

Investment Review

Hereford Funds - IIFL Focused India Fund ("Fund") was launched on 30 September 2022. The Fund registered a gain of 0.2% in USD terms in the month of January, against a decline of 2.5% by MSCI India IMI Index in USD terms. At the end of January, the Sub-Fund was primarily invested in the financials, consumer discretionary, information technology, industrials, materials and healthcare sectors, amongst others.

Manager's Commentary (in INR terms)
Indian Equity Markets: Month Gone by

Indian equity markets closed the month of January'23 in red, with MSCI IMI Index registering monthly losses of ~3.6% in INR terms. Globally, most of the markets ended with positive returns while Indian markets were one of the worst-performing markets. US FOMC, ECB and BOE hiked its policy rates keeping in mind the underlying inflationary pressures. On the economy front, the Union Budget strove to achieve a fine balance between fiscal consolidation and supporting the economy through higher capital expenditures. FPIs sold \$3.5 bn worth of Indian equities while DIIs bought \$4.1 bn reversing the previous month's trend for FIIs. The indices down the capitalization curve underperformed the key benchmark indices. S&P BSE Mid-cap index and S&P BSE Small cap index registered monthly losses of 2.7% & 2.5% respectively. Amongst sectoral indices Auto, IT and Industrials were among the top performers registering monthly gains of 5.3%, 3.4% and 1.8% respectively while Utilities, Power and Bank were among the bottom three performers registering monthly losses of -12.9%, -10.8% and -5.8% respectively.

Other key developments in the month: (1) China lifted quarantine provisions for inbound travelers, (2) the World Bank slashed its growth forecasts for most countries and regions and warned that new adverse shocks could tip the global economy into a recession, (3) sharp fall in Adani group stocks, and (4) the BOJ maintained its policy rate at (-)0.1% and surprised markets by not tweaking the range for the 10-year yield fluctuations following a surprise move of +/- 50 bps in the previous meeting.

The momentum in manufacturing slowed during the month along with slowdown in total sales and output. The Manufacturing PMI fell to a three-month low in January from a two-month high in December. January'23 PMI came in at 55.4 as against 57.8 in December'22. Meanwhile, the gross GST revenue collected in January'23 was up ~11%YoY and stood at INR 1.56 trillion. This is the eleventh month in a row that the total GST collections have crossed INR 1.4 trillion mark and hence are likely to provide more headroom on the fiscal front. This is for the third time, in the current financial year, GST collection has crossed Rs 1.5 trillion mark. Along with normalisation in economic activities and the impact of high inflation that have boosted collections, the government has also made various efforts to increase the tax base and improve compliance.

Union Budget 2023 - Consistent, Credible and Prudent

- **Focus on investments and long-term growth maintained:** In line with the past few budgets, the government maintained its focus on capital expenditure to improve long term growth potential. While the headline capex growth seems higher (37% growth YOY), the adjusted budget spends are still higher by 25% YOY post internal adjustments, which is commendable. Further, a larger proportion of the capex has been provisioned for the central government (against spends by states and PSUs), which should result in better execution.
- **Fiscal discipline and consolidation intact:** The government continued to remain on fiscal consolidation path with FY24 central government's fiscal deficit (FD) pegged at 5.9% of GDP (vs 6.4% in FY23RE). The finance minister also aims to bring fiscal deficit to be below 4.5% of GDP by FY26, reaffirming the focus on fiscal prudence.
- **Lower thrust on consumption spends:** In order to maintain the investment focus and fiscal discipline, the government ignored the temptation to increase consumption spends despite elections due next year. Budget estimates indicate a lower growth for both revenue expenditure (6.7% of GDP vs 7.2% in FY23) and on subsidies (1.3% of GDP vs 2.1% in FY23). This may result in a gradual recovery in consumer spends, particularly for rural segments.
- **Credible estimates:** The FM maintained the trend of projecting realistic and achievable estimates, leaving the potential for an upside surprise if there is a pickup in economic activity. Tax revenues are projected to grow at 10.4% (vs 12.3% in FY23). Divestments targets also seem achievable at USD 7.45 bn (vs USD 7.32 bn in FY23). Improvement in global activity and peaking of interest rates could lead to upward revisions and lower deficits compared to projections

Outlook

The union budget didn't have any unpleasant surprises in store such as high fiscal slippages or drastic tax changes (e.g., capital gains). This should be taken positively by both markets, equity and fixed income. Also, given the conservative estimates, we believe that there is potential for further spending as the government could end up exceeding its revenue targets. Despite the disappointment on account of absence of measures to improve consumption, we believe the economic recovery (nominal GDP growth estimate - 10.5% in FY24) will place India amongst the fastest growing economies globally. In the past few years, the government has focused on showcasing the financial scorecard and economic projections during the union budget. This leaves scope for policy announcements outside the budget across various areas such as a) import/export reforms, b) managing liquidity in response to interest rates and global flows.

We maintain our focus on creating a balanced portfolio with a mix of companies which are likely to - experience structural growth or benefit from the economic turnarounds. In terms of sectors, we see interesting opportunities in Private Sector Financials, Consumer Discretionary, Industrials and Materials to participate in the domestic economic recovery.

Our long-term view on economic cycle remains positive led by pick up in private sector capex, government's resolve on infrastructure spending, opportunities arising from shift of global supply chains, and a rebound in housing cycle. Also, low corporate and housing leverage coupled with strong banking sector are likely to augur well for economic growth in the medium to long term. From a long-term performance standpoint, we believe that identifying companies having sound managements and potential for sustainable long-term earnings growth would be the key.

Source: IIFL Asset Management Ltd.

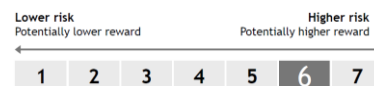
Investment Objective

The Fund seeks to provide long-term capital growth, measured in USD, primarily through investment in equities and equity-linked securities of Indian companies or companies deriving a significant portion of their business from India.

The investment philosophy of the fund is centred around buying growing businesses, with above average return on capital, backed by managements with a track record of good governance and valued at a reasonable risk/reward ratio.

Key Information

Launch Date	30 September 2022
Fund Assets (AUM as of 31-Jan-2023)	USD 12.03 mn
Strategy Assets ^(a)	USD 1.91 bn
Number of Securities	30
Benchmark	MSCI India IMI Index USD (Ticker: MIMUINDN Index)
Dividend Policy	Accumulation
Domicile	Luxembourg
Fund Structure	UCITS V
Dealing	Daily
Cut-off for Subscriptions and Redemptions	4 p.m. (CET), 1 Luxembourg bank business day prior to the relevant Valuation Day
Valuation Day	Bank business day in Luxembourg and India and on which the Indian Stock Exchanges are open for trading
Settlement Day	Subscriptions: within 2 Luxembourg bank business day following the relevant Valuation Day Redemptions: within 5 Luxembourg bank business days following the relevant Valuation Day
Country and Tax Registrations	Please refer to website: https://herefordfunds.com/library/country-registrations

Risk Profile


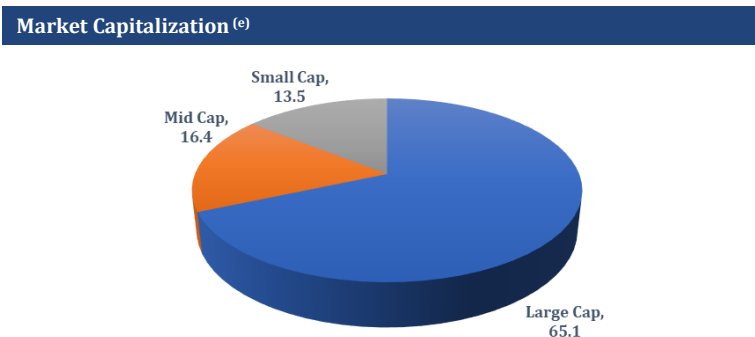
Monthly performance %																				
	NAV per share*	2022				2023													SI**	
		Oct	Nov	Dec	2022	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD		
IIFL Focused India Fund (Class L1)	101.34	2.2	3.7	-4.6	1.1	0.2													0.2	1.3
MSCI India IMI Index	-	1.9	4.7	-5.2	1.2	-2.5													-2.5	-1.3

NAV and Returns are in USD. Benchmark returns are shown only for comparison purposes. Past performance may or may not be sustained in future. *As on 31 Jan 2023 ** Since inception date of 30 Sept 2022

Periodic Performance % (including Reference Strategy) ^(b)				
	6 months	1 year	3 years	Annualized (Since 1 Sept 2018)
Reference Strategy	0.6	-11.3	8.4	9.4
MSCI India IMI Index	-2.9	-10.0	10.2	6.2



Details of Fund Portfolio		
Fund Statistics ^(d)		Top 10 Holdings
Ratios	Fund	Security
P/E	17.2	GICS Sector
P/B	3.0	% of AUM
ROE	17.6%	HDFC Bank
EPS Growth (FY22-24E)	24.4%	ICICI Bank
		Infosys
		Larsen & Toubro
		Axis Bank
		Bharti Airtel
		State Bank of India
		Tata Motors
		Cummins India
		Apl Apollo Tubes



Important notes:
 (a) This refers to the total assets invested in the IIFL Multicap PMS Strategy (Reference Strategy), other funds and segregated mandates managed by the Investment Manager under its diversified public equity strategy.
 (b) The table depicts the performance of Reference Strategy from 1 September 2018 to the fund launch on 30 September 2022. The Reference Strategy was launched by the Investment Manager in December 2014, but the current investment management team started managing it from 1 September 2018 onwards. Post the fund launch on 30 September 2022, the actual returns of Share Class L1 are used. The fund follows a similar strategy to the Reference Strategy except for the investment restrictions followed as per Indian and Luxembourg regulations. Performance of the Reference Strategy is simulated by adjusting its estimated gross returns with a modeled fee of 0.75% p.a., expenses of 0.25% p.a. and estimated capital gains tax deductions of 12.94%.
 (c) The growth chart depicts the performance of Reference Strategy (gross of taxes) against MSCI India IMI Index from 1 September 2018 till the fund launch date 30 September 2022 and the actual net performance of Share Class L1 from 30 September 2022 onwards.
 (d) Source: Bloomberg estimates. P/E, P/B and ROE are based on FY24 estimates. P/E = price to earnings ratio. P/B = price to book ratio and ROE = return on equity.
 (e) Market capitalization categories have been defined using classification given by Association of Mutual Funds in India (AMFI). The consolidated list of stocks in terms of full market capitalization is as per the list uploaded by AMFI, as per SEBI circulars dated 6 October 2017 and 4 December 2017. Large Cap Companies: 1st -100th company in terms of full market capitalization. Mid Cap Companies: 101st -250th company in terms of full market capitalization. Small Cap Companies : 251st company onwards in terms of full market capitalization.

Key Fund Terms and Fees

Share Class ^(f)	ISIN	Bloomberg Ticker	Valoren / Telekurs	Available Currencies	Minimum Investment Amount (USD)	Minimum Subsequent Investment (USD)	Minimum Holding Amount (USD)	Total Expense Ratio ^(g) (Estimated)
L1 USD	LU2444714633	L1USDLX LX	116644540	USD, EUR, GBP	100,000	10,000	100,000	0.50%
L2 USD	LU2444715010	HFIFL2U LX	116644644	USD, EUR, GBP	100,000	10,000	100,000	0.75%
AI USD	LU2444713585			USD, EUR, GBP	100,000	10,000	100,000	1.25%
BI USD	LU2444715366			USD, EUR, GBP	5,000,000	100,000	5,000,000	1.00%

(f) Share Class L1 and L2 are launch share classes and available to investors only till the fund size reaches USD 25 million and USD 50 million, respectively. Please refer to the fund's prospectus for full details which is available at <https://herefordfunds.com/library/investment-prospectus>

(g) TER is estimated as of 31 January 2023.

Service Providers

Management Company	Investment Manager ^(b)	Central Administration	Custodian	Legal Advisor	Auditor
FundPartner Solutions (Europe) S.A.	IIFL Asset Management Ltd	FundPartner Solutions (Europe) S.A.	Pictet & Cie (Europe) S.A.	Elvinger Hoss Prussen	Deloitte Audit S.à r.l.
15, Avenue John F Kennedy, L-1855 Luxembourg	IIFL Centre, 7th Floor, Kamala City, Senapati Bapat Marg, Lower Parel, Mumbai 400013, India	15, Avenue John F Kennedy, L-1855 Luxembourg	15A, Avenue John F Kennedy, L-1855 Luxembourg	2, Place Winston Churchill, L-1340 Luxembourg	20, boulevard de Kockelscheuer, L-1821 Luxembourg

(h) IIFL Asset Management Ltd is managing the assets of Hereford Funds – IIFL Focused India Fund under its SEBI Portfolio Manager license no. INP000004565.

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