

## Investment Review

The Hereford/DSM US Large Cap Growth Sub-Fund depreciated (1.02)% for the month of December compared to a 1.24% return for the Russell 1000 Growth Index and a 1.98% return for the S&P 500 including dividends. At the end of December, the Sub-Fund was invested primarily in the technology, consumer discretionary and health care sectors, with smaller weights in the financials and consumer staples sectors.

For the month, the Sub-Fund trailed the benchmark by approximately 226 bps. This was primarily the result of the Manager's selections in the technology and consumer discretionary sectors. The Manager's selections in health care, as well as the portfolio's underweight in industrials versus the benchmark, benefited performance. In December, the positions that contributed the most to the portfolio's return were Zoetis, Allergan, Automatic Data Processing, Alphabet and Charles Schwab. The positions that contributed the least in the month were Dollar Tree, Alibaba Group, Facebook, Starbucks and Newell Brands.

## Manager's Commentary

We are painfully aware that 2016 was a year of underperformance. Although our performance improved in the third quarter, in the days since the election the Sub-Fund underperformed in excess of 400 basis points. President-Elect Trump's intention to drive economic growth in the US with tax cuts and reduced regulations induced a logically bullish reaction from equity markets, particularly in cyclical (generally non-DSM) sectors represented by industrials, transportation, energy and especially banking within the financial sector. In line with the Trump cyclical "reflation theme", interest rates in the US have risen, which is also consistent with the US market's outlook for improved economic growth. However, we believe much of the market's knee-jerk reaction to the cyclical-reflation theme and to financials is overdone and will eventually dissipate in favor of a more balanced and rational outlook.

In 2016, Sub-Fund's earnings growth exceeded our expectations. Over the first three quarters of 2016, revenue and earnings growth averaged 23% and 22% respectively. We expect earnings to continue to grow at a high-teens rate in 2017, while the portfolio is valued at just 19.3x calendar year 2017 earnings and only 16.2x 2018 earnings. We believe our clients are owed substantial returns by the market, due to the strong earnings results over the first three quarters of 2016 and due to what we believe will be another solid year of growth in 2017.

Our investment philosophy has always stated that quality growth companies with predictable earnings will generate attractive rates of return over time when purchased at reasonable prices. Our approach rests on the notion that earnings growth will drive stock prices higher, as long as the valuation paid at the time of purchase is reasonable. We believe the most important factor in equity investing over time is earnings. We have been consistently identifying predictable/quality growth companies as well or better than at any point in our fifteen-year history. This is arguably the highest quality portfolio of businesses that we have ever owned. DSM's research team has continued to identify quality/predictable growth businesses, with superior financial characteristics. In short, we believe portfolio returns should be attractive because earnings growth has been, and should continue to be strong.

## Key Information

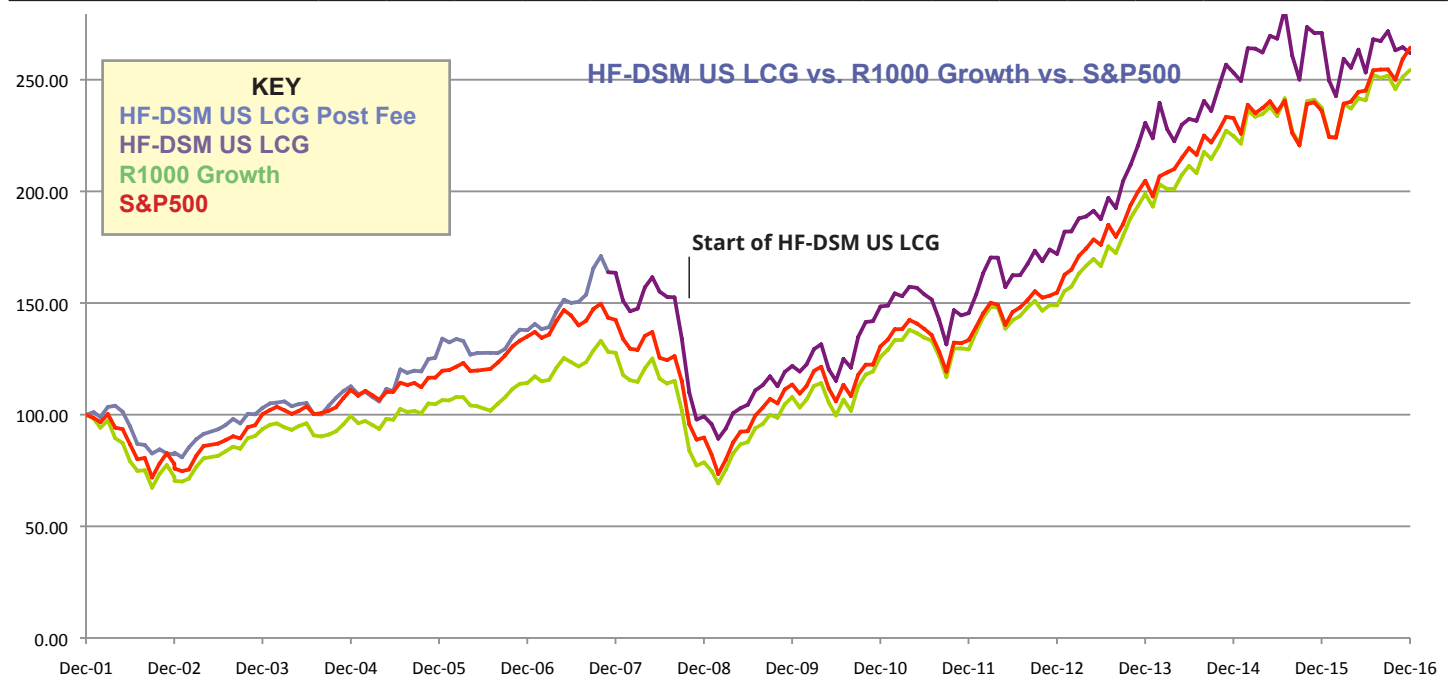
NAV A Shares (31/12/16) US\$ 159.88  
Total Fund Size (all share classes) US\$ 88.1m

Strategy Assets  
Fund Launch Date

US\$ 4,216.4m<sup>(a)</sup>  
29-Nov-07

Monthly Performance (%)													
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
HF-DSM US LCG	(7.9)	(2.8)	6.9	(1.5)	3.2	(3.9)	5.88	(0.29)	1.6	(3.1)	0.5	(1.0)	(3.3)
Russell 1000 Growth <sup>(c)</sup>	(5.6)	0.0	6.7	(0.9)	1.9	(0.4)	4.72	(0.5)	0.02	(2.3)	2.2	1.2	7.1
S&P 500 <sup>(c)</sup>	(5.0)	(0.1)	6.8	0.4	1.8	0.3	3.69	0.14	0.4	(1.8)	3.7	2.0	12.0

Period Performance (%)	YTD	2016	2015	2014	2013	2012	2011	2009	2009	2008	2007	2006	2005	Cumulative	Annualised
HF-DSM US LCG Returns <sup>(b)</sup>	(3.3)	(3.3)	7.0	9.7	34.1	18.2	(2.0)	21.9	22.8	(39.3)	18.7	9.8	11.4	161.9	6.63%
Russell 1000 Growth <sup>(c)</sup>	7.1	7.1	5.7	13.1	33.5	15.3	2.6	16.7	37.2	(38.4)	11.8	9.1	5.3	164.3	6.70%
S&P 500 <sup>(c)</sup>	12.0	12.0	1.4	13.7	32.4	16.0	2.1	15.1	26.5	(37.0)	5.5	15.8	4.9	154.3	6.42%



# HF Hereford Funds

## Top Ten Holdings

Adobe Systems	Priceline Group
Alphabet (Cl. A & C)	Royal Caribbean Cruises
Celgene	Charles Schwab
Facebook	Visa
Monster Beverage	Zoetis

Sectoral Breakdown	% of Assets
Information Technology	43.9%
Consumer Discretionary	21.9%
Health Care	21.4%
Financials	8.3%
Consumer Staples	4.2%

## Investment Objective

The investment objective of the HF-DSM US LCG is to provide capital appreciation principally through investments in US-based growing corporations with market capitalizations generally above US\$ 5 billion. These companies are chosen for their growth prospects, attractive returns, solid business fundamentals and intelligent management. The sub fund may, on an ancillary basis, invest in US-based companies with lower market capitalizations as well as in non-US based companies. The Compartment may invest in American Depository Receipts and American Depository Shares. The reference benchmark for this strategy is the Russell 1000 Growth Index.

Fund Codes		Since inception	HF-DSM US LCG	HF-DSM US LCG Composite	R1000 Growth
Bloomberg	DSMUSLA LX	Volatility	n/a	14.8	14.7
ISIN	LU0327604228	Sharpe Ratio	n/a	0.4	0.4
Reuters	LP65102015	Information Ratio	n/a	0.0	
Sedol	B28TLX2	Tracking Error	n/a	6.6	
	3504726	Beta	n/a	0.9	
WKN	A0M58T	Alpha	n/a	0.8	

## Fund Details

Dealing Day	Daily
Dividends	None - income accumulated within the fund
Investment Manager	DSM Capital Partners LLC 116 Radio Circle Drive, Suite 200, Mount Kisco, NY 10549, USA
Management Company	BSI Fund Management S.A. 44F, rue de la Vallée, L-2661 Luxembourg
Custodian	BSI Europe S.A. 122, Rue Adolphe Fischer L-1521 Luxembourg
Legal Advisers	Elvinger, Hoss & Prussen 2 Place Winston Churchill, L-1340 Luxembourg
Auditor	Deloitte Audit S.à.r.l. 560 Rue de Neudorf, L-2220 Luxembourg

## Annual Management Charge

Share Class A & U <sup>(e)</sup>	1.25%
Share Class D <sup>(f)</sup>	1.75%

## Minimum Investment

Share Class A & U <sup>(e)</sup>	\$100,000 initial / \$10,000 subsequent
Share Class D	\$10,000 initial / \$1,000 subsequent

## Order Transmission Information

### Original Applications To:

European Fund Administration  
Attn.: TA Operations and Shareholder  
Services  
2 rue d'Alsace  
L-1122 Luxembourg

### Subsequent Applications Only Via Facsimile:

European Fund Administration  
Attn.: TA Operations & Shareholder  
Services Fax: +352 4865 61 8002  
Tel.: +352 48 48 9002  
E-mail: register.ta.ops@efa.eu

- This refers to the total assets invested in the reference strategy managed by the Investment Manager.
- Data and graph depict DSM Composite through November 2007 and Hereford Funds DSM US Large Cap Growth Fund Class A thereafter. Historical gross performance of DSM Large Cap Composite returns (the Reference Strategy) is net of modeled fee and expense typical of Hereford Funds DSM US Large Cap Growth Fund Class A (1.25% fee + 0.25% expense). Fund follows same strategy. Performance presentation incomplete without accompanying footnotes as shown at [www.dsmcapital.com](http://www.dsmcapital.com).
- Total return including dividends.
- The fund is registered with the BaFin for public distribution in Germany from 17/10/12, registered with the AFM for public distribution in the Netherlands and registered with the AMF for public distribution in France.
- Share Class U has been granted Reporting Status by HMRC as of October 1, 2010.
- Share Class D is German tax registered from October 1, 2010.

France - Centralizing Correspondent as defined by French Regulation:  
Société Générale - Order Desk, 32, avenue du Champ de Tir, BP 81236, F-44312 Nantes Cedex 3  
Phone: +33/2.51.85.66.40, Fax: +33/2.51.85.58.71

Germany - Paying Agent as defined by German Regulation:  
Marcard, Stein & Co - Ballindamm 36, 20095 Hamburg  
Phone: +49/40.32.099.556, Fax: +49/40.32.099.206

Switzerland - Representative and Paying Agent as defined by Swiss Regulation:  
Société Générale, Zurich Branch, Talacker, 50, P.O. Box 1928, CH-8021 Zurich  
Phone: +41/58.272.34.18 Fax: +41/58.272.35.49

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