

Investment Review

The Hereford Funds – Bin Yuan Greater China Fund depreciated 3.56% for the month of September (net of fees) compared to a -3.44% return for the benchmark. At the end of September, the Sub Fund was invested primarily in the Consumer, Information Technology and Healthcare sectors, with minimal weights in the Energy, Utilities and Real Estates sectors.

For the month, the Sub-Fund underperformed the benchmark slightly by 13 bps. The underperformance in September was mostly driven by the temporary profit taking of several stocks in the consumer and internet sectors. In terms of stock selection, we did well in Health Care and Financials while Consumer Discretionary lagged. In September, the positions that contributed the most to the portfolio's return were Venus Medtech, China Duty Free and Luxshare Preci. The positions that contributed the least in the month were Jonjee High Tech, Bilibili and PDD.

Manager's Commentary

With COVID-19 continuing into the third quarter, new cases have not meaningfully reduced globally. China has performed well during this period with less than 100 domestic new cases due to highly restricted travel restrictions, social distancing, face mask requirements and a very effective new case contact tracking system. The economy has shown a steady recovery from the second quarter and China is leading global growth with Q2 GDP growth returning to a positive 3.2%. By contrast, other economies such as US, UK, Euro Zone and India were still experiencing problems and the corresponding Q2 GDP declined sharply at -9.1%, -21.5%, -14.9% and -23.9% respectively. China has done better in the third quarter. Social activities in China are almost back to normal in recent months as we can see from the following perspectives.

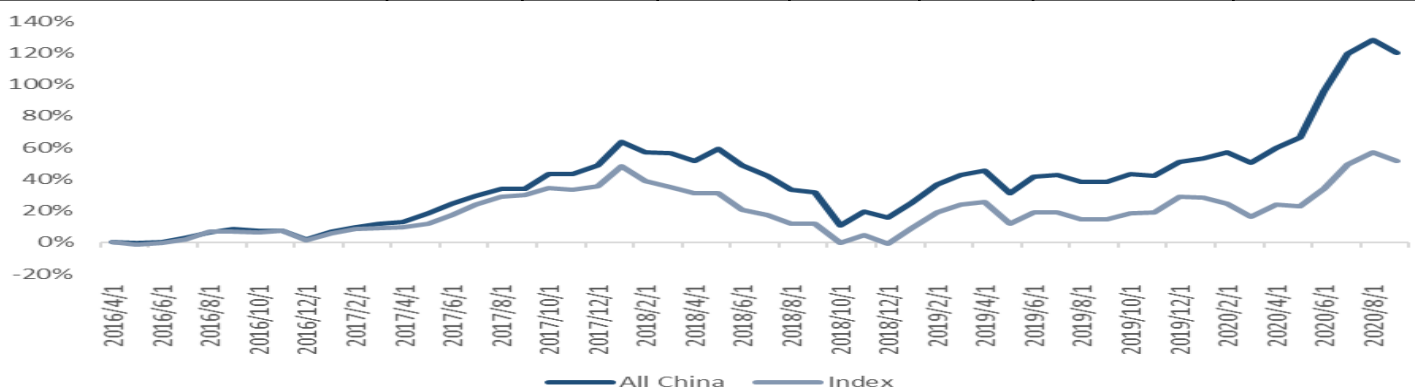
- I. **Investment Recovery Kicked Off Earlier.** Investment, in particular public investment, was the first to recover driving China's GDP growth. The government has played an active role during the tough pandemic period to support the economy. Stimulated with 11% year on year (YoY) growth in M2 and surging new long-term loan during March to August, infrastructure related and real estate investments recovered the fastest. Both traditional and new infrastructure (communication networks) performed well. For traditional infrastructure, the monthly average utilization hours per unit of Komatsu excavators in China has recovered to the pre COVID19 level of around 120 hours. New infrastructure (such as 5G) investment is running at an even faster track. The number of completed 5G base stations tripled in Q2 compared to Q1 and should maintain at that high level through the rest of the year.
- II. **Manufacturing Recovery to Pre-epidemic Level.** With the orderly resumption of production, China's PMI has returned to the expansion level since March. The utilization rate of industrial capacity was 67.3% in Q1 and recovered to 74.4% in Q2, only 2 percentage points less YoY. The YoY growth rate of industrial value added also rebounded to the same level of 2019 at 4.8% in July and 5.6% in August 2020. This shows that manufacturing has essentially recovered to pre epidemic levels.
- III. **Consumption Recovery Well on Track.** With business and investment activities ramping up, consumer confidence has been restored, demonstrated by the positive trend of retail sales growth in Q3. During the epidemic, the consumption of some discretionary goods had staggered temporarily, which dragged the total retail sales to negative territory of -8.6% by August YTD. With the return to normal work and life, YoY consumer spending has shown a promising trend. Retail sales growth in August alone has turned positive to 0.5% YoY. The COVID-19 epidemic has changed consumer behavior and lifestyle and nurtured some structural opportunities: (a) Online sales outperformed total retail sales by a much wider margin since the outbreak for its efficiency and convenience. (b) Due to the epidemic, consumers are unable to buy from overseas channels, and most of the unfilled demand for luxury cosmetics, tobacco and alcohol are satisfied in the domestic market in Chinese branded stores or duty-free shops for imported goods. (c) Consumers are paying more for products with improved functionality driven by the consumption upgrade trend.

In summary, China has led the resumption of growth post pandemic and we expect the momentum to accelerate into the fourth quarter and next year.

Key Information

NAV (30/09/20)	US\$ 143.19 (L1) /140.04 (L2) /100.59 (AI) /103.39 (BI) /155.78 (CB) /102.09 (DB A) /103.21 (DI) /165.30 (CI)	Strategy Assets	US\$ 875 m ^(a)
Total Fund Size	US\$ 264.0m	Fund Launch Date	16-Apr-18

Period Performance (%)							
	2020	2019	2018	2017	2016	Cumulative	Annualized
Bin Yuan All China Strategy^(b)	45.76	30.60	-22.46	44.69	1.07	119.95	19.54
Index^(c)	17.68	29.74	-26.64	33.37	1.47	51.58	9.88



Monthly Performance (%)														
	2019				2020									
	Oct	Nov	Dec	2019	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	YTD
Bin Yuan GC Fund	3.3	-0.5	6.1	30.60	1.59	2.34	-4.28	6.51	3.96	17.70	12.16	3.90	-3.56	45.76
Index ^(c)	3.4	0.4	8.2	29.74	-0.71	-3.1	-6.84	6.59	-0.91	9.29	11.27	5.27	-3.44	17.68

Top Ten Holding					
1	Tencent	7.28%	2	Comtemporary A-A	6.13%
3	CM Bank – H	6.05%	4	Dianpi-B CM	5.43%
5	Alibaba	4.98%	6	Aier Eye Hsptl-A	4.97%
7	S F Holding Co-A	4.81%	8	Luxshare Preci-A	4.38%
9	Bilibili	4.37%	10	C&S Paper Co-A	4.18%

Sectoral Breakdown	% of Assets
Consumer Discretionary	19
Consumer Staples	17
Information Technology	16
Health Care	15
Communication Services	13
Industrials	11
Financials	8

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.

Under Discovered Holding	% of Assets
Under Discovered	73
% of A share holding with foreign ownership below 10%	75
Mid Cap Exposure	37

* Mid Cap stands for the market capitalization is below 20 Billion USD.

Market Breakdown	% of Assets
A Share	55
Hong Kong (Discounted Dual Listing)	8
Hong Kong	22
US ADR	14

Since Inception ^(d)	Bin Yuan All China	Index
Volatility	17.50%	17.62%
Sharp Ratio	1.19	0.56
Information Ratio	1.53	
Tracking Error	7.16%	
Active Shares	76%	
Beta	0.97	
PE ex ADRs	22.58	

Valuation	Portfolio				Benchmark	Benchmark (excluding Financials)
Period	20081031	20130630	20160229	20200930	20200930	20200930
Forward PE (X)	18.2	16.7	18.5	24.4	17.1	34.8
Forward PB (X)	2.7	2.7	3.1	5.2	2.0	5.2
Forward Div. Yield (%)	1.6	1.9	1.9	0.8	1.7	1.1
Forward ROE (%)	14.7	16.0	16.6	21.3	11.5	15.0
Earning Growth (%) Forward 3 YR	22.0	27.0	21.0	22.2	5.0	10.4
Forward PEGY	0.8	0.6	0.8	1.1	2.6	3.0
FCF Yield	3.0	5.0	10.0	3.2	8.2	3.3

Fund Codes						
Share Class	L1	L2	AI	CB	CI	BI
Bloomberg	HFBYL1U LX	HFBYL2U LX	HEYGCAU LX	HFBYCBYLX	HFBYCIU LX	HEYGCBU LX
TK	040149745	040149751	040149630	040149740	040149734	
ISIN	LU1778255734	LU1778256203	LU1778252558	LU1778255494	LU1778254844	LU1778253952
Lipper ID	68483958	68483959		68543207	68563916	68625053
Sedol	BFXVVR8	BFXVVS9	BMY2Q30			BMY1994

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 CI, CB	0.75%

Minimum Investment	
Share Class A	\$100,000 Minimum initial subscription & holding
Share Class B	\$5,000,000 Minimum initial subscription & holding
Share Class CI & CB	\$10,000,000 Minimum initial subscription & holding

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) MSCI Inc. discontinued MSCI All China Index and the transition to MSCI China All Shares Index took effect on 27 November 2019. MSCI All China Index Total USD return including dividends (Bloomberg ticker M1ACN Index) was used as benchmark from the inception of April 2018 to November 26, 2019. MSCI China All Shares Net Total USD Return (Bloomberg ticker MXCNANM Index) is used as benchmark since November 27, 2019.
- (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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