IIFL Focused India Fund

31 October 2022

Investment Review

Hereford Funds - IIFL Focused India Fund ("Fund") was launched on 30 September 2022. The Fund appreciated by 2.2% in USD terms in the month of October, in comparison to a 1.9% return for MSCI India IMI Index in USD terms. At the end of October, the Sub-Fund was primarily invested in financials, consumer discretionary, industrials, information technology, communication services and healthcare sectors, amongst others.

Manager's Commentary (in INR terms)

Indian Equity Markets: Month Gone by

Indian equity markets closed the month of October'22 in green, with MSCI India IMI Index registering monthly gains of 3.7% in INR terms. Globally, equity markets especially US and Europe saw a rally on the back of hope that the Fed Reserve may slow down on rate hikes after its November'22 meeting. FPIs had turned net sellers due to rate hikes and a weak rupee, were seen turning buyers in October'22, however for the month their net flows were flat. DIIs continued to remain net buyers to the tune of $1.1 bn following the previous month's trend. 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 gains of 2.0% & 1.3% respectively. Amongst the sectoral indices, barring S&P BSE FMCG, all the other indices closed the month in green. S&P BSE Bankex, Capital Goods and S&P BSE TECk were among the top three performers registering monthly gains of 7.3%, 6.6% and 5.9% respectively.

In terms of the key developments during the month, - (1) central banks across the globe continued to hike interest rates(2) IMF and World Bank cut India's GDP growth forecast; (3) China continued to impose further lockdowns and restrictions to contain Covid-19 outbreak, (4) the Indian government announced the minimum support prices (MSPs) for rabi (winter) crops, and (5) 2QFY23 results of the Nifty-50 Index declared so far showed mixed trends.

The manufacturing recovered a bit in October'22 and came in at 55.3 as against 55.1 in September'22. Despite losing growth momentum, the Indian manufacturing industry showed signs of resilience, with factory orders and production rising strongly. Manufacturers expected demand buoyancy to be sustained in coming months and hence continued to loosen the purse strings. There was a marked rise in input purchasing, with firms adding to their inventories to better align with client purchasing. Meanwhile, the gross GST revenue collected in October'22 was up 16.6%YoY and stood at ₹1.52 trillion, second highest monthly collection next to collection in April'22. This is the eighth month in a row that the total GST collections have crossed ₹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.

Credit Growth picking up

The data released by Reserve Bank of India (RBI) on sector-wise bank credit growth, showed that despite the increase in lending rates the credit offtake continued to remain robust across all sectors - farming, industry, services, and retail. The data reflected that the total bank credit growth was higher in Sepetmeber'22 as compared to pre-pandemic times (September'19) on a year-on-year (YoY) basis, supported by higher non-food credit demand. Total bank credit grew by 16.4% on YoY basis as of September'22, compared with 6.7% growth as of September'21 and 8.2% as of September'19 (pre-pandemic). On a YoY basis, non-food bank credit registered a growth of 16.9% in September'22 as compared with 6.8% a year ago, as per the RBI data. Within this, the credit to services sector surged to 20% from 1.2% in September'21, while the personal loans segment grew by 19.6% as against 13.2% in the same period last year.

As per the monthly report, credit growth to the services segment was led by improved credit offtake to NBFCs and trade sectors, whereas increase in retail loans was largely aided by housing and vehicle loan segments.

Trend in Consumer Demand

There were lot of expectations regarding the pick-up in demand during the festive season. Based on available trends, the following has been inferred

- Overall, the festive season demand trends appear varied, especially on a 3-year CAGR basis. The last couple of years have been impacted by Covid-19 (impact differs across segments); hence, only looking at data on a YoY basis may not give an accurate picture
- Consumer demand segments that appear to have done relatively well, on both YoY as well as pre-Covid-19 basis, are urban and mid/premium segments centric (PVs, e-commerce, jewellery, mid and premium product segments across consumer electricals/apparels). This is in line with the urban doing better than rural and premium scoring over mass trends as seen in the recent past

Outlook

Given Fed's hawkish stance leading to rise in interest rates and slowdown in major economies, the stagflation/recession scenario is not inconceivable. As a result, this could impact the global market performance and the ripple effect is likely to be felt in Indian equities as well. Global risk aversion could also lead to flight of capital from risk assets including emerging markets such as India. At home, CPI remains elevated owing to large supply shocks, spillovers from the global economy and improving demand. While there are concerns on the rising trade deficit, we believe that Indian economy seems to be better placed driven by supply side reforms and prudent monetary & fiscal policy.

Even though the markets are currently trading slightly above the long-term valuations, India's position as a growing economy in a year of economic distress is attracting FPI flows (higher than what other emerging markets are seeing), though the trend in the flows has not been secular. Even with a weak rupee and the current account deficit situation, our inflation has remained relatively benign in comparison to global economies. An interesting thing to note is that in the MSCI Asia-Pacific ex-Japan index, India stands at the third position in terms of weightage after China and Australia. Since most global funds are underweight these nations, India may benefit in case of an improved risk appetite amongst overseas investors.

In the current scenario, the most important unknown which is constantly fuelling the uncertainty (with respect to a clear directional trend in the equity market) is the impact of a potential global stagflation/recession on the Indian economy and subsequently the corporate earnings. We believe that rising credit growth, shift from unorganised to organised, rise in demand and good traction in discretionary spends will help in providing some cushion to the downside. Further, Indian exports is also witnessing a rise in market share with rising global customer preference aided by China+1 and other factors.

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)	USD 3.5 mn
Strategy Assets [(a)]	USD 1.8 bn
Number of Securities	29
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

Monthly performance %

	NAV per share	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	2022
IIFL Focused India Fund (Class L1)	102.18										2.2			2.2
MSCI India IMI Index	-										1.9			1.9

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)]

	2022 YTD	CY 2021	CY 2020	CY 2019	CY 2018 (since 1 Sept 2018)	Annualized (since 1 Sept 2018)
Reference Strategy	-10.4	25.6	15.9	21.1	-6.6	10.2
MSCI India IMI Index	-8.4	30.4	16.1	5.3	-7.7	7.4

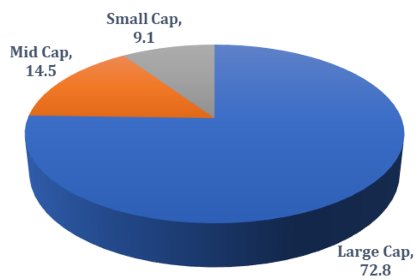
Growth of USD 100 since 1 September 2018 [(c)]

Details of Fund Portfolio

Fund Statistics [(d)]

Ratios	Fund
P/E	16.3
P/B	2.8
ROE	17.4%
EPS Growth (FY22-24E)	21.8%

Market Capitalization [(e)]



Top 10 Holdings

Security	GICS Sector	% of AUM
ICICI Bank	Financial Services	8.9%
HDFC Bank	Financial Services	7.3%
Infosys	Information Technology	6.7%
Bharti Airtel	Telecommunication	5.1%
Larsen & Toubro	Construction	5.1%
Axis Bank	Financial Services	4.9%
State Bank of India	Financial Services	4.8%
Bajaj Finance	Financial Services	3.3%
NTPC	Utilities	3.3%
Dr Reddy's Laboratories	Healthcare	3.3%

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 October 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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