UNIFI
MUTUAL FUND



Quarterly Review

FY 26 Q1

UNIFI ASSET MANAGEMENT PVT. LTD
11, Kakani Towers, 15, Khader Nawaz Khan Road,
Nungambakkam, Chennai – 600 006.

www.unifimf.com

Dear Investors and Partners,

We are immensely delighted to share with you our first quarterly communication as we begin this purposeful journey together. We have launched 3 actively managed schemes, each with a clearly defined proposition relevant to most investors.

- A Dynamic Asset Allocation Fund (DAAF) with significant debt allocation that aims to achieve consistent income generation and capital appreciation.

- An equity-oriented Flexi Cap Fund (Flexi) that strives to deliver long term capital appreciation.

- A cash management-oriented Liquid Fund that seeks to earn regular income and an option to enable systematic transfers.

We have drawn upon the key learnings from our group's 24+ years of successful practice in shaping the investment philosophy behind the schemes. Both DAAF and Flexi have been consciously designed as all-weather funds, enabling investors to stay invested without the hassle of switching between multiple funds as market cycles change. This brings in concerted focus, lets us pursue deep bottom-up research that the group is known for, and enables us to direct our investment ideas into a single fund instead of having to spread them across multiple funds.

We believe that any investors' core portfolio should be simple, focused, and built around clear goals. That's what our all-weather funds aim to offer—straightforward, time-tested strategies devised to support long-term growth and stability. After all, as the great polymath Leonardo da Vinci said, "Simplicity is the ultimate sophistication."

Unifi Dynamic Asset Allocation Fund

The biggest predicament for investors planning their debt allocation is that the traditional options are high on safety but barely provide any real yields post core inflation and tax. Our DAAF aims to solve this conundrum and aims to deliver real returns with minimal volatility across economic cycles. The dynamic nature of the fund allows us to navigate across various segments of debt and equity, seeking to balance the returns, capital preservation, and liquidity objectives.

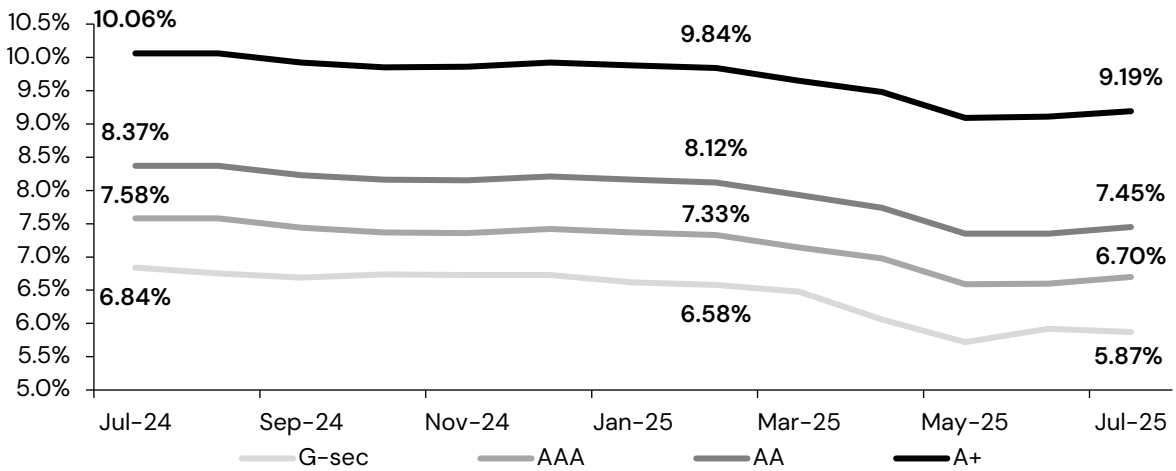
The debt category spans multiple sub-segments — Government securities, PSU bonds, bank and NBFC papers, corporate bonds, and securitised instruments—each with distinct tenor and rating profiles. Our near-term (1-2 years) outlook on domestic growth and inflation will guide allocation across these sub-segments. We intend to opportunistically use the low-risk opportunities in the equity segment as well. Besides the cash-futures arbitrage spread trades, we would also pursue special situation opportunities like open offers, buy-backs, delisting, and IPOs that have empirically delivered reasonable returns at lower volatility.

We will mitigate the interest rate risk by keeping the debt segment portfolio duration within a relatively narrow band of 18 months to 3 years. In the corporate bonds segment, there would be no mechanical allocation based on ratings and each opportunity will be pursued only after detailed proprietary underwriting. Our equity research capabilities are complimentary in this regard as we additionally review all debt proposals with an equity lens to holistically manage the credit risk.

March to June 2025 – Review & Outlook

The DAAF portfolio is designed to be inherently diversified among segments such as high-quality debt with duration optionality, meticulously evaluated bottom-up credit papers, equity arbitrage positions, and special situations. The New Fund Offer was launched in March 2025 amidst a stable domestic macro-economic environment and mixed global cues. Falling consumer price inflation (CPI) and middling GDP growth prompted RBI to initiate a 25-bps repo rate cut in February after a long 2-year pause. While government and corporate balance sheets exhibited strength, the overall growth momentum required further impetus, warranting further rate cuts. Against this backdrop, the initial portfolio of DAAF had a considerable share of government and highly rated bonds with reasonable duration. The central bank frontloaded its share of growth push by resorting to a further 75 bps rate cut in its Q1FY26 meetings, accelerating softening of yields– both in government securities as well as corporate papers.

Last 12 months yield movement in 3 Yr G-sec and corporate bonds



Source: Fixed Income Money Market and Derivatives Association of India

We made good use of this by selectively booking profits in our duration portfolio and steadily increased our allocation to credits during the quarter. As a result, the yield to maturity (YTM) in the debt segment rose from 8.2% at March-end to 8.9% by June-end. The credit segment comprises a diversified set of companies with strong balance sheets and discernible growth prospects, particularly from domestic-facing sectors like financial services, infrastructure, and real estate.

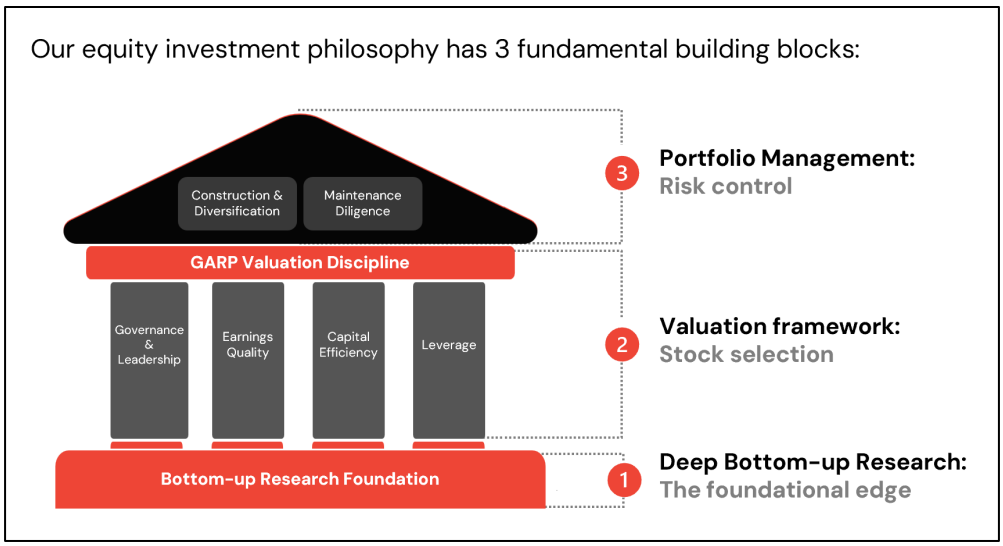
We were also able to get favourable spreads from the equity arbitrage segment, aided by sharp market rallies during the quarter and short bursts of volatility around ongoing tariff tantrums. The decline in domestic borrowing costs and sentiment revival towards equities have led to an increase in special situations like initial public offers (IPOs) and tender offers triggered by leveraged mergers and acquisitions. We participated in a few such transactions during the quarter with favourable outcomes, and we remain actively on the lookout for more in the days ahead.

We expect inflation to be benign through the rest of FY26 and bond yields to exhibit range bound volatility given RBI's change of stance from accommodative to neutral. The domestic growth momentum is expected to benefit from government spending in the second half, favourable monsoon progress and central bank's targeted measures to revive credit demand. With steady growth and soft inflation as the backdrop, we have diversified our allocation —

roughly one-third each in highly rated bonds, credit opportunities, and low-volatile equity segments – positioning us well to achieve the desired outcome. We would be comparing our progress with core inflation instead of consumer price inflation (CPI) as it eliminates the disproportionate food and fuel components that are less relevant for long term investment planning. As per RBI data, domestic core inflation has averaged around 5% over the past decade and is projected to be ~ 4% for FY26.

Unifi Flexicap Fund

The Flexicap Fund is our singular equity offering and would enable us to stay sharply focused on delivering sustainable long-term value creation for our investors. The inherent flexibility to invest across market caps and sectors enables us to apply our seasoned GARP (Growth at a Reasonable Price) philosophy through an active, bottom-up approach — ensuring the investment objective is pursued consistently across market cycles. Earnings growth, capital efficiency, low leverage, along with strong leadership & governance form the foundation of our investment framework. We place equal emphasis on sensible entry valuations, factoring in sustainable growth prospects. For us, owning a good business at a fair or bargain price is just as important as identifying the right quality business in the first place.



We typically aim to invest in 40–70 companies across sectors that have discernible growth prospects. We intend to strike a balance between bottom-up stock selection while being mindful of the benchmark constituents. Given the benchmark NSE 500 TRI's 70+% large cap tilt, we will maintain a base allocation of 40% to large caps at all points, with the flexibility to increase it up to 80% if small and mid-cap valuations get ahead of fundamentals. Up to 25% of the portfolio may be allocated to non-index names — often under-researched — where our direct engagement with management and due diligence provide an edge. This also enables us to capture opportunities in emerging sub-sectors and companies enhancing domestic growth. Beyond conventional metrics, we also rigorously track signals from corporate actions such as open offers, buybacks, mergers, spinoffs, leadership changes, and key stakeholder trades – to build a robust research funnel.

June 2025 NFO – Review & Outlook

After a subdued FY25, Indian equities staged a sharp rally in early Q1FY26, supported by a stable policy backdrop, improving domestic fundamentals, and the market's initial assumption of a manageable impact from the proposed U.S. tariffs. We launched our NFO in early June and began deploying capital. Given overall elevated valuations and potential headwinds from trade negotiations impacting the export-oriented sectors, our starting portfolio is anchored across the following themes where we see relative value and multi-year growth trends –

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.

The Q1FY26 results season reflected mixed cues with domestic facing sectors like auto, capital goods, healthcare and consumption delivering mostly in-line revenue and earnings growth while globally linked sectors like IT and Commodities lagged. The banking sector's steady topline growth and one-off treasury gains were offset by shrinking net interest margins and rising credit costs. While a broad demand revival is yet to be seen, early signs of revival in rural consumption and government capex offer hope.

We continue to monitor trade discussions and tariff developments closely, while remaining flexible in adjusting the portfolio to evolving opportunities and risks—particularly in sectors such as technology, pharma, and specialty chemicals, which have been expanding their global footprint through cost leadership and innovation. In the near term, we expect market consolidation and more stock-specific action. Our long-term view remains quite constructive, underpinned by India's structural growth drivers – demography, digitalization, domestic demand, and fiscal discipline.

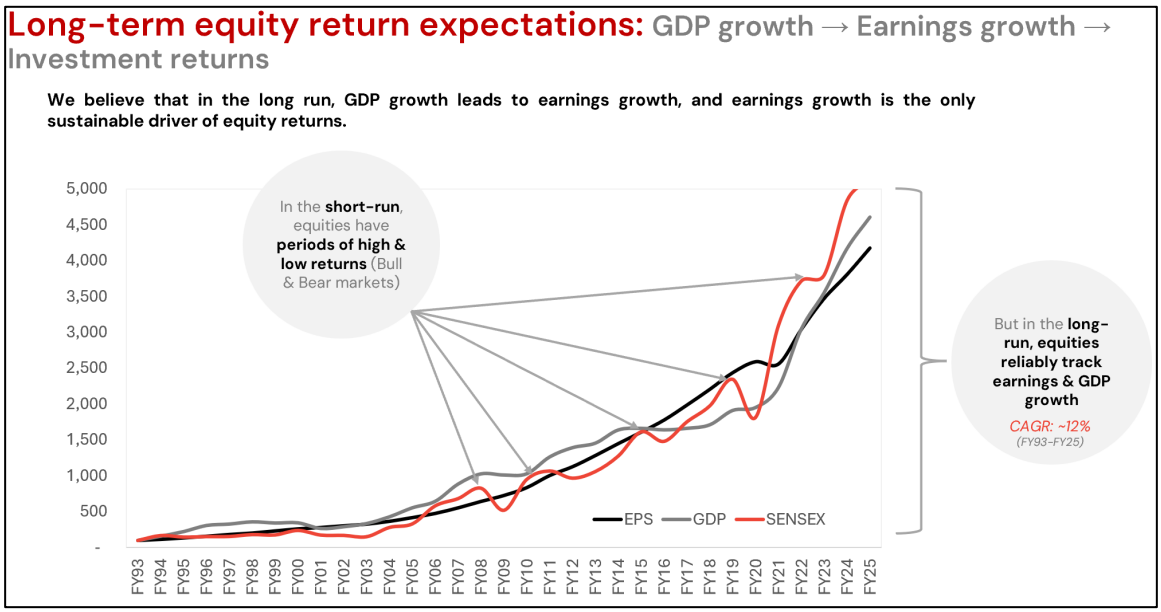
During our NFO roadshows across India, several investors asked our opinion about timing the markets and the outlook for equities over the next decade. We would like to share our responses to these questions, supported by empirical data.

Does it make sense for a long-term equity investor to time the markets?
We don't think so. Over the last 25 years, between July 2000 to July 2025, the BSE Sensex delivered a CAGR of about 12% turning a 1 cr investment to about Rs.17 crs. If an investor had missed just the 10 best days, the returns would have dropped to 8.5% CAGR, implying that a 1 cr

investment would have become Rs.7.75 crs instead of 17 crs (opportunity loss of more than 110%). Time in the market delivers better results than timing the market especially for long-term equity investors. *(Source: BSE database and Internal Analysis)*

What should be the expectations from equities in the coming decade?

The Indian economy, measured in nominal GDP terms has grown at a CAGR of about 12.4% per annum over the last 32 years (FY1993 to FY2025) since we initiated the liberalisation reforms. Incidentally, the BSE Sensex (top 30 companies) earnings CAGR has also been about 12.6% per annum. The Compounded Annual Growth Rate (CAGR) return delivered by BSE Sensex including dividend yield during this period has been about 13.1% per annum. The movement, however, has not been linear. There have been temporary divergences in the trajectory of economic growth, corporate profits and market returns. *(Source: MOSPI database, Bloomberg and Internal Analysis)*



The key inference is that in the short term, equity markets can move on account of various factors, but over the long term, they have a highly positive correlation with the underlying earnings of the companies and the nominal GDP growth of the country. Most practitioners including us believe that Indian economy is likely to grow at about 10% on nominal GDP terms (Real GDP + Inflation) in the coming decade. Therefore, it is sensible to have our expectations anchored around this trajectory.

Thank you for placing your trust in us.

Best regards

V N Saravanan
Chief Investment Officer

Aejas Lakhani
Fund Manager - Equity

Karthik Srinivas
Fund Manager - Debt

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