BINYUAN CAPITAL 彬元资本

Bin Yuan Capital – October 2017

Executive Summary

Specialized China Manager

- Shanghai/Hong Kong-based, value focused China manager
- Long only absolute return mindset
- $500M+ AUM invested in All China and China A share strategies

Experienced Team

- Founders with 35+ years combined investment experience
- Core team formerly with GE Asset Management ("GEAM") managing $5B across 3 funds; EM, Greater China & China A Shares
- +24% annualized return GEAM Greater China / +37% cumulative return GEAM China A

Fund Fee Structure

- Class A – Management Fee 1.5%
- Class B – Management Fee 1%, Performance Fee 10%
- Class C – Management Fee 2%, Performance Fee 20%

	BIN YUAN Performance				Benchmark		
YEAR	CHINA A (CNY)	ALL CHINA I (USD)	ALL CHINA II (USD)	CHINA H (USD)	MSCI CHINA A (CNY)	MSCI ALL CHINA (USD)	MSCI CHINA (USD)
2013	9.40%	18.98%		24.80%	-8.70%		0.36%
2014	31.00%	6.05%		10.87%	46.84%		4.67%
2015	26.11%	-2.91%		-4.99%	10.77%		-10.05%
2016	-9.31%	-11.23%	1.85%	-6.06%	-14.74%	-12.20%/1.47%*	-1.43%
2017							
JAN	4.14%	4.80%	4.68%	5.64%	1.27%	4.06%	6.81%
FEB	1.74%	0.35%	2.90%	1.98%	2.46%	2.98%	3.52%
MAR	0.01%	2.91%	2.06%	2.70%	-0.37%	0.45%	2.13%
APR	-0.05%	0.73%	0.93%	1.71%	-1.53%	0.14%	2.65%
MAY	1.34%	3.04%	4.78%	5.04%	-1.23%	2.24%	5.08%
JUN	6.82%	3.98%	5.37%	2.17%	5.29%	4.67%	1.53%
JUL	2.43%	2.66%	3.58%	5.68%	2.19%	5.73%	8.32%
AUG	1.89%	3.49%	3.39%	4.55%	2.09%	4.26%	3.97%
SEP	0.69%	-1.38%	0.10%	-0.94%	1.10%	0.70%	0.82%
OCT	3.68%	9.58%	7.19%	6.91%	2.66%	3.37%	3.98%
YTD	24.92%	34.10%	40.75%	41.32%	14.62%	32.36%	46.02%
ITD	104.74%	45.83%	43.35%	74.53%	45.12%	16.22%	36.00%
Annualized	17.61%	8.42%	27.13%	12.92%	8.80%	8.54%	6.81%

- CHINA A can only invest in China A Equity market, benchmarked with MSCI China A Index.
- ALL CHINA I represents the offshore commingle fund. 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.
- ALL CHINA II represents the offshore segregate accounts, benchmarked with MSCI All China Index. Full flexibility to invest in China A/B, H, US ADR and Taiwan Market incept from May 2016.
- CHINA H has no China A Shares, benchmarked with MSCI China Index.
- * represents the return from May 2016.

Team Historical Track Record					
Strategy	1 YR	3 YR	5 YR	Cumulative	Anualized
GE H-Share Funds	13.21%	-7.44%	182.53%	545.78%	24.54%
MSCI China Index	2.32%	-21.88%	126.90%	306.55%	17.94%
GE A-Share Strategy	-22.05%	49.83%	39.21%	36.92%	6.84%
MSCI China A Index	-27.15%	29.76%	-14.53%	-13.86%	-3.09%

- Mr. Zhou Ping and Ms. Cicy Wu managed GE H and A-Share Strategies.
- GE H-Share Funds launched July '02 with performance through Dec '10.
- GE A-Share Strategy launched April '07 with performance through Dec '11.

All China Portfolio Highlights

Top 5 Holdings

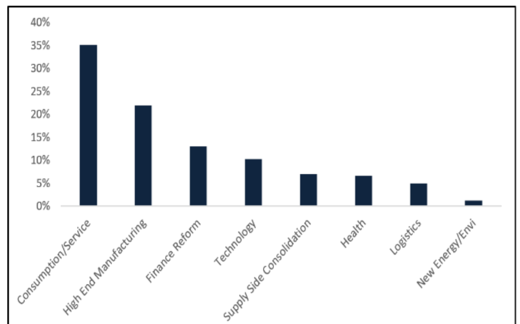
Financials (A share)
Information Technology (H share)
Industrials (A share)
Financials (H share)
Consumer Discretionary (A share)

Top 5 Contributors

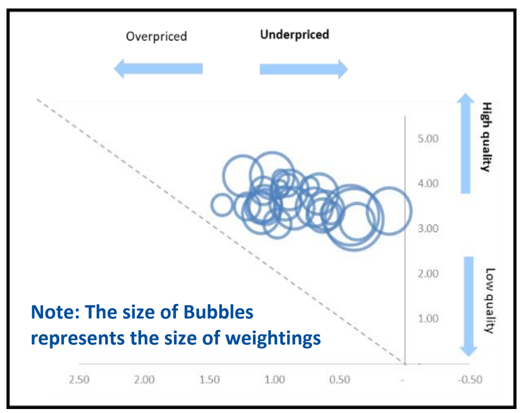
Financials (A share)
Consumer Discretionary (A share)
Health Care (H share)
Consumer Discretionary (B share)
Financials (H share)

Bottom 5 Contributors

Consumer Discretionary (A share)
Consumer Staples (A share)
Consumer Discretionary (H share)
Information Technology (US ADR)
Materials (A share)



Forward PE	20.19	PEG	0.99	Price/Book Ratio	5.35
Earning Growth Rate%	18.32	Dividend Yield%	2.07	ROE%	19.60



Performance Snapshot and Market Update

Bin Yuan All China I was up by 9.58% in October 2017, outperforming the benchmark by 6.21%. Since the inception of March 2013 to October 2017, the fund recorded a gross return of 45.83%. Bin Yuan All China II was up by 7.19% in October 2017, outperforming the benchmark by 3.82%. Since inception of 2016, All China II recorded a return of 30.34%, outperforming the benchmark by 14.12%

After correcting a little bit in September, Chinese stocks were back on its track in October. Shanghai Composite Index rose 1.33% and Hang Seng China Enterprise Index increased 0.74% in October.

China's economy continued to expand steadily in September. The producer price index (PPI) rose 6.9% year on year (YoY) in September, up from 6.3% registered in August. The consumer price index (CPI) dropped 0.2 percentage point, rising 1.6% YoY. The official manufacturing Purchasing Managers' Index (PMI) decreased from 52.4 in September to 51.6 in October, which was the average level of this year. And the official non-manufacturing PMI dropped from 55.4 in September to 54.3 in October. Both manufacturing and non-manufacturing PMI was well above the expansion/contraction threshold of 50. Rail cargo volume grew 14.6% YoY in September to reach about 275.5 million tons, marking the fourteenth consecutive YoY monthly rise.

In the first nine months of the year, China's average per capita disposable income reached RMB19,342, representing a growth of 9.1%. The growth of per capita disposable income in urban regions was 8.3%, 0.9 percentage point lower than that in rural areas. The data showed the income gap between China's urban and rural residents continued to narrow. The increase of the per capita disposable income also boosted the per capita consumption, which averaged RMB13,162, up 7.5% from the same period last year. As a result, we have seen consumer product companies continue to benefit from the consumption upgrade trend in the current year.

China's Ministry of Finance successfully launched USD2 billion of sovereign bonds in October. Sale of China's first US dollar-denominated debt in 13 years indicated that China would further open up its finance sector. The sovereign bonds received orders more than 11 times the deal size, showing international investors' confidence in China's economic development and financial health.

Performance Attribution

In October, Consumer Discretionary and Industrials were the top two contributors while Consumer Staples and Utilities lagged.

At the stock level, an insurance company outperformed in October. In recent years, the trend of consumer upgrades increased the demand for insurance services in China. The company benefited from the rising industry cycle and expected to further enhance the profitability by improving the efficiency of customer acquisition and the brand value under the synergies across different business units. The company has a good performance track record and we believe it can achieve a sustainable growth through its unique business model.

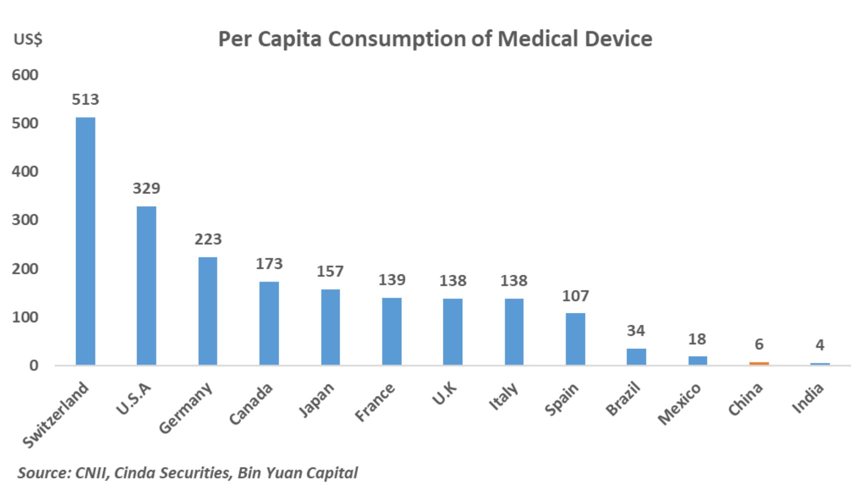
A company focusing on tourism business underperformed in October because the market estimated that the increase of the number of visitors to Gubei (one of the two major attractions of the company) was lower than expected. Looking forward, domestic travel market will keep growing at double digits and the company's new attraction is going to be opened in 2019. Compared with other tourism destinations, Wuzhen and Gubei's operations are much better and will generate rich cashflows for the company.

Local Insights and Portfolio Positioning

"Health and longevity" is one of the ultimate goals of human beings. China's total health expenditure rose from RMB1,454 billion in 2008 to RMB4,634 billion in 2016, representing a compound annual growth rate (CAGR) of 15.6%. And we expect it will continue to grow at double digits in the next few years. The proportion of medical expenditure to public fiscal expenditure has increased to 7%. The rapid growth of medical expenditure has contributed to the rapid growth of the healthcare industry, including the medical device industry, of which medical devices accounted for 7.5%. However, the ratio of medical device to medicine is 7:10 globally versus 4:10 in China, which shows that China's medical device market still has a huge potential.

Medical Device Industry

According to CNII's data, per capita consumption of medical devices in China is much less than in developed countries (Chart 1). In the meanwhile, the manufacture of the medical device is also upgrading. Thus, there is plenty of growth potential for companies in this industry.



Household Medical Device

Among all the niche market of medical device industry, household medical devices are still at an early stage with quite low penetration rate due to the undersupply of products, public health awareness and low healthcare scheme coverage. For instance, it is still quite uncommon for patients of respiratory diseases such as asthma and chronic pulmonary obstruction to use the oxygen generator and the ventilator in China even in Tier-one cities. The market of household medical devices is mainly driven by the following three factors: <1> a growing aging population; The population aged 60 and above as a percentage of the total population was 16.7% in 2016, and is expected to increase to 17.8% by 2020. <2> an increase in disposable income per capita; Disposable income per capita had increased at a CAGR of 7.6% from 2012 to 2016, and is expected to continue to increase at a high single digit CAGR from 2016 to 2020. <3> the increasing public awareness and healthcare scheme coverage; The government is now starting to promote the use of essential household medical device. We believe the demand for household medical devices will continue to experience steady growth in the next few years.

Stock Implications

The medical device industry is currently highly fragmented and each device must be licensed before launched to the market. We believe those brand companies, such as Yuyue medical, Wandong Medical, Lepu Medical and United Imaging (unlisted), with quality products and merger and acquisition capabilities are potential winners. Yuyue Medical, for example, is a leading local household medical device provider, well positioned to take advantage of consolidation opportunities in the industry. The company has the largest market share in China, with its extensive sales and distribution network. It has a very strong channel control ability in OTC channel, hospital channel and the e-Commerce channel. By 2016, the company had more than 400 professional marketing staff for the OTC channel alone. In addition, the CAGR for its E-commerce platform was as high as 70% in the past 3 years. Yuyue Medical also has a good track record and strong capabilities in making strategic acquisitions, which enriched its product portfolio. The recent acquisitions and integrations of Shanghai Medical Instruments and China Better Life help the company to extends the product portfolio to hygienic materials and disinfection products. With its diversified product portfolio, extensive sales and distribution network and the strong merger and acquisition capabilities, we believe Yuyue Medical will continue to outperform its competitors.

Sincerely,

Bin Yuan Capital

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