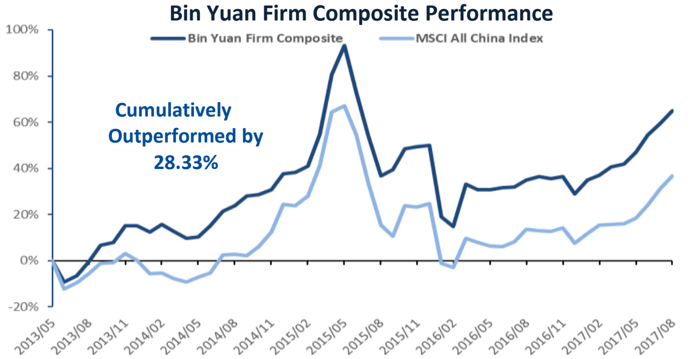
Bin Yuan Capital - August 2017

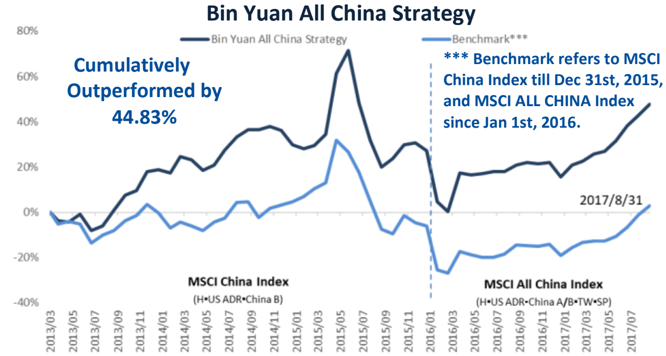
Bin Yuan Firm Composite Performance



Note: Composite performance is calculated based on the 50% China A Strategy and 50% All China Strategy before 2016, and 100% All China Strategy since 2016.

QTD	YTD	ITD	Annualized	Index	OUT/UNDER
6.96%	28.03%	65.10%	12.52%	7.65%	4.88%

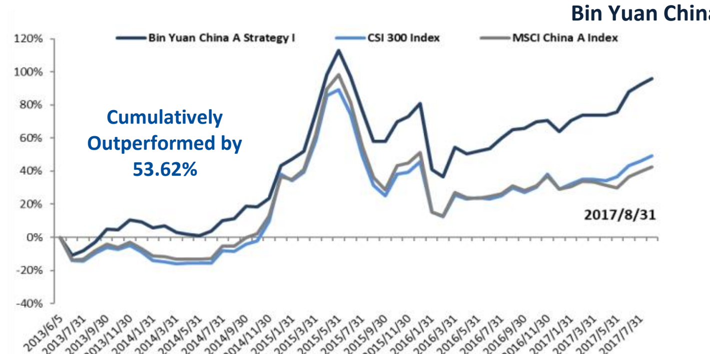
Bin Yuan All China Strategy



Note: No A share exposure before Connect being launched in the end of 2015. Full flexibility to invest in China A/B, H, US ADR and Taiwan Market starting the beginning of 2016.

QTD	YTD	ITD	Annualized	Index	OUT/UNDER
6.96%	28.03%	47.87%	9.08%	0.67%	8.41%

Bin Yuan China A Strategy



Note: Strategy I - Maximum cash 5%

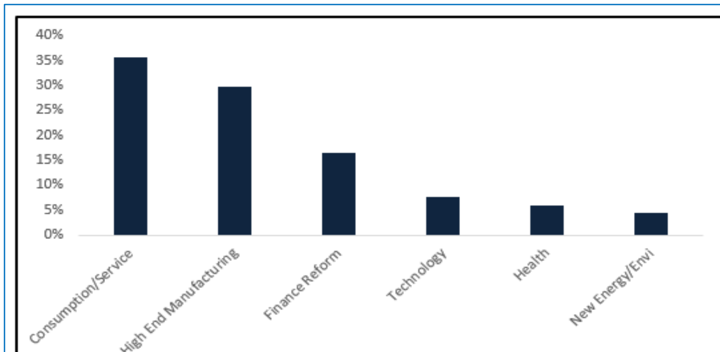
QTD	YTD	ITD	Annualized	Index	OUT/UNDER
4.37%	19.65%	96.11%	17.17%	9.88%	7.29%

Note: Strategy II - No restriction on cash

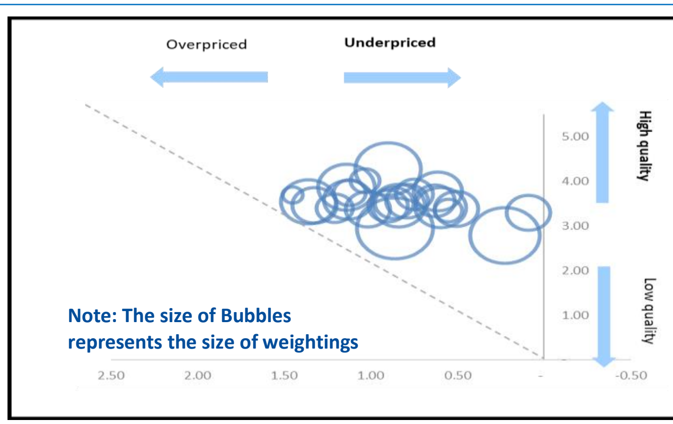
QTD	YTD	ITD	Annualized	Index	OUT/UNDER
1.84%	10.52%	19.52%	10.22%	0.92%	9.30%

All China Portfolio Highlights

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



Forward PE	18.42	PEG	0.81	Price/Book Ratio	5.15
Earning Growth Rate%	20.87	Dividend Yield%	1.77	ROE%	22.26



Performance Snapshot and Market Update

Bin Yuan All China Strategy was up by 3.47% in August 2017, underperforming the benchmark by 79 bps. Since the inception of March 2013 to August 2017, the strategy recorded a return of 47.87%, while the market went up by 3.04% during the period. As a long only manager, we outperformed the market by 44.83%.

Chinese stocks extended their rally in August, with both the Shanghai Composite Index and Hang Seng China Enterprise Index closing at their highest level in more than 20 months, driven by expectations of an improving economy. Shanghai Composite Index was up 2.68% and Hang Seng China Enterprise Index jumped 4.32% in August.

After a faster-than-expected 6.9% GDP growth in the first half of 2017, China's economy generally maintained its momentum in August and the GDP growth looks set to meet its growth target of around 6.5% for 2017. The producer price index (PPI) rose 6.3% year on year (YoY) in August, up from 5.5% registered in July. The consumer price index (CPI) picked up 0.4 percentage point, rising 1.8% YoY. The official manufacturing Purchasing Managers' Index (PMI) picked up to 51.7 in August from 51.4 in July and the official non-manufacturing PMI in August eased a little bit to 53.4 from 54.5 in July. But both manufacturing and non-manufacturing PMI was still well above the expansion/contraction threshold of 50. Rail cargo volume grew 17.8% YoY in July to reach about 310 million tons, marking the twelfth consecutive YoY monthly rise.

A total of 3,338 companies listed on the Shanghai and Shenzhen stock exchanges completed releasing their half-year results of 2017 by the end of August. The YoY revenue growth of A-share listed companies picked up slightly from 21% in Q1 2017 to 22% in H1 2017, while the YoY net profit growth maintained at an already high level of approximately 18% in H1 2017. More than 500 companies saw their profits doubled, while more than 300 companies saw their profits up 50% to 100%. This good result was primarily attributable to China's supply-side structural reform and improvements in the economy.

By the end of August, the central parity rate of the RMB had strengthened from 6.9370 to 6.6010 against the US dollar, representing an appreciation of RMB of 4.84%. The weaker dollar has also been contributing to the climb of RMB. The depreciation expectations that had loomed since the exchange rate reform two years ago finally eased and with stabilized expectations, the RMB-Dollar exchange rate will probably realize two-way fluctuations in the rest of the year.

Performance Attribution

In August, Consumer Discretionary and Health Care were the top two contributors while Industrials and Information Technology lagged.

At the stock level, a company focusing on renewable energy business outperformed in August. The company is a leader of the photovoltaic tracking system market. The product can improve generation efficiency by 20%, which is attracting increasing operators to procure amid the pressure of cost hike. Tracking system is nearly 0% penetration in China compared with 20% in overseas markets. The company has a strong market position and almost dominant in this area with technology patent.

A construction machinery company underperformed due to the margin erosion as the result of clearing up low margin inventories. We believe the impact is temporary as those low-margin second-hand inventories have been almost fully digested. Demand for construction machinery has been recovering since 2016 and the end-users' usage hours have picked up. We think the demand and supply are much better balanced than three years ago. The company has been investing in R&D to improve the quality of products even during the downturn cycle and is now very competitive. It is continuously moving upper the value chain to take market share in construction machinery space.

Local Insights and Portfolio Positioning

One kind of "Net" was not frequently mentioned in the street as most of the eyes are on the internet space. That is the network of power – the power grid. Those hot topics like big data and smart vehicles need to be connected to power. How could an Internet Data Center (IDC) be well-operated without stable and cheap supply of power and how could a Tesla run in a long distance without power charging piles built in place? All these high technology things stimulate China's appetite for safe, stable and efficient energies, including those generated from resources located far from the place of usage. The development of many renewable energy resources and the distributed power system, which are location-dependent, will drive tremendous upgrade demand for smart grid including the transformer automation, grid dispatch and distribution automation.

Transmission & Distribution (T&D) Industry

According to the Power Development Plan in the 13th Five-Year-Plan and Bin Yuan's estimation, the total investment in T&D will be around RMB3.15 trillion during 2016 to 2020, which is 45% of the total power industry investment in the 13th Five-Year-Plan (Table 1). Ultra-High-Voltage (UHV) transmission and distribution is going to enjoy the robust growth within the space.

<table>
<tr><th colspan="5">Table 1: Power Industry Investment During 13th Five-Year Plan</th></tr>
<tr><td rowspan="7">Power Industry Investment

RMB 7,000 Bn</td><td colspan="4">Power Source Investment
55%</td></tr>
<tr><td rowspan="6">T&D Investment

45%</td><td rowspan="2">Ultra High Voltage Transmission
800 kV and above
23% of T&D</td><td colspan="2">Ultra High Voltage Alternating Current
RMB 235bn</td></tr>
<tr><td colspan="2">Ultra High Voltage Direct Current
RMB 490bn</td></tr>
<tr><td colspan="3">Transmission
220kV to 750kV
25% of T&D</td></tr>
<tr><td rowspan="3">Distribution
110 kV and below
52% of T&D</td><td rowspan="2">Distribution Equiment Demand
43% of Distribution</td><td>Primary Equipment
RMB 610bn</td></tr>
<tr><td>Secondary Equipment
RMB 95bn</td></tr>
<tr><td colspan="2">Others
57% of Distribution</td></tr>
</table>

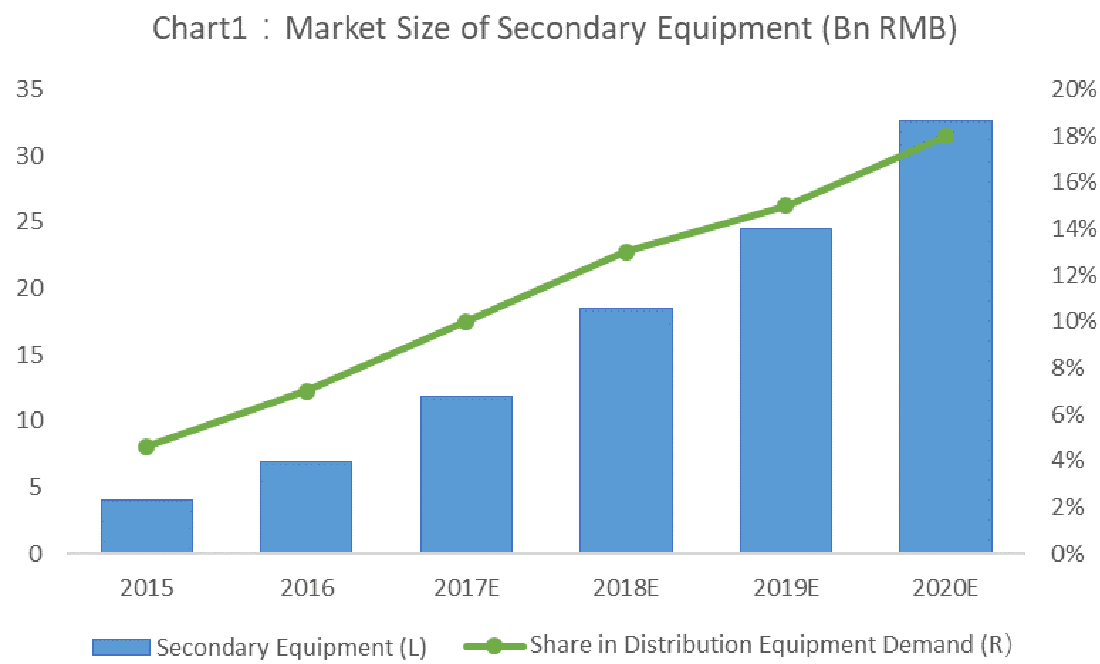
Source: National Energy Administration, Bin Yuan Capital

- *Transmission: Upgrading to Ultra-High-Voltage Direct Current (UHVDC) and Flexible Direct Current (DC)*

Most electricity is transmitted today as alternating current (AC), which works well over short and medium distances. However, Ultra-High-Voltage Direct Current (UHVDC), representing transmission voltage higher than 800 kV, is better suited for long distance transmission with reduced transmission losses, material costs and land resources. According to the 13th Five-Year-Plan, investment of UHV transmission in China will be above RMB700 Bn, most of which is going to be invested in UHVDC. Upgraded technologies like flexible DC with round transmission structure will be the focus of investment. Flexible DC transmission is an excellent solution for unstable and fluctuating power sources such as wind and solar. The efficiency will increase dramatically by reducing the curtailment. The technology is going to be piloted in Zhangbei project, a transmission line combining wind, solar and energy storage together. In the Zhangbei flexible DC project, the demand of some key components like converter valves may double the market size of traditional transmission line.

- *Distribution Automation (DA): A Booming of Secondary Equipment*

DA concerns the operational control of the grid, i.e. monitoring currents and voltages in the distribution grid and issuing commands to remote units such as switches and transformers. DA was underinvested in China in the past 10 years. By 2015, the penetration rate of distribution automation in China was only 20%. The ratio is expected to reach 90% by 2020 driven by needs of the development of renewable energy, distributed power system and electric vehicles. Amid the trend of ‘getting smarter’, the portion of secondary equipment including software and control systems, will rise from 5% in 2015 to 18% in 2020 and the investment amount might reach RMB95 Bn in total during 2016 to 2020 (Chart 1).



Source: National Energy Administration, Bin Yuan Capital

Stock Implications

China's abundant resources of renewable energy are remote: think of the scorched desert in Inner-Mongolia, the windswept plains of Xinjiang and the rivers in Sichuan where water drops precipitously. In order to utilize the clean energy, long distance power transmission infrastructure has to be built. Meanwhile the development of distributed power systems will increase the demand for distribution automation. As China has a legendary track record of infrastructure development wherever needed, there is no wonder that the power T&D industry is following the similar path of the fast development of high speed railway in China. The huge domestic power T&D market helps Chinese players to accumulate technology and grants them opportunities to gain experience through applying the most advanced technology in practical projects. We believe Chinese industry leaders in the power T&D sector are globally competitive now and are well-positioned to capture the uptrend of the industry.

Among all the players, NARI is the leader in the global smart grid industry. The company has the right incentive and training system for the R&D team, which helps NARI to become the domestic first mover and build a technology barrier. Besides, experience from State Grid's project help NARI ccumulate know-hows about the most advanced technologies such as UHVDC and flexible DC transmission. Cross-major R&D platform strengthens the capability of delivery and service, which also differentiates NARI from its competitors.

With the help of smart grid, the cheap and stable power will be connected to users in the most economic and efficient way. We are positive on the trend of power automation and will focus on global competitive players as our investment targets.

Sincerely,

Bin Yuan Capital

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