Marketing Communication

HF Hereford Funds

Signatory of: PRI Principles for Responsible Investment; A proud participant of: Climate Action 100+; ESG LuxFLAG; BINYUAN CAPITAL; RACE TO ZERO

Bin Yuan Greater China Fund

SFDR status as of March 2021: Article 8

July 2024

Investment Review

The Hereford Funds – Bin Yuan Greater China Fund (share class L1) decreased -1.68% for the month of July (net of fees) compared with a -0.7% return for the benchmark underperforming the benchmark by 0.98%. Health Care and Industrials sectors adversely impacted relative performance during this period, while Information Technology sector contributed positively. In July, the positions that contributed the most to the portfolio's return were ADVANCED MICRO, CHAOZHOU THREE and BABA. The positions that contributed the least were IRAY TECHNOLOG, SHENZHEN MINDR and SHANXI XINGHUA.

Manager's Commentary

July remained volatile but ended with a strong rebound in the last day, driven by gains from pro-growth policies which partially offset previous losses attributed to geopolitical concerns surrounding the upcoming US election. Small- and mid-caps continued to underperform large caps for another month, although they were strong in the last few trading days influenced by the government's announcement of possible stimulus programs.

The market enthusiasm for selling mid-cap stocks and chasing large caps may start to fade. ETFs tracking small- and mid-cap indices like the CSI 500 and CSI 1000 saw large inflows of funds on surging trading volumes. Mid-caps strongly outperformed large caps on the last day on higher volumes. The spread between the large-cap SSE 50 Index and the mid-cap STAR 50 Index is expected to gradually narrow after reaching a historic high, if reversion to the mean happens. We believe this will happen as the ratio of valuation to profits is at extreme levels. We have been reducing positions in some large caps that have made positive contributions to the portfolio in order to lock in profits and reallocate to high conviction mid-cap tech and med-tech names with low valuation with robust growth. We are focusing on those posting accelerating growth in the second half and next year.

Chart 1. Spread Between SSE 50 Index and STAR 50 Index

Source: Bloomberg, Bin Yuan Capital

The plenum meeting held in July focused on reforms to remove the bottleneck of long-term sustainable growth. Following the meeting, more pro-growth policies to restore confidence were announced including rate cuts by the central bank, significant investments by state-owned enterprises in digital and green upgrades, and government bond issuances to support equipment upgrades across various sectors. Despite geopolitical concerns, high value-added manufacturing sectors, tech and healthcare are enhancing their competitiveness by gaining market share domestically and relocating their capacity to penetrate overseas market, underpinning expectations for strong earnings in the upcoming quarters.

The reform-focused plenum meeting set long-term goals for development with over 300 proposed reforms contained in 60 subsections:

- Supply chain self-sufficiency and tech innovation remains the top priority
- The decisive role of the market was reiterated together with initiatives to support private sectors
- Rural land reform is planned to promote rural-urban integration and increase land use efficiency by easing restrictions on the use of residential property in the countryside to enable farmers to capitalize on their lands
- Long-term reforms of the social welfare system should also improve low-income groups' living conditions and boost households' convictions in consumption
- Financial pressure on distressed local governments also received attention, with fiscal and taxation reforms proposed to expand their tax revenue sources and relocating some expenditure to the central government.

As we expected, a number of pro-growth policies were announced after the plenum meeting:

- The central bank cut the 7-day reverse repo rate and loan prime rates.
- The government's supervisor for state assets said that state-owned enterprises would invest RMB 3 trillion (USD 413.8 billion) in equipment upgrades to facilitate digital and green shifts over the next five years. Top companies controlled by the central government will take the lead, covering different industries, ranging from power, mining, oil & chemical, construction, aerospace, to information & technology.
- The issuance of RMB 300 billion (USD 41.5 billion) in government bonds was announced, which is allocated from the one trillion RMB (139 billion USD) ultra-long-term special government bond plan introduced early this year. The RMB 300 billion in bonds will be used to expand an existing trade-in and equipment upgrade policy.
- In addition to the previously included sectors of manufacturing, environmental infrastructure, transportation, logistics, education, tourism, and medical devices, the coverage of sectors eligible for trade-ins expanded further to additional sectors/areas such as energy & power, apartment elevators, ships, trucks, farming equipment, and electric buses.
- Subsidies were also announced for home renovations and consumer purchases of refrigerators, washing machines, televisions, computers, air conditioners and other home appliances.

Most equipment upgrades are in high value-added sectors which are a key source of fixed asset investment. The large-scale equipment upgrades will help reduce power consumption, improve efficiency, and boost productivity, and at the same time spur demand to consume excessive output in the manufacturing sector. Increasing the purchase of domestic equipment will also drive up the localization rate in relevant sectors and strengthen the competitiveness of domestic equipment manufacturers.

Trump 2.0? While investors concern the competitiveness of Chinese manufacturers to be dampened by the possible Trump 2.0, we hold the view that there would be no essential difference in the two candidates' stance on China. The expectations of negative consequences, such as higher tariffs, have been priced in. We believe competitive companies in the manufacturing sector will continue to generate growth as they rebalance their competitiveness globally.

The fundamentals of our holdings continue to be very solid. As the Q2 earnings season approaches, some preliminary earnings have been released and we highlight some from our holdings below. The Q2 results will continue rolling in for the next month and we expect our portfolio to post much better than market earnings and improving stock performance.

Preliminary earning results/positive warnings and comments:

✓ Sinofuse (an integrated solution supplier of energy protection systems)

- Q2 net profit RMB 38 mm, + 56.5% YoY, +41% QoQ
- The high growth was mainly due to the continuous penetration of EVs in China and the application of high voltage power charge solutions in new EV cars which made the ASPs of its products rise more than 20%. Meanwhile, the company can also benefit from the strong global energy storage demand.

✓ Montage (a leading global memory interface chip provider)

- Q2 revenue RMB 928 mm, +82.6% YoY, +25.8% QoQ
- Q2 net profit RMB 330 mm, + 9250% YoY, +50% QoQ
- Increasing demand for AI servers has driven the penetration of DDR5 (new memory chips), which has led to an increase in the volume and price of the company's memory interface chips. We expect the company will fully benefit from the AI trend and estimate high growth over the next quarters.

✓ Ninestar (a leading laser printer manufacturer)

- Q2 net profit RMB 670 mm, + 382% YoY, +272% QoQ
- The high growth was mainly due to the demand recovery both in the domestic market and overseas market. With the improvement of the company's product performance and domestic customer import substitution demand, the company's market share is expected to increase from the current 4% to more than 10% over the next three years.

✓ Autowell (a leading manufacturer of photovoltaic equipment)

- 2024Q2 revenue RMB 2232.5 - 2497.5 mn, + 51% - 68.9% YOY; NI is around RMB 420 mn, Y/Y 40%
- New orders in 2024 are expected to remain positive compared to 2023, much better than the industry average.

✓ Sunresin New Materials (a leading manufacturer of high-end resin materials)

- Q2 revenue 638-689 mm RMB, +26%-36%, net profit 225-241 mm RMB, +6%-14% YoY
- Excluding the impact of foreign exchange, the company's 2024 H1 core net profit growth was 26%-30%, with Q2 core net profit growth of 30%-38%.
- We expect strong growth in their life sciences and water purification segments.

We remain confident that the companies in our portfolio will continue to report stronger earnings growth than their peers and the overall market.

Key Information

NAV (31/07/24)	US$ 97.25(L1)/93.05(L2)/67.01(AI)/54.51(AI EUR)/48.97(AI GBP)/69.53(BI)/ 105.79(CB)/81.02(DB A NOK)/70.78(DI A)/112.26(CI)/51.29(CI GBP)/53.78(PB EUR)	Strategy Assets	US$ 874 m[a]
Total Fund Size	US$ 512.5m	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]	-11.85	-21.17	-29.45	10.02	83.51	30.60	-22.46	49.38	4.98
Index[c]	1.56	-11.53	-23.61	-12.91	33.41	29.74	-26.64	2.73	0.33

Source: Bin Yuan, Pictet, FPS

Monthly Performance (%) data from FPS/Pictet

	2023						2024							
	Aug	Sep	Oct	Nov	Dec	YTD	Jan	Feb	Mar	Apr	May	Jun	Jul	YTD
Bin Yuan GC Fund	-8.91	-3.45	-2.92	0.27	3.01	-21.17	-15.26	8.43	-2.03	2.26	0.38	-2.96	-1.68	-11.85
Index[c]	-8.61	-3.62	-3.81	2.01	-1.98	-11.53	-9.94	9.17	0.65	4.75	1.17	-2.47	-0.70	1.56

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	5.97%	2	CHINA MERCH BK-A	5.95%
3	IRAY TECHNOLOG-A	5.21%	4	NARI TECHNOLOG-A	3.90%
5	KANGJI MEDICAL H	3.81%	6	HAICHANG OCEAN P	3.58%
7	BILIBILI INC-Z	2.80%	8	ADVANCED MICRO-A	2.80%
9	PIOTECH INC-A	2.71%	10	JIANGSU HENGLI-A	2.65%

Sectoral Breakdown[e]	% of Assets
Information Technology	17
Consumer Discretionary	16
Industrials	15
Health Care	14
Financials	11
Communication Services	10
Consumer Staples	7
Materials	7
Utilities	1

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	20.58%	20.48%
Sharpe Ratio	0.27	0.02
Information Ratio	0.49	
Tracking Error	10.79%	
Active Shares	71%	
Beta	0.92	

Market Breakdown	% of Assets
A Share (Connect + QFI)	56
Hong Kong	35
US ADR	7

Valuation	Portfolio	Benchmark (excluding Financials)	Benchmark
Period	**07/31/2024**	**07/31/2024**	**07/31/2024**
2024 PE (X) –Harmonic Avg. Method[f]	12.7	13.5	10.7
2024 PE (X) – Weighted Avg. Method	15.7	17.5	16.1
2024 PB (X)	1.9	2.5	1.7
2024 Div. Yield (%)	3.0	2.1	2.7
2024 ROE (%)	19.0	11.8	11.1
Earning Growth (%) Forward 3 YR	20.5	7.7	5.3
2024 PEGY	0.7	1.8	2.0
FCF Yield	3.0	-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.