

Investment Review

The Hereford Funds – Bin Yuan Greater China Fund appreciated 2.34% for the month of February (net of fees) compared to a 3.10% negative return for the benchmark (Performance period 1/27-2/29). At the end of February, the Sub-Fund invested primarily in the Consumer, Information Technology, and Health Care sectors, with little weights in the Energy, Utilities, Materials and Real Estates sectors. For the month, the Sub-Fund outperformed the benchmark by 5.45%. In terms of stock selection, we did well in Health Care and Industrials while Consumer Discretionary lagged. In February, the positions that contributed the most to the portfolio's return were Yuyue, S F Holding and Bilibili. The positions that contributed the least in the month were Gree, Yili and CM Bank.

Manager's Commentary

Virus Outbreak Updates: With nationwide efforts, the coronavirus outbreak is under control in China in late February, especially outside of Wuhan City where the outbreak started. However, the situation of COVID-19 transmission is getting worse in other countries including Korea, Italy and Iran, with 4,335, 1,694, 1,501 total confirmed cases by 2 March, respectively. WHO increased COVID-19 global outbreak risk from "high" to "very high". China is taking measures to quarantine inbound travelers from those high-risk countries.

Chinese government has recently shifted its focus on restoring the economy. Five provinces include Inner Mongolia, Xinjiang, Sichuan, Jilin and Hainan province have lowered their emergency alert levels as the number of the new cases has decreased. In the first half of February, enterprises in key fields such as medical, energy, grain, transportation and logistics resumed operation. According to China Unicom big data statistics, as of February 23, 2020, nearly 70% people have returned to their regular resident places. More than 70% of the large enterprises are back to normal operations. The rate for small and medium enterprises is still low at 30%.

Portfolio Impact: The coronavirus has penetrated to countries outside of China, which has changed our risk perspective compared to a month ago. The slow responses by most of the leadership in those countries did not help to reduce the worries on the global economy. There is no transparency how the situation will be evolving, but if China case is a lesson learned, slacking on dealing with the virus may significantly increase the risk of global economy.

If the coronavirus is continually getting worse outside of China, the cycle of this outbreak will last longer and thus it will negatively impact the global supply chain. China may become the first country to get out of this mud. Domestic economy will still be our investment focus. Less than 7% of sales in our portfolio are generated outside of China.

The companies in our portfolio has recovered operation to 82% of normal level. For example, Yuyue Medical production lines are working at 90% utilization rate. Online service companies are the first to achieve full operation. Manufacturing warehouses outside Hubei province have returned to normal operation as well. Business with more close people to people contact is recovering slower like Meituan and Huazhu.

The portfolio holds 30% in healthcare, entertainment and personal care which are the top 3 beneficiaries during the outbreak. We have a 4.5% weight in the worst impacted sectors, airport, catering and hotels. The balance of 60% of holdings are negatively affected to a greater or lesser extent in the first quarter. Weighted average revenue and earnings growth estimates of our holdings have been lowered from 19% to 16% and from 20% to 12% respectively in the first quarter. Due to the low season nature, and recovered demand in the following months, we expect the impact on the full year revenue and earnings growth will be less significant, from 20% to 19% and from 21% to 17% respectively. Healthcare and Information Technology space remain as the key areas of investment. Most of our consumption, logistics and technology holdings will benefit from the industry consolidation after the event in the long term.

Bin Yuan Operation Updates: Everyone and their families at Bin Yuan are healthy and safe. Bin Yuan team is currently working from home according to "Bin Yuan Business Continuity Plan". Our policy only allows people to return to office after consecutive 14 days without new confirmed cases in Shanghai. Everything remains normal except no face to face meetings. Email box works well for documentation. Research team has at least two Wechat calls every day to communicate internally, and we have conducted 63 conference calls with listed companies and other contacts for cross check and monitoring purpose during the outbreak period. All the trading, risk control, operation systems, VPN and servers function normally without any disruption. Bin Yuan traders locate in Hong Kong office so there should be no issues on trading activities.

Key Information

NAV (29/02/20) US\$ 102.14 (L1) /102.93 (L2)/111.11(CB)/117.91 (CI) Strategy Assets US\$ 484 m^(e)
 Total Fund Size US\$ 161.1m Fund Launch Date 16-Apr-18

Period Performance (%)							
	2020	2019	2018	2017	2016	Cumulative	Annualized
Bin Yuan All China Strategy^(b)	3.97	30.60	-22.46	44.69	1.07	56.89	12.47
Index^(c)	-3.26	29.74	-26.64	33.37	1.47	24.61	5.91



Monthly Performance (%)

	2019											2020		
	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	2019	Jan	Feb	YTD
Bin Yuan GC Fund	4.5	1.9	-9.9	7.9	1.0	-3.1	0.1	3.3	-0.5	6.1	30.60	1.59	2.34	3.97
Index ^(c)	4.3	1.2	-11.1	6.8	-0.0	-4.1	0.4	3.4	0.4	8.2	29.74	-0.71	-3.1	-3.26

Top Ten Holding

Rank	Company	Weight	Rank	Company	Weight
1	Jiangsu Yuyue	9.14%	2	Tencent	5.95%
3	C&S Paper Co.	5.61%	4	CM Bank – H	5.58%
5	Ping An – H	4.94%	6	Bilibili	4.18%
7	S F Holding Co – A	4.04%	8	Chinasoft Intl	3.97%
9	Alibaba	3.85%	10	Kweichow Mouta – A	3.67%

Sectoral Breakdown

Sector	% of Assets
Consumer Staples	18
Consumer Discretionary	17
Information Technology	15
Health Care	15
Financials	11
Communication Services	10
Industrials	6

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.

Market Breakdown

Market	% of Assets
A Share	52
Hong Kong (Discounted Dual Listing)	12
Hong Kong	15
US ADR	13

Under Discovered Holding

Category	% of Assets
Under Discovered	61
% of A share holding with foreign ownership below 10%	77
Mid Cap Exposure	47

* Mid Cap stands for the market capitalization is below 15 Billion USD.

Since Inception ^(d)	Bin Yuan All China	Index
Volatility	15.45%	16.59%
Sharp Ratio	0.90	0.36
Information Ratio	1.31	
Tracking Error	6.04%	
Beta	0.93	
PE ex ADRs	15.76	

Valuation	Portfolio				Benchmark	Benchmark (excluding Financials)
	20081031	20130630	20160229	20200229	20200229	20200229
Forward PE (X)	18.2	16.7	18.5	19.8	12.3	24.5
Forward PB (X)	2.7	2.7	3.1	3.9	1.6	4.2
Forward Div. Yield (%)	1.6	1.9	1.9	1.3	2.3	1.5
Forward ROE (%)	14.7	16.0	16.6	19.5	13.0	17.0
Earning Growth (%) Forward 3 YR	22.0	27.0	21.0	20.0	15.8	15.4
Forward PEGY	0.8	0.6	0.8	0.9	0.7	1.4
FCF Yield	3.0	5.0	10.0	3.9	10.9	2.9

Fund Codes				
Share Class	L1	L2	CB	CI
Bloomberg	HFBYL1U LX	HFBYL2U LX	HFBYCBYLX	HFBYCIU LX
TK	040149745	040149751	040149740	040149734
ISIN	LU1778255734	LU1778256203	LU1778255494	LU1778254844
Lipper ID	68483958	68483959	68543207	
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

Order Transmission Information

FundPartner Solutions (Europe) S.A.
15, Avenue John F Kennedy,
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Via fax +352 46 71 71 7667 or SWIFT PICTLULXTAS

Annual Management Charge	
Share Class A	1.25%
Share Class B	1.00%
Share Class CI, CB & L1	0.75%
Share Class L2	0.25% with 15% performance fee

Minimum Investment	
Share Class A & L	\$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.