HF Hereford Funds

Signatory of:

Bin Yuan Greater China Fund

SFDR status as of March 2021: Article 8

August 2024

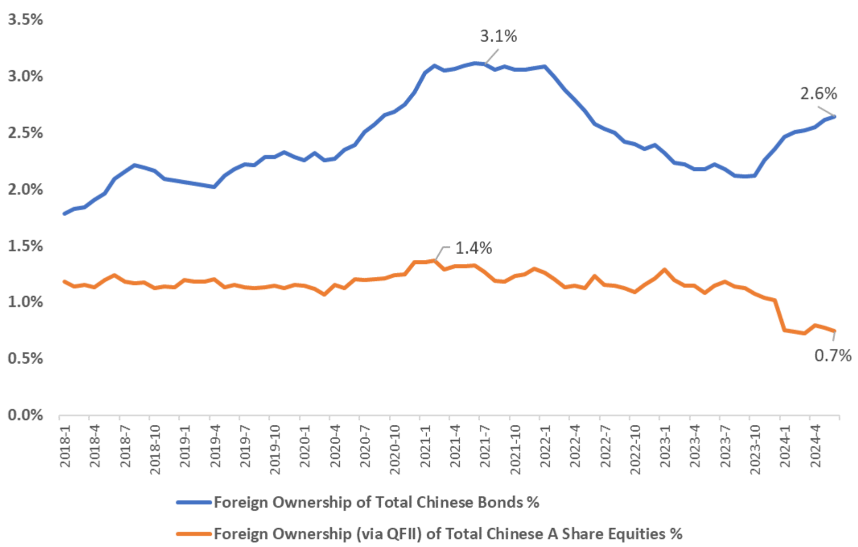
Investment Review

The Hereford Funds – Bin Yuan Greater China Fund (share class L1) decreased -0.9% in August (net of fees) compared with a -0.02% return for the benchmark, underperforming the benchmark by 0.88%. Health Care and Information Technology sectors adversely impacted relative performance during this period, while Industrial sectors contributed positively. In August, the positions that contributed the most to the portfolio's return were JIANGSU HENGL, TENCENT and MEITUAN. The positions that contributed the least were IRAY TECHNOLOG, PDD HOLDINGS INC and ADVANCED MICRO.

Manager's Commentary

Large-caps have continued to outperform small- and mid-caps in August, led by financials. However, the trend has shown signs of weakening in the past two months. Rather than the large caps dominating for the whole month, small- and mid-caps did better on certain days during the month. To support the index, government funds were buying index influenced stocks. High quality companies started to deliver strong earnings that attracted investors back to them. After Q2 and H1 earnings were released, we outperformed the benchmark in the second half of the month driven by much better than the market expected earnings. The outperformance also extended to the first week of September. We anticipate that our holdings will continue to deliver strong earnings results over the next quarters, providing fundamental support for share price performance. Please see our Earnings Review section below and full Earnings Review attached.

Investor confidence in the Chinese market remains very depressed. Weak macroeconomic conditions and corporate earnings, combined with geopolitical concerns, have led both foreign and local investors to adopt a defensive stance and steer clear from the equity market, while seeking safety in the bond market. The chart below illustrates the divergent trend of foreign ownership of Chinese equities and bonds in recent months, with local investors following a similar pattern.



Source: Bin Yuan Capital, Wind, iFind

We anticipate sentiment to stabilize as the market begins to factor in the following factors:

- Although US China relations are not expected to improve, there are signs of stabilization. The Chinese economy and companies have adapted to this situation reaching an equilibrium point. The rebalancing of the global manufacturing chain is inflationary, as no other production infrastructure can compete with China's level of competitiveness. The consumer durable price index in US has moved up recently. If this trend continues, it will raise costs and negatively impact household spending in the US, while also hurting corporate earnings due to higher capital costs.
- The issuance of special government bonds in China increased to RMB 796 billion in August vs RMB 2.9 trillion in Jan-Jul, or an average of RMB 414 bn per month. This acts as a key driver of infrastructure construction investments and implies an acceleration in fiscal spending on new infrastructure upgrades to the grid, railway, irrigation and equipment replacement.
- The potential reduction of the US interest rate creates an opportunity for the Chinese government to implement a rate cut in order to stimulate economic growth. There is also a growing possibility of reducing mortgage rates for existing loans, which will alleviate the financial burden on homeowners and contribute to restoring consumer confidence.

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BINYUAN CAPITAL

EARNINGS REVIEW:

The Q2 earnings season concluded with all A-share companies reporting a decline in revenue of -1.7% compared to -1% in Q1 and earnings -0.9% compared to -4.4% in Q1. The decrease in earnings has stabilized, showing a modest improvement from Q1. Differentiation between sector performances has increased:

- Real estate development revenue -27%, earnings -130%
- Building materials revenue -9%, earnings -55%
- Electronics revenue +19%, earnings +24%
- Auto revenue +6%, earnings +25%

Our portfolio however posted Q2 revenue up 25% and earnings up 34% YoY for holdings that release quarterly results. H1 revenue increased by 20% and earnings rose 25% YoY for holdings that release semi-annual results. We expect the portfolio's fundamentals to remain solid and continue to deliver upbeat earnings over the next several quarters.

	2024 Q1		2024 Q2		2024 H1	
	Rev Gr	Profit Gr	Rev Gr	Profit Gr	Rev Gr	Profit Gr
A share market	-1.0	-4.4	-1.7	-0.9	-1.4	-2.6
Bin Yuan portfolio	17.5	15.4	24.5	34.5	19.9	24.5

- **Infrastructure:** Demand has been increasing for new infrastructure projects like enhancements to the power grid, railways, and rural infrastructure like irrigation systems. Old infrastructure projects like building construction were negatively impacted by sliding government revenue which largely relied on land sales. Our high value-added capital goods and machinery holdings benefited from, and should remain beneficiaries of, the rising demand for new infrastructure upgrades: NARI Technology & Xuji Electric (power grid equipment), Jiangsu Hengli Hydraulic (machinery and parts) and CRRC Corporation (railway equipment), among others. Bidding on power grid tenders accelerated in the first half of the year, and revenue and earnings should follow over the next few quarters (Please see our comments on "Ultra-High Voltage (UHV) – The Bridge to China's Carbon Neutrality" below for more details).
- **Technology:** The import substitution trend continued, as evidenced by the increased orders for semiconductor equipment manufacturers and MLCC (Multilayer Ceramic Capacitors) player Chaozhou Three-Circle. The US sanctions on Chinese corporations and restrictions on technology exports to China is a two-edged sword. While it has slowed down China's acquisition of new technology in certain areas, Chinese technology companies have been gaining momentum in capturing local market share and moving up the technology curve. The demand for consumer electronics led by optical lens leader Sunny Optical, EV fuse provider Sinofuse, and consumer electronics brand Anker has been recovering. This has been driven by upgrades and replacements fueled by AI innovations in smartphones, smart cars and smart IoTs. Leaders with global competitiveness such as tire molds and large mechanical parts leader Himile Mechanical Science, industrial control system provider SUPCON and laser motion control system leader Shanghai BOCHU have been expanding their market share in overseas markets.
- **Healthcare:** Medical consumables saw a pickup. Surgical and medical instrument manufacturer Kangji Medical posted resilient growth with easing pressure from volume-based procurement policies and gradual price recovery of some segments. Medical equipment relatively underperformed, impacted by last year's high base and a delayed bidding process. This is expected to improve in the following quarters with receding impact from the previous anti-corruption campaigns.
- **Consumer:** Consumer demand and sentiment was weak as consumers looked for value-for- money consumption ideas and cut unnecessary spending amid the challenging macro environment. Experience consumption like travel and entertainment consumption like gaming remained strong. Trip.com (online travel reservation agency) and Bili (leading video platform) delivered upbeat earnings results. We also see leaders in some traditional sectors like Suofeiya (built-in furniture leader), Anjoy (quick-frozen food leader) and Baiya (sanitary products leader) growing their market share by making quick adjustments to the challenging environment during the industry consolidation.

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BINYUAN CAPITAL

Key Information

NAV (31/08/24)	US$ 96.37(L1)/92.25(L2)/66.38(AI)/52.79(AI EUR)/47.40(AI GBP)/68.89(BI)/ 104.84(CB)/77.85(DB A NOK)/70.15(DI A)/111.25(CI)/49.67(CI GBP)/52.11(PB EUR)	Strategy Assets	US$ 868 m[a]
Total Fund Size	US$ 509.4m	Fund Launch Date	16-Apr-18

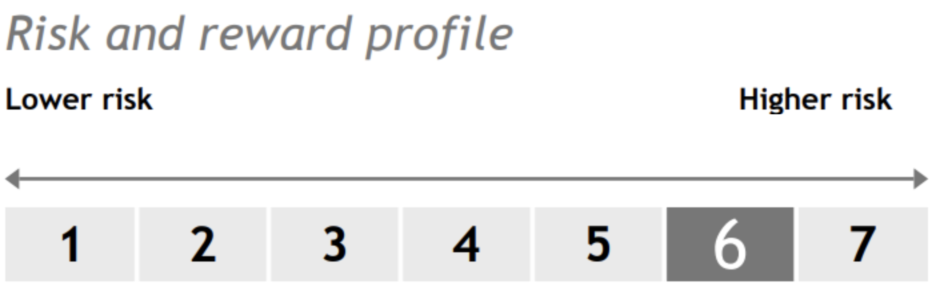
Period Performance (%) data from FPS/Pictet/Bin Yuan

	2024	2023	2022	2021	2020	2019	2018	Cumulative	Annualized
Bin Yuan All China Strategy[b]	-12.65	-21.17	-29.45	10.02	83.51	30.60	-22.46	48.03	4.82
Index[c]	1.54	-11.53	-23.61	-12.91	33.41	29.74	-26.64	2.71	0.32

Source: Bin Yuan, Pictet, FPS

Monthly Performance (%) data from FPS/Pictet

	2023					2024								
	Sep	Oct	Nov	Dec	YTD	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	YTD
Bin Yuan GC Fund	-3.45	-2.92	0.27	3.01	-21.17	-15.26	8.43	-2.03	2.26	0.38	-2.96	-1.68	-0.90	-12.65
Index[c]	-3.62	-3.81	2.01	-1.98	-11.53	-9.94	9.17	0.65	4.75	1.17	-2.47	-0.70	-0.02	1.54



The risk indicator assumes you keep the product for 4 years. We have classified this product as 6 out of 7, which is the second –highest risk.
This rates the potential losses from future performance at a high level, and poor market conditions are very likely to impact out capacity to pay you.
Please refer to the prospectus[g] for more information on the specific risks relevant to this product not included in the summary risk indicator.
This product does not include any protection from future market performance, so you could lose some or all of your investment. If we are not able to pay you what is owned, you could lose your entire investment.

Top Ten Holding					
1	TENCENT	6.35%	2	CHINA MERCH BK-A	5.99%
3	IRAY TECHNOLOG-A	4.97%	4	NARI TECHNOLOG-A	4.61%
5	KANGJI MEDICAL H	3.90%	6	HAICHANG OCEAN P	3.56%
7	PIOTECH INC-A	3.18%	8	JIANGSU HENGLI-A	3.02%
9	BILIBILI INC-Z	2.65%	10	BABA-SW	2.60%

Sectoral Breakdown[e]	% of Assets
Information Technology	17
Consumer Discretionary	16
Industrials	15
Health Care	14
Financials	10
Communication Services	10
Consumer Staples	8
Materials	5
Utilities	2

Investment Objective

The investment objective of the Compartment is to provide long term capital growth, measured in USD, primarily through investment in equities and equity-linked securities of Greater China Companies, as defined hereafter.

Since Inception[d]	Bin Yuan All China	Index
Volatility	20.48%	20.38%
Sharpe Ratio	0.26	0.02
Information Ratio	0.47	
Tracking Error	10.75%	
Active Shares	71%	
Beta	0.92	

Market Breakdown	% of Assets
A Share (Connect + QFI)	55
Hong Kong	35
US ADR	7

Valuation	Portfolio	Benchmark (excluding Financials)	Benchmark
Period	**08/31/2024**	**08/31/2024**	**08/31/2024**
2024 PE (X) –Harmonic Avg. Method[f]	14.2	13.5	10.6
2024 PE (X) – Weighted Avg. Method	15.8	17.6	16.3
2024 PB (X)	2.3	2.5	1.7
2024 Div. Yield (%)	2.9	2.0	2.4
2024 ROE (%)	19.1	12.0	11.3
Earning Growth (%) Forward 3 YR	22.3	7.7	5.2
2024 PEGY	0.6	1.8	2.2
FCF Yield	2.9	-1.1	2.0

The Sub-Fund is actively managed. The benchmark index of the Sub-Fund is MSCI China Health Care Index. It is used for the calculation of the performance fee and for performance comparison purposes. The Investment Manager is not in any way constrained by the benchmark index in its portfolio positioning. This means the Investment Manager is taking investment decisions without reference to a benchmark index. The Sub-Fund can deviate significantly from the index.

Fund Codes						
Share Class	AI	AI GBP	AI EUR	BI	CI	CI GBP
Bloomberg	HEYGCAU LX	HEYGCAG LX	HEYGCAE LX	HEYGCBU LX	HFBYCIU LX	HEYGCGA LX
TK	040149630	040149699	040149698		040149734	040149736
ISIN	LU1778252558	LU1778252715	LU1778252632	LU1778253952	LU1778254844	LU1778255064
Lipper ID	68617991	68666625	68677482	68625053	68563916	68684500
Sedol	BMY2Q30	BNLYXY6	BN4BFL5	BMY1994	BMWWFG8	BP466G6

Fund Details	
Dealing Day	Daily
Dividends	None – income accumulated within the fund
Investment Manager	Bin Yuan Capital Room 1505, 15/F, 299QRC 287-299 Queen's Road Central Sheung Wan, Hong Kong
Management Company	FundPartner Solutions (Europe) S.A. 15, Avenue John F Kennedy , L-1855 Luxembourg
Custodian	Bank Pictet & Cie (Europe) AG, Succursale de Luxembourg 15, Avenue John F Kennedy, L-1855 Luxembourg
Legal Advisors	Elvinger Hoss Prussen S.A. 2, Place Winston Churchill, L-1340 Luxembourg
Auditor	Deloitte Audit S.à r.l. 560, route de Neudorf, L-2220 Luxembourg

Annual Management Charge | TERs as at end September 2021	
Share Class A	1.25% | 1.45%
Share Class B	1.00% | 1.21%
Share Class C	0.75% | 0.95%
Share Class D	0.50% | 0.71%

Minimum Investment	
Share Class A	$100,000 Minimum initial subscription & holding
Share Class B	$5,000,000 Minimum initial subscription & holding
Share Class C	$10,000,000 Minimum initial subscription & holding
Share Class D	$100,000,000 Minimum initial subscription & holding

Entry / Exit fees ; 0
All the costs are not disclosed into the factsheet, please refer to the prospectus[g] for additional information.

Order Transmission Information

Bank Pictet & Cie (Europe) AG, Succursale de Luxembourg
15, Avenue John F Kennedy,
L-1855 Luxembourg
Via fax +352 46 71 71 7667 or SWIFT PICTLULXTAS

Footnote:

(a) This refers to the total assets invested in the reference strategy managed by the Investment Manager.
(b) The graph depicts the Bin Yuan All China Strategy (Reference Strategy) from inception in May 2016 to the fund launch on 16/4/18. After launch date actual fund data of Share Class L1 is used. The fund follows the same strategy as the Reference Strategy and simulated returns of the Reference Strategy are net of a modeled fee of 0.75% pa and expenses of 0.40%.
(c) MSCI Inc. discontinued MSCI All China Index and the transition to MSCI China All Shares Index took effect on 27 November 2019. MSCI All China Index Total USD return including dividends (Bloomberg ticker M1ACN Index) was used as benchmark from the inception of April 2018 to November 26, 2019. MSCI China All Shares Net Total USD Return (Bloomberg ticker MXCNANM Index) is used as benchmark since November 27, 2019.
(d) Data depict the Bin Yuan All China Strategy since inception of May 2016 as of April 2018. The fund follows the same strategy. After a longer period after the fund launch, we will use the Hereford Funds Bin Yuan Greater China Fund Share Class L1 in the table.
(e) We set sector exposure according to GICS classification, and the maximum exposure will not exceed 40%. The reason we set at 40% is some industrial and communication service companies are misclassified as information technology in GICS.
(f) The harmonic average, also known as the harmonic mean, is a type of average that is useful in situations where calculating an average rate or ratio. It's particularly effective when the values we are averaging are defined in terms of a ratio of two quantities (like speed, which is distance per unit of time).
The formula for the harmonic average is:
Harmonic Mean = N / sum of (1/Value_i)
Where:
- (N) is the total number of values.
- \(\{Value}_i\) is each individual value in the set.
(g) Prospectus (English) and KIDs (English, French, German)

Disclaimer:

- This document should be read as a marketing communication.
- Risk Disclaimer - This current risk profile is based on historical data and may not be a reliable indication of the future risk profile of the Sub-Fund. - The risk category shown is not guaranteed and may shift over time. - The lowest category, which corresponds to Number 1, cannot be regarded as being risk-free. - The Sub-Fund does not provide any capital guarantee or asset protection measures. Why is this Sub-Fund in this category? The investment objective of the Sub-Fund is to generate long-term capital growth and income by investing in equities and equity-linked securities of Greater China Companies. Hence, the risk/reward profile of the SubFund should correspond to a high risk category on the risk/reward scale. The contents of this document are communicated by, and the property of, Hereford Funds. This document is for information purposes and internal use only. It is neither an advice nor a recommendation to enter into any investment. Investment suitability must be determined individually for each investor, and the financial instruments described above may not be suitable for all investors. This information does not provide any accounting, legal, regulatory or tax advice. Please consult your own professional advisers in order to evaluate and judge the matters referred to herein. 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, from FundPartner Solutions (Europe) SA, 15 avenue J. F. Kennedy, L-1855 Luxembourg, and any distributor or intermediary appointed by the Fund. You can obtain a summary of investors rights to the following link : https://www.group.pictet/media/sd/176b100ab205a6e6aef82b0250138f889675b903
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- Marketing communications should indicate that the decision to invest in the promoted fund should take into account all the characteristics or objectives of the promoted fund as described in its prospectus.