



Investment Review

The Hereford Funds Bin Yuan Greater China Sub-Fund depreciated 15.81% for the month of October compared to a 10.84% negative return for the MSCI All China Index including dividends. Since inception, the Sub-Fund recorded a return of -27.63%, among which -18.3% was due to stock price decrease, -5.3% was due to RMB depreciation and -4% was impacted by subscription inflow. During the same period, the benchmark was down by 25% in USD term.

At the end of October, the Sub-Fund was invested primarily in the Consumer, Industrial 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 underperformed the benchmark by 4.97%. Unfortunately the subscription inflow impacted the fund return negatively by 4%. The market was up by 5.6% during the period when the money came in and the return was diluted by the extra cash. The remaining 1% underperformance was due to the weak performance of consumer sectors. Previously outperformed consumer staples stocks experienced profit-taking. The market is concerned on the slow-down of domestic consumption growth, which was caused by the reduced shanty development subsidy and the tightening liquidity since Q2. We think these are cyclical factors and long term secular trend of consumption upgrade still remains intact. The short term volatilities may stay for one or two quarters due to uncertainties from the trade issue with the US. However, as the industries continue to consolidate, industry leaders in our portfolio will benefit from this trend. The 2019 PE valuation of industry leader stocks are very attractive with Little Swan (washing machine) at 10x PE, 4.6% dividend yield; Fuanna (Home textile) at 10x PE, 4% dividend yield. These consumer names are all cash rich and balance sheet strong.

In October, the positions that contributed the most to the portfolio's return were Yifeng Pharmacy, Fu Shou Yuan and Little Swan B. The positions that contributed the least in the month were Yongda Auto, Yanghe Brewery and Man Wah.

Manager's Commentary

China's economy growth slowed down in October. The Producer Price Index (PPI) rose 3.6% year on year (YoY) in September 2018, down from 4.1% in August 2018. The Consumer Price Index (CPI) was 2.5% in September, up from 2.3% in August. The official manufacturing Purchasing Managers' Index (PMI) dropped from 50.8 in September to 50.2 in October, and the official Non-Manufacturing PMI decreased from 54.9 in September to 53.9 in October. Both manufacturing and non-manufacturing PMI was still above the expansion/contraction threshold of 50.

Chinese government conducted import tariff cuts to boost trade and consumption. Effective on November 1, China's overall tariff reduced from 9.8% to 7.5%, a reduction of nearly RMB60 billion, mainly from decreased tariffs on machinery, electronic devices, textiles and paper-made commodities. Meanwhile, China has announced a new round of individual tax cut, which could reduce annual individual tax of RMB116 billion to alleviate household burdens and drive the growth of consumption.

Since September, margin calls of pledged shares of many listed companies caused the liquidity problem. It is common in China to pledge shares for cheaper loan. The selling of those shares due to margin calls drove the market down, which forced the liquidation of some equity funds as they hit the minimum NAV. The Ripple effect caused market dropped further in October. This disorder went beyond company fundamentals and it is due to less mature financial industry. In order to support the capital market's confidence, the government put forward a series of new measures. For example, the share repurchase system was revised to help eligible listed companies to buy back shares more easily. In addition, the government also encourages local government to establish new funds to support the development of listed companies with good quality but currently trapped with high pledged shares. Banks and brokers are required to review the company business and financial situations before they liquidate the pledged shares. This will slow down the selling and stabilize the market negative momentum.

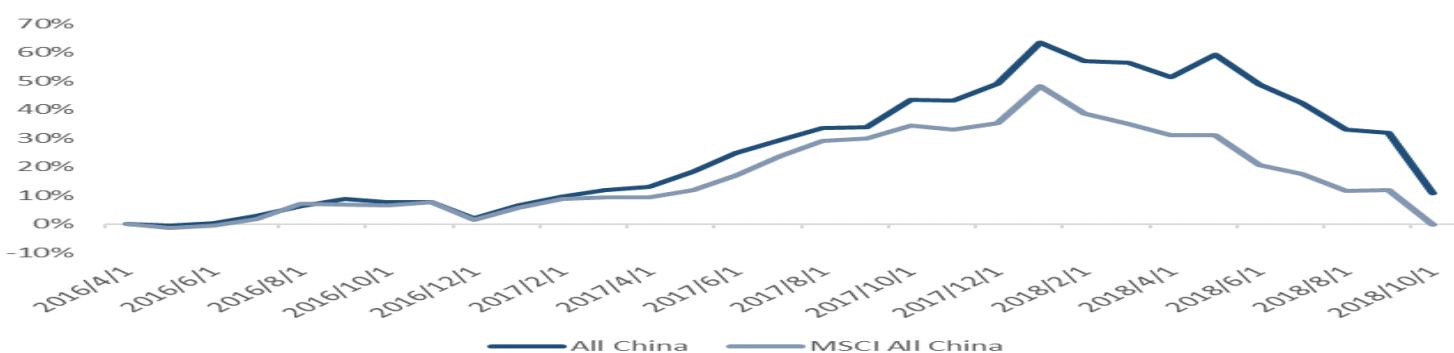
Our current portfolio PE ratio is 14.4x estimated 2019 earnings, and the expected earnings growth rate is 20% through 2022. The valuation is very attractive and we have high conviction of the holdings in our portfolio. We will leverage the short term volatilities to continue to accumulate high quality stocks.

Key Information

| | | | |
|-----------------|-----------------------------|------------------|---------------------------|
| NAV (31/10/18) | US\$ 72.14 (L1) /72.22 (L2) | Strategy Assets | US\$ 199 m ^(a) |
| Total Fund Size | US\$ 14.7m | 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 | -6.4 | -1.0 | -15.8 | | | -27.6 |
| MSCI All China Index ^(c) | | | | -1.5 | 0.1 | -8.0 | -2.5 | -5.1 | 0.2 | -10.8 | | | -25.0 |

| Period Performance (%) | | | | | | |
|--|--------|-------|------|------------|------------|--|
| | 2018 | 2017 | 2016 | Cumulative | Annualized | |
| Bin Yuan All China Strategy ^(b) | -25.63 | 44.69 | 1.07 | 10.81 | 4.19 | |
| MSCI All China Index ^(c) | -26.35 | 33.37 | 1.47 | -0.33 | -0.13 | |



HF Hereford Funds

Top Ten Holding

| | |
|-------------------------------|----------------------|
| China Merchants Bank ICBC - H | Nari Technology |
| Alibaba | Ping An |
| Jiangsu Yuyue | China Merchants Bank |
| Fuanna Bedding | C&S Paper Co. |
| Tencent | Sunny Optical |

| Sectoral Breakdown | % of Assets |
|------------------------|-------------|
| Consumer Discretionary | 23 |
| Consumer Staples | 18 |
| Financials | 17 |
| Industrials | 12 |
| Information Technology | 10 |
| Health Care | 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 |

| 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 |

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| Since Inception ^(d) | Bin Yuan All China | MSCI All China |
|--------------------------------|--------------------|----------------|
| Volatility | 17.08% | 14.85% |
| Sharp Ratio | 0.25 | -0.01 |
| Information Ratio | 0.62 | |
| Tracking Error | 6.93% | |
| Beta | 1.06 | |

| 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.