HF Hereford Funds

Signatory of: PRI Principles for Responsible Investment

A proud participant of: Climate Action 100+

BINYUAN CAPITAL

RACE TO ZERO

Bin Yuan Greater China Fund

SFDR status as of March 2021: Article 8

February 2025

Investment Review

The Hereford Funds – Bin Yuan Greater China Fund (share class L1) increased 8% for the month of February (net of fees), compared with a 8.27% return for the benchmark. Consumer Discretionary sectors adversely impacted relative performance during this period, while Financials sector contributed positively. In February, the positions that contributed the most to the portfolio's return were BABA, TENCENT and EHANG HOLDINGS. The positions that contributed the least were YANTAI JEREH, MINISO GROUP and TRIP GROUP.

Manager's Commentary

China equities have had a very strong performance in February. The Bin Yuan portfolio has closely followed the market with a positive return of 8% for the month and outperforming the benchmark YTD. The emergence of DeepSeek served as a positive catalyst, altering sentiment on a deeply oversold market. The market believes that the DeepSeek technology will significantly reduce the cost of developing Artificial Intelligence (AI) applications, which is beneficial to Chinese technology companies. The related technology stocks have soared. Our strong stock selection within the value chain of AI applications, including robots, consumer electronics, software contributed to the performance positively. The consumer and energy equipment sectors, however, lagged behind during the month.

DeepSeek's headlines, Alibaba's results, the government symposium with private companies dominated market attention in February.

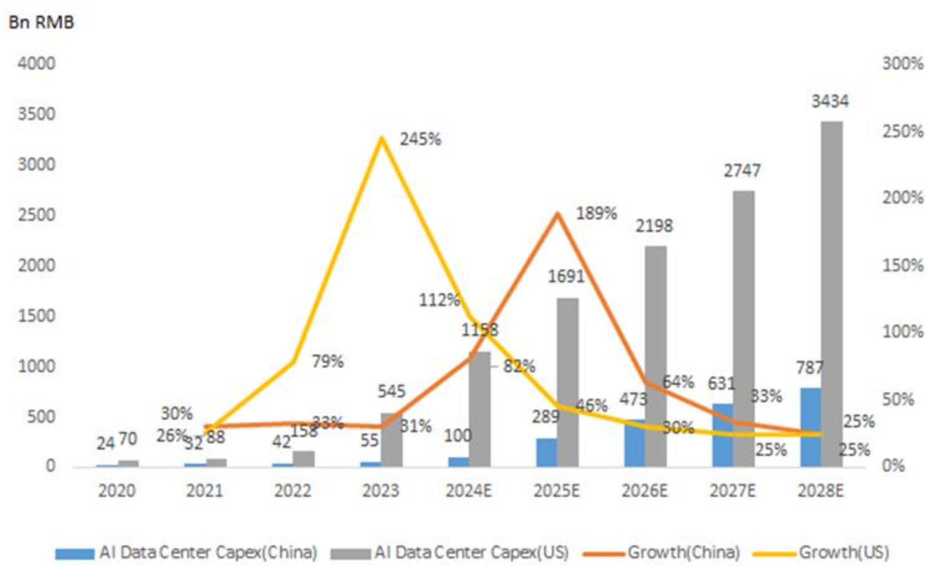
DeepSeek has transformed the landscape of AI development towards the explosion of applications, in which China holds a strong advantage. The ripple effect is exerting a profound influence on the broader economy. Several of our portfolio holdings have said that DeepSeek's low costs and powerful model inference capabilities enable them to enhance enterprise efficiency and upgrade functionalities to better serve customers.

The DeepSeek phenomenon prompted us to reevaluate Alibaba's position in the AI ecosystem, and we became positive at the beginning of the month. Alibaba's strong quarterly performance, characterized by its cloud business returning to double-digit growth and an assertive AI capex plan also validated the surging demand for AI, which subsequently fueled a significant rally in the technology sector.

The innovation dynamics of the private sector awakened President Xi, and he held a symposium with key figures of private companies, such as Jack Ma (Alibaba), on February 17th. This symposium emphasized the government's recognition that innovation stems from a dynamic private sector and that maintaining the vitality of private companies is essential for enhancing innovation and promoting long-term productivity growth. **This sent a clear and positive signal of government support for private companies, significantly enhancing entrepreneur and investor confidence.**

Strengthened confidence can function as a positive feedback loop to stimulate the bottom-up investment from the private sector, which can be highly significant in driving GDP growth. One example is **China's spending on AI infrastructure, which is expected to increase by 189% year-on-year in 2025, compared to 46% in the U.S (Chart 1).**

Chart 1 AIDC Capex in China and US



Source: Bin Yuan Capital

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Looking at BABA's capex alone, given the explosive demands for AI inference, Alibaba plans to invest more than 380 billion RMB over the next three years to build cloud and AI hardware infrastructure, an amount equivalent to their total investment in the past decade. Their capex in 2025 could exceed Rmb150-200b, accounting for 0.1% of GDP. Previously, ByteDance also plans to increase capital expenditure to nearly 160 billion RMB by 2025, mainly focusing on AI data centres (AIDC). Other tech giants will follow suit to sustain their competitiveness in AI, and it is estimated that China's investment in AIDC will reach 289 billion RMB in 2025, a Y/Y increase of 189%.

Major tech companies' substantial investments will create new revenue streams for the entire industry value chain. Coupled with DeepSeek's influence in assisting companies to enhance quality and efficiency, the future profitability of Chinese companies is likely to increase, leading to a broad revaluation of the Chinese private sector.

Chinese tech stocks remain undervalued: Trading at a 37.5% discount to U.S. peers despite 57% higher potential earnings growth. In Table 1 we list the most representative AI companies in China and the United States in the tech field (including IoT, internet, software, semiconductor, auto, etc.), which reflect the innovation capabilities as well as the economic conditions of their respective countries.

Table 1 China & US stock comparison

	NAME	Region	Market Cap (mn USD)	2025 PE	2026 PE	2025 PS	2026 PS	2025-2027 Earnings GR	PEG
IoT									
1810 HK	XIAOMI	CN	171,537	43.0	32.6	3.0	2.0	31%	1.4
0992 HK	LENOVO	CN	19,663	12.5	11.0	0.3	0.3	15%	0.8
300866 SH	ANKER	CN	8,265	24.5	20.0	3.3	3.0	22%	1.1
688036 SH	TRANSSION	CN	14,579	17.2	14.8	1.4	1.2	16%	1.1
AAPL US	Apple	US	3,564,738	32.4	29.7	9.0	8.0	10%	3.2
DELL US	Dell	US	68,375	12.1	10.5	0.7	0.7	12%	1.0
Internet									
0700 HK	Tencent	CN	585,050	17.8	15.9	5.9	5.5	16%	1.1
9988 HK	Alibaba	CN	331,864	15.6	13.9	2.4	2.3	14%	1.1
META US	Meta	US	1,667,756	25.6	22.1	8.8	7.8	12%	2.1
GOOG US	Google	US	2,055,965	19.7	17.9	6.9	5.9	9%	2.2
AMZN US	Amazon	US	2,212,170	28.3	23.4	3.1	2.9	15%	1.9
Software & System									
1357 HK	MEITU	CN	2,779	26.4	18.5	5.0	4.0	30%	0.9
3888 HK	KINGSOFT	CN	6,893	26.0	21.0	4.2	3.7	28%	0.9
0268 HK	KINGDEE	CN	5,994	32.0	24.0	6.0	5.0	80%	0.4
688777 SH	SUPCON	CN	6,048	29.8	24.3	3.7	3.1	23%	1.3
600406 SH	NARI	CN	26,446	24.1	21.2	3.4	3.0	17%	1.4
HON US	Honeywell	US	135,183	20.1	18.5	3.3	3.3	9%	2.2
CRM US	Salesforce	US	285,042	35.3	29.2	5.2	7.5	13%	2.8
MSFT US	Microsoft	US	2,918,061	29.7	26.0	10.5	9.3	8%	3.7
Semiconductor									
002371 SH	Naura	CN	32,036	30.4	24.0	6.0	4.8	30%	1.0
688072 SH	Piotech	CN	6,825	51.6	37.3	9.3	7.3	43%	1.2
688088 SH	Montage	CN	12,723	44.7	33.1	17.2	12.9	35%	1.3
NVDA US	NVIDIA	US	2,783,064	38.0	24.9	21.5	13.6	16%	2.4
AVGO US	BROADCOM	US	881,001	28.4	23.8	14.4	12.4	12%	2.4
AMAT US	AMAT	US	123,597	16.4	15.2	4.3	4.0	6%	2.7
Auto									
1211 HK	BYD	CN	147,664	18.9	15.6	1.1	1.0	26%	0.7
TSLA US	Tesla	US	906,897	88.6	64.4	8.8	7.8	25%	3.5

Source： Bloomberg, Wind, Bin Yuan Capital

Table 2 below presents a summary comparison of valuations between two countries. Even with the recent rally, Chinese technology stocks are still trading at a deep discount to their US counterparts. The success of DeepSeek underscores that China's technological progress is not significantly lagging behind that of the United States. However, the large valuation gap fails to reflect the strengths of Chinese companies.

Table 2 China & US stock valuation comparison

REGION	2025E PE	2025E PS	NI CAGR	PEG Ratio
CN	22.5	3.0	22%	1.0
US	36.0	6.3	14%	2.6

Source： Bloomberg, Wind, Bin Yuan Capital

The total market value of these top Chinese AI companies accounts for only 7.9% of the entire market cap and 7.1% of China's GDP, while the figures for those US companies are 28.2% and 60.2% (Table 3).

Table 3 Market Cap of top AI companies versus total market cap and GDP

Region	Sum of Market Cap (tn USD)	Total Country Market Cap (tn USD)	GDP (tn USD)	Ratio to Total Market Cap	Ratio to GDP
CN	1.4	17.1	18.9	7.9%	7.1%
US	17.6	62.2	29.2	28.2%	60.2%

Source： Bloomberg, Wind, Bin Yuan Capital

Two scenarios for comparing market cap concentration in China vs. US:

1. **Similar to the U.S. – A "winner takes all" scenario where China's core AI companies could experience significant upside:** If the "winner takes all" scenario occurs in the AI era in China, the core Chinese AI names should have significant upside potential to catch up compared to those in the US. Chinese companies possess a strong edge in applications. With the explosive growth of downstream applications, the value discount of Chinese core AI enterprises will start to decrease. We define core AI companies as those that are the most scalable and have the best knowledge of downstream end user demands. They possess the most comprehensive AI ecosystems, covering various terminals, content, networks, and infrastructure, and have the potential to become people's daily-life AI agents in the future (such as Internet and brand terminals). Those companies are either large-cap or mid-cap stocks at present, but they are in the mid growth stage and will ultimately become much larger-cap ones in the future.
2. **Different from the U.S. – China's open-source AI ecosystem and comprehensive supply chain could drive broader, more diverse AI growth:** China's comprehensive supply chain, along with the open-source nature of its LLMs and chip architectures, offers vast opportunities for widespread development, particularly in the mid-cap space. Once algorithms and computing power reach a level of parity, more small and medium sized players gain the opportunity to enter the market to innovate jointly, which promotes industrial integration, gives rise to new ecological and business models, and draws attention to a broader range of scenarios and user needs. This extends to the opportunities presented by upstream core components or unique and vertical service providers of AI applications and AI infrastructure. They are highly specialized in this area with bottlenecks and are capable of providing much higher value-added services to their customers in the AI age (such as core components, software & system and semiconductors), among which there are more mid-cap stocks. The AI boom in China is expected to be more extensive and diverse than in the US market.

Tech stock performance gap: Since 2020, Chinese AI stocks (+16%) have underperformed U.S. AI stocks (+225%), but the trend has shifted. We compared the market performance of Chinese and American tech stocks since 2020. Chart 2 shows China's 15 AI companies (listed in Table 1) have significantly underperformed their American counterparts during the same period - and only recently have started to catch up.

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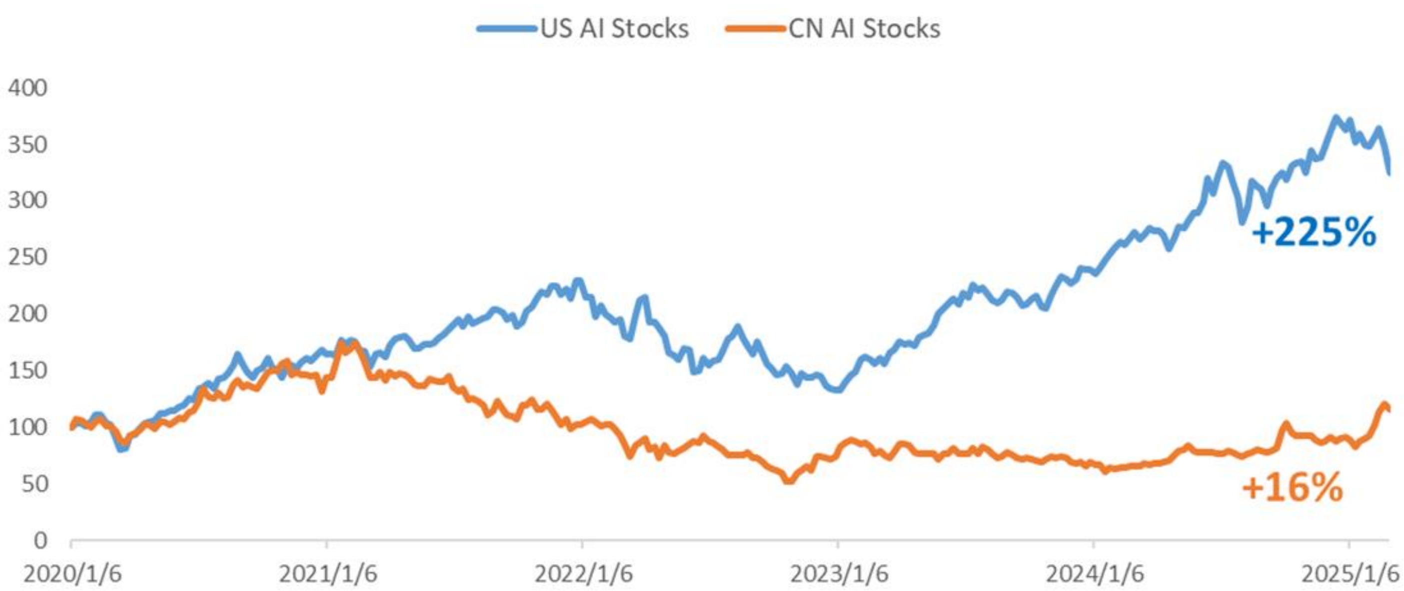
Chart 2 AI stocks performance (US vs CN, from 2020/01/06 to 2025/03/03)



Source： Bloomberg, Wind, Bin Yuan Capital

The technology ban and tariff-hike policies imposed by U.S. President Donald Trump have been of less concern as China's stock market is immune to these well-known issues. As we quoted in last month's letter, “Adversity reveals genius”, we adhere to our view that the technology ban by the US government will compel Chinese firms to devise alternative ways to achieve breakthroughs. DeepSeek is an example, and more innovative ones will emerge this year.

It's not just about technology. **The improvement in productivity will be beneficial to the whole economy.** Although policy expectations are low, overall consumption is stabilizing, with the bottom being shored up by government support. **The consumption sector may also undergo a re-rating, following in the footsteps of the technology sector.**

Some positive signs emerge from the improvement in confidence. Travel demand remains strong. Per capita spending during the Spring Festival increased by 1% Y/Y, and post - holiday hotel occupancy (OCC) has continued to grow, while the decline in Revenue per Available Room (RevPAR) has narrowed significantly. The property market is stabilizing. New home transactions in 44 tracked cities rose by 5% Y/Y, and existing home sales in 22 cities soared by 33%. Developers' land acquisitions are also resuming. Total land purchases by the top 100 developers jumped 26.7% Y/Y in January - February, as confidence improved after cumulative sales returned to positive territory. The labor market has also shown new vitality. Job postings in 2025 surged 18.3% Y/Y (compared to 5.1% in 2024), and the number of hiring companies increased by 8.2% (compared to 5.5% in 2024). In the four weeks following the Spring Festival, new job postings soared 21.1% Y/Y, with hiring companies up 6.3%, led by sectors such as steel, telecommunications, electronics, non - bank financial services, and social services.

The re-rating of Chinese high-quality assets has just begun. **The Bin Yuan portfolio is poised to benefit from two levels of alpha.** We have secured the AI core assets to capture the structural upward trends, and this is the first level of alpha generated from the increasing AI exposure throughout the economy. We can term it as AI beta, but it is also alpha relative to the entire index. Additionally, our expertise in mid-cap stock selection can help investors enjoy the second level of alpha returns that go beyond the AI beta.

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Key Information

NAV (28/2/25)	US$ 117.81(L1)/113.04(L2)/80.95(AI)/68.52(AI EUR)/84.11(BI)/128.16(CB)/ 101.08(DB A NOK)/85.87(DI A)/136.00(CI)/63.38(CI GBP)/67.88(PB EUR)	Strategy Assets	US$ 1.0 b[a]
Total Fund Size	US$ 606.69m	Fund Launch Date	16-Apr-18

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

	2025	2024	2023	2022	2021	2020	2019	2018	Cumulative	Annualized
Bin Yuan All China Strategy[b]	9.35	-2.34	-21.17	-29.45	10.02	83.51	30.60	-22.46	80.96	6.95
Index[c]	7.72	16.38	-11.53	-23.61	-12.91	33.41	29.74	-26.64	26.82	2.73

Source: Bin Yuan, Pictet, FPS

Monthly Performance (%) data from FPS/Pictet

												2025		
	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD	Jan	Feb	YTD
Bin Yuan GC Fund	-2.03	2.26	0.38	-2.96	-1.68	-0.90	23.12	-5.91	-3.94	0.47	-2.34	1.24	8.00	9.35
Index[c]	0.65	4.75	1.17	-2.47	-0.70	-0.02	23.19	-5.27	-3.23	1.50	16.38	-0.51	8.27	7.72

Risk and reward profile

Lower risk **Higher risk**

1	2	3	4	5	**6**	7

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	9.33%	2	BABA (H+ADR)	6.36%
3	CM BANK (A+H)	5.91%	4	PIOTECH INC-A	3.11%
5	MEITUAN-W	3.08%	6	HAICHANG OCEAN P	3.07%
7	GUIZHOU AVIATI-A	2.94%	8	CHINA RES LAND	2.75%
9	SHANXI XINGHUA-A	2.73%	10	IRAY TECHNOLOG-A	2.60%

Sectoral Breakdown[e]	% of Assets
Consumer Discretionary	21
Information Technology	18
Industrials	17
Communication Services	13
Financials	11
Health Care	9
Consumer Staples	4
Real Estate	3
Materials	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	21.48%	21.53%
Sharpe Ratio	0.35	0.13
Information Ratio	0.46	
Tracking Error	10.48%	
Active Shares	75.43%	
Beta	0.93	

Market Breakdown	% of Assets
A Share (Connect + QFI)	44
Hong Kong	46
US ADR	8

Valuation	Portfolio	Benchmark (excluding Financials)	Benchmark
Period	**2/28/2025**	**2/28/2025**	**2/28/2025**
2025 PE (X) –Harmonic Avg. Method[f]	17.3	15.8	12.1
2025 PE (X) – Weighted Avg. Method	17.8	20.6	18.6
2025 PB (X)	3.3	3.0	2.0
2025 Div. Yield (%)	2.2	1.5	1.8
2025 ROE (%)	18.3	12.3	11.5
Earning Growth (%) Forward 3 YR	23.7	9.2	7.4
2025 PEGY	0.7	1.9	2.0
FCF Yield (%)	2.3	-0.7	1.6

The Sub-Fund is actively managed. The benchmark index of the Sub-Fund is MSCI China All Shares 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.

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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	HF Arode Asset Management S.A. 93, Route d'Arlon , L-1140 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
- 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. Potential investors shall be aware that the value of investments can fall as well as rise and that they may not get back the full amount invested. Past performance is no guide to future performance. Future Performance is subject to taxation which depends on the personal situation of each investor and which may change in the future. Returns may increase or decrease as a result of currency fluctuations. 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. Whilst great care is taken to ensure that information contained herein 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 or recipient only and may not be reproduced, redistributed, passed on or published, in whole or in part, for any purpose, without the prior written consent of HEREFORD FUNDS. Neither the CSSF nor any other regulator has approved this document.
- According to the SFC climate-related disclosure requirement, please find our disclosure of Management and Disclosure of Climate-related Risks by Fund Managers.
- 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.