Investment Review

Hereford Funds - IIFL Focused India Fund ("Fund") was launched on 30 September 2022. The Fund's performance declined by 4.6% in USD terms in the month of December, in comparison to a 5.2% decline for MSCI India IMI Index in USD terms. At the end of December, 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)

Equity Markets: 2022 - Year Gone by

2022 was a busy year in terms of news (geo-political tensions, Covid-19 're-opening', high inflation and rate hikes by central banks being the most notable ones). Despite global growth slowing in 2022, Indian equity markets showed resilience and outperformed other global indices even as Foreign Portfolio Investors (FPIs) dumped Indian equities and concerns over high inflation persisted. MSCI India IMI Index delivered 0.9% in CY2022. The indices down the capitalization curve underperformed the key benchmark indices. S&P BSE Mid-cap index registered yearly gains of 1.3% and S&P BSE Small cap index registered yearly losses of 1.8% respectively. Power, PSU and Utilities were among the top three performers registering yearly gains of 25.8%, 23.1% and 22.2% respectively while IT, Healthcare and Consumer Durables were among the bottom three performers registering yearly losses of -24.2%, -19.3% and -11.3% respectively.

Within global equities, the MSCI World Index delivered ~-19% return, pulled down by a sharp increase in interest rates by most of the central banks, while the MSCI EM Index also struggled with ~-22% return, pulled down by China (zero Covid policy through most of 2022, followed by aggressive reopening in the past month), South Korea and Taiwan (the latter two reflecting worries about global and technology slowdown).

Indian Equity Markets: Month Gone by

Indian equity markets closed the month of December'22 in red, with MSCI India IMI Index registering monthly loss of 3.8% in INR terms. Better-than-expected Q3 US GDP data further signaled more rate hikes by the US Fed. Though China's reopening of the borders after three years was a positive for the markets, rising Covid infection and its impact on the global economy worried investors. FPIs bought $1.4 bn worth of Indian equities while DIIs also bought $2.9 bn reversing the previous month's trend for DIIs. The indices down the capitalization curve outperformed the key benchmark indices. S&P BSE Mid-cap index and S&P BSE Small cap index registered monthly losses of 2.5% & 2% respectively. All sectoral indices registered losses for the month of December 2022 Banks, Oil & Gas and Finance were among the top performers registering monthly losses of 0.9%, 1% and 1.2% respectively while Utilities, Power and IT were among the bottom three performers registering monthly losses of -6.9%, -6.8% and -6.1% respectively.

Other key developments in the month: (1) the RBI MPC hiked the repo rate by 35 bps to 6.25%, (2) BJP scored a resounding victory in Gujarat, whereas INC beat BJP in Himachal Pradesh, (3) the US Federal Reserve raised interest rates by 50 bps, (3) the Bank of Japan, in a surprise move, fine-tuned its ultra-accommodative monetary policy by widening the range for its 10-year government bond yield fluctuations, and (4) Covid-19 cases in China saw a sharp surge, resulting in a sharp increase in hospitalizations and deaths.

The momentum in manufacturing increased during the month and continued to demonstrate resilience despite fears of global recession and slowdown, inflationary pressures and geopolitical tensions. December'22 PMI came in at 57.8 as against 55.7 in November'22. December recorded the eighteenth consecutive expansion in the manufacturing production in India. Companies were also aided by demand strength in December, a factor that prompted them to purchase more inputs and add to their inventories. Meanwhile, the gross GST revenue collected in December'22 was up 15%YoY and stood at INR 1.49 trillion. This is the tenth 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. Despite the slowdown in rate of growth, GST collections are expected to exceed the budgetary targets set for this fiscal. Given that government has additional spending on fertiliser, food and fuel subsidies, revenue growth is crucial for the fiscal arithmetic this year.

Resilient India amidst weak global environment

The latest IMF estimates suggest that the Indian economy will grow at 6.1% in real terms, beating other large economies like China (4.6%) and the US (1.0%) in 2023. While the rupee has depreciated against the US dollar, it has appreciated against other major global currencies like sterling, the euro and the Japanese yen. Domestic flows in the face of outflows from foreign investors has helped to keep the Indian equity market resilient. Indian corporates have de-leveraged in the last three to five years. India is also witnessing credit growth cycle, the Banking credit growth rose to 17.5% in the two weeks to December 2 from a year earlier, while deposit growth was 9.9%. Industry as well as personal credit growth have been strong. The government is making a concerted effort to increase manufacturing within the country, along with this a renewed capex cycle and "China + 1" strategy is also helping India.

Outlook

Since COVID has become a part of our lives, global macro variables have taken many twists and turns. The biggest challenge economies and businesses have been struggling with is the imbalance in demand and supply. Supply chains were initially disrupted with COVID and then further impacted by the Russia-Ukraine war and shut downs in China. The disequilibrium has manifested itself in inflation, which has become the biggest challenge for central banks. The accommodative/lower interest rate policies of central banks decisively reversed in the last fiscal. This has significant repercussions for asset classes across the globe. India may not be immune to these global headwinds but it is certainly in a better position compared to others. As companies diversify their supply chain, India is emerging as an attractive option to set camp. Manufacturing exports is a theme which we could see play out in India for the next decade.

Sectors that are inward facing (or dependent on the domestic economy) are better placed than sectors that are outward-facing (or dependent on the global economy) ones. We are positive on the Investment cycle and therefore the domestic cyclicals like Financials, Auto and industrials are well placed in the current environment. Overall capex in the country is estimated to be around INR 18,000 – 19,000 trillion and half of it is from the government. After a decade of muted growth in capex, now the cycle seems to pick up. Marked improvement in corporate balance sheets supported by increased lending appetite by banks is driving a rebound in demand despite inflationary pressures. Also, Government policies such as the PLI scheme are undoubtedly focused towards encouraging "Make in India". On the exports front, we are seeing good traction in export of manufactured goods due to China+1 phenomenon. Hence, domestic cyclicals are set to deliver healthy growth in the medium term based on recovery in domestic demand and pick up in exports.

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-Dec-2022)	USD 10.84 mn
Strategy Assets [(a)]	USD 1.92 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

Lower risk — Potentially lower reward | Higher risk — Potentially higher reward

1	2	3	4	5	**6**	7

HF Hereford Funds

IIFL Focused India Fund

SFDR status: Article 6

31 December 2022

Monthly performance %

	NAV per share	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	2022
IIFL Focused India Fund (Class L1)	101.13										2.2	3.7	-4.6	1.1
MSCI India IMI Index	-										1.9	4.7	-5.2	1.2

NAV and Returns are in USD. Benchmark returns are shown only for comparison purposes. Past performance may or may not be sustained in future.

Periodic Performance % (including Reference Strategy) [b]

	6 months	1 year	3 years	Annualized (Since 1 Sept 2018)
Reference Strategy	8.4	-11.6	9.2	9.6
MSCI India IMI Index	8.7	-9.1	11.2	7.0

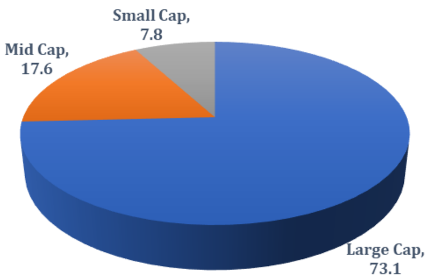
Growth of USD 100 since 1 September 2018 [c]

Details of Fund Portfolio

Fund Statistics [d]

Ratios	Fund
P/E	16.2
P/B	2.9
ROE	17.8%
EPS Growth (FY22-24E)	22.8%

Market Capitalization [e]



Top 10 Holdings

Security	GICS Sector	% of AUM
ICICI Bank	Financial Services	8.9%
HDFC Bank	Financial Services	8.6%
Infosys	Information Technology	6.7%
Axis Bank	Financial Services	5.4%
Larsen & Toubro	Industrial	5.3%
State Bank of India	Financial Services	5.3%
Bharti Airtel	Communication Services	5.1%
NTPC	Utilities	3.2%
Dr Reddy's Laboratories	Healthcare	3.2%
Bajaj Finance	Financial Services	3.1%

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 December 2022.

Service Providers

Management Company	Investment Manager (h)	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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