Signatory of:

Bin Yuan Healthcare Fund

SFDR status as of March 2021: Article 8

December 2024

Investment Review

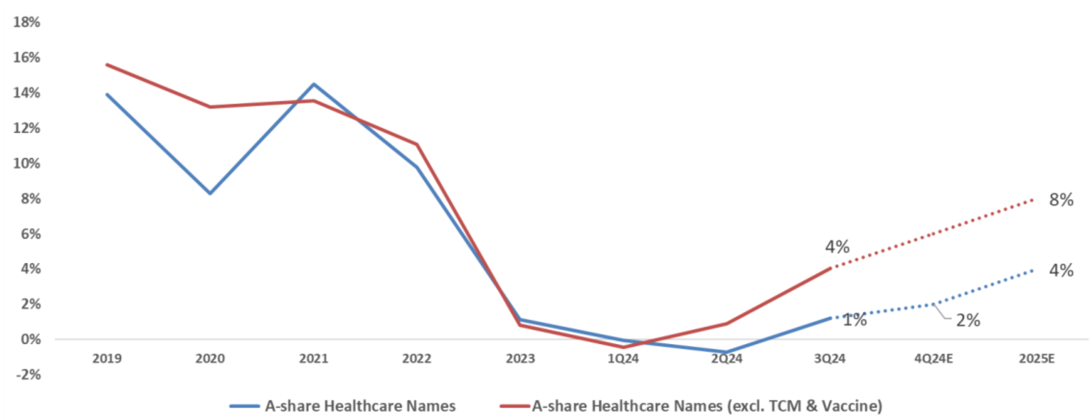
The Hereford Funds – Bin Yuan Healthcare Fund (share class L1) decreased 3.01% for the month of December(net of fees) compared with a -4.87% return for the benchmark. As of the end of December, the Sub Fund was mainly invested in Healthcare Equipment & Parts and Services, with few positions in the Pharmaceuticals sector.

For the month, the Fund outperformed the benchmark by 1.86%. Positions that contributed most to the portfolio were CHINA RESOURCES, KANGJI MEDICAL and JIANGZHONG PHM. Positions that contributed least were ZHEJIANG XIAN, IRAY TECHNOLOG and BEIGENE LTD.

Manager's Commentary

China's healthcare industry has had a very difficult period over the past three years. We reviewed what had happened and what remained unchanged in the last three years in the healthcare section of the monthly letter in July 2024. A series of negative events including the 2021 Volume Based Purchasing (VBP) initiatives, 2022 Covid lockdown, 2023-2024 anti-corruption campaign, and on-going unpredictable geopolitical risks all impacted business activity, profitability and investment sentiment. Looking ahead to 2025, we can be more optimistic. The industry has been picking up on a quarterly basis. If we exclude traditional Chinese medicine and vaccine sub-sectors (which were greatly affected by the pandemic but are not our focus), the revenue growth rate of the industry in the Q324 rebounded to +4% (Chart 1).

Chart 1: Revenue Growth of A-share Healthcare Companies



Sources: iFinD, Bin Yuan Capital

In addition to import substitution, our investment focus in the healthcare sector in 2025 will be on those companies that have potential in the following areas:

1) New medical infrastructure has been picking up

The development of new medical infrastructure continues to drive China's medical progress. Currently, the tiered healthcare system in China is underdeveloped. Hospitals in lower-tier cities lack high-quality medical equipment and professionals and are failing to meet patient needs. A large number of patients from lower-tier cities have no choice but to travel to major cities in search of better medical treatment. This influx has led to tremendous pressure on tertiary hospitals in big cities, as medical resources continue to be concentrated there.

In China, approximately 80% of hospitals are government-owned public hospitals. They rely on revenues from medical treatments, pharmaceutical sales, and consumables sales to cover daily operating expenses. When it comes to procuring large-scale medical equipment, they typically require financial support from local governments. The general process is that hospitals, based on their estimates of future patient visit volumes, submit their procurement requirements for large-scale medical equipment to the government. The government subsidizes part of the equipment procurement funds with free grants or low-interest loans to help hospitals procure their equipment.

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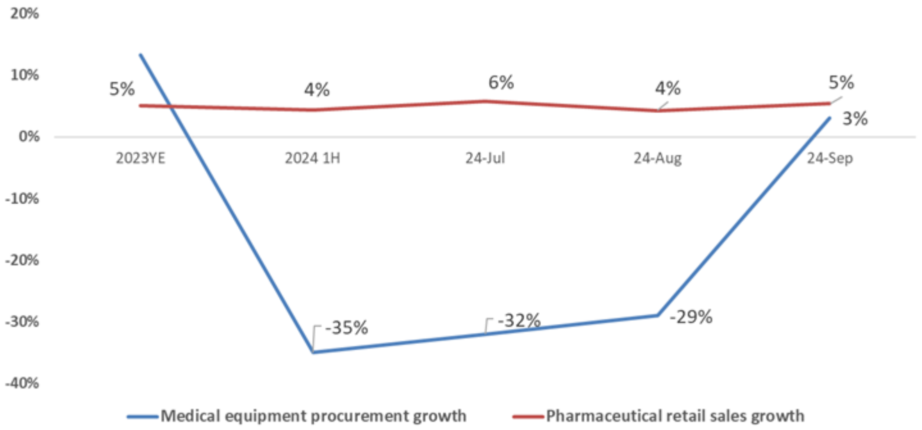
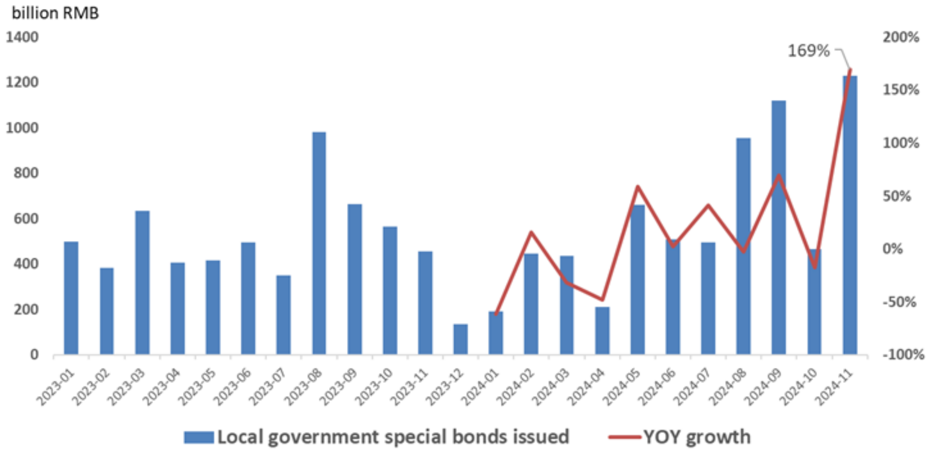
However, from the beginning of 2023 through the first half of 2024, the procurement needs for large-scale equipment reported by hospitals failed to receive timely responses from local governments and the hospitals did not receive their subsidies. This has led to a significant divergence between the growth rate of equipment procurement and that of drug sales in 2024 (Chart 2). Typically, the stable growth of drug sales tracks the steady increase in demand for medical services. This situation began to improve in the second half of 2024. The growth rate of local government special bond issuance reached 169% in November (Chart 3), and the growth rate of medical equipment procurement also turned positive in September 2024. We expect that local governments will allocate some of the proceeds from their bond issuances to help hospitals maintain their acquisition of large-scale medical equipment in 2025.

Chart 2: The Gap between Medical Demand & Supply



Sources: iFinD, Dou Bao, Bin Yuan Capital

Chart 3: Local Government Special Bonds Issued



Sources: iFinD, Bin Yuan Capital

Even in an unfavorable environment, leading medical device companies in China still managed to achieve positive revenue growth by taking market share both at home and abroad. For example, Mindray (300760.SH) and Snibe (300832.SH) achieved revenue growth rates of 8% and 17% respectively in the first three quarters of 2024, which were much higher than those of their peers. We believe that once the environment improves, these companies will be the biggest beneficiaries.

2) The diversified overseas market is the next growth engine

Leading Chinese CRO & CDMO companies (Contract Research Organizations / Contract Development and Manufacturing Organizations) have become the targets of US geopolitical pressure and restrictions. This has made investors conclude that there is no chance for Chinese medical companies to expand overseas. In fact, compared with the medical giants in Europe and the United States, the global market still has significant potential for most Chinese medical companies. In the past, the domestic medical industry was booming, and Chinese companies had no time to develop overseas markets. With the gradual maturing of the domestic market, those Chinese companies with global competitiveness have increase their overseas market share.

Developing the international market will take time and we are focusing on companies that have developed their overseas networks, particularly in non-US overseas markets, and are seeing strong overseas revenue growth (Table 1).

Table 1: Investment Candidates, screened by Bin Yuan

Ticker	Name	Sub-sector	Oversea Revenue%	1H24 Total Revenue Growt	1H24 Domestic Revenue Growth	1H24 Overseas Revenue Growth
002901.SZ	DOUBLE MEDICAL	Consumables	11%	29%	27.3%	40.5%
002223.SZ	YUYUE MEDICAL	Equipment	12%	-14%	-16.9%	26.2%
688553.SH	HUIYU PHARMACEUTIC	Pharm	13%	18%	12.4%	76.6%
688271.SH	UIH	Equipment	17%	1%	-3.4%	29.9%
002422.SZ	KELUN PHARMA	Pharm	19%	10%	9.8%	12.1%
688212.SH	AOHUA ENDOSCOPY	Equipment	19%	22%	22.3%	22.4%
300832.SZ	SNIBE	Consumables	36%	19%	16.3%	22.7%
300760.SZ	MR	Equipment	39%	11%	7.2%	18.1%

3) Opportunities for industrial upgrading: first-in-class pharmaceuticals and devices

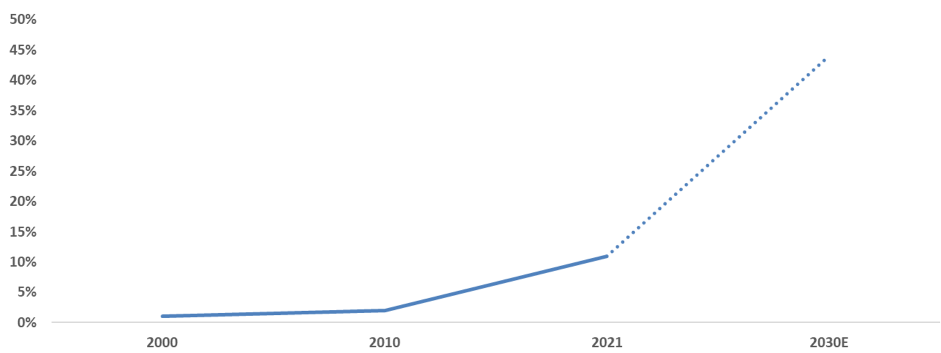
In China, national medical insurance coverage is quite extensive. Once drugs or medical consumables are included on the national medical insurance list, after patients receive basic medical treatment in hospitals, the cost of drugs and consumables can be fully or partially reimbursed by the national medical insurance fund. The Medical Insurance Bureau negotiates with manufacturers from time to time to determine which categories can be included on the list and at what prices they will be reimbursed. This is the well-known centralized procurement negotiation.

There is a clear tendency to tilt towards products with uniqueness and innovation by government. Compared with a price reduction of more than 70% that is common in the centralized procurement of generic drugs, the price reductions negotiated between first-in-class drugs manufacturers and the National Healthcare Security Administration (NHSA) are much more moderate. Many companies have grown rapidly due to their first-in-class products, such as the pharmaceutical company Allist Pharmaceuticals (688578.SH). Allist's revenues increased +155% in 2023 and +88% in the first three quarters of 2024 following the inclusion of its first product, Furmonertinib, on the national medical insurance list.

Because of the NHSA's preference for first-in-class new drugs, many enterprises that originally focused on producing off-patent generic drugs have increased their R&D investment and have gradually shifted towards the development of first-in-class drugs. Since the development of first-in-class drugs can take 10 years or longer (from R&D through clinical trials), even though many Chinese companies started working on first-in class products 25 years ago, a real, qualitative change in the kinds of drugs produced by domestic Chinese companies was not seen until about 2015.

At the beginning of this century, the amount of first-in-class drugs administered in China's as a percent of total drugs was extremely low, below 1%. By 2010, this proportion was roughly around 1% - 3%. According to an estimate by the Boston Consulting Group, the sales volume of first-in-class drugs in 2021 accounted for approximately 11% of total drugs administered. And according to the registration of drug clinical trials in 2023, first-in-class drugs accounted for 69% of all drug clinical trials. If we assume the R&D success rates of first-in-class drugs and off-patent generic drugs to be 10% and 30% respectively, then, in 5-10 years, drug sales in China's pharmaceutical market should be dominated by first-in-class drugs, roughly the same level as in developed countries (Chart 4). First-in-class drugs should replace the off-patent generic drug market and those companies capable of producing them should see rapid growth.

Chart 4: First-in-class drugs sales / total drugs sales



Sources: Dou Bao, Boston Consulting Group, Bin Yuan Capital

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BINYUAN CAPITAL

RACE TO ZERO

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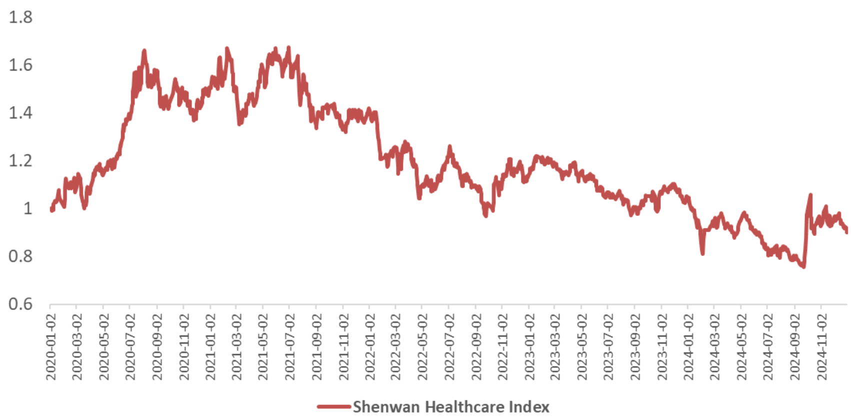
We focus on upstream technology, which can supply different types of drug companies. For example, Sunresin New Materials (300487.SZ), whose solid-phase synthesis carrier is an essential synthesis process for GLP-1 (glucagon-like peptide-1) drugs (which are used to control blood glucose and body weight for diabetic patients and the severely obese population). Sunresin has already become the exclusive supplier for many GLP-1 pharmaceutical companies at home and abroad. As the production volume of downstream GLP-1 drugs increases, the visibility of Sunresin benefiting from it is very high.

The application of new AI technologies also helps medical enterprises improve productivity and develop new ideas. Many pharmaceutical companies are using AI models to shorten the R&D cycle and improve R&D efficiency. Some medical equipment companies, like United Imaging Healthcare (688271.SH)'s imaging AI-assisted diagnosis and Mindray Medical (300760.SZ)'s critical care management AI, are upgrades to existing products based on the latest AI technology. All of this helps companies build technological and product barriers to entry and increases product replacement demand.

In conclusion, China's healthcare industry has had significant challenges over the past few years, but these have been fully reflected in the sector's share prices. The Shenwan Healthcare Index has dropped by 36.6% in the most recent three years (Chart 5). While current difficulties such as sluggish consumption, the effects of the pandemic, and policy adjustments pose short-term hurdles, the long-term prospects remain bright. The pick-up of new medical infrastructure, the expansion of overseas markets, the pursuit of industrial upgrading, and the integration of emerging technologies all present avenues for growth and innovation.

Chart 5: Shenwan Healthcare Index performance



Sources: Wind, Bin Yuan Capital

Key Information

NAV (31/12/24)	US$ 55.77 (L1)	Strategy Assets	US$ 2.4 m[a]
Total Fund Size	US$ 2.4 m	Fund Launch Date	03-Dec-21

Monthly Performance (%) data from FPS/Pictet

	2023	2024													ITD
	YTD	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD	
Bin Yuan HC Fund	-18.13	-19.00	10.79	-5.58	2.70	-2.74	-6.98	-0.81	-0.76	15.99	-10.07	0.36	-3.01	-21.31	-45.91
Index[b]	-20.45	-20.89	10.71	-9.49	-0.79	-4.39	-3.84	4.08	3.30	22.74	-10.99	0.33	-4.87	-18.94	-55.83

Source: Bin Yuan, Pictet, FPS

Risk and reward profile

Lower risk — Potentially lower reward

Higher risk — Potentially higher reward

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[d] 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.

Hereford Funds

Top Ten Holding					
1	KANGJI MEDICAL H	8.48%	2	SHENZHEN MINDR-A	7.14%
3	CHINA RESOURCES	6.36%	4	SINOPHARM	6.02%
5	AK MEDICAL HOLDI	5.54%	6	SHENZHEN NEW-A	5.01%
7	INNOVENT BIOLOGI	4.89%	8	QINGDAO NOVELB-A	4.72%
9	JIANGSU YUYUE-A	4.67%	10	BEIGENE LTD	4.53%

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.

Market Breakdown	% of Assets
A Share	53
Hong Kong (Discounted Dual Listing)	6
Hong Kong	33

Sectoral Breakdown	% of Assets
Healthcare Equipment & Parts	56
Services	15
Biotechnology	14
Pharmaceuticals	7

Valuation(c)	Portfolio	Benchmark
Period	**12/31/2024**	**12/31/2024**
2024 PE (X) – Weighted Avg. Method	16.2	14.9
2024 PE (X) – Harmonic Avg. Method(c)	16.7	25.1
2024 PB (X)	2.6	2.2
2024 Div. Yield (%)	2.1	1.4
2024 ROE (%)	15.9	9.1
Earning Growth (%) Forward 3 YR	37.4	14.5
2024 PEGY	0.4	1.9
FCF Yield	1.9	0.9

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.

Annual Management Charge | TERs as at end September 2021	
Share Class L1	0.50% | NA
Share Class A	1.00% | NA
Share Class P	0.50% with 10% Performance Fee | NA
Minimum Investment	
Share Class L1	$100,000 Minimum initial subscription & holding
Share Class A	$100,000 Minimum initial subscription & holding
Share Class P	$100,000 Minimum initial subscription & holding

Fund Codes	
Share Class	L1
Bloomberg	HEFYHUA LX
TK	
ISIN	LU2413982427
Lipper ID	
Sedol	BLBHZ45

Entry / Exit fees ; 0

All the costs are not disclosed into the factsheet, please refer to the prospectus for additional information.

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

Fund Codes	
Share Class	L1
Bloomberg	HEFYHUA LX
TK	
ISIN	LU2413982427
Lipper ID	
Sedol	BLBHZ45

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) MSCI China Health Care Index (Bloomberg Ticker MXCN0HC Index).
(c) 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.
(d) Prospectus (English) and KIDs (English, French, German)

Disclaimer:

- This document should be read as 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.