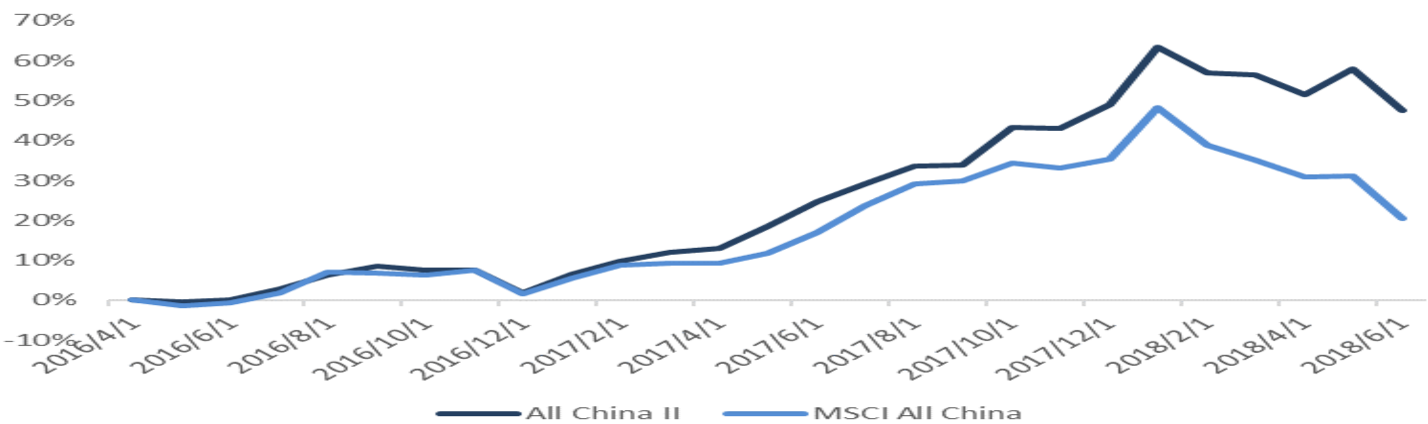
NAV (30/06/18)	US$ 96.81 (L1) /96.83 (L2)	Strategy Assets	US$ 256 m[a]
Total Fund Size	US$ 4.3m	Fund Launch Date	16-Apr-18

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							-3.2
MSCI All China Index[c]				-1.5	0.1	-8.0							-9.3

Period Performance (%)

	2018	2017	2016	Cumulative	Annualized
Bin Yuan All China II Strategy[b]	-0.97	46.31	1.85	47.57	19.67
MSCI All China Index[c]	-10.92	33.37	1.47	20.55	9.01



HF Hereford Funds

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

Sectoral Breakdown	% of Assets
Information Technology	27
Consumer Discretionary	27
Industrials	12
Financials	11
Health Care	7
Consumer Staples	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	12.72%	13.35%
Sharp Ratio	1.55	0.68
Information Ratio	1.68	
Tracking Error	5.57%	
Beta	0.87	

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 II 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 II 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 II 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.