



Hereford Funds DSM US SMID Cap Growth Fund December 2008

December 2008 Investment Review

The DSM/Hereford SMID Cap Fund appreciated 1.7% for the month of December compared to a 5.1% total return for the Russell 2500 Growth index and a 1.1% total return for the S&P500. Consistent with last month, the majority of the fund remains invested in the health care, technology, financials, and services sectors. The weighted average P/E of the portfolio is 14.3x which we believe is attractive relative to long-term estimated earnings growth of 18%.

In the fourth quarter the "developed" world economy likely contracted at a 6% rate while the developing world may have contracted more rapidly. Entering 2009 amidst a significant global recession, there is little doubt that overall corporate earnings this year will be poor. The question is: can the market rise in the face of weak earnings amidst a recession? In our view, monetary, fiscal and financial (bailout) responses have been extraordinary and are sufficient to, in time, overcome the negatives enumerated above. Our policy-making institutions seemed to have understood the responses that were necessary to prevent a melt-down, and should be able to continue to respond effectively to challenges as they arise. In fact the equity market over the past six or eight weeks has been much less volatile and more stable, perhaps indicating confidence consistent with the improving corporate bond market described previously.

We believe that valuations are extraordinarily low, even in the face of a substantial recession. Investors of every persuasion have raised significant amounts of cash. Certainly some potential buyers may simply prefer to "time" the market "bottom" before buying. But if investors are moving out on the risk curve to buy corporate debt, as happened during December, can equities be far behind? Our belief is that equities can rally, perhaps significantly, as investor expectations appear to be very low, cash reserves are high and pessimism is prevalent. In our view, rising US Government bond interest rates would indicate that fear is dissipating (or greed is rising) as investors sell US Government Bonds to purchase higher risk assets.

In summary, we believe that valuations are very low. As investors' fear of an economic contraction driven by an extreme credit crisis subsides, we believe the market can rally. After that, the next leg up in the market would be driven by the light at the end of the tunnel as the recession's end is anticipated.

During the month of December we started positions in: Neogen which develops and manufactures diagnostic equipment to test food safety and animal health; Devry, a leading for profit education company; and Expeditors International, a freight forwarder that we have owned in the past. Microsemi Corp. was sold because of a controversy concerning a member of the senior management team.

Key information

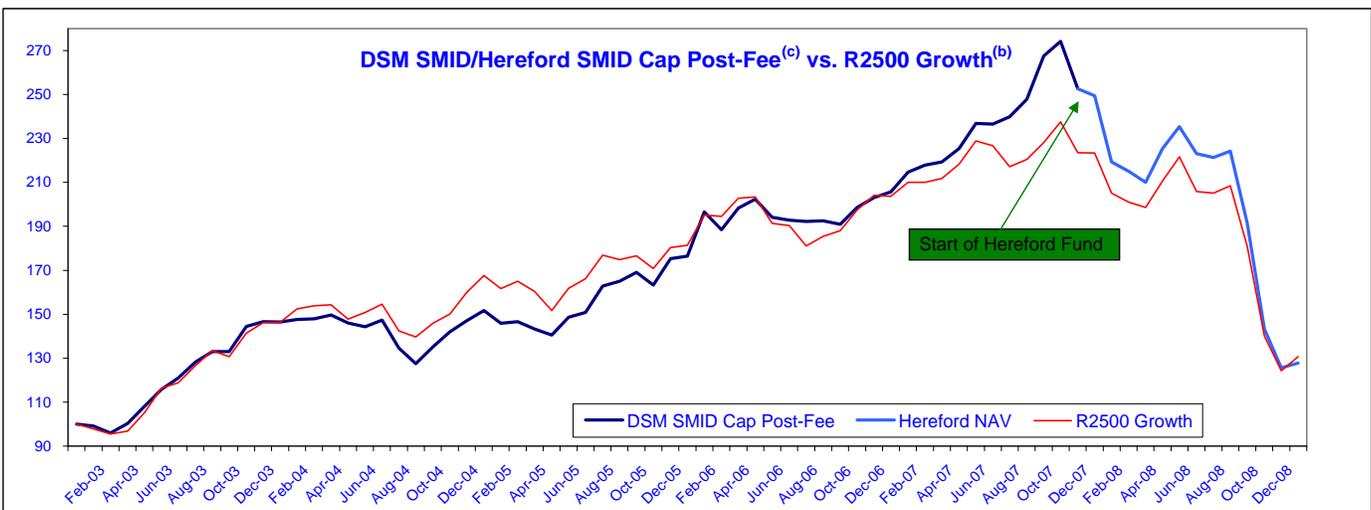
NAV A Shares (31/12/08): \$50.41
 Total Fund Size: \$0.8 mil
 Strategy Assets: \$37.9 mil^(a)
 Fund Launch Date: 29-Nov-07

Monthly Performance (%)

| | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec | YTD |
|------------------------------------|--------|-------|-------|-----|-----|-------|-------|-----|--------|--------|--------|-----|--------|
| Hereford Funds NAV | (12.1) | (2.0) | (2.3) | 7.3 | 4.4 | (5.3) | (0.7) | 1.3 | (14.6) | (25.2) | (12.3) | 1.7 | (48.8) |
| Russell 2500 Growth ^(b) | (8.2) | (2.0) | (1.2) | 6.0 | 5.3 | (7.2) | (0.4) | 1.7 | (13.2) | (22.5) | (11.3) | 5.1 | (41.5) |

Period Performance (%)

| | 2008 | 2007 | 2006 | 2005 | 2004 | 2003 | Since Inception 01/01/03 | |
|---|--------|------|------|------|------|------|--------------------------|------------|
| | | | | | | | Cumulative | Annualised |
| DSM SMID Cap/Hereford SMID Returns ^(c) | (48.8) | 21.3 | 16.5 | 16.4 | 3.6 | 46.4 | 27.8 | 4.2 |
| Russell 2500 Growth ^(b) | (41.5) | 9.7 | 12.3 | 8.2 | 14.6 | 46.3 | 30.7 | 4.6 |



**Top Ten Holdings**

| | % NAV |
|----------------------|--------------|
| C. R. Bard | 6.2% |
| Gen-Probe Inc. | 4.1% |
| SEI Investments | 3.7% |
| Harris Corp. | 3.7% |
| DaVita Inc. | 3.3% |
| Henry Schein | 3.2% |
| F5 Networks | 3.2% |
| Hologic | 3.2% |
| Integra Lifesciences | 3.1% |
| Kendle International | 3.0% |

Sectoral Breakdown

| | % of assets |
|--------------------------|--------------------|
| Health Care | 60.6% |
| Informational Technology | 20.2% |
| Financials | 8.7% |
| Services | 7.2% |

Investment Objective

The investment objective of the sub fund is to provide capital appreciation principally through investments in US-based growing corporations with market capitalizations generally between \$300 mil and \$10 bil dollars. These companies are chosen for their growth prospects, attractive returns, solid business fundamentals and intelligent management. These companies will often have higher revenue and earnings growth rates and less "sell-side" research coverage than comparable larger capitalization corporations. The sub fund may, on an ancillary basis, invest in US-based companies with higher or lower market capitalizations as well as in non-US based companies. The sub fund may invest in American Depository Receipts and American Depository Shares. The reference benchmark for this strategy is the Russell 2500 Growth Index.

Fund Codes (Share Class A)

| | | Since Inception Risk Profile | Hereford DSM US SMID | DSM SMID Composite | R2500 Growth |
|-----------|--------------|-------------------------------------|-----------------------------|---------------------------|---------------------|
| Bloomberg | DSMUSMA LX | Volatility | n/a | 19.8 | 18.6 |
| ISIN | LU0327605118 | Sharpe Ratio | n/a | 0.1 | 0.1 |
| Reuters | LP65102019 | Information Ratio | n/a | 0.0 | |
| Sedol | B28TM17 | Tracking Error | n/a | 7.2 | |
| Valoren | 3504786 | Beta | n/a | 1.0 | |
| WKN | A0M58X | Alpha | n/a | -0.1 | |

Fund Details

| | |
|-------------------------------|--|
| Dealing Day | Daily |
| Dividends | None - income accumulated within the fund |
| Investment Manager | DSM Capital Partners LLC, 320 East Main Street, Mount Kisco, NY 10549, USA |
| Promoter | VP Bank (Luxembourg) S.A., 26 Avenue de la Liberté, L-1930 Luxembourg |
| Authorized Corporate Director | VPB Finance S.A., 26 Avenue de la Liberté, L-1930 Luxembourg |
| Custodian | VP Bank (Luxembourg) S.A., 26 Avenue de la Liberté, L-1930 Luxembourg |
| Legal Advisers | Elvinger, Hoss & Prussen, 2 Place Winston Churchill, L-1340 Luxembourg |
| Auditor | Deloitte, 560 Rue de Neudorf, L-2220 Luxembourg |

Annual Management Charge

| | |
|---------------|---|
| Share Class A | 1.25% |
| Share Class B | 0.25% + 20% performance fee on outperformance vs US T-Bill with HWM |
| Share Class C | 1% + 20% performance fee on outperformance vs US T-Bill with HWM |
| Share Class D | 1.75% |

Minimum Investment

| | |
|-----------------|---|
| Share Class A&B | \$100,000 initial / \$10,000 subsequent |
| Share Class C&D | \$10,000 initial / \$1,000 subsequent |

Order Transmission / Information**Original Applications to:**

VPB Finance S.A.
attn. Fund Operations / TA-HFF
P.O. Box 923
L-2019 Luxembourg
or, for transmissions via courier service,
26, avenue de la Liberté, L-1930 Luxembourg

Subsequent Applications Only Via Facsimile:

VPB Finance S.A.
attn. Fund Operations / TA-HFF
Fax : (+352) 404 770 283
Tel: (+352) 404 770 260

e-mail: luxfunds.info@vpbank.com

- (a) This refers to the total assets invested in the reference strategy managed by the Investment Manager
 (b) Total return including dividends
 (c) Data and graph depict DSM Composite through November 2007 and Hereford Funds DSM US SMID Cap Growth Fund Class A thereafter. Historical gross performance of DSM SMID Cap Composite returns (the Reference Strategy) is net of modeled fee and expense typical of Hereford Funds DSM US SMID Cap Growth Fund Class A (1.25% fee + 0.25% expense). Fund follows same strategy. Performance presentation incomplete without accompanying footnote as shown at www.dsmcapital.com.

This document is for information purposes use only. It is neither an advice nor a recommendation to enter into any investment. Investment suitability must be determined for each investor, and this fund may not be suitable for all investors. This information does not provide any accounting, legal, regulatory or tax advice. Investors should consult professional advisers to evaluate this information. An investment should be made only on the basis of the Prospectus, the annual and any subsequent semi-annual-reports of HEREFORD FUNDS (the "Fund"), a société d'investissement à capital variable, established in Luxembourg and registered under Part I of Luxembourg law of 20 December, approved by the Commission de Surveillance du Secteur Financier (CSSF). These can be obtained from [the Fund, 26, avenue de la Liberté, L-1930 Luxembourg or from VPB Finance S.A., 26, avenue de la Liberté, L-1930 Luxembourg and any distributor or intermediary appointed by the Fund]. No warranty is given, in whole or in part, regarding performance of the Fund. There is no guarantee that its investment objectives will be achieved. Investors should be aware that the value of investments can fall as well as rise and that they may not recover the full amount invested. Past performance is no guide to future performance. The information provided in this document may be subject to change without any warning or prior notice and should be read in conjunction with the most recent publication of the Prospectus of the Fund. While great care is taken to ensure that this information is accurate, no responsibility can be accepted for any errors, mistakes or omission or for future returns. This document is intended for the use of the addressee only and may not be reproduced, redistributed, passed on or