Hereford Funds

Signatory of:

Bin Yuan Greater China Fund

SFDR status as of March 2021: Article 8

October 2024

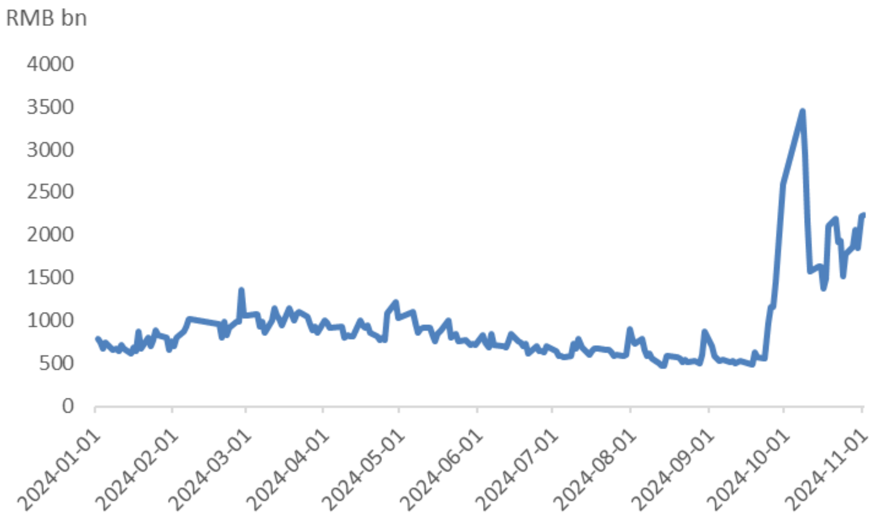
Investment Review

The Hereford Funds – Bin Yuan Greater China Fund (share class L1) decreased -5.91% for the month of October (net of fees) in line with with a -5.27% return for the benchmark underperforming the benchmark by 0.63%. Information Technology and Financials sectors adversely impacted relative performance during this period, while Communication Services sector contributed positively. In October, the positions that contributed the most to the portfolio's return were XI'AN SINOFUSE, EHANG HOLDINGS and MEITUAN. The positions that contributed the least were HAICHANG OCEAN PARK, JIANGSU HENGLI and TENCENT.

Manager's Commentary

The Chinese market had a volatile month in October following a strong rebound in the last week of September. Daily trading volume spiked to RMB 2 trillion in October compared to RMB 700 billion for the first half in 2024 (Chart 1), marking an ignited retail investing enthusiasm after authorities pledged to reflate the economy.

Chart 1: China's A-share daily trading volume



Source: Bin Yuan Capital, iFind

While local retail investor confidence in the Chinese market has started to recover, foreign investors remain skeptical. Government press conferences in recent weeks have sparked various comments from Western media and brokers, with some expressing disappointment at the lack of concrete numbers attached to its plans. The wait-and-see approach of foreign investors, combined with increasing enthusiasm among local retail investors, has led to diverging stock performance. In general, quality companies favored by foreign investors underperformed compared to highly speculative expensive stocks that are popular with local retail investors (the top 50 performing companies in the CSI 500 mid cap index have an average PE ratio exceeding 100+x.). We believe the trend of low-quality stocks flying high will be reversed as it is not sustainable without fundamental support.

During the month, our portfolio decreased by -5.91%, falling behind the benchmark by 63 basis points. While Communication Services and Industrials performed well as top sectors, our stock selection in Information Technology was negatively impacted by the underperformance of our quality investments compared to those expensive peers. Our underweight position in the Financial sector also dragged down overall performance.

Market Comment

Foreign media and brokers have expressed disappointment at the lack of a specific figures for the government's stimulus package. Our perspective is different:

1. The messages sent out from press conferences by the NDRC, MOF, and MOHURD were strong indications that the Chinese government is determined to stimulate the economy through counter-cyclical measures that include both monetary and fiscal policies. The first step is to bring back confidence. The government's current objective is to improve the financial conditions of lower income households by reducing interest rates and securing their incomes. Simultaneously, efforts will be made to refinance the balance sheets of lower tier cities in order to assist them in meeting their liabilities. We believe that the existing packages provided through both monetary and fiscal policies should be adequate to restore some confidence. Reflating the economy will be a gradual process, with additional packages being released to stimulate the economy later. Anticipating a single significant stimulus announcement is not aligned with the approach of the Chinese government and would lead to disappointment. We expect an improvement in economic data towards the end of the 4Q extending into 2025.

2. The key to reflating the economy lies in rebuilding confidence among households and the private sector.

- It is crucial to stabilize the property market by addressing issues such as unfinished buildings, renovating shanty towns, and providing affordable housing through land and property acquisition from the market in order to support prices. Total government spending may reach RMB 5 trillion to absorb the surplus inventory, halt the decline of the market, and boost demand. Given that property constitutes a significant portion of household wealth, this stabilization of property prices should have a positive impact on confidence.
- Allocate resources towards upgrading new infrastructure to enhance global competitiveness for companies and improve employment opportunities.
- Subsidize low-income groups and invest in welfare to lift consumption and promote trade-in programs for appliances and autos, among others, to boost consumption by the middle class. The multiplier effect of subsidies (how many dollars of demand are generated per each dollar of subsidy) could be 5x or even more when confidence recovers.

3. The central government has articulated a strong willingness, and has ample financing capabilities, to support the stimulus. The PBOC has significant room to expand its balance sheet, and the central government's balance sheet is very healthy, allowing for increased leverage.

4. The current market volatility indicates that investor liquidity remains on the sidelines and skepticism persists, suggesting that the China market remains oversold. Substantial domestic liquidity could potentially flow into the equity market. Over the past three years, there has been a increase of RMB 30 trillion in net household deposits (household deposits minus household loans). If 25% of net deposits were allocated to spending, it would equal more than 6% of GDP; if 25% was allocated to the equity market, it would equal 10% of the market cap float. Any potential foreign capital inflow would also be positive.

The weak Q3 economic indicators and overall A share earnings underscore the need for counter-cyclical measures to stimulate the economy. Q3 GDP and company profits data confirm a weak economy, posing a challenge to achieve the official growth target of 5% without government stimulus. China's GDP edged down in Q3 to 4.6% from 4.7% in Q2. Total profits of national large scale industrial companies decreased by 3.5% YoY, with a YoY decline of 27.9% in September alone. **But we strongly believe it's the "bad is good" moment for China.** The authorities are talking about the structural problems in the economy more openly, policy communication is much better, a flurry of stimulus measures have been rolled out, which all deliver the signal that more policy tools could be unveiled if the situation deteriorates.

The efforts to restore confidence have already had a positive impact since September 24, as evidenced by the surprising increase in national holiday consumption. There are also emerging signs of stabilization in the property sector. Policies, including easing home buying restrictions, reducing the down payment ratio, as well as the cut to interest rates, have started to pay off. The ongoing decline in residential housing sales area reached an inflection point in October, with the total transaction volume of newly built and secondhand housing increasing by 3.9% YoY - marking the first increase after eight consecutive months of decline this year. We will closely monitor its sustainability.

The market adjustment in October is healthy, which provides foreign investors with opportunities to build or initiate their China exposure and capitalize on the uptrend.

EARNINGS REVIEW:

The A share Q3 earnings season concluded with all A-share companies (excluding those listed on the Beijing Stock Exchange) reporting a decline in revenues (-2.1%) and an increase in earnings (+3.5%). In Q1-Q3, total revenue was down 1.6% YoY while earnings decreased 0.6% YoY. The outperformance of tech sectors such as electronics and machinery continued, while stabilizing signs were seen in real estate related sectors which strengthened over the low base in the previous year and the series of policy stimuli this year.

Q3 YoY Results:

- Electronics revenues +17%, earnings +4%
- Machinery revenues +6%, earnings +2%
- Food & Beverage revenues +1.7%, earnings +2.7%

In marked contrast to the A share market, our **portfolio posted Q3 YoY revenue up 11.8% and earnings up 27% YoY (for holdings that release quarterly results). Their Q1-Q3 revenue increased by 12.4% and earnings rose 20% YoY.** We expect the portfolio's fundamentals to remain solid and continue to deliver upbeat earnings over the next several quarters.

	2024 Q3		2024 1-3Q	
	Rev Gr	Profit Gr	Rev Gr	Profit Gr
A share market	-2.1	3.5	-1.6	-0.6
Bin Yuan portfolio	11.8	27.0	12.4	20.0

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Please see earnings comments on some of our holdings below.

Our **technology** related holdings delivered strong earnings as they are the beneficiaries of import substitution. Demand for mechanical equipment saw gradual improvement due to the equipment renewal policy, the robust development of AI generated increasing demand for telecommunication and computing equipment, and global demand for consumer electronics improved with recovering shipments of smart phones, etc.

Our **healthcare** related holdings still felt the impact of previous anti-corruption campaigns. But the negative impact has been receding, and we expect the implementation of the equipment renewal policy in the healthcare sector to improve demand in the coming quarters. Health care equipment holdings, like Mindray and iRay Technology, have all observed a resurgence in bidding and orders beginning in November and are expected to deliver better performances in 2025.

Although **consumer** sectors faced pressure from spending cuts amid weak confidence, we still saw satisfactory results from leaders in mature industries, like spirits leader Fenjiu, sanitary product player Baiya and pre-made food leader Anjoy on market share expansion; coffee leader Luckin, delivered upbeat results on rising coffee penetration, easing competition and market share increase. We also saw retailers like Miniso and Pop Mart attracting more consumers with better designed products.

Technology related

- ✓ Himile Mechanical Science and Technology (a leading manufacturer in high-end mechanical equipment)
  - ➢ Q3 revenue RMB 2.2 bn, +26.2% YoY
  - ➢ Q3 net profit RMB 439 mm, +14.6% YoY
  - ➢ The company's tire mold business benefits from the expansion of overseas capacity by downstream Chinese tire manufacturers. The manufacturing level of wind power and gas turbine components has been widely recognized by international customers, with core customers including GE, Mitsubishi. Himile's CNC (Computer Numerical Control) machine tool technology is top-notch, comparable to Hammer of Germany and Makino of Japan. We anticipate strong growth in these business segments.
- ✓ Chaozhou Three Circle (CCTC) (a leading manufacturer of electronic components and advanced materials)
  - ➢ Q3 revenue RMB 2.0 bn, +32%, net profit RMB 578 mm, +41% YoY
  - ➢ This growth is driven by continued demand from downstream industries such as consumer electronics and optical communications. Additionally, the market recognition of the company's MLCC products is rising, with broader coverage in downstream applications and significant share expansion to substitute for imports.
- ✓ Anker Innovations (a globally recognized consumer electronics brand)
  - ➢ Q3 revenue RMB 6.8 bn, +44%, net profit RMB 600 mm, +52% YoY
  - ➢ The company adapts quickly to user needs and creates high value products, earning customer recognition. With continuous product innovation and channel optimization, the company's performance should keep growing.
- ✓ Sinofuse (an integrated solution supplier of energy protection systems)
  - ➢ Q3 net profit RMB 54.6 mm, + 91% YoY, +42% QoQ
  - ➢ In Q3, EV sales volume was 3.4 mm, an increased of 33.5% YoY, which brought increasing demand for fuses. Also, the application of high voltage power charge solutions in new EV cars made the ASPs of Sinofuse's products rise more than 20%. We expect Sinofuse will see good momentum in the next several years.
- ✓ Montage (a leading global memory interface chip provider)
  - ➢ Q3 net profit RMB 385 mm, +153.4% YoY, +4% 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 several quarters.
- ✓ Jereh (a leading oil field service provider)
  - ➢ Q3 revenue RMB 3.1 bn, -7% YoY, net profit RMB 510 mm, -2% YoY (+10% YoY excluding FX impact)
  - ➢ The demand for orders in the domestic market was better than expected, and their overseas business maintained high growth at 40%+, particularly in the Middle East. In the first 3 quarters, the company's new orders increased more than 25%, which beat the market's expectations. Due to the improvement of the company's product competitiveness, we expect this trend to continue.

Healthcare related

- ✓ iRay (a leading designer and manufacturer of key components for X-ray systems)
  - Q3 revenue RMB 330 mn, -25%, net profit RMB 83 mn, -24% YoY on a high base last year
  - Sales growth was better than the industry's growth, which demonstrates its strong competitiveness
  - Medical equipment procurement resumed and is expected to drive product sales
  - OEM business began to grow rapidly, increasing more than 100%
  - Dental products were recognized by overseas customers, already contributing to revenue and we estimate volume increases in Q4 and 2025.
- ✓ Mindray (a leading manufacturer of medical equipment)
  - Q3 revenue RMB 8.95 bn, +1.4%, net profit RMB 3.1 bn, -9.3% YoYQ3 overseas +18.6 %, Asia-Pacific +32%, Europe +29 % and Latin America+25%
  - IVD +20.9%, domestic +17%, overseas +32%, became the third company in the domestic chemiluminescence field in terms of market share (fifth last year)
  - With the renewal of medical equipment in the county, we expect the company to see rapid growth in performance over the next three years

Consumer related

- ✓ Luckin Coffee (a leading coffee brand and chain store operator)
  - Q3 revenue RMB 10.2 bn +41.4% YoY, and net profit RMB 1.3 bn +31.8% YoY
  - Monthly active users increased 36% YoY to 79.8 mm with 1,382 new stores opened
  - The price war between coffee brands in China has been easing. Luckin, as the largest coffee chain store operator, benefited from easing competition and rising market share amid industry consolidation.
- ✓ Anjoy Food (a frozen food manufacturer)
  - Q3 revenue RMB 3.5 bn +4.6 YoY, Q1-Q3 revenue +7.8% YoY
  - Q3 earnings were flat if you exclude the seasonal impact from government subsidies.
  - The company maintained good growth of its main businesses amid weak industry demand. We expect it to continue growing its market share and benefit from recovery demand as consumer confidence and the macro economy recover in the future, supported by its strong competitiveness in manufacturing and sales channels.
- ✓ Chongqing Baiya Sanitary (a leading manufacturer of sanitary products)
  - Q3 revenue RMB 792.7 mm +50.6% YoY, Q1-Q3 revenue +57.5% YoY
  - Q3 earnings increased 16.1% YoY, temporarily impacted by rising selling expenses for the preparation of the major online shopping festival in Q4.
  - The company posted better-than-expected sales growth with strong online performance as it took more market share with better products, online marketing activities and offline sales channel expansions. We expect the company to continue to take market share on the synergy of its online and offline expansions with strong performance from its new products.

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Key Information

NAV (31/10/24)	US$ 111.64(L1)/106.95(L2)/76.84(AI)/62.3(AI EUR)/56.09(AI GBP)/79.77(BI)/ 121.45(CB)/93.87(DB A NOK)/81.3(DI A)/128.88(CI)/58.83(CI GBP)/61.58(PB EUR)	Strategy Assets	US$ 1,000 m[a]
Total Fund Size	US$ 590m	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]	1.20	-21.17	-29.45	10.02	83.51	30.60	-22.46	71.49	6.55
Index[c]	18.49	-11.53	-23.61	-12.91	33.41	29.74	-26.64	19.86	2.15

Source: Bin Yuan, Pictet, FPS

Monthly Performance (%) data from FPS/Pictet

	2023			2024										
	Nov	Dec	YTD	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	YTD
Bin Yuan GC Fund	0.27	3.01	-21.17	-15.26	8.43	-2.03	2.26	0.38	-2.96	-1.68	-0.90	23.12	-5.91	1.20
Index[c]	2.01	-1.98	-11.53	-9.94	9.17	0.65	4.75	1.17	-2.47	-0.70	-0.02	23.19	-5.27	18.49

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	5.84%	2	CHINA MERCH BK-A	5.80%
3	IRAY TECHNOLOG-A	4.05%	4	MEITUAN-W	3.67%
5	SHANXI XINGHUA-A	3.56%	6	HAICHANG OCEAN P	3.25%
7	KANGJI MEDICAL H	3.23%	8	PING AN INSURA-A	3.16%
9	XI'AN SINOFUSE-A	3.11%	10	NARI TECHNOLOG-A	3.05%

Sectoral Breakdown[e]	% of Assets
Consumer Discretionary	23
Industrials	16
Information Technology	14
Financials	12
Health Care	11
Communication Services	9
Materials	6
Consumer Staples	5
Real Estate	2
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	21.73%	21.74%
Sharpe Ratio	0.33	0.10
Information Ratio	0.47	
Tracking Error	10.65%	
Active Shares	68%	
Beta	0.93	

Market Breakdown	% of Assets
A Share (Connect + QFI)	49
Hong Kong	42
US ADR	8

Valuation	Portfolio	Benchmark (excluding Financials)	Benchmark
Period	**10/31/2024**	**10/31/2024**	**10/31/2024**
2024 PE (X) –Harmonic Avg. Method[f]	13.7	14.2	11.3
2024 PE (X) – Weighted Avg. Method	15.4	18.7	17.5
2024 PB (X)	1.8	2.7	1.9
2024 Div. Yield (%)	2.7	1.6	2.0
2024 ROE (%)	17.8	12.4	11.5
Earning Growth (%) Forward 3 YR	22.0	9.0	7.3
2024 PEGY	0.6	1.8	1.9
FCF Yield	3.3	-0.8	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	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
- 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.