China Equity Strategies Review- Fourth Quarter 2013

Since inception to the end of 2013, both Binyuan China H and A share strategies have achieved positive returns, but during the same period have we witnessed that both indices performed negatively. Since March 2013, the H share strategy was recorded up 18.52% while the market was down by 0.17%. From June to year end, the A share strategy has achieved a positive return of 9.4% compared to -9% for the market.

For the fourth quarter in 2013, Binyuan H fund gained 10.43% versus MSCI China Index up by 3.74%. That is to say the fund performed 6.69% better than its benchmark.

Inception Date	**11-Mar-13**
Ending Date	**31-Dec-13**

Greater China Fund	MTD	QTD	YTD	ITD
Bin Yuan Capital	0.70%	10.43%	18.52%	18.52%
MSCI China Index	-3.42%	3.74%	-0.17%	-0.17%
Outperformance/(Underperformance)	**4.12%**	**6.69%**	**18.69%**	**18.69%**

Note: Performance figure above is net of trading and FX cost.

For the fourth quarter in 2013, our A share Fund also has mandated continued strong performance, which has outperformed the CSI300 Index by 7.59% and the MSCI China A Index by 7.29% during this period.

Inception Date	**06-Jun-13**
Ending Date	**31-Dec-13**

China A Strategy Sub-Advise	MTD	QTD	YTD	ITD
Bin Yuan Capital	-1.11%	4.31%	9.40%	9.40%
CSI 300	-4.47%	-3.28%	-9.00%	-9.00%
MSCI A	-4.21%	-2.98%	-6.97%	-6.97%
CSI Outperformance/(Underperformance)	**3.36%**	**7.59%**	**18.41%**	**18.41%**
MSCI Outperformance/(Underperformance)	**3.10%**	**7.29%**	**16.38%**	**16.38%**

Market Overview and Performance Attribution (H share only, A share is available upon request)

Both A and H shares markets have achieved strong performances during the fourth quarter of 2013. As what we have expected in the previous quarterly review, the economy was expected to be stabilizing in the fourth quarter. It was proved sequentially by PMI improving from 51.1 in Sept to 51.4 in both months of Oct and Nov (50.1 in June, 50.3 in July, 51 in Aug). However, we are still closely monitoring the sustainability of this rising economy as we have noted that PMI in Dec has then retreated to 51 yet above expansionary level.

At a sector level, Healthcare, Information Technology and Utility were the biggest three outperformers with 26%, 19% and 16% returns respectively during the period, followed by Industrials and Materials up largely over 6%. On the negative side, Telecom and Consumer Discretionary were the worst performers for the quarter.

Healthcare rebounded strongly in fourth quarter after being the most distracting sector in the third quarter caused by the anti-bribery campaign, which temporarily slowed down the topline growth of the whole industry. Our firm action of adding more high quality healthcare names in our portfolio in Sept has made a large positive contribution to our performance.

An integrated logistic provider (Industrial) was our top performer in the fourth quarter; it was under covered and misunderstood by the market and was traded at 40-50% discount book value in the past and started to be known by the street lately. Even now we still like it as it is well positioned in the whole logistic value chain and we believe it will become a long term winner.

To sum up, our stock selection in Consumer, Industrial and Financial sectors contributed to the performance positively by a big margin and our sector allocation added value by overweighting in Information Technology, Industrial and Healthcare sectors.

Portfolio Positioning (H share only, A share is available upon request)

The fund holds 24 stocks in total as of Dec month end.

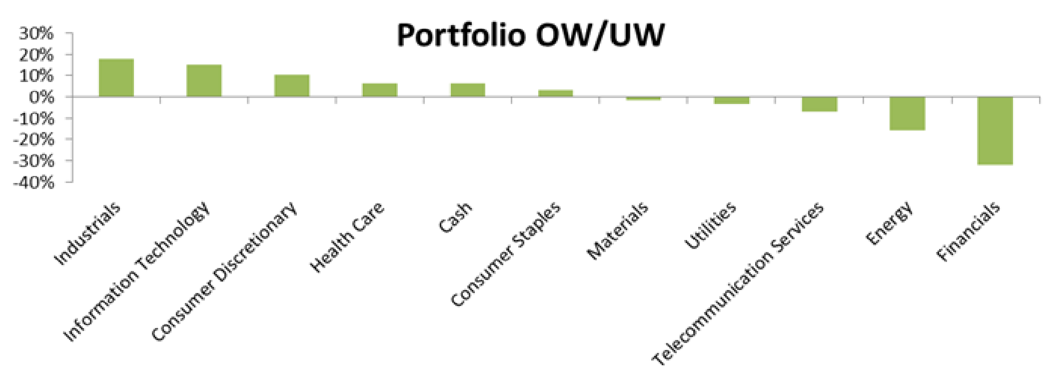
The old model of low quality growth in China is not sustainable, and we expect tremendous structural changes to happen in the next 5-10 years, from low value to high value added goods and services, from massive infrastructure and capacity investment to efficiency improvement, from heavy energy consumption to energy sustainable development, from property led consumption to new era of spiritual led consumption.

We foresee plenty of opportunities emerging in the area of quality life, smart world, high efficiency and green China. Our current portfolio positioning is consistent with a number of the long-run structural themes that we have identified in China over the next 3-5 or even longer years:

1. Rising awareness in food safety and children safety
2. Healthcare
3. Development of internet of Things
4. The integration of commerce with social network, mobile internet and big data.
5. The rise of online service penetration
6. Efficiency improvement driven by automation and logistics
7. Development of renewable energy and energy savings
8. Environmental protection

As a result, the fund is over weighted in Consumers, Transportation (logistics related), Information Technology, selective Industrials (environmental protection, telecom equipment, agriculture machinery, railway machinery and automation) and Healthcare; we still less like the Financials, Properties, Energy and Materials. The short coming of this portfolio lies in the risk that monopoly sectors such as Energy, Telecom Services and Banks outperform in the near future. However, we believe that in a one to three year time window, the stronger bet lies in the midcap companies outperforming the index by a bigger margin.

Sector exposure chart:



Chinese Economy Outlook

2013 was the third year after the China GDP growth has peaked. The structural issues that caused by investment led growth started to surface. The economy has experienced the problems of peaking inventory level, over capacity in the most manufacturing sectors, increasing labor cost and financial liquidity shortages.

In the year of 2014, the economy will still maintain at slower growth trend. The key challenges will continue to be in the areas of over capacity consolidation and balance sheet deleveraging by large corporates, including banks. The banks will have a year of slower loan growth, rising risk of non-performing loans and off balance sheet items that caused by capital misallocation and duration mismatch of financial assets. As a result, we expect inflation rate will be softened and interest rate will increase, indicating the real interest rate will go up. Those corporate margin expansions led by investment will be difficult due to soft selling prices, increasing operating and financing costs.

In the government economic policy front, we expect this year will be a very difficult year as the government wants to solve the economic structure issues, less GDP growth focus yet keeping it at the targeted high level to maintain a high employment ratio. The visibility of the economy is low at this moment, but we expect the picture will get clearer in the upcoming quarters when the new administration enters into second year operations. We view it positively at this moment that most of the business and government leadership are very cautious under this economy, thus making the capacity consolidation, balance sheet de-leveraging and other economic re-structuring possible. The weak equity market for the past three years also has helped to squeeze out speculative investments and has reduced the future risk of the economic hard landing.

In longer term, we maintain our view that the new leadership is able to execute the reform. The background of new leadership gives us the confidence. The reform is expected to happen in the area of fiscal, financial system, administration, rural land and income redistribution.

Our investment themes are consistent with our view on China economy and have been illustrated in portfolio positioning session. We like those sectors that have visible growth potential. Consistently, we stay with quality companies with attractive valuations.