BINYUAN CAPITAL 彬元资本

Bin Yuan Capital All China Strategy – May 2017

Specialized China Manager

- Shanghai-based, long-only, value focused China manager
- $430M AUM invested in Greater China and China A share strategies

Approach

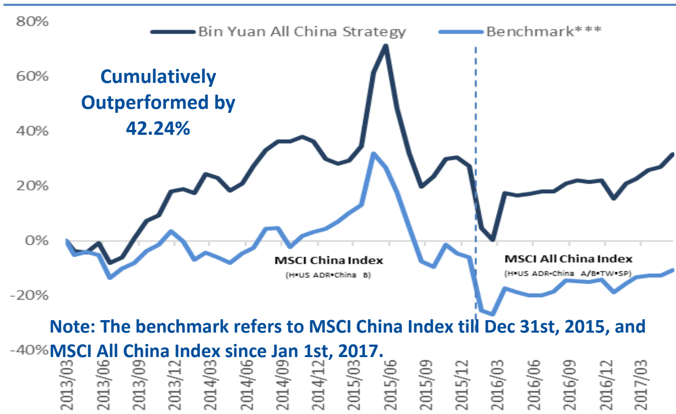
- Active, mid-cap, disciplined, research-driven process
- Long-term investment horizon with concentrated portfolios

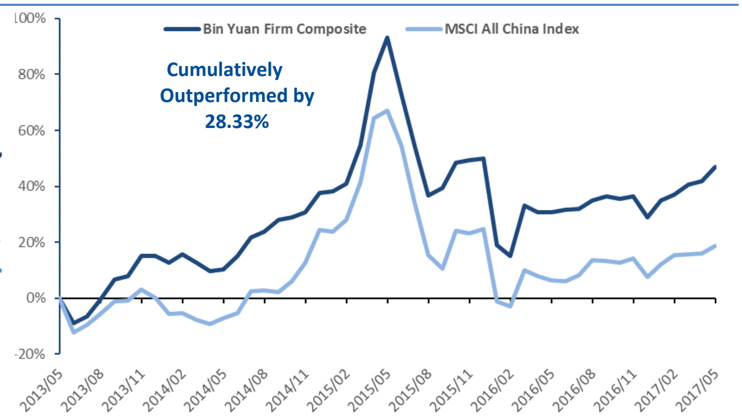
Alpha Generation

- +15.17% annualized return for China A strategy vs. +8.07% CSI 300 Index/+6.73% MSCI China A Index
- +6.67% annualized return for All China Strategy vs. -2.62% Benchmark***
- +10.31% annualized return for Firm Composite Gross Performance vs. +4.44% MSCI ALL China Index

Inception Date	8-Mar-13
Ending Date	31-May-17

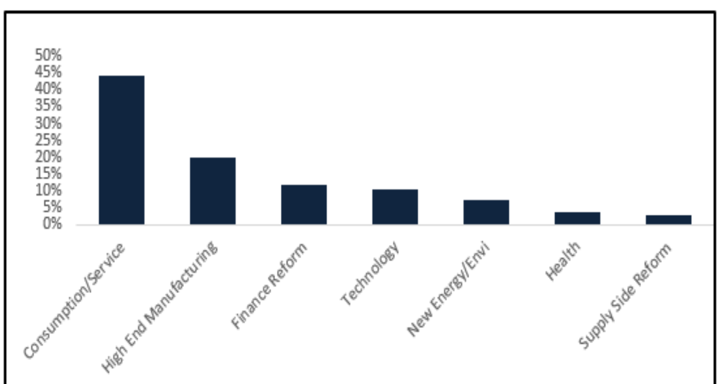
BIN YUAN All China Strategy	MTD	QTD	YTD	ITD
Bin Yuan Gross Performance	3.61%	4.51%	13.90%	31.55%
*Benchmark	2.24%	2.39%	10.20%	-10.68%
OUT/UNDER	1.37%	2.12%	3.70%	42.24%



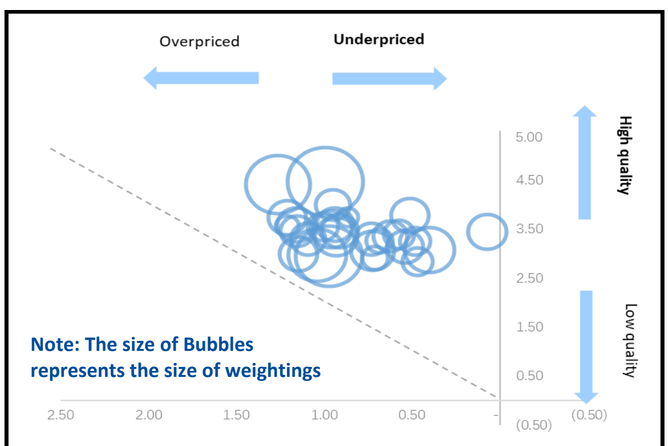


Portfolio Highlights

Top 5 Holdings	Top 5 Contributors	Bottom 5 Contributors
Information Technology (H share)	Financials (H share)	Consumer Staples(A share)
Financials (H share)	Information Technology (H share)	Industrials (H share)
Information Technology (US ADR)	Information Technology(US ADR)	Information Technology (H share)
Consumer Discretionary (H share)	Consumer Discretionary (H share)	Consumer Discretionary(A share)
Consumer Discretionary (H share)	Information Technology(US ADR)	Industrials(A share)



Forward PE	19.63	PEG	0.76	Price/Book Ratio	4.97
Earning Growth Rate%	24.21%	Dividend Yield%	1.55%	ROE%	20.93%



Performance Snapshot and Market Update

Bin Yuan All China strategy was up by 3.61% in May 2017, outperforming the benchmark by 1.37%. Since the inception of March 2013 to May 2017, the strategy recorded a return of 31.55%, while the market experienced the correction of 10.68% during the period. As a long only manager, we outperformed the market by 42.24%.

The Chinese stocks continued to correct in the first half of May but recovered most of the losses in the second half. The Shanghai Composite Index dropped by 1.19% while Hang Seng China Enterprise Index even increased by 3.75% in May.

China's economy continued to expand in May 2017 but at slower paces. The producer price index (PPI) rose 5.5% year on year (YoY) in May, which eased a bit from the 6.4% registered in April. This was primarily attributable to the decline of the commodity prices. However, the month on month decline narrowed from 0.4% in April to 0.3% in May. The consumer price index (CPI) continue to pick up mildly by rising 1.5% YoY from 1.2% YoY in April. The official manufacturing Purchasing Managers' Index (PMI) remained flat at 51.2 in May and the official non-manufacturing PMI in May was up to 54.5 from 54.0 in April. Rail cargo volume grew 15.5% YoY in April to reach about 301 million tons, marking the ninth consecutive YoY monthly rise.

The Chinese government is planning to further reduce corporate burdens of at least RMB120 billion by lowering business costs and taxes. It will roll out a series of measures to cut logistics costs and electricity transmission and distribution rates. In addition, after extending the value-added tax reforms to all the industries, the government will further lessen the tax burden of small and medium enterprises by raising the additional deductible percentage of R&D expenditures from 50% to 75%. We expect the reforms will continue and the prosperity of small and medium-sized enterprises will boost the job market and the economy.

Moody's downgraded China's long-term local currency and foreign currency issuer ratings by one notch from Aa3 to A1 and changed the outlook from negative to stable. The downgrade did not incur much market reaction. Bond prices barely moved and stock prices even registered a winning streak despite the downgrade.

Performance Attribution

In May, Information Technology and Financials were the top two contributors while Industrials and Consumer Staples lagged.

At the stock level, a banking company was the top performer primarily due to its higher exposure to retail banking compared to its competitors. We prefer retail banking to corporate banking because the retail channel will create substantial value in wealth management business with Chinese people getting richer. We shall keep it as one of our holdings.

A cemetery company underperformed in May primarily because the investors had not recognized the value of the cemetery assets. The scarce cemetery land supply and an aging population in China will make the cemetery business a perfect asset inflation play. The industry is very fragmented today and we expect more consolidations. As a listed company, it has edges with strong capital and management incentives. The company is targeting a market share of over 5% in cemetery industry in the long term and is divesting its current lower margin businesses. With a sound expansion strategy, the company's acquisition of cemetery assets has achieved a high IRR of 15%, which creates great value for shareholders.

Local Insights and Portfolio Positioning

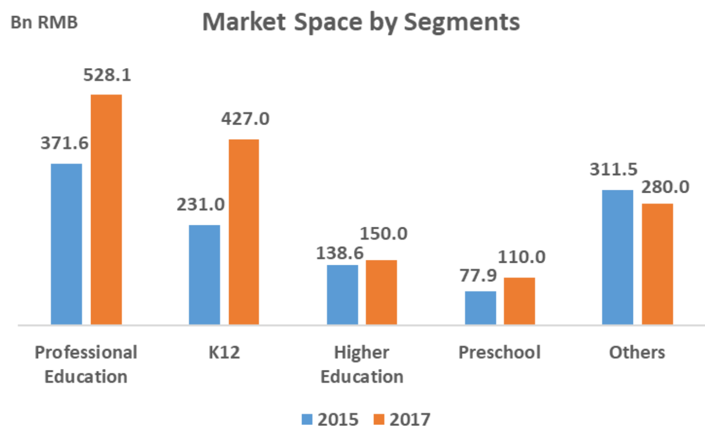
In our quarterly newsletter in April 2017, we summarized the ways that might improve the productivity of the service industry. Education is very crucial to enhance the skills of service labors, especially under the circumstances that China is undergoing structural transition from manufacturing to service driven economy and that technology and business model change so fast that people need to keep learning to catch up with the new trends.

Artificial intelligence may fundamentally change the jobs today and many low level of work will ultimately be replaced by machines and data computing. Labors need to be re-educated to be qualified for the higher level of work when that happens. Apart from K12 education that people receive during school time, life-long learning keeps people competitive through the career life and even helps people enjoy a higher quality life after retirement. In this regard, we like the space of professional education and knowledge sharing in the education sector.

Professional Education

Supply-side consolidations within manufacturing space not only resolve the imbalance issue of supply and demand, but also help to re-allocate the resources including both capital and labor to under-supplied service industries. People who move to service industries need to be re-trained to be competent. Professional education helps to cultivate and provide human resources to fill in those positions.

There are 350 million people who participate in the professional education annually. The professional education has become the biggest sub-segment in education industry and enjoyed a high growth in the past two years. The growth trend will continue, in our view.



Source: Wind, Tencent education industry annual report;

Phoenix Media, has exposure to the professional education segment. Its subsidiary, Phoenix Chuangyi, developed an advanced 3D teaching platform with more than 500 major courses. The users could learn the required skills of their majors on the platform through simulation operation, which was very helpful for them to accumulate practical experience before they entered the workforce.

Knowledge Sharing

Driven by the deep penetration of mobile internet, Chinese people tend to spend more time on spiritual consumption such as mobile games, movies and knowledge sharing. In an information society, to acquire knowledge has been much easier than before and the lowered barrier will help to increase the broadness of education and reduce the inequality. In order to catch up with this dynamic society, life-long learning becomes increasingly necessary. We see a great opportunity in knowledge sharing and monetization given its strong scalability and our holding companies in the TMT sector like Weibo and Tencent are sure to benefit from it.

In December 2016, Weibo launched a creative function called Questions & Answers (“Q&A”), which enabled the users to ask any questions of anyone usually key opinion leaders (“KOLs”) or celebrities by paying the price required. In the meantime, other users who are interested in the answer can read the answer by paying just RMB1, which will go equally into the pocket of the questioner and the respondent, respectively. This means the higher quality the question/answer is and the more readers there are, the more money will be earned by both the questioner and the respondent. In this Q&A system, the respondent earns the money by sharing the knowledge. The questioner gets answers of his/her questions and earns money from the answer readers which might even exceed what he/she pays. The answer readers get the answers by paying just a nominal amount. Everyone benefits in the system. No wonder, the new function proved to be very successful, which also demonstrated that Chinese people are getting used to paying for knowledge.

Everest FM is an online audio content distribution platform, invested by Tencent, one of our core holdings. Everest FM now has more than 250 million registered users and 20 million MAUs. Professionally generated content like audio novels, education programs and radio broadcasts are sold on the platform. In last December's promotion campaign, the total gross merchandise value reached over RMB50 million and contents of education are the most popular category. The best sale product is "Talk A Decent Talk" produced by Ma Dong (A previous CCTV host famous for his humorous style). The program teaches people how to talk with different types of people in different scenarios.

Tencent's core product Wechat is also a beneficiary of knowledge sharing. Earlier this year, Tencent claimed that Wechat public account would launch the function of paid subscription to provide a monetization method for self-media.

For the social media platform like WB and Wechat, the trend of knowledge sharing and monetization provides a more friendly environment for self-media and KOLs to produce quality contents, which in turn enhance the value of the platform itself. The total market size of knowledge sharing space will reach RMB18 billion in three years and it has the potential to take a much bigger share of the overall education space, which has a total market value of over RMB1,130 billion in 2015.

Sincerely,

Bin Yuan Capital

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