Bin Yuan Capital China Equity Strategy – Third Quarter 2014

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

During the quarter, the top performer in our portfolio was a railway system provider. We like railway theme for long time in the past years. From energy consumption perspective, fuel economy of railway per kilometer per passenger is lower compared to those of airline and bus. From efficiency improvement perspective, inter-city connection time is largely reduced with high speed train. China has world class technology of railway. In addition to its huge domestic market capacity, the export of high value added technology will be very promising as well.

Besides, a healthcare name in our portfolio also performed well during the period. We like its outstanding R&D capabilities and strong pipeline of new products. We have been consecutively adding weightings in healthcare sector in the past quarters when market was concerning that anti-bribery and drug price cut may result in slower topline growth and margin pressure. We keep our positive views on high quality healthcare names which have strong pricing power and high entry barrier.

A large high speed steel maker was a major performance contributor during the period as well. It is the top leading player in the market, and we expect its market position to be stronger and its cash flow to turn around. Compared with the peers, the company has advantage in low cost thanks to its proprietary recycling process and scale effect. So we expect that market share will be raised while the other two competitors have halted production.

China Market Review and Portfolio Positioning

Chinese economy still remains soft in the third quarter driven by weak property sales, slowing down infrastructure investment and over-capacity adjustment in industrial space.

On Sept 30th, the government announced an easing policy on property lending and mortgage. It's said that banks are allowed to offer to first-time home buyers a lower lending rate with 30% discount compared to the benchmark rate. And at the same time, the definition of first-time home buyers has also been broaden.

The primary rationale behind this move in our view is that the central government

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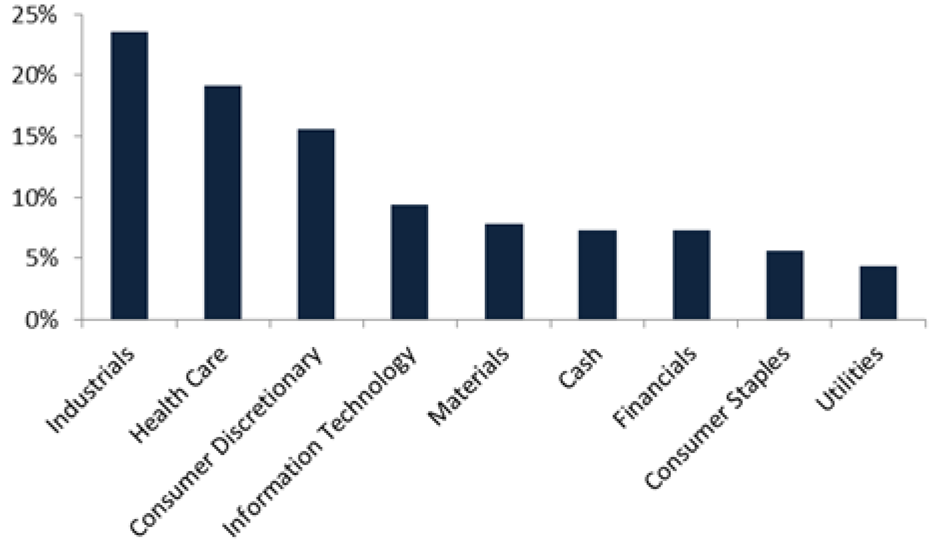
don't want to drive China back to the old model of property/infrastructure investment driven economy, but somehow shifts the influence from the administrative orders to market self-adjustment. Funding cost of banks has been increasing in the past years, and we need to closely watch out the incentive of banks reducing the mortgage rate, because their profitability will be ultimately sacrificed amid the liberalization of deposit rate. We are closely monitoring the impact of current policy in housing market. It may cause short-term volume increase, but long-term impact remains to be seen as affordability is still an issue and investors will not show interest for a while.

We think big stimulus is not likely to play out as there is still abundant capacity in the economy with low productivity. The structural issues of capital misallocation and duration mismatch are still leaving in the air, waiting for some reforms to release some of the existing liquidity and to direct them to those sectors and enterprises with higher productivity. In other words, let the market make adjustments. And reforms will assist it to head down along the path.

For portfolio positioning, we consistently favor those themes we identified such as safety, healthcare, service, automation and new energy, etc. As contrarian investor, we prefer those misunderstood and under covered names to well-known popular stocks. Apparently, some internet names are or will soon be consensus buys. During the quarter, we continued to trim overbought internet stocks and accumulate those more attractive names in military defense, consumer staples, healthcare and new energy. We also added some cyclical stocks that are disliked by the market, but we expect them to turn around given to improving competitive landscape and enhanced manufacturing process. Their low-cost competitiveness will help them to gain more market share and deliver earnings growth in the next few quarters.

Our portfolio exposure is as below (H share only, A share is available upon request)



China Economy Outlook

The impact of recent relaxation in property market still remains to be seen. It is a very positive signal that the government is moving to let the market force play more roles in the property sector. However, we believe that at current price level, the affordability is still a key issue. For demand to have a meaningful increase in volume at the current economic environment, we need to closely observe the affordability, investment interest level and the balance sheet of the banking system.

The fourth plenary session of the eighteenth will be held in October, 2014. Topics on the rule of law and wealth redistribution might be involved during the meeting. We remain positive on the determination of reform under new leadership. Although economy remains temperate, we have already seen some signs of stabilization in capacity consolidation, resources allocation and wealth redistribution. Those expected reform measures such as favorable policies for joint and private ownership enterprises, reforms for land and Hukou system, fiscal/finance and etc will further facilitate the transition of economy and subsequently generate tremendous investment opportunities. Our focus will still be on identifying long-term themes and stock selection.

Sincerely,

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