

## Investment Review

The Hereford Funds Bin Yuan Greater China Sub-Fund depreciated 0.97% for the month of September compared to a 0.15% return for the MSCI All China Index including dividends. Since inception, the Sub-Fund recorded a return of -14.03%, among which -9.2% was due to stock price decrease and -4.8% was due to RMB depreciation. However, the Sub-Fund still outperformed the benchmark by 1.8%. At the end of September, the Sub-Fund was invested primarily in the Consumer, Industrial, Information Technology and Financial sectors, with little weights in the energy, materials and real estates sectors. For the month, the Sub-Fund underperformed the benchmark by 1.12%. This was primarily due to the lag in Information Technology and underweight in Energy. In September, the positions that contributed the most to the portfolio's return were Nari Technology, China Merchants Bank and Ping An Insurance. The positions that contributed the least in the month were Chaozhou Three, Livzon Pharm and Sunny Optical.

## Manager's Commentary

China's equity market remained weak in the third quarter. The growing concern of domestic slowdown and the uncertainty of trade war with US tampered the confidence of the market.

**Domestic Consumption Slowdown – Cyclical not Structural** China domestic consumption has slowed down in the third quarter primarily due to two reasons. Firstly, to help to improve the residential living standard in less developed areas, the government issued a shanty redevelopment stimulus policy in 2017, which boosted property construction, property sales and related consumptions in lower tier cities. However, the lower scale of redevelopment this year negatively impacted the consumption growth. Secondly, the liquidity tightening to reduce over leveraged sectors and clean up the intermediary channels in financial system negatively impacted the operation of Small and Medium Enterprises (SME) who had lower intention and less capital to re-stock, which lowered sales data for some sectors. The orderly exit of the stimulus scheme shall help to stabilize property price and improve affordability. The incremental deleveraging impact will continue to be diminishing going forward. The long-term secular trend of China's economy remains intact. The mass consumption becomes predominant driver of overall consumption growth, and "Consumption Upgrade" trend continues in mass market. The demand driven by low income group is tremendous. If the current rural household consumption level becoming the same as those in urban areas, driven by urbanization, the total ownership volume of some consumer products like air conditioner will increase by 40-50%.

**Trade War - What is Expected from China** The trade relationship of Trump administration with China is less negotiable compared to the past. It is expected to be a long-lasting event even most of us believe it would not be beneficial to the global trades. We have discussed that the trade war will not reverse the economy trend in China significantly, it would be an external force for China to adopt more reform which in the long term is good for China. We believe that domestic consumption will not be impacted, while there might be short term uncertainties on consumer discretionary. Taking out trade war noises, our investment attention is still focused on selective consumption sectors and technology sectors that are less relevant to trade issues.

China will continue to restructure its economy from low end manufacturing to high end manufacturing and services, from investment driven to consumption driven model by taking measures including government reform to reduce enterprise burden, tax reform to improve fairness, policies to favor low income people and SOE reform to improve efficiency. Chinese government is determined to reform to build a fair and efficient mechanism for enterprises that include both SOE and private companies. Those expected changes would be very favorable to highly innovative and well-managed companies. The tightening execution on tax, environment, social security and liquidity will impose heavier burden on those less efficient and illegal players, but will do no harm to well-managed leaders who invested in the past on those Environmental, Social and Governance (ESG) factors and R&D.

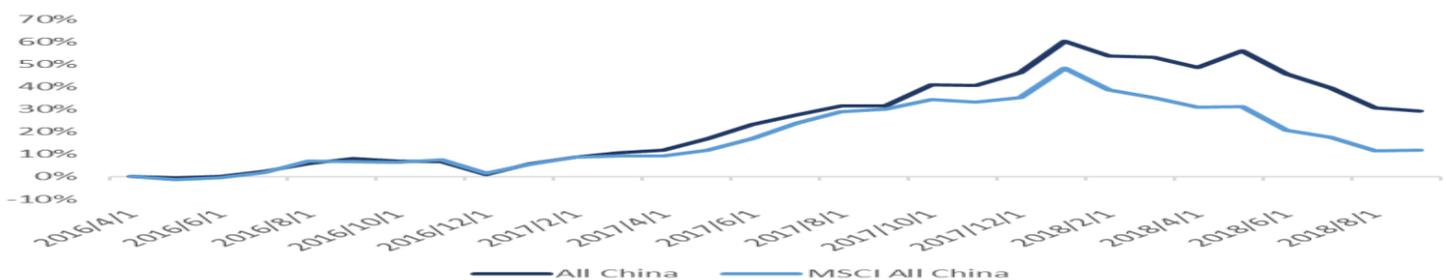
Our portfolio's stock prices were affected by the poor market sentiment and the lag of the mid-cap stocks due to liquidity preferences. We believe that those mid-cap potential industry leaders will outperform in the long-term and we will continue to accumulate high quality stocks to build our strategic positions. Our current portfolio PE ratio is 15.5x estimated 2019 earnings, which is lower than their PE level during the tough period of Oct 2008 or Feb 2016. The expected earnings growth rate is 20.1% through 2022. Considering the predictable quality growth of the portfolio, we believe that our portfolio's valuation is very attractive.

## Key Information

NAV (30/09/18)	US\$ 85.77 (L1) /85.84 (L2)	Strategy Assets	US\$ 215 m <sup>(a)</sup>
Total Fund Size	US\$ 4.0m	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	-6.4	-1.0				-14.0
MSCI All China Index <sup>(c)</sup>				-1.5	0.1	-8.0	-2.5	-5.1	0.2				-15.9

Period Performance (%)					
	2018	2017	2016	Cumulative	Annualized
Bin Yuan All China Strategy <sup>(b)</sup>	-11.66	44.69	1.07	29.18	11.18
MSCI All China Index <sup>(c)</sup>	-17.40	33.37	1.47	11.79	4.72



Top Ten Holding	
China Merchants Bank	Nari Technology
Alibaba	Ping An
ICBC - H	China Yongda Auto
Jiangsu Yuyue	Fuanna Bedding
Man Wah Holdings	Tencent

Sectoral Breakdown	% of Assets
Consumer Discretionary	27
Financials	16
Consumer Staples	13
Industrials	12
Information Technology	11
Health Care	7
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	13.61%	13.30%
Sharp Ratio	0.82	0.35
Information Ratio	1.00	
Tracking Error	6.03%	
Beta	0.92	

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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