Bin Yuan Capital All China Strategy – April 2018

Performance: Bin Yuan All China I (Bin Yuan Fund) was down by 3.33% in April 2018, underperforming the benchmark by 67bps. Since the inception of March 2013 to April 2018, **the fund recorded a gross return of 43.15%, outperforming the benchmark by 35.65%.** Bin Yuan All China II was down by 3.24% in April 2018, underperforming MSCI All China Index by 58bps. Since inception of 2016, **All China II recorded a return of 51.46%, outperforming the benchmark by 19.96%.**

In April, Financials was the top contributor while Consumer Discretionary lagged. Compared to the benchmark, Industrials outperformed while Health Care underperformed. As a long-only fund manager, we continue to focus on stocks with predictable earnings growth and valued at reasonable prices. Our portfolio's current PE is 19.98x estimated 2018 earnings and expected earnings growth rate is 22.5% through 2021. Considering the predictable quality growth of the portfolio, we believe that our portfolio's valuation is still quite attractive.

	BIN YUAN Gross Performance			Benchmark		
YEAR	ALL CHINA I (USD)	ALL CHINA II (USD)	CHINA A (CNY)	BENCHMARK for ALL CHINA I (USD)*	MSCI ALL CHINA (USD)	MSCI CHINA A (CNY)
Annualized	**7.19%**	**23.07%**	**15.61%**	**1.41%**	**14.67%****	**5.37%**
ITD	**43.15%**	**51.46%**	**104.07%**	**7.50%**	**31.50%****	**29.34%**
2018	**-3.80%**	**1.64%**	**0.22%**	**-2.83%**	**-2.83%**	**-9.67%**
APR	-3.33%	-3.24%	-3.47%	-2.66%	-2.66%	-4.78%
MAR	-1.26%	-0.30%	0.44%	-2.61%	-2.61%	-2.68%
FEB	-4.13%	-3.95%	-2.17%	-6.50%	-6.50%	-5.98%
JAN	5.13%	9.69%	5.65%	9.62%	9.62%	3.68%
2017	36.82%	46.31%	24.24%	33.37%	33.37%	11.13%
DEC	4.52%	4.14%	0.46%	1.66%	1.66%	-0.07%
NOV	-2.38%	-0.19%	-0.99%	-0.88%	-0.88%	-2.99%
OCT	9.58%	7.19%	3.68%	3.37%	3.37%	2.68%
SEP	-1.38%	0.10%	0.69%	0.70%	0.70%	1.10%
AUG	3.49%	3.39%	1.89%	4.26%	4.26%	2.09%
JUL	2.66%	3.58%	2.43%	5.73%	5.73%	2.19%
JUN	3.98%	5.37%	6.82%	4.67%	4.67%	5.29%
MAY	3.04%	4.78%	1.34%	2.24%	2.24%	-1.23%
2016	-11.23%	1.85%**	-9.31%	-12.20%	1.47%**	-14.74%
2015	-2.91%		26.11%	-10.05%		10.77%
2014	6.05%		31.00%	4.67%		46.84%
2013	18.98%		9.40%	0.36%		-7.08%

- 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 A can only invest in China A Equity market, benchmarked with MSCI China A Index.
- * represents the Benchmark for ALL CHINA I, which using MSCI China Index from the inception to 2015, and using MSCI All China Index from 2016 until now.
- ** represents the All China II Strategy and MSCI All China Index return incept 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:

1. A retail commercial bank (H Share)
2. A smart grid company (A Share)
3. An e-commerce company (US ADR)
4. A social media company (H Share)
5. A washing machine manufacturer (B Share)

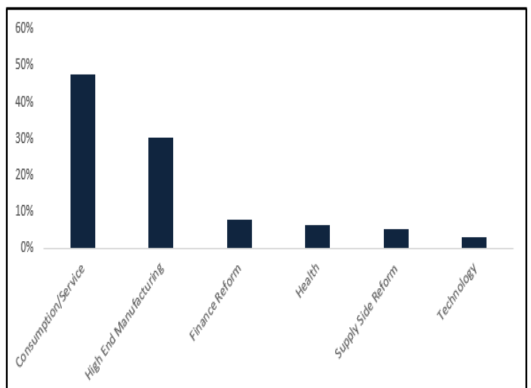
Top 5 Contributors:

1. A retail commercial bank (H Share)
2. A construction machinery company (A Share)
3. An online search company (US ADR)
4. A car seller and service provider (H Share)
5. A flavoring company (A Share)

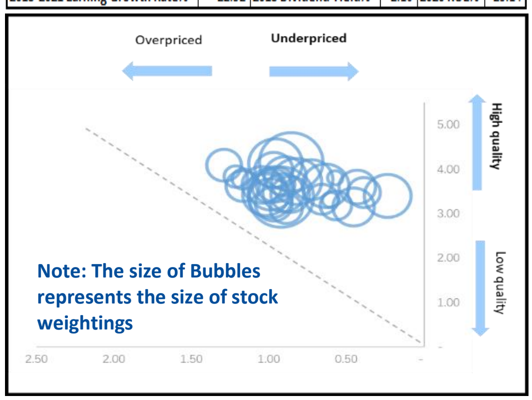
Bottom 5 Contributors

1. A medical instrument company (A Share)
2. A tourism company (A Share)
3. A laser equipment supplier (A Share)
4. A battery coil equipment company (A Share)
5. A real estate company (A Share)

Portfolio Theme Exposure



2018 PE	19.98	2018 PEGY	0.81	2018 PB	4.37
2018-2021 Earning Growth Rate%	22.52	2018 Dividend Yield%	2.10	2020 ROE%	23.14



Market Update

Chinese stocks performed variably in April. Shanghai Composite Index was down 2.74% in the current month while Hang Seng China Enterprise Index rose 2.78% primarily contributed by the increase of the petroleum companies driven by the oil price hike.

The producer price index (PPI) rose 3.4% year on year (YoY) in April 2018, up from 3.1% in March 2018. The consumer price index (CPI) also moderated a little, rising 1.8% YoY, 0.3 percentage point lower than March. The official manufacturing Purchasing Managers' Index (PMI) slightly dropped to 51.4 in April from 51.5 in March and the official non-manufacturing PMI in March was up to 54.8 from 54.6 in March. Both manufacturing and non-manufacturing PMI was above the expansion/contraction threshold of 50. Rail cargo volume increased by 5.6% YoY in March to reach about 340 million tons.

In late April, China's long awaiting final version of new asset management regulation was released at last. Compared to the proposed version, the transition period was extended to the end of 2020 to avoid market vulnerability. As the impact of the new regulation had already been mostly factored in, the market kept stable. In the long run, we believe the new regulation will help shift the money to the real economy and curb financial risks. As part of the policy package, the People's Bank of China (PBOC) cut the reserve requirement ratio (RRR) by 1 percentage point for most commercial and overseas banks, freeing RMB1.3 trillion. This move aims to boost small businesses and to improve financial stability and liquidity, and will create a sound environment for high-quality growth and supply-side reform. As the RRR of 16% is still at a relatively high level, there is still enough room for further cuts.

On 16 April, the US Department of Commerce blocked US companies from selling components to Chinese leading telecom equipment maker ZTE in the next seven years, which is really a blow to ZTE who violated US sanctions to ship US technology goods to Iran. In spite of the illegal activities of ZTE, the move should still be regarded as part of the US tactics in its trade friction with China. It also highlighted China's weakness in some high-tech sectors such as chips. However, the bad sanction might also turn into a good stimulation for China to see the urgency to become self-sufficient in core technologies. China started to plan to encourage the development of more homegrown chips and semiconductor products. Apart from the local chip sector that will benefit from this ZTE case, we will focus on those hi-tech companies that enjoy huge domestic demands and have self-developed core components or are supported by domestically-based value chain. Of course, a good compliance practice is also a must. In general, our focus is on bottlenecks along the value chain of scalable and promising industries, which enjoy bargaining power and generate value.

On 10 April 2018 during the Boao Forum, China put forward four landmark measures to broaden China's market access, strengthen protection of intellectual property rights, improve the investment environment for foreign investors, and reduce import tariffs for vehicles and some other products. China plans to continue to reform, take bold steps in innovation, increase its openness and expand cooperation with the rest of the world. We believe these measures will contribute to a healthy economy in the long-term.

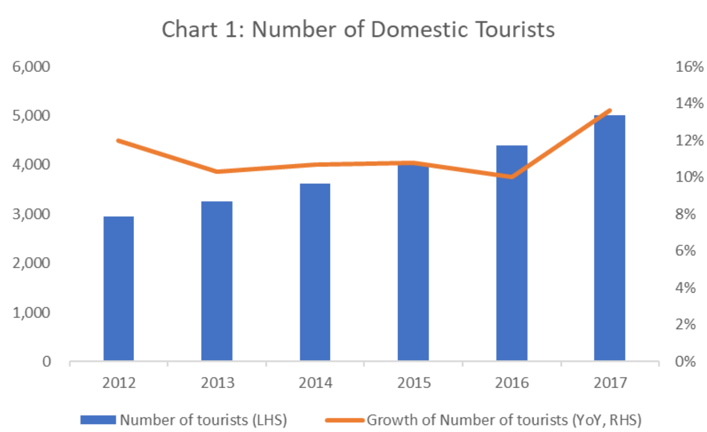
Performance Attribution

At the stock level, a commercial bank outperformed in April because of its better than expected Q1 financial result. According to the latest quarterly report, both non-performing loan ("NPL") ratio and NPL balance fell compared to that of Q1 2017. In addition, the company has 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.

A medical instrument company underperformed in April primarily because its Q1 result was below market's expectation. The reorganization of the sales channel affected its performance in the short term. The company brings professional health management concept and advanced product solution into daily life, makes a health ecosystem consisting of homecare medical, clinic medical and internet medical, builds up a professional and comprehensive medical service platform. We believe that with the company's well-known brand, strong M&A capabilities and its strong channel of distribution, the company will continue to gain market share and expand into other categories.

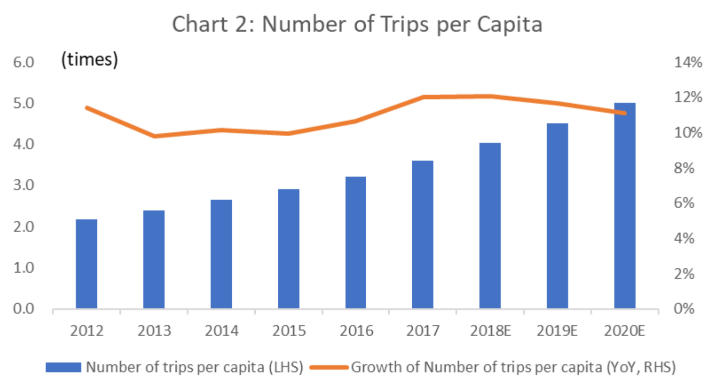
Local Observation and Portfolio Positioning

In 2016, China tourism industry reported direct revenue of RMB5.4 Trillion, accounting for approximately 6.5% of GDP. According to the National Bureau of Statistics, as of 2017, the number of tourists in China was around 5 billion times, representing a year-on-year ("YoY") increase of 13.6% (Chart 1).



Source: Wind, Bin Yuan Capital

The number of travel per-capita per-year in China increased from 2.4 times in 2013 to 3.6 times in 2017, which is expected to continue to increase to 4.5 by 2020 (Chart 2). We believe China's tourism demand will continue to grow quickly with an increasing disposable income, an aging population, improvement in infrastructures such as high-speed railways and highways, popularity of self-drive travels, increasing use of mobile apps (Baidu maps, Ctrip, etc.), among other factors. The whole value chain will benefit from this trend.



Source: Wind, Bin Yuan Capital

Among all the companies in the industry, we are looking for those companies with the following traits:

- *Beneficiaries of the clear trend of consumption upgrade.* With the consumption upgrade trend and evolving demographic profile (more post-80s and post-90s consumers), tourism demand structure also changes. More and more people became to prefer leisure trips to sightseeing trips. The proportion of leisure travel increased from 19.7% in 2004 to 24.4% in 2016 and the trend is expected to accelerate in the next few years. Unlike sightseeing tourists, leisure tourists emphasize on relaxation and recreation and might revisit the leisure attractions times and times again. Thus, besides the ticket income, the extension of stays and the increase of spending on recreation and the possible revisits are new income sources for tourist attraction operators. Leisure travel also changes the competitive landscape of the tourist attraction operator from asset-driven to service-driven. Another example is that with the increase of private car ownership in China, it is possible for travel destinations to attract self-drive tourists from farther areas, who want to take shorter trips with higher frequencies during weekends. And even for traditional economy hotels, the demand is also moving up from economy or even non-branded to mid-to-upper scale branded hotels.
- *Beneficiary of consolidation.* China's limited service hotel industry was undergoing continuous consolidation in the past few years. However, the market remained highly fragmented by 2017. The branded limited service hotel only represented around 26% of the market while the same figure in the US is 70%, which also means branded hotel operators still have enough room to expand and gain market share from the unaffiliated operators.
- *Beneficiary of scalability.* In the whole tourism value chain, those companies with multiple attraction resources and capabilities of replicating the operation model are more scalable than traditional one-site operators. They have the strongest bargaining power and are going

to grow steadily. The similar case is that branded hotel operators are also easy to expand once their business models are proved to work.

- *Rising investment efficiency*. Internal Rate of Return (IRR) is a measure of projects' investment efficiency. Thus, those beneficiaries discussed above is going to enjoy higher IRRs. In addition to the relative figure, the absolute IRR must also exceed the cost of capital, around 10% to 12% in China. For example, the IRR of CYTS's project Wuzhen Watertown might reach 18%. Branded chain hotels have shown the similar trend. The profitability is higher for mid-to-upper hotels than economy hotel while the investments do not increase that much, as the result the investment payback period will be shortened amid the consumption upgrade trend.
- In addition to the four traits mentioned above, it is no wonder that good management and abundant cashflow are the other two key factors for a successful tourism business.

Stock Implications:

Jinjiang Hotel (Shanghai Jinjiang International Hotels Development Co., Ltd.) is a leading hotel group in China, principally engaged in hotel operation and management and the franchising business of hotels. As mentioned above, the penetration of branded limited service hotel is still quite low (26% in China vs 70% in the US), thus the company will continue to benefit from the consolidation trend toward brands. Another tailwind is from the structural improvement of the demand-supply profile of the hotel industry. Although the general market is relatively balanced, the demand for mid-to-upper scale hotels increases quickly with the consumption upgrade. Apart from acquiring Vienna, the No.1 mid-to-upper scale limited service hotel company in China, Jinjiang also adjusted its own product mixes by increasing the proportion of mid-to-upper hotels in its portfolio through opening new ones or upgrading existing economy hotels. On the revenue side, branded chain hotels enjoy a higher RevPAR (Revenue Per Available Room = Average Daily Rate*Occupancy Rate). The customers for mid-to-upper scale hotels are less price sensitive and are more willing to pay premiums for brands, so the average daily rate is about 3% - 5% higher and the occupancy rate is 1% - 3% higher than non-branded hotels. On the cost side, branded chain hotels' advantages of economies of scale and management are also quite obvious. Thus, we believe Jinjiang Hotel was very well positioned to be able to leverage the demand driven by consumption upgrade.

CYTS (China CYTS Tours Holding Co., Ltd.) is a one-stop tourism destination supplier. It started to operate Wuzhen Watertown in 2006, which was quite successful. And it replicated this business model to Gubei Watertown in 2014. As a company with destination resources, it benefits directly from the trend of leisure tours and self-drive tours. It is going to increase the capacity just besides Wuzhen in 2019, which is called Puyuan. Couplet tickets of Puyuan and Wuzhen will be launched to leverage the passenger flow of both attractions. What is more exciting is that, with the successful business model, CYTS can continue to replicate its attraction operation and management model to other attractions just like a hotel operation and management company. Then the asset-light business model will assure CYTS's fast and healthy expansion.

Sincerely,

Bin Yuan Capital

Specialized China Manager	• Shanghai/Hong Kong-based, value focused China manager • Long only absolute return mindset • $600M+ 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
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%

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