UNIFI
MUTUAL FUND



Quarterly Review

FY 26 Q2

UNIFI ASSET MANAGEMENT PVT. LTD
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Dear Investors and Partners,

The July–September 2025 quarter was marked by an unusual disconnect between strong domestic fundamentals and market performance. Macro data surprised positively on multiple fronts: Q1 FY26 GDP growth rose to a five-quarter high of 7.8%, headline inflation eased from 2.7% in Q1 to 1.7% in Q2, S&P Global upgraded India's sovereign rating to 'BBB' *(Source: MoSPI & Press Information Bureau of India release),* and the earnings downgrade cycle appeared to be nearing its end.

Despite this supportive backdrop, both equity and bond markets exhibited weakness. The benchmark indices Nifty and Sensex declined by about 4% while the 10-year government bond yield hardened from 6.32% to 6.57% *(Source: Bloomberg & FIMMDA database),* catching many market participants off guard. The markets seemed palpably concerned about the U.S. decision to raise tariffs from 25% to 50% in August and the potential adverse impact on India's export competitiveness, external balances, and fiscal position.

Looking ahead, we believe India's underlying growth drivers—resilient domestic consumption, a benign inflation trajectory, and ongoing policy support—continue to provide a constructive base. While global trade developments warrant close attention, the medium-term outlook for Indian markets remain sanguine.

Unifi MF's 3 actively managed open-ended schemes

- A Dynamic Asset Allocation Fund (DAAF) with significant debt allocation that aims to achieve consistent income generation and capital appreciation
- An equity-oriented Flexicap Fund (Flexi) that strives to deliver long term capital appreciation
- A cash management-oriented Liquid Fund that seeks to earn regular income and option to enable systematic transfers

Unifi Dynamic Asset Allocation Fund

Traditional fixed-income options, though safe, hardly deliver meaningful real returns after inflation and taxes . Our DAAF is designed to bridge this gap by aiming for real returns with low volatility across market cycles.

The fund's dynamic approach enables us to move across debt and equity segments to balance returns, risk ,risk, and liquidity. Within debt, we allocate across Government securities, PSU bonds, bank and NBFC issuances, corporate bonds, and securitised instruments—guided by our 1 to 2-year view on growth and inflation. We also opportunistically invest in low-risk equity opportunities, including cash-futures arbitrage and special situations such as open offers, buybacks, delistings, and IPOs, which historically delivered reasonable returns at lower volatility.

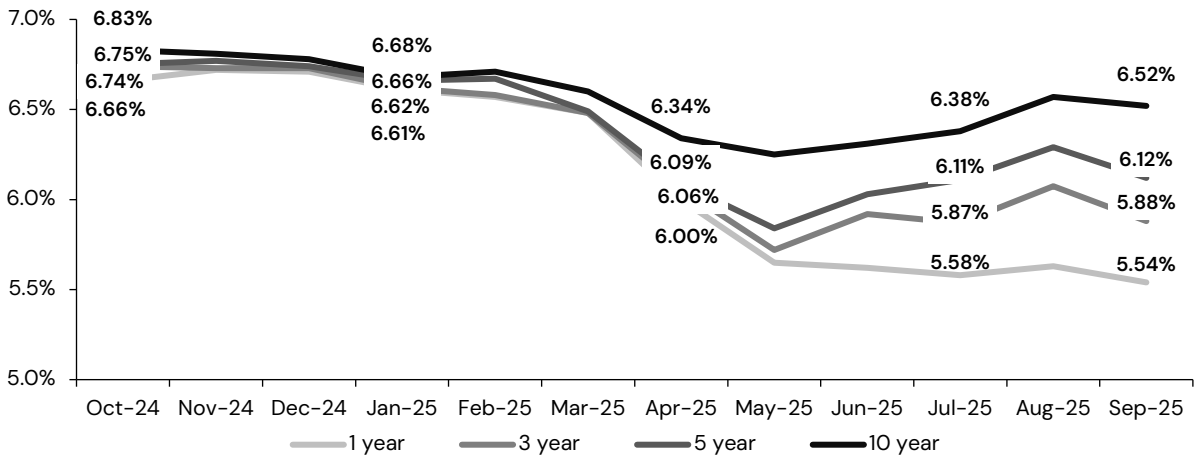
Interest-rate risk is typically managed by keeping portfolio duration within 18 months to 3 years. In corporate bonds, allocations are driven by rigorous proprietary underwriting rather than ratings alone. Our integrated equity and credit research process ensures thorough evaluation of each opportunity and disciplined credit-risk management.

July to September 2025 – Review & Outlook

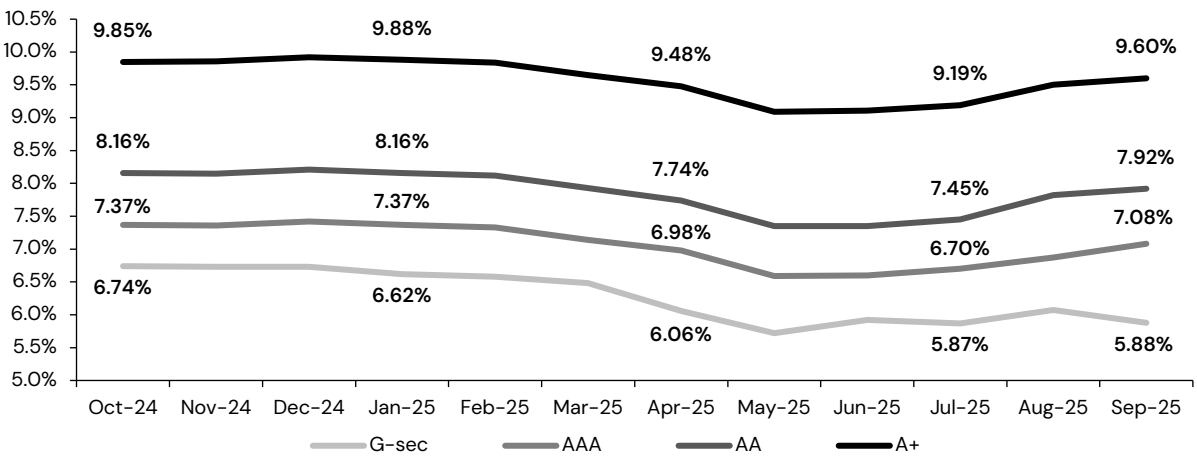
The DAAF portfolio is consciously designed to be diversified across high-quality debt with duration optionality, diligently underwritten bottom-up credit opportunities, equity arbitrage positions, and special situations. Allocations typically average one-third in each segment, with the flexibility to recalibrate exposures based on our growth-inflation outlook and segment specific risk-reward dynamics. The overarching aim is to contain volatility and pursue consistent returns.

The central bank, besides reducing the repo rate to 5.5% and the CRR to 3%, also shifted its stance from accommodative to neutral in its June meeting and maintained this positioning through its Q2 reviews. With inflation easing and GDP growth remaining robust, the RBI's position appeared logical. However, bond yields after declining meaningfully in Q4FY25 and Q1FY26 began to harden in Q2 sensing a pause in the rate-cut cycle. This upward pressure was further amplified by the U.S. tariff hike and the domestic GST cuts announced in the quarter, both of which weigh negatively on India's macros. The yield hardening was more pronounced in longer-tenor G-secs compared to shorter-tenor G-Secs and corporate bonds.

G-Sec yield movement across tenors over the last 12 months



Last 12 months yield movement in G-sec (3-year) and corporate bonds



We used this fluctuating phase to our advantage by booking profits in part of our highly rated duration portfolio and reallocating into high-conviction credits. This lifted the portfolio YTM from 8.9% at June-end to 9.4% at September-end. This realignment is intended to reduce duration-driven volatility arising from global macros—more pronounced in G-Secs and highly rated corporate bonds—while capturing steady accrual through allocations to a diversified set of companies benefiting from robust domestic economic and consumption fundamentals. Beyond the macro and sectoral tailwinds, we undertake in-depth bottom-up research and select structures that combine purposeful yields with protective covenants. Opportunities remain particularly attractive across sectors such as affordable housing finance, vehicle finance, MSME finance, consumer finance, infrastructure, manufacturing and real estate. Rationalised equity valuations coupled with lower borrowing costs have led to a sharp surge in domestic mergers and acquisitions (M&A) financing activity, expanding the investment options available to us.

Segmental Allocation	Q1 FY26 end	Q2 FY26 end
Equity Arbitrage including Special Situations	36%	40%
Debt - Duration optionality (Sovereign, AAA & AA rated)	41%	30%
Debt - High Yield Credit (AA- to BBB rated)	19%	28%
Cash & Equivalents (TREPS & IPO application money)	4%	2%
Total	100%	100%
Debt Segment Yield to Maturity (YTM)	8.9%	9.4%

Source: Internal Analysis / Portfolio Disclosure

Cash–futures arbitrage spreads remained range-bound during the quarter, hovering around ~60 bps (7–7.5% annualised) and broadly in line with the previous quarter. While the softening in domestic short-term rates could have compressed spreads further, heightened equity market volatility helped prevent a meaningful decline. Importantly, our DAAF is not solely reliant on the cash–futures segment to deliver returns with low volatility. Special situations—such as open offers, buybacks, de-listings and IPOs—remain a significant investable avenue for us. We rigorously track and participate in select opportunities that meet our investment criteria. During the quarter, we invested in over 25 such transactions predominantly in IPOs and achieved our desired objective in nearly all of them, barring a couple. We remain actively focused on identifying new opportunities, which typically tend to be more abundant in a benign interest-rate environment like the present one.

Heading into the second half of the fiscal year, the markets are anticipating one or two rate cuts and the conclusion of the much-awaited U.S. trade deal with a rollback of additional tariffs. If these outcomes materialise, the domestic macro-economic backdrop would be further bolstered, enabling us to further reduce our duration positions and increase credit allocations up to the 50% upper limit. An upward trajectory in GDP growth along with low inflation, and improvement in exports would translate into stronger revenues and profitability for domestic corporates, creating a favourable environment for increasing credit exposures. Domestic core inflation- the yardstick we use to measure of our progress- is trending about 4 to 4.5% for FY26.

Unifi Flexicap Fund

The Flexicap Fund is our singular equity offering, enabling us to remain sharply focused on long-term value creation. Its flexibility across market caps and sectors allows us to consistently apply our seasoned GARP (Growth at a Reasonable Price) philosophy through an active, bottom-up approach. We focus on earnings growth, capital efficiency, low leverage, strong leadership and governance, and sensible entry valuations that reflect sustainable growth prospects. Owning a good business at a fair price is as important to us as identifying quality in the first place.

We typically invest in 40–70 companies with identifiable growth drivers. While our process is bottom-up, we are mindful of the benchmark—the NSE 500 TRI—which has a large-cap tilt of over 70%. Accordingly, we maintain a minimum 40% large-cap allocation, with the flexibility to raise it up to 80% if small and mid-cap valuations get stretched. Up to 25% of the portfolio may be invested in non-index names—often under-researched—where direct management engagement and deeper diligence provide an informational edge. We also incorporate signals from corporate actions such as open offers, buybacks, mergers, spinoffs, leadership changes, and key stakeholder trades to enrich our research funnel.

July to September 2025 – Review & Outlook

In contrast to Q1, Indian equities lagged considerably in Q2FY26 diverging from the continued strong performance of the global indices. Additional US tariffs specifically levied on India and the resulting concerns around exports, trade deficits, and employment, was the primary factor of negative market sentiment. The good news, however, is that this overhang is likely to abate as the current trade deal discussions with US and EU move closer to conclusion. With Q2 corporate results tracking expectations, favourable catalysts—above-normal monsoon, income tax and GST reductions, and lower borrowing costs—are expected to positively influence H2 earnings and market performance going forward.

Our Flexicap scheme, launched in early June, held about 26% in cash at the end of Q1. We steadily deployed this through Q2, bringing cash levels down to 5%. Financial services, Healthcare and Auto are currently our top 3 sectors accounting for roughly 50% of the AUM. These sectors, continue to benefit from domestic demographic and consumption trends and are largely insulated from global trade frictions and protectionist policies.

Flexicap Quants	Planned Range	Q2FY26 end
Number of companies	40-70	54
Large cap allocation	40% to 80%	60%
Mid and Small cap allocation	20% to 60%	35%
Non-Index (Nifty 500) positions	Up to 25%	13%
Cash and cash equivalents	3% to 12%	5%

Note: Large, Mid and Small cap allocation based on definition provided by SEBI in para 2.7.1 of Master Circular dated June 27, 2024.

Q2FY26 corporate results analysis & portfolio positioning

The July–September 2025 earnings cycle has come in largely as anticipated for most sectors. Strength was evident across BFSI, domestic healthcare, consumption-driven businesses, and certain capital goods companies, while prolonged monsoon conditions have adversely affected the power and construction sectors.

Banks & Financials

Retail credit remains strong, and corporate credit is steadily reviving. Credit growth of 11–12% versus deposit growth of 9–10% resulted in a milder-than-feared net interest margin (NIM) compression, helped by lower savings rates and declining dependence on bulk deposits. Public Sector (PSU) banks managed NIMs better than private peers. Our financials portfolio remains indexed to both private and PSU banks, complemented by active positions in housing financiers and AMCs, which are benefiting from policy rate cuts and strong SIP flows, respectively.

IT Services

Results were slightly better than muted expectations. Macros remain uncertain, with stable but unexciting demand. Sequential revenue growth was recorded across large caps, driven by ramp-ups of earlier deals. Deal activity remains dominated by cost takeout and vendor consolidation. Our portfolio remains indexed to large-cap IT. Although AI transition projects support near- to mid-term growth, we stay cautious on the long-term outlook for IT services, given that the sector may ultimately bear the impact of AI-led productivity improvements.

FMCG

Rural markets remained resilient. GST cuts led to some destocking-driven impact, which we see as temporary. Raw material prices stayed stable, supporting gross margins. We are staying underweight given single digit earnings growth and expensive valuations. FMCG consumption is becoming increasingly fragmented as agile regional, Direct to Consumer (D2C), and private-label brands capture niche consumer demand. The market share and revenue growth trajectory of the larger listed companies is being challenged.

Automobile

GST cuts and the festive season drove strong volumes. Original Equipment Manufacturers (OEMs -Vehicle manufacturers) have modestly upgraded guidance, and H2 is expected to be healthy. We continue to prefer OEMs over ancillaries.

Healthcare

Domestic branded formulations recorded healthy growth, while U.S. generics players, exempt from the tariff regime, experienced limited price erosion that was mitigated by new launches. We maintain a selective approach, favouring companies with established capabilities in complex generics. Hospital operators reported strong performance driven by capacity additions, higher average revenue per occupied bed, and an improving specialty mix across cardiac, oncology, neurological, and gastroenterology services

Capital Goods & Defence

Post-results management commentary suggests a pick-up in industrial capex and improving IIP trends going forward. Defence continues to offer meaningful opportunities driven by indigenisation and healthy order pipelines. Our portfolio remains aligned to domestic power-capex beneficiaries and globally competitive manufacturers.

Fertilizers & Agrochemicals
The fertiliser and agrochemical sector delivered healthy volume growth in Q2 FY26, led by players with integrated operations, specialty nutrients, and strong crop-protection franchises. Our preference remains for companies benefiting from low competition, import-substitution trends, and integrated business models. With a normal monsoon and a low base, agrochemical volume growth in H2 looks promising.

Notwithstanding our index-mindfulness approach, we take active positions in both index and non-index constituents backed by rigorous bottom-up research. We place strong emphasis on the strength and durability of the underlying prospects and strict adherence to our Growth-At-Reasonable-Price [GARP] driven valuation framework. We remain constructive on the following themes given their multi-year growth potential and are continually seeking the right entry valuations to participate in them.

Capex-led growth exposure from companies in engineering, industrial products, and utilities that stand to gain from record public infrastructure spending, energy transition investments, and a revival in private manufacturing capex.

Domestic-oriented growth exposure through companies benefitting from the rise of consumption, premium mobility, healthcare access, and organized services – with holdings across consumer goods, agriculture, transport, and essential service providers.

Credit cycle participation through well-capitalized lenders and housing finance companies positioned to benefit from expanding credit penetration across retail and SME segments.

Financialization of savings represented by asset managers capitalizing on the structural shift from physical to financial assets.

Import substitution play through domestic companies aligned with India's self-reliance agenda in energy, agri-inputs, high-tech manufacturing and chemicals.

We believe that our portfolio is favourably positioned from a risk-reward standpoint.

Thank you for placing your trust in us.



V N Saravanan
Chief Investment Officer



Aejas Lakhani
Fund Manager - Equity



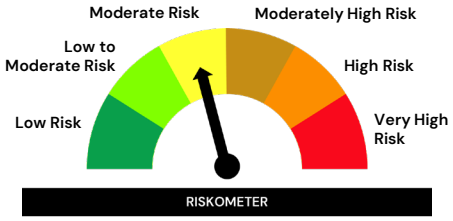
Karthik Srinivas
Fund Manager - Debt

Unifi Dynamic Asset Allocation Fund

(An open-ended dynamic asset allocation fund)

This product is suitable for investors who are seeking*

- Income generation and Capital appreciation over medium to long term.
- Investment in diversified portfolio of debt, money market, equity and equity related instruments while managing risk through active asset allocation.

Risk-o-meter of the Scheme	Risk-o-meter of Benchmark Tier I: CRISIL Hybrid 50 + 50 Moderate Index (TRI)
	
Investors understand that their principal will be at Moderate Risk.	Investors understand that their principal will be at High Risk.

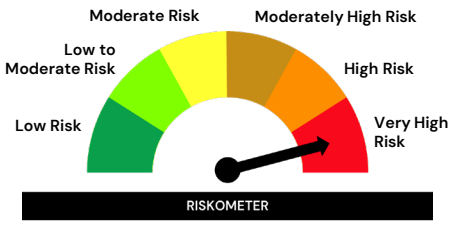
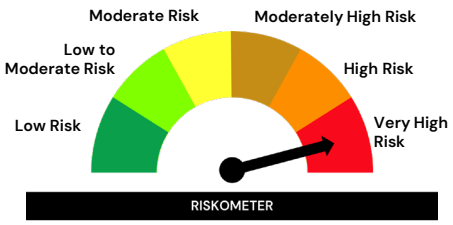
Scheme Code: UNFI/O/H/DAA/25/01/0001

Unifi Flexi Cap Fund

(An open ended dynamic equity scheme investing across large cap, mid cap, small cap stocks.)

This product is suitable for investors who are seeking*

- Capital Appreciation over long term.
- Investment in a diversified portfolio consisting of equity and equity related instruments across market capitalization.

Risk-o-meter of the Scheme	Risk-o-meter of Benchmark Tier I: Nifty 500 TRI
	
Investors understand that their principal will be at Very High Risk.	Investors understand that their principal will be at Very High Risk.

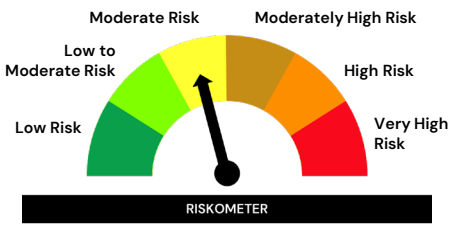
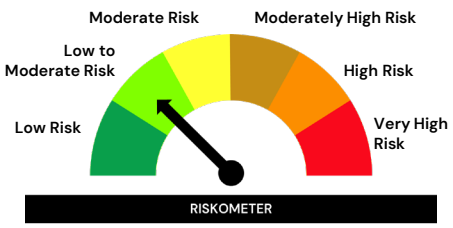
Scheme Code: UNFI/O/E/FCF/25/03/0002

Unifi Liquid Fund

(An open ended Liquid scheme. A relatively low interest rate risk and moderate credit risk.)

This product is suitable for investors who are seeking*

- Regular Income over the short term investment horizon
- Investment in debt and money market instruments with maturity upto 91 days.

Risk-o-meter of the Scheme	Risk-o-meter of Benchmark Tier I: Nifty Liquid Index A-I (TRI)
	
Investors understand that their principal will be at Moderate Risk.	Investors understand that their principal will be at Low to Moderate Risk.

Potential Risk Class (PRC) Matrix of the Scheme			
Credit Risk / Interest Rate Risk	Relatively Low (Class A)	Moderate (Class B)	Relatively High (Class C)
Relatively Low		B-I	
Moderate			
Relatively High			

B-I – A Scheme with Relatively Low Interest Rate Risk and Moderate Credit Risk

Scheme Code: UNFI/O/D/LIF/25/04/0003

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*Investors should consult their financial advisers if in doubt about whether the product is suitable for them.

Note: Risk-o-meter as on 31st October 2025. For the updated Risk-o-meter, please refer to the AMC website (www.unifimf.com).

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