360 ONE FOCUSED INDIA FUND (UCITS):

YEAR GONE BY AND CURRENT POSITIONING

The year 2024 delivered another round of healthy double-digit returns for Indian equity investors, driven by robust economic momentum, policy continuity under NDA 3.0, healthy domestic flows, and policy easing by the U.S. Federal Reserve. However, the benchmark indices peaked in late September when stimulus measures announced by China led to sizable FPI (Foreign Portfolio Investor) outflows from India, triggering a market correction. Elevated valuations and weaker-than-expected Q2FY25 corporate results further weighed on sentiment.

India saw a surge in primary market activity in 2024, especially in the small and midcaps. From January to September 2024, India ranked first globally by number of IPOs, accounting for 30% of global IPO issuance. In terms of funds raised, India ranked second worldwide, contributing 12% of total capital raised.

Market valuations reached the upper end of historical bands and have been correcting since September. Government capex momentum—strong over the last few years—slowed due to the disruptions from central and subsequent state elections. Consumption remained weak, causing a near-term drag on earnings growth. Although small and midcaps looked expensive at the start of the year, they continued to outperform large caps by a wide margin. [1]The Nifty Index returned about 5.81%, while midcap and smallcap indices gained roughly 20.39% and 22.95%, respectively—a 15-17% performance gap.

Performance and Current Positioning

Since its inception in September 2022, Hereford Funds – 360 ONE Focused India Fund, our UCITS fund has delivered a CAGR of approx. 15.3% p.a. (net of taxes[2]) in comparison to 17.5% reported by MSCI India IMI Index as of as of 31st December 2024.

Being a concentrated fund with approx. 30 stocks in its portfolio, it follows a disciplined, process-driven approach, investing based on our proprietary SCDV (Secular-Cyclical-Defensives-Value Traps) framework to maintain diversification despite the stocks limit.

During the year, our large cap allocation increased to 67%, driven by a bottom-up approach rather than a deliberate preference as the small and midcaps became expensive. However, the tail end of the market - dominated by small and midcaps - which was already expensive continued to outperform significantly, which did not cushion short-term performance.

Some of our large active positions in Auto, Auto Ancillaries, and NBFCs declined by 4-6% during a period when the overall market[3] rose 13.5%, offsetting gains from our top winners in Communications. As a result, the fund delivered a return of 10.5%[2] in CY2024, slightly below the benchmark return. Although relatively muted from an active returns viewpoint, we remain confident about these underperforming active bets, given their strong competitive moats, market leadership, and early mover advantages in emerging segments. Over the last quarter ending 31st December 2024, the portfolio declined by only 9.4% vs the MSCI India IMI Index declining 10.2% and the same phenomenon continued in January 2025 with the fund recording -4.2% vs -5.0% for the latter.

Our portfolio is well positioned to benefit from the economic rebound in 2025 especially with better earnings growth and ROE profile than the underlying benchmark. With the likely easing of rates and private capex showing solid growth, we expect large caps to present a better risk-reward ratio.

We recommend that investors maintain a long-term investment horizon to secure stable returns and navigate near-term fluctuations:

- Earnings for our portfolio are estimated to grow by ~32% FY24-26 vs the benchmark at 17.4%.
- The portfolio valuation on a forward PE is 20.6x vs the market at 22x.
- ROE is significantly higher for the portfolio at 18.9% vs the benchmark at 15.8%.

[1]Returns for Nifty Index, Nifty Midcap 150 Index and Nifty Smallcap 250 Index, respectively.
[2]Fund's performance is reported net of Indian capital gains tax (approx. ~15% combined average rate for short and long term) whereas the Index' returns are gross of taxes as it is not investable in nature.
[3]MSCI India IMI Index

Sector Attribution Since Inception (30th September 2022 to 31st December 2024)

GICS Sector	Portfolio Average Weight	Benchmark Average Weight	Allocation Effect	Selection Effect	Total Effect
Financials	32.96	23.46	-0.35	-1.24	-1.58
Consumer Discretionary	15.37	11.86	0.44	-2.63	-2.19
Industrials	12.83	10.33	-0.07	3.23	3.16
Information Technology	11.82	12.01	-0.41	0.85	0.44
Health Care	4.46	6.19	-0.29	0.19	-0.10
Communication Services	7.61	3.17	0.47	0.47	0.94
Energy	2.50	8.98	0.48	0.17	0.65
Materials	6.70	10.22	0.40	-0.12	0.28
Utilities	4.26	4.28	0.57	1.05	1.62
Consumer Staples	1.50	7.46	0.70	-0.14	0.56
Real Estate	--	1.41	-0.25	--	-0.25
Others	0.00	0.64	-0.02	-1.08	-1.10
Total	**100.00**	**100.00**	**1.67**	**0.75**	**2.42**

Note: Past Performance may or may not be sustained in future. MSCI India IMI Index used as benchmark for attribution analysis.

Post Budget Thoughts

The recent FY2026 budget released by India's Finance Minister focused heavily on reviving domestic consumption. In our view, the INR 1 trillion tax stimulus will benefit around 15-20 million taxpayers, accounting for 20-27% of the total tax-paying population, with a large proportion concentrated in urban areas. The reduction in taxes implies a 4-6% boost to the income of these urban middle-class consumers, likely driving an uptick in discretionary spending across consumer durables, autos, quick-service restaurants, travel, and more. Typically, the first leg of such a consumption cycle is triggered by an improvement in sentiment, followed by the impact of tangible economic factors. Additionally, the 8th Pay Commission-related hikes expected in 2026 will further fuel consumer demand. After experiencing a weak patch over the last 2-3 years, the consumer discretionary sector is poised for a potential comeback in 2025.

While the government's capex budget was relatively muted, not all segments will be equally affected. Although sectors like Roads, Railways, and Defense may experience a slowdown, high growth in sectors such as Power Transmission & Distribution and Renewables is expected to continue, as these areas are less dependent on central government budget. Furthermore, India's manufacturing sector, driven by the 'Make in India' initiative, is gaining momentum, with accelerated growth anticipated in segments such as solar, electronics, and battery. Thus, even if direct capex from the central government moderates, private and public sector enterprises are likely to sustain the country's investment cycle.

Looking Ahead

More volatility in the short-term

India recently experienced massive FII outflows totalling $8-9 billion over the past month, driven by a broad-based sell-off across emerging markets. Hardening of U.S. Treasury yields and strengthening of dollar are key factors behind this trend. Historically, FIIs tend to pull out from emerging markets whenever the dollar strengthened, and we are witnessing that dynamic play out now. The correction from the Indian market's September peak has been largely influenced by these global factors, alongside domestic concerns like slowing economic growth and stretched valuations. Additionally, the lack of clarity on U.S. trade policy is contributing to uncertainties around U.S. yields. As a result, investors should brace for more volatility in the short-term.

Shift from 'Value' to 'Quality' stocks

We are observing a notable factor rotation. Following the strong outperformance of Value stocks during the pandemic, Quality and Growth factors are regaining traction, as reflected in the improving performance of high-ROE companies. In our diversified equity portfolios, we have been gradually shifting weight from Value to Quality and Growth over the past six months. Our UCITS portfolio is positioned to benefit from select high-growth opportunities, while maintaining balanced exposure to Defensive and Value segments. The anticipated uptick in discretionary consumption, driven by the budget stimulus and the forthcoming Pay Commission-related boost, combined with potential liquidity easing through rate cuts, sets a favourable backdrop for Quality and Growth stocks to outperform.

Over a slightly longer horizon, several areas could unlock significant value:

- **Auto EV Plays**
- **Electronics Manufacturing**
- **Pharma CDMO**
- **Power Sector** (transmission, distribution, and renewables)
- **Quick Commerce**, an emerging space poised for exponential growth
- **Telecom** as attractive segment benefiting from consolidation
- **High-Quality NBFCs** (Consistent growth leaders)
- **Private Banks** as attractive value propositions

Top 10 Holdings by Active Weight (as of 31st December 2024)

Company	GICS Sector	Average Weight
Tata Motors Limited	Consumer Discretionary	4.1%
Cholamandalam Investment and Finance Company Limited	Financials	4.1%
Indus Towers Limited	Communication Services	3.9%
ICICI Bank Limited	Financials	3.7%
Divi's Laboratories Limited	Health Care	3.6%
APL Apollo Tubes Limited	Materials	3.2%
Motherson Sumi Wiring India Limited	Consumer Discretionary	3.1%
Infosys Limited	Information Technology	3.1%
Larsen & Toubro Limited	Industrials	3.1%
Sona BLW Precision Forgings Limited	Consumer Discretionary	2.9%

Overall, we remain aligned with inward-facing sectors that stand to benefit from a strong domestic capex cycle, rather than those overly reliant on global demand.

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