

Bin Yuan Capital All China Strategy – January 2020

Performance Attribution

In January, Health Care and Communication Services were the top contributors. Compared to the benchmark, Health Care outperformed while Industrials underperformed. Shanghai Composite Index was down 2.41% and Hang Seng China Enterprise Index was down 8.31% in January due to the outbreak of coronavirus 2019-nCoV in China.

At the stock level, a medical instrument manufacturer outperformed in January as beneficiary of the outbreak. 2019-nCoV is a respiratory virus and most respiratory and testing equipments of the company, like Ear Thermometer, Oxygenator, Atomizer, Pulse Oximeter Continuous Positive Airway Pressure (CPAP), are in tight supply. As a high-value healthcare equipment manufacturer focusing on household OTC (Over-the-Counter) market, the company continues to take market share from global leaders such as Phillips and OMRON. From a long-term point of view, the company will benefit from aging population and upgrading consumption in China by providing a rich portfolio of products with good quality-to-price ratio.

A smart grid company underperformed in January due to market concern that the change of State Grid's management might slow down the grid investment. We believe the impact on NARI will be minimal, since the incremental grid investment will still be focused on “Ubiquitous Power Internet of Things” (UPIOT) and Ultra-High-Voltage Direct Current (UHVDC) Transmission. As a software and equipment supplier with a dominant position in the power industry, the company will be the leader in the construction of UPIOT.

Outbreak of Coronavirus Comments

Wuhan City (Provincial Capital of Hubei Province) encountered the outbreak of novel coronavirus, 2019-nCoV and the virus spread fast to other cities of China. On 30 January 2020, WHO declared the outbreak of coronavirus 2019-nCoV a PHEIC (public health emergency of international concern), which is a call for global financial and political support to contain the outbreak. By 6 February 2020, the total confirmed cases in China was 31,161 with 636 fatalities and there were 26,359 suspected cases (Chart 1).

Government Control Measures

Chinese government has launched a series of preventive and control measures to contain the spread of the pneumonia epidemic since 20 January 2020. Wuhan and some other cities in Hubei province were locked down temporarily to prevent high risk travelers leaving the city. The Chinese New Year holiday was also extended, and people are recommended to stay at home to avoid cross infection.

Some early good signs proving the effect of the current self-quarantine measures might appear. We estimate that the next 10 plus days are crucial to see whether the transmissions will decrease.

- ✧ The growth rate of the total accumulated confirmed and suspected cases kept decreasing for 8 straight days until 3 February and kept stable for another 3 days from 4 February to 6 February (Chart 1).
- ✧ The suspected cases, which is a leading indicator, started to stay stable since 1 February to 6 February (Chart 2).
- ✧ Cured cases exceeded death cases for the first time on 1 February.
- ✧ Excluding Hubei province, the new confirmed cases have maintained at the current level and new monitored cases generally kept decreasing from 30 January to 6 February (Chart 3).
- ✧ The death rate outside Hubei (excluding the impact of shortage of medical services) seems to be as low as around 1%, significantly lower than SARS's 9.8% and not much big difference from a Flu.

Chart 1: Number of Accumulated Cases in China

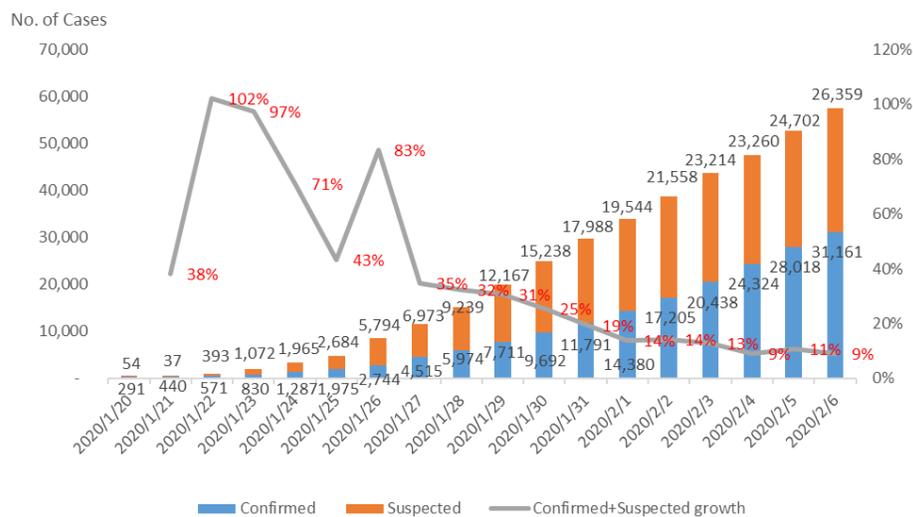


Chart 2: Number of New Cases in China

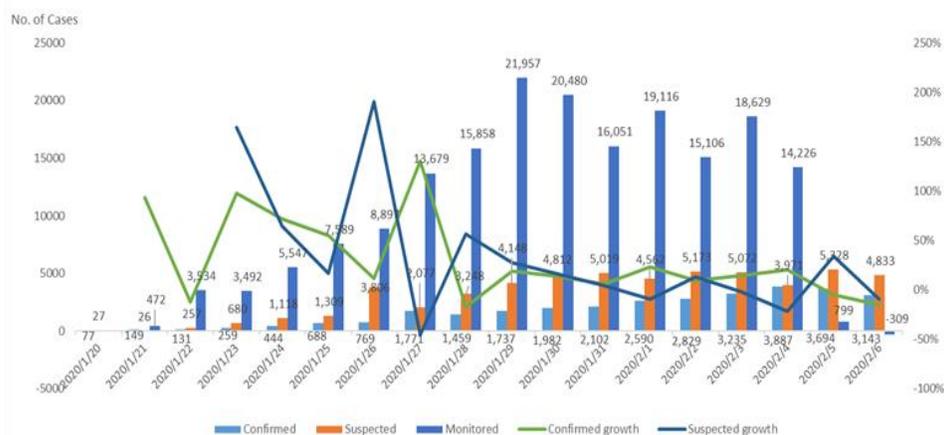
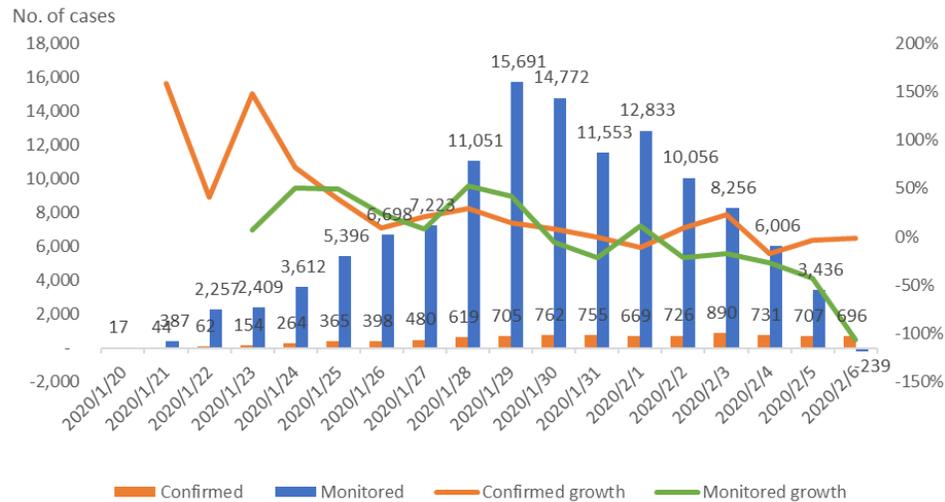


Chart 3: Number of New Cases in China - outside Hubei Province


Economy and Portfolio Impact

One-off negative impact on the economy will be inevitable in the first quarter as business activities will slow down. Hubei province, the severely afflicted area, accounts for 4% and 4.8% of China’s GDP and retail sales, respectively. According to a preliminary assessment, the direct loss from industries such as restaurants, travel, movie, retail and transportation will be close to RMB 900 billion if we assume the situation will be stabilized in three-month time, dragging down 2020 GDP by approximately 1%.

With regard to the impact on the portfolio, corporate earnings of our holdings to a greater or lesser extent will be affected this quarter and maybe next quarter. However, the impact will be temporary so any sell off should be short lived. The outbreak becomes a catalyst to promote some brand names and increase products penetration. The direct beneficiaries include Bilibili (BILI.O), a leading online entertainment company and Yuyue Medical Equipment (002223.SZ), a leading healthcare equipment company. In the long term, the event will stimulate the online penetration in industries such as education, entertainment, E-commerce, office tools. People’s rising awareness of health will drive the growth of household healthcare device, health insurance, wet tissues and software for smart cities. Most of our other holdings as better managed leading companies will benefit from the industry consolidation after the event. We will take advantage of the price weakness to increase exposure to the long-term high-quality names.

22 of our holding companies showed strong social awareness and leadership by donating money and pharmaceutical goods, providing special logistics to hospitals, among a lot of other things. The total amount reached RMB2 billion. (Table 1 in Appendix).

Bin Yuan Team

We are pleased to report that everyone and their families at Bin Yuan are well and in good health. According to Business Continuity Plan Policy, everyone in Bin Yuan Shanghai office is working from home and communicating via remote office tools WeChat Business version until the coronavirus situation becomes clearer. Bin Yuan traders locate in Hong Kong office so there should be no disruption.

Bin Yuan pay close attention on the epidemic situation, especially the low tier cities and rural area in Hubei province, where are less focused by other people and the local medical infrastructure is far behind big cities such as Wuhan. Bin Yuan has collaborated with our holding company Yuyue Medical Equipment (002223.SZ) to donate Yuyue's products that are in urgent needs such as Ear Thermometer, Oxygenator, Atomizer, Pulse Oximeter Continuous Positive Airway Pressure (CPAP) to hospitals in HongAn County, Hubei province directly. Bin Yuan views social responsibility as important mission of the firm and we will continue our contribution efforts to the society.

Appendix Table 1: List of Social Contribution of Our Holdings

Ticker	Name	Social Contribution
600406.SH	NARI-TECH	+ Service - Provide power supply guarantee service
2382.HK	SUNNY OPTICAL	+ Service - Provide infrared lens to manufacture temperature detection equipment.
0354.HK	CHINASOFT	+ Donate - 10 million RMB + Service - Provide free IT service to the hospitals in Hubei province + Service - Provide free online programming lessons to kids in Wuhan.
BABA.N	ALIBABA	+ Donate - 1 billion RMB + Service - Provide food materials for 18 hospitals in Wuhan & ensure logistics delivery & "online free clinic" service etc.
3690.HK	MEITUAN-W	+ Donate : 200 million RMB + Service - Provide 1000 free meals per day for hospital & Free bicycle using & local supermarkets delivery...etc.
0700.HK	TENCENT	+ Donate - 300 million RMB & materials with Fosun Group + Service - Provide several online service as fever clinic map, rumor identification platform and education etc. + Service - Provide special insurance for medical staff
BILI.O	BILIBILI	+ Donate - 10 million RMB & 300,000 RMB medical materials + Service - Provide free public documentary of Wuhan
HTHT.O	HUAZHU	+ Service - Provide free 6 hotels for medical staff in Wuhan
002511.SZ	C&S	+ Donate - 10 million RMB & 2 million RMB medical materials
603833.SH	Oppein	+ Donate - RMB 2 million
002352.SZ	SF HOLDING	+ Donate - 20 million RMB + Service - Provide delivery service with no vacation & Open the green delivery channel for Hubei + Service - Provide 2 cargo airplanes to engage in the transportation of medical materials + direction
300015.SZ	AIER EYE HOSPITAL	+ Donate - 15 million RMB + Service - Provide emergency services to meet the needs of local patients. + Service - Provide Wuhan Hanyang AIER hospital for the medical service site ;
000333.SZ	MIDEA GROUP	+ Donate - RMB 100 million
600887.SH	YILI	+ Donate - RMB 100 million & 20,000 boxes of milk.
2318.HK	PING AN	+ Service - Provide RMB 0.5 million policy for 8 million medical workers.
000858.SZ	WULIANGYE	+ Donate - RMB 30 million
600519.SH	KWEICHOW MOUTAI	+ Donate - RMB 80 million
PDD.O	PINDUODUO	+ Donate - 100 million RMB with Zhejiang University & 1 million medical masks and other related medical materials
002223.SZ	YUYUE MEDICAL	+ Donate - 2 million RMB equivalent medical equipments & 70,000 boxes of infected control products etc.
002415.SZ	HIKVISION	+ Donate - 40 Infrared thermal imaging thermometers
601229.SH	BANK OF SHANGHAI	+ Donate - RMB 30 million
1513.HK	LIVZON GROUP	+ Donate - RMB 22 million

Note: "Bin Yuan on the Road" Section will be suspended for 1-2 months due to outbreak of the virus. We continue to call our contacts extensively and watch for the development online.

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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