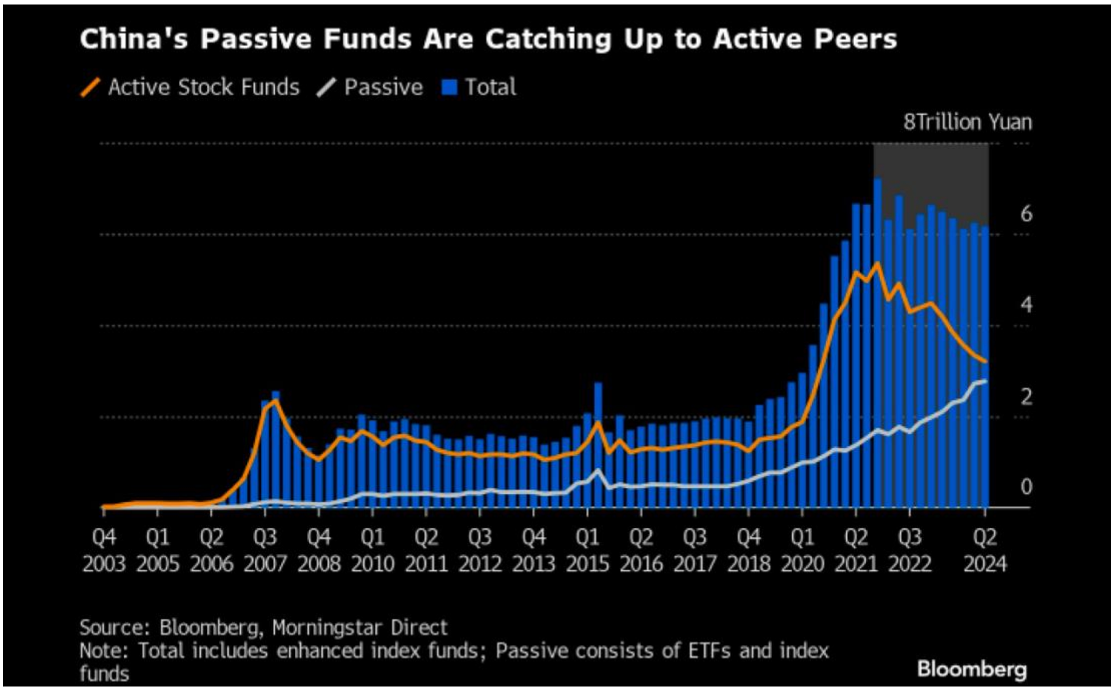
Dear client,

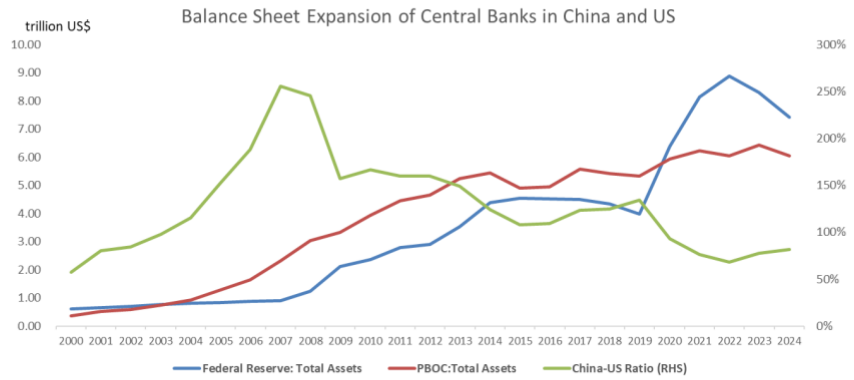
The much slower than expected recovery of the Chinese economy after the pandemic, the collapse of the property market and the massive outflow of foreign pension assets for geopolitical reasons has made the Chinese equity market one of the worst performers for the past three years. Active fund managers relative performance was even worse as Government funds that supported the index influenced other institutional funds to follow suit (one type of flight to safety). The actual broader based number of stocks dropped much more than the index. Over my 25 years plus of investing in China I have never felt as frustrated. However, after a lot of thought and reflection over the past few weeks, I strongly believe that now is a great time for investors to add to positions or initiate new positions in the next three to six months. As long as you have a time horizon of three years you will get a much better return than the market.



The consensus is that the Chinese economy is in a vicious cycle of overcapacity, balance sheet problems for local governments, weak household spending caused by decreased property prices and income, geopolitical issues negatively impact trade with the US, etc. We agree with all the above concerns, but if you live and are doing business here on the ground, life is not as bad as the stock market would indicate. Even with the decreased value of stock and property prices, restaurants, high speed trains, airplanes, tourist attractions are all full. High tech firms continue to invest to improve productivity and their competitiveness. 1.4 billion Chinese are still living or working. They have issues to overcome, but it is a mistake to write China off. I believe investors are over discounting the value of high quality Chinese companies with great long-term value.

I believe that the follow situation will be improved or reversed in the future:

1. The central government has monetary and fiscal capacity to stimulate the economy



Sources: Wind, Bin Yuan Capital

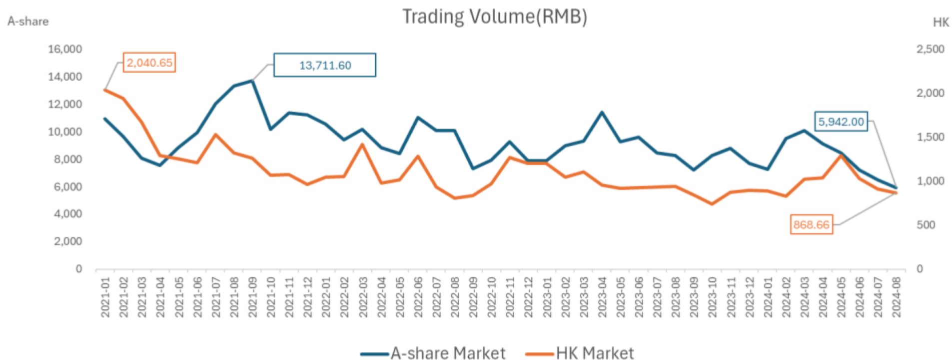
  a. They will issue long term bonds to invest in infrastructure to maintain growth. Power grid bidding and high-speed railway bidding, for example, have already been picking up.
  b. Continue to lower interest rates – The US rate cut reduced pressure on RMB pricing. China will be able to lower rates to reduce the household burden of servicing their debt – and increase spending.

2. Subsidize spending on replacement of discretionary household items

3. Industry consolidation – merge smaller state firms to create national champions like the Korea model

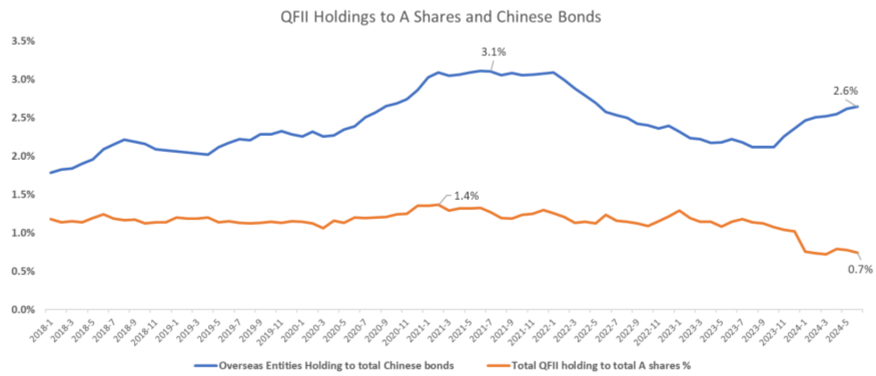
Data is always behind to reflect positive changes

4. Sentiment:
  a. Liquidity has dried up - hit the bottom



Sources: Wind, Bin Yuan Capital

  b. Some foreign funds stayed but increased in bonds. Foreign ownership of stocks has hit the bottom

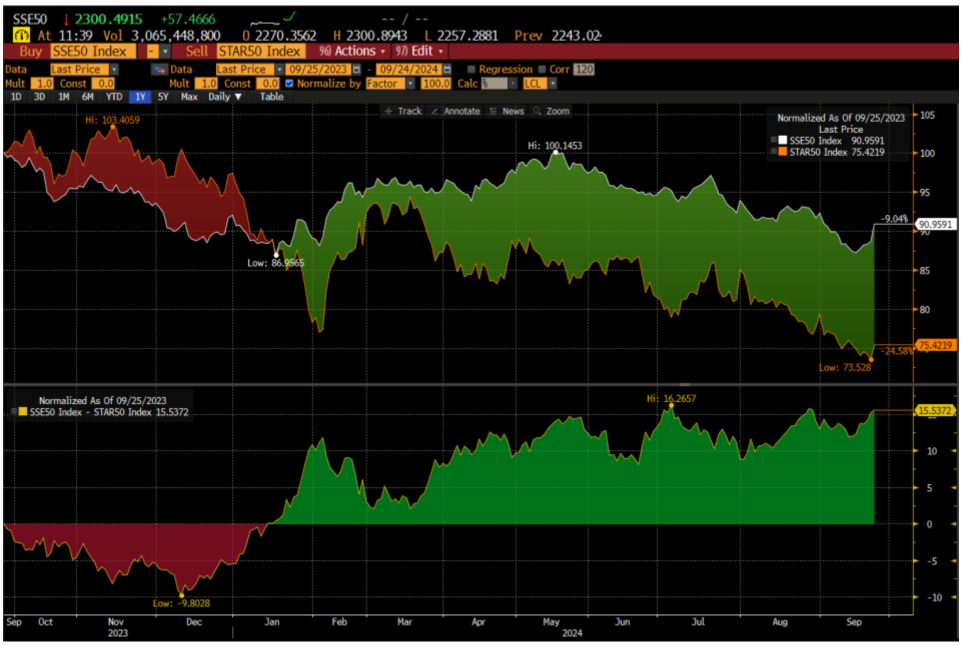


Sources: iFinD, Bin Yuan Capital

c. The US China relationship is close to an equilibrium point. Going forward, changes will be marginal. Both sides will try to balance the relationship once the new US administration takes over. Less dramatic actions which benefit both sides in the short term will be taken.

d. This year will be a low base – both for the GDP growth and corporate earnings
In the past two months, every time there was news that the government would stimulate the economy, the market rebounded. This is an indication the market today is oversold. There is massive liquidity available once confidence returns.

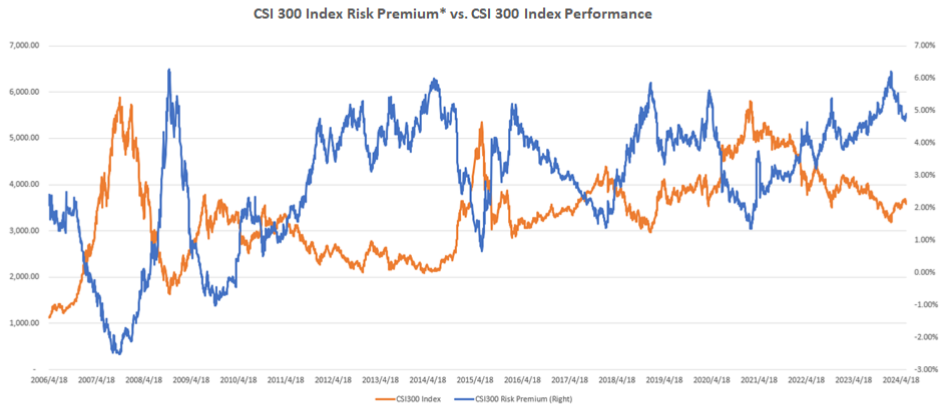
5. BY will start to outperform as the "Flight to Safety" is getting crowded and will be reversed once sentiment stabilizes and investors look for recovery and growth that generate alpha. There will be a style reversion.



Sources: Bloomberg, Bin Yuan Capital

6. valuation – at the bottom

Sources: iFinD, Bin Yuan Capital



** CSI 300 Index Risk Premium = Earnings/Price % - yield of 10-year government treasury bond*

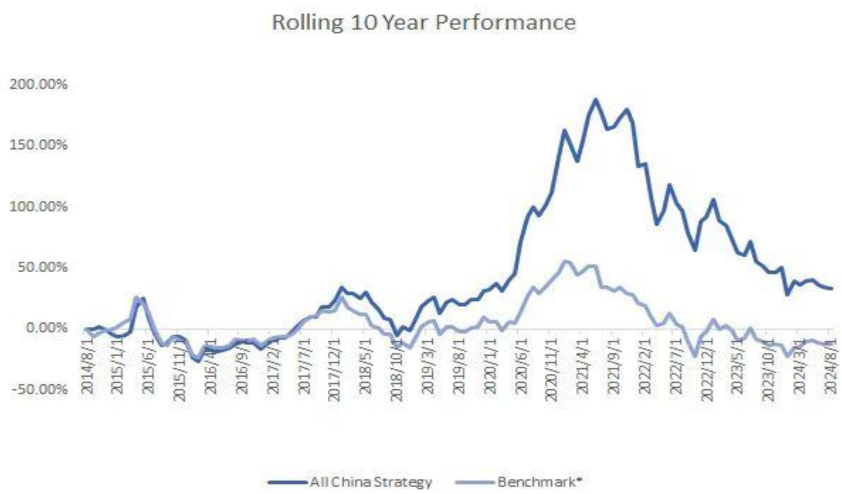
Sources: Bin Yuan Capital, Wind

Timing stock market cycles is difficult. Our experience is the same. When we outperformed, it was easier to get clients. The continued negative media commentary make it tempting to give up on China and Bin Yuan – particularly when other markets have performed so strongly.

Sources: Bloomberg, Bin Yuan Capital

Investor flows have tended to follow momentum

Over the longer term, we have delivered strong returns and alpha. At our 2021 annual review call, I said our main worry was reversion to the mean as our relative return had been so strong. It is the time to say that again - invest with us to benefit for the next three years up cycle.



Thank you all!

Ping