Unifi High Yield Fund

Investor Predicament

Conventional Equity

- High / above average return potential
- Accompanied by extreme volatility

Conventional Debt

- Low / below average volatility
- Hardly any real returns post tax and inflation

Cyclicality of asset values combined with misconstructed risk-return expectations push investors to either

- settle for sub-par returns (or)
- bear volatility beyond one's temperament leading to capital loss

Unifi HYF Proposition

High Yield Fund

- Endeavour to generate net post tax returns of 3% p.a over the rate of core inflation)
- Minimal / below average volatility

Risk adjusted arbitrage and fixed income opportunities arising from

- corporate events
- macro-economic cycles
- emerging credit

UNIFI HYF

Investment Objective

Unifi High Yield Fund (HYF) is a discretionary fund focusing on fixed income and event arbitrage investment opportunities in capital markets with an endeavor to generate net post tax returns of 3% p.a over the rate of core inflation . The objective is to consistently generate superior compounded annual returns than conventional fixed income instruments with uncompromising emphasis on capital preservation.

Fund Manager	Unifi Capital Pvt. Ltd.
Launch Date	04-Apr-2013.
AUM (INR Crs)	INR 829 crores
Min Investment	INR 1 crore
Setup Fees	None
Lock in period	Exit load of 2% if redeemed within 6 months.
Valuation	S&P CRISIL

Performance Reporting	Monthly NAV & Quarterly Review
Tenure	Open ended; Monthly subscription and redemption
Fees	1% per annum fixed and 20% performance over hurdle rate (Monthly Chargeable)
Hurdle Rate	Non cumulative pre-tax return of 10% per annum
Independent Custodian & Accountant	HDFC Bank

Allocation Overview

Strategies	Range	Average allocation							
		FY21	FY20	FY19	FY18	FY17	FY16	FY15	FY14
Event Arbitrage Arbitrage opportunities in listed equities arising from open offers, delisting, corporate actions, IPOs & cash-Futures.	0 – 100%	14%	8%	11%	21%	26%	16%	11%	16%
Nominal Bonds Conventional AAA & AA bonds of various Indian companies – Typically HTM.	0 – 50%	22%	16%	22%	26%	23%	23%	26%	30%
Structured & High yield Debt Structured Secured Corporate Debt, Commercial Papers, PTC's and Preference shares of NBFCs focusing on SME loans, Commercial Vehicle, Micro finance, School loans, Consumer finance, Housing, Agri and Two-Wheeler finance.	0 – 75%	52%	72%	65%	46%	46%	52%	58%	41%
Directional Calls Equity, G-Secs and AAA debt (duration calls)	0 – 10%	2%	1%	2%	1%	2%	2%	2%	3%
Cash / Liquid For liquidity purposes / temporary parking of funds.		10%	3%	-0.3%	6%	3%	7%	3%	10%

Event Arbitrage opportunities

The core investment approach is to exploit corporate event arbitrage opportunities in the listed capital markets that inherently have limited correlation to economic cycles and market volatility.

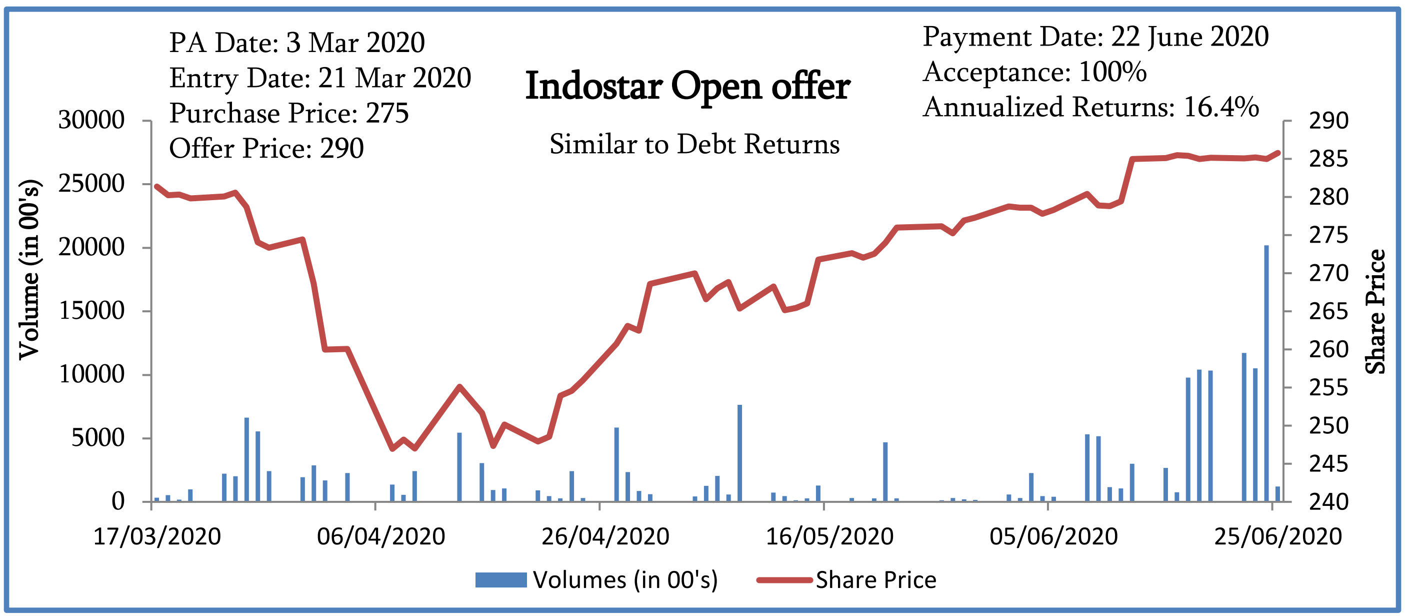
Type of opportunity	Recent / Notable deals
➢ Mandatory open offer or Voluntary open offer	JB Chemicals, Indostar, Vedanta, WABCO
➢ Selective participation in IPO’s	Happiest Minds, Burger King, Bectors Foods
➢ Buybacks through tender offer route	Just dial, Hindustan Unilever
➢ Corporate actions resulting in value unlocking	Majesco Limited, IDFC Limited
➢ Delisting	Clariant Lifesciences, Polaris consulting

Generally, we participate in those opportunities where –

❖ there is sufficient liquidity in the scrip,
❖ the management is reasonably sound,
❖ the process of share acquisition is completely transparent,
❖ where the balance of risk-reward after considering the possibility of non- acceptance of shares offered (in case of public tenders) and the capital loss/risk on the shares not accepted is reasonably estimated to be in our favour.

Event Arbitrage opportunities (Open Offers, Buybacks, IPOs etc)	FY21	FY20	FY19	FY18	FY17	FY16	FY15	FY14
Total no. of opportunities during the year	42	32	42	92	78	95	60	60
No. of offers participated	20	9	7	20	17	10	9	12
Average offer size (in crs)	1329	1182	2178	1212	773	407	287	3941
Largest Offer invested (in crs)	5948	10355	17000	14512	6000	1621	11449	29200
Smallest Offer invested (in crs)	318	448	212	152	130	474	251	30

In a typical open offer, the price movement during the period between public announcement and the offer closure is largely insulated from market volatility and delivers a debt like absolute return.



Investment Strategy - The focus would be on opportunities in the AAA to Investment Grade segment to optimize after tax yields while balancing risks. Typically, all debt investments are made with Hold to Maturity (HTM) mindset but some of it could be traded opportunistically to maximize capital appreciation or minimize risk. Arbitrage opportunities emerging from the following possibilities will be actively pursued to enhance the overall portfolio yields.

Subsidiary – Holding Company – Focus on 100% Subsidiaries whose papers are rated lower than their highly rated Parent companies but offer a higher yield.

Tactical Calls - Consider macro-economy driven opportunities like softening of Yield Curve (duration play) due to fall in Interest Rates and conducive Rating Upgrades cycle resulting in capital gains.

Wholesale to Retail – Bulk Buying from Bank Treasuries / Primary Issuances at finer rates and selling in smaller lots with a mark-up to HNIs / Private Provident Fund Treasuries.

Aggregator of Retail Lots – Provide the much-needed liquidity channel for retail bond holders at market yields plus spread.

Structured Papers from Emerging Financial Sectors- Consider high yield opportunities arising from well-capitalized and professionally managed Alternative NBFCs focusing on

Affordable Housing	SME Financing backed by Mortgages	Commercial Vehicles Financing	Micro Financing

The following criteria is firmly applied for selection of investment opportunities in this segment -

- Fundamentally sound and profitable business model
- Management with proven track record
- Robust process for credit evaluation, security creation, operations control and collections
- Presence of seasoned Private Equity investors in the board
- Recent round of promoter / private equity infusion strengthening the capital adequacy
- Short Term Maturity and being in the top quadrant of the Company's Liability Repayment profile thereby placing our exposure in a positive Asset Liability bucket.

UNIFI HYF

Case Study – (Education Finance) – Auxilo Finserv Private Limited

We invested in 11% 3-year Non-convertible debentures (yearly amortisation) of Mumbai based Auxilo Finserv Private Limited. The company received its NBFC license in May 2017. It offers two products B2C – Education loan & B2B – loans to K-12 schools for capex or working capital requirements. As of June 2020, the company had a net worth of 365 Crs & an AUM of 500 Crs. Our investment consideration was as follows-

- Strong equity support from promoters of repute (Balrampur Chini, ICICI Bank, ELME Advisors) and management team with vast experience in education loan segment.
- Robust operational process from login to final disbursement with clearly defined loan sanction process resulting in nil GNPA & NNPA.
- Comfortable capital adequacy @ 75% as the company had raised 200+ Crs equity in FY20.

We invested in the company to enable it to expand its AUM and leverage its balance sheet. We had included an additional deal covenant that cumulative Asset-Liability mismatch should always be positive to the extent of 10% or more in all the buckets up to 1 year.

Rs. in Crore	Favourable Asset Liability Profile at the time of Investment – July 2020							
	<30 days	31 - 60 days	61-90 days	91 - 365 days	1 -3 years	3-5 years	> 5 years	Total
Total Assets (a)	93.87	61.15	61.11	55.31	156.97	144.97	115.78	689.17
Total Liabilities (b)	9.11	4.74	10.37	63.30	193.79	35.86	372.00	689.17
Mismatch (a-b)	84.76	56.41	50.74	(7.99)	(36.82)	109.11	(256.22)	
Cumulative Mismatch	84.76	141.17	191.91	183.92	**147.10**	256.22	-	

Name of the Company	Upgrade / Downgrade	From	To	Financial Year
Oxyzo Financial	Upgrade	BBB	A	FY 2022
Aye Finance Private Limited	Upgrade	BBB	BBB+	FY 2020
Cholamandalam Finance	Upgrade	AA	AA+	FY 2018
Equitas Small Finance Bank	Upgrade	A	A+	FY 2017
ESAF Small Finance Bank	Upgrade	A-	A	FY 2019
Esskay Fincorp	Upgrade	A	A+	FY 2019
Five Star Business Finance	Upgrade	BBB-	A	FY16 & FY19
Grama Vidiyal (Merger with IDFC Bank)	Upgrade	BBB	AAA	FY 2017
IFMR Capital	Upgrade	A-	A+	FY 2015
IKF Finance	Upgrade	A-	A	FY 2016
Satin Credit Care	Upgrade	BBB	BBB+	FY 2015
Spandana Sphoorty Financial Limited	Upgrade	BBB+	A-	FY 2019
Suryoday Small Finance Bank Limited	Upgrade	A-	A	FY 2019
Utkarsh Micro Finance	Upgrade	BBB	BBB+	FY 2016
IDBI	Downgrade	AA-	BBB	FY 2017
Western India Transport Finance	Downgrade	BBB-	D	FY 2021

- **The fund has made debt investments in 70+ companies since inception.**
- **Three of the investee companies have been awarded Small Finance Bank Licences (Suryoday micro finance, Equitas Holdings, Utkarsh Micro finance)**

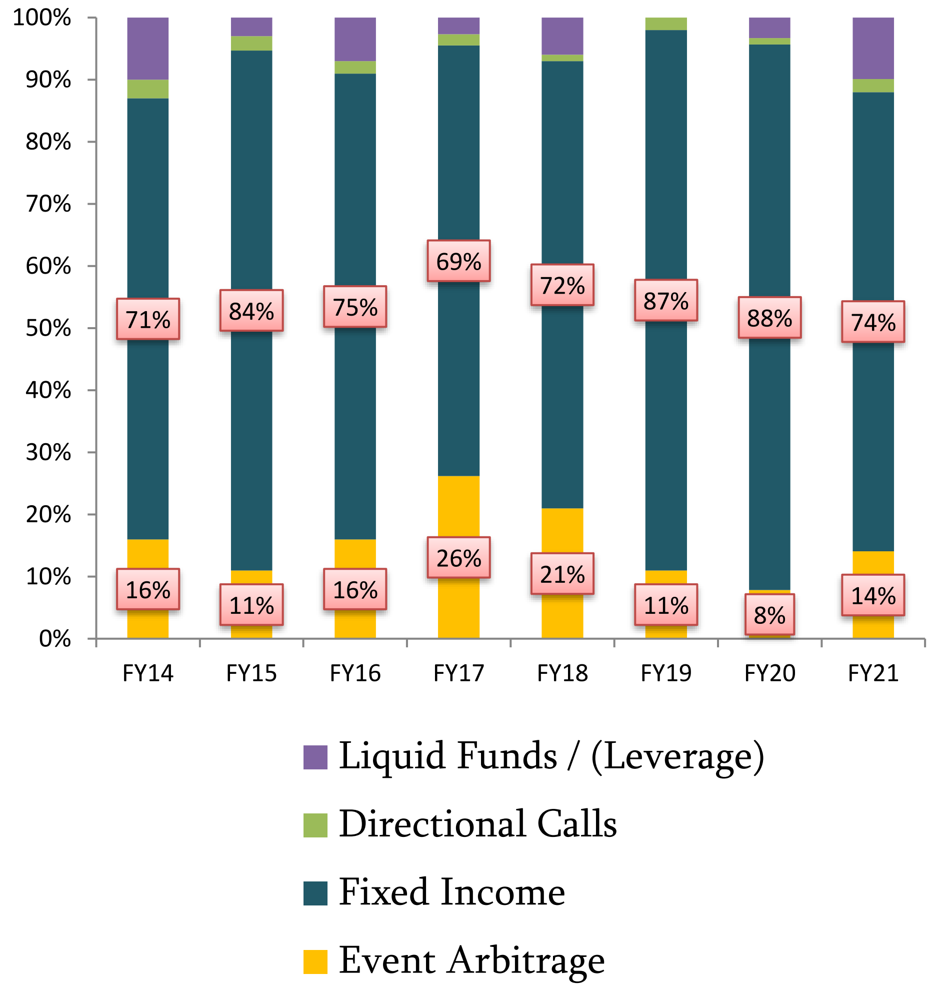
Key High Yield Debt Positions as of 30th June 2021

UNIFI HYF

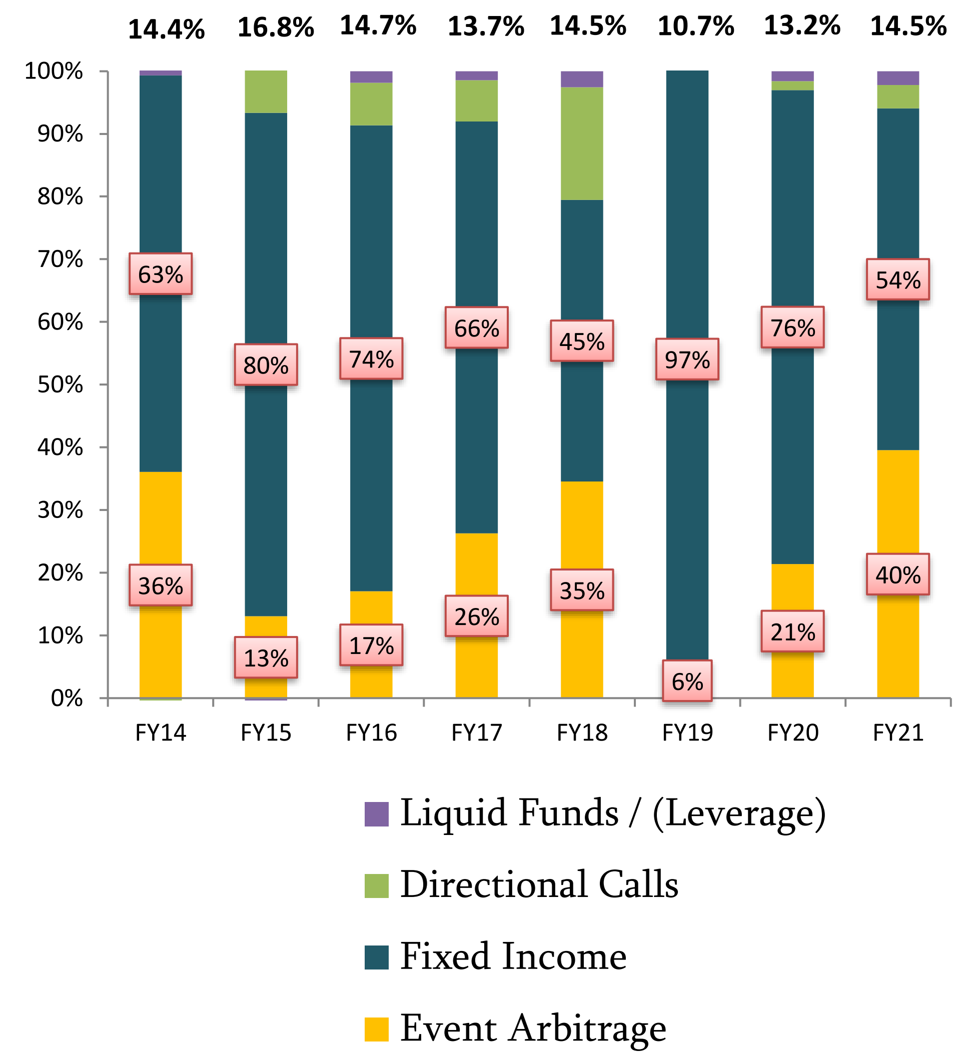
Company	Credit Rating	Exposure as % of AUM	Sector	Residual Tenor	Capital Adequacy
Northern Arc	IND A+	5.57%	SME Finance	10 months	28%
Five Star Business	ICRA A	5.29%	SME Finance	1.4 years	59%
OFBusiness Oxyzo	CRISIL A	5.17%	SME Finance	1.3 years	32%
Krazybee	ICRA BBB	3.90%	Consumer Finance	1.3 years	66%
Finova Capital	Acuite A-	3.82%	SME Finance	1.6 years	63%
Chaitanya MFI	ICRA A-	3.76%	Micro Finance	1 year	26%
Samasta MFI	CRISIL A+	3.70%	Micro Finance	1.1 years	19%
Kogta Finance	CARE A	3.69%	Vehicle Finance	1.3 years	43%
Dvara KGFS	Acuite A-	3.62%	Micro Finance	1.6 years	25%
LendingKart Finance	Info A-	3.34%	SME Finance	1.8 years	39%
Spandana Sphoorthy	ICRA A-	3.14%	Micro Finance	10 months	40%
Auxilo Finserv	CARE A-	2.91%	Education Finance	1.2 years	67%
Loantap	CARE BBB	2.37%	Consumer Finance	2 months	45%
Criss Financial Limited (Spandana Sub)	ICRA BBB	2.18%	SME Finance	1.8 years	33%
Berar Finance	ICRA BBB	1.91%	2-wheeler Finance	1.6 years	22%
IKF Finance	CARE A	1.82%	Vehicle Finance	1.2 years	23%
Visage Holdings & Finance (Kinara)	CARE BBB	1.41%	SME Finance	1 year	29%
Esskay Finance	CARE A	1.29%	Vehicle Finance	1.6 years	28%
Varthana Thirumeni	CARE A(SO)	1.12%	Education Finance	1 year	35%

Average Allocation & Return Attribution

Average Allocation



Return Attribution



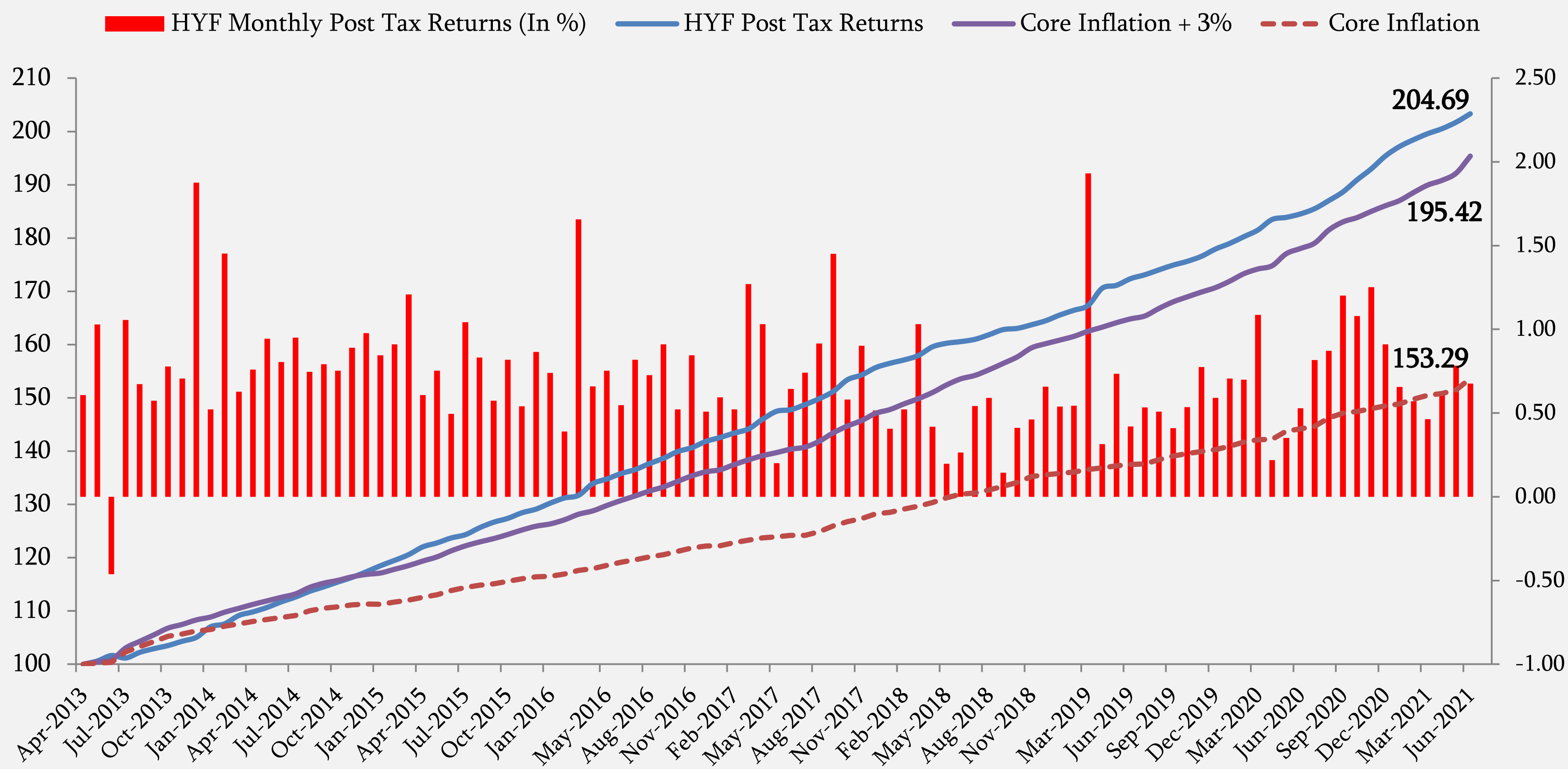
UNIFI HYF

Portfolio as of 30th June 2021

High Yield Fund Portfolio	% of Portfolio	Key Constituents
Listed Hybrid, Equity Arbitrage & Cash	17%	Liquid MFs, Powergrid Invit, Brookfield and Embassy Reits
Highly Liquid Debt (AAA &AA)	23%	Cholamandalam, Indusind, Muthoot Finance, Vedanta, TVS Credit & Indostar.
High Yield Debt (A & BBB)	60%	Investments in Emerging NBFCs – periodical amortising structure. [62% of this portfolio is getting redeemed within the next 12 months]
Total	**100%**	

Performance Comparison

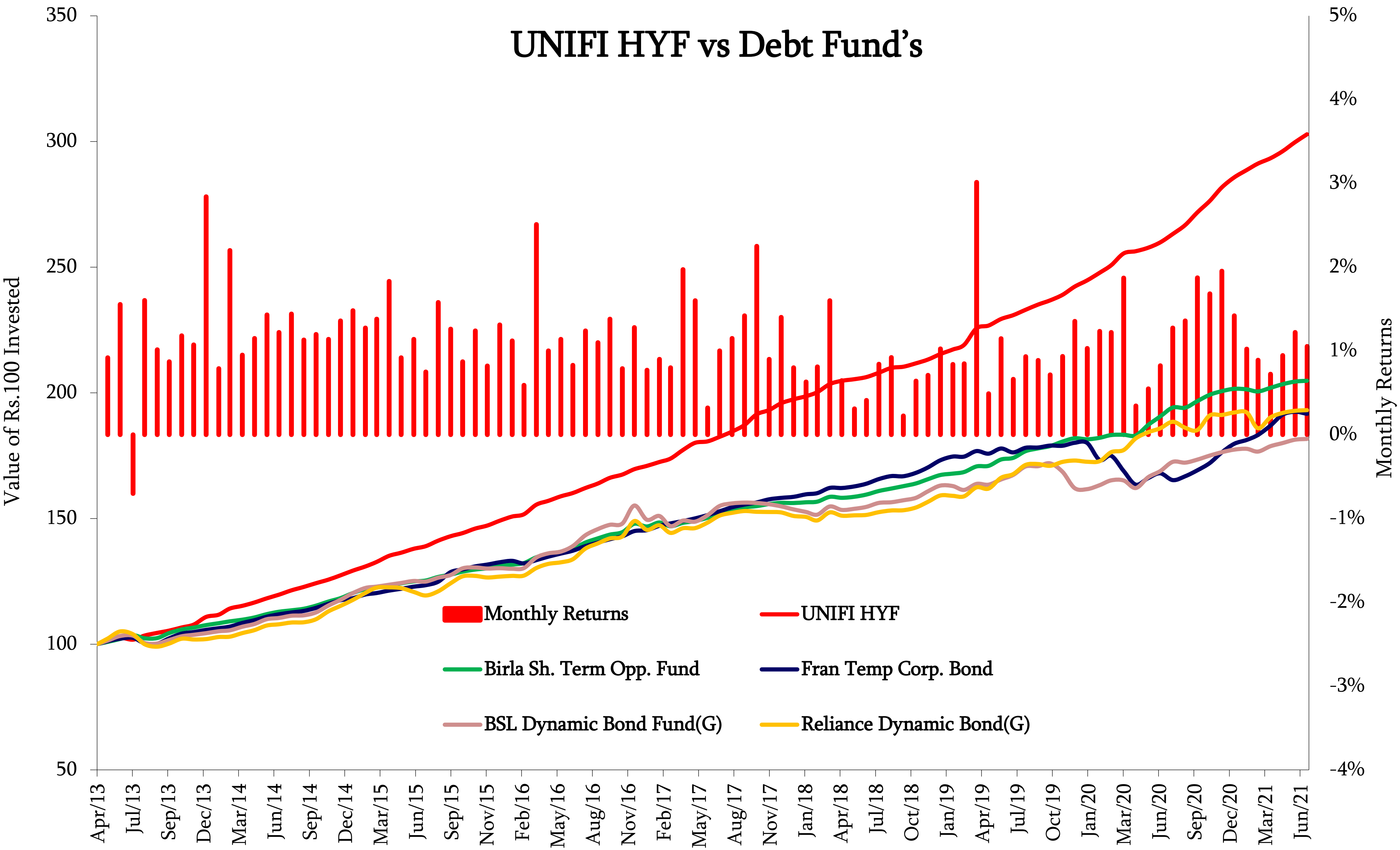
The graph hereunder shows the returns earned by Unifi HYF compared with lines that represent core inflation as well as our target i.e. core inflation + real returns of 3% post tax. [RBI measures core inflation as CPI excluding Food & Fuel]



Performance Comparison with MF's

The CAGR returns since inception of the fund is about 14.03% p.a (pre-tax) with a volatility (standard deviation) of less than 2%. Unifi HYF returns have been significantly better than comparable debt mutual funds – both credit funds and duration driven dynamic bond funds.

HYF vs. Debt MF returns	FY2021	FY2020	FY2019	FY2018	FY2017	FY2016	FY2015	FY2014
Unifi HYF – Pre Tax	14.48%	13.18%	10.75%	14.47%	13.70%	14.67%	16.82%	14.40%
Debt MFs - Dynamic Bond Category Average	6.72%	8.49%	6.49%	4.69%	12.13%	6.55%	10.54%	5.86%
Debt MFs-Dynamic Bond Category Topper	8.45%	13.83%	8.83%	7.98%	14.40%	8.07%	15.13%	10.36%
Debt MFs - Credit Funds Category Average	6.26%	-0.60%	6.06%	7.70%	10.65%	8.99%	9.28%	8.41%
Debt MFs - Credit Funds Category Topper	9.46%	9.43%	8.51%	9.43%	11.50%	10.02%	11.87%	11.12%


UNIFI HYF vs Debt Fund's
Value of Rs.100 Invested
Monthly Returns
350
300
250
200
150
100
50
5%
4%
3%
2%
1%
0%
-1%
-2%
-3%
-4%
Monthly Returns
UNIFI HYF
Birla Sh. Term Opp. Fund
Fran Temp Corp. Bond
BSL Dynamic Bond Fund(G)
Reliance Dynamic Bond(G)
Apr/13
Jul/13
Sep/13
Dec/13
Mar/14
Jun/14
Sep/14
Dec/14
Mar/15
Jun/15
Sep/15
Nov/15
Feb/16
May/16
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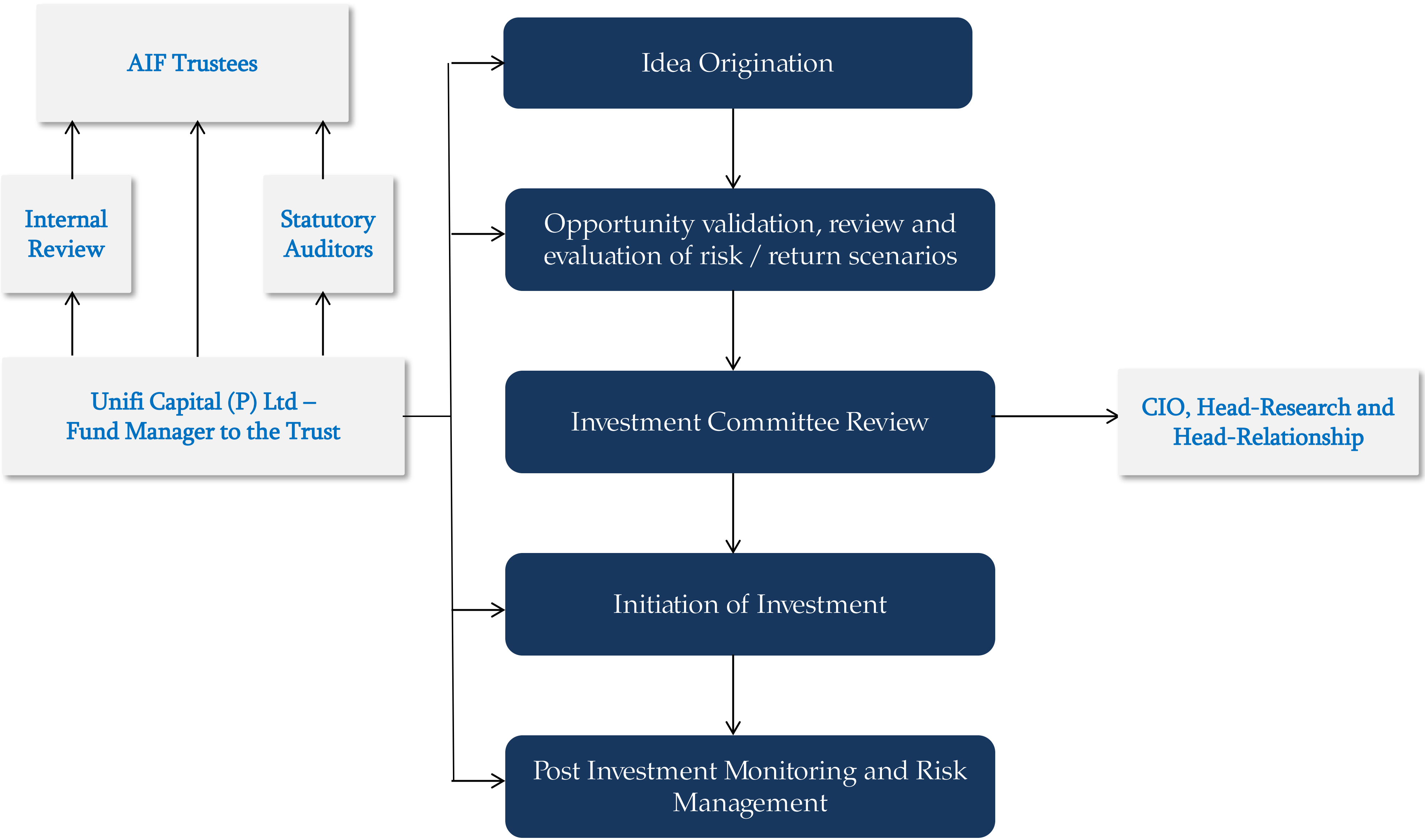
Jul/19
Oct/19
Jan/20
Mar/20
Jun/20
Sep/20
Dec/20
Mar/21
Jun/21

HYF Performance

Returns					
	UNIFI HYF	Birla Sh. Opp. Fund(G)	Fran. Corp. Bond fund(G)	BSL Dynamic Bond Fund(G)	Reliance Dynamic Bond(G)
Average Monthly Return	1.13%	0.73%	0.66%	0.61%	0.68%
CAGR	14.03%	9.08%	8.20%	7.50%	8.30%
Largest Monthly Gain	202.82%	104.78%	91.58%	81.64%	93.05%
Largest Monthly Loss	3.01%	2.34%	3.06%	4.85%	4.28%
% of positive Months	-0.70%	-1.17%	-3.76%	-3.83%	-3.81%
Standard Deviation (Annualised)	1.83%	2.14%	3.60%	4.54%	4.66%

Monthly Performance (pre-tax after all expenses, fees and costs)													Annual	
Year	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Pre Tax	Post Tax
FY14	0.92%	1.56%	-0.70%	1.60%	1.02%	0.87%	1.18%	1.07%	2.84%	0.79%	2.20%	0.95%	**14.40%**	**9.50%**
FY15	1.15%	1.43%	1.22%	1.44%	1.13%	1.20%	1.14%	1.36%	1.48%	1.28%	1.38%	1.83%	**16.82%**	**11.10%**
FY16	0.92%	1.14%	0.75%	1.58%	1.26%	0.87%	1.24%	0.82%	1.31%	1.12%	0.59%	2.51%	**14.67%**	**9.68%**
FY17	1.00%	1.14%	0.83%	1.24%	1.10%	1.38%	0.79%	1.28%	0.77%	0.90%	0.80%	1.97%	**13.70%**	**8.83%**
FY18	1.60%	0.32%	1.00%	1.15%	1.42%	2.25%	0.90%	1.40%	0..80%	0.63%	0.81%	1.60%	**14.47%**	**9.33%**
FY19	0.65%	0.31%	0.41%	0.84%	0.92%	0.22%	0.64%	0.71%	1.02%	0.84%	0.85%	3.01%	**10.75%**	**6.89%**
FY20	0.49%	1.15%	0.66%	0.93%	0.89%	0.72%	0.94%	1.35%	1.03%	1.23%	1.22%	1.87%	**13.18%**	**7.55%**
FY21	0.34%	0.55%	0.82%	1.27%	1.36%	1.87%	1.68%	1.95%	1.42%	1.02%	0.89%	0.72%	**14.48%**	**9.29%**
FY22	0.95%	1.22%	1.05%									Absolute return	**3.24%**	**2.08%**

Investment Process



Risk Management Framework

UNIFI HYF

Portfolio Parameters
Pre-trade

In-depth bottom-up review of all investment opportunities by documented and well seasoned evaluation process

Sensible Exposure Limits:

- Theme Specific
- Company Specific (not more than 10%)

'Marketable Liquidity' Assessment

Rigorous due-diligence on structure and security w.r.t debt investment opportunities

Maximum Leverage limit including derivative exposures capped at 1.5 times the fund corpus

Ongoing Surveillance
Post-trade

Daily Mark-to-Market assessment including detailed review of extreme movements

Real-time monitoring of economic developments, corporate communications to stock exchanges and methodical tracking of economy and company specific developments

Periodical meeting / calls with management of all the investment companies to measure progress, review results and revalidate assumptions

Opportunistic hedging/tactical trading to respond to short-term, counter-theme market moves

Firm Infrastructure

Best-in-class IT infrastructure with back-up

Documented Process Flow

Reputed Trustees, Custodian, Valuer etc

Research Access to premium databases capturing economic, sector and company specific trends

Periodical Internal Review and Statutory Audit

Four key tenets of our investment and risk mitigation framework :

- Avoid becoming too large too soon

  We periodically close the fund to new subscriptions so that we have adequate time to "cherry-pick" our investments and maintain a healthy funnel of investible ideas. This strategic calibration allows us to complete proper homework and offers the flexibility to say "no" to investments that we find sub-optimal. Since our commercial interest is aligned to generate higher return on capital, we don't unduly prioritise growing the fund itself.

- Avoid long duration

  We invest in shorter maturity bonds of fundamentally strong corporates at an attractive absolute yield. This protects us from having to forecast interest rates; a challenge that trips-up most professional investors most of the time. Equally important is the fact that short tenor also offers the enormous benefit of not having to predict the prospects of a business far into the future. Since uncertainties rise exponentially with time, we logically prefer to settle for a slightly lower yield than expose our capital to the risk of permanent loss due to potential disruptions over the longer term. We bear in mind that our upside is in any case capped by the bond's contracted yield, unlike the case of an equity investor who accepts long duration in the hope of earning an out-sized upside.

Four key tenets of our investment and risk mitigation framework (Contd.)

- Avoid placing too much value on credit ratings

  Credit events from the last year validate the fact that securities of highly rated and larger firms are not necessarily safer than those issued by smaller companies. The fund welcomes opportunities from relatively new issuers by leveraging our in-house capability to analyse businesses from a fundamental bottom-up perspective. These emerging firms require smaller sums, and it takes us considerable time and resources for a thorough due-diligence. Precisely for this reason the big institutions are not equipped to operate in this space, allowing us to earn superior yields.

- Embrace Illiquidity

  The bond market is dominated by large mutual funds that are managed by small teams. In the interest of efficiency, they tend to prefer investing in large and well-established firms whose bonds are perfect for quick large-scale deployment and offer liquidity at short notice. On the contrary, the issue with emerging company bonds is that they tend to be less liquid and we as investors should be clear in our mind about holding them till, they mature in 18 to 30 months. In this aspect we are particularly well placed. Despite being an open-ended fund (monthly window), we are uniquely positioned to buy illiquid bonds in exchange for higher yield due to the stability of our diversified corpus from our clients.

Why Unifi High Yield Fund ?

- Successful and consistent track record of achieving superior returns than the benchmark credit and dynamic bond mutual funds in all the 8 years since inception.
- Open-ended fund with no entry load. No exit load post 6 months of investment.
- Historical volatility has been less than 2%. Portfolio construction with uncompromising emphasis on capital preservation.
- Core high yield debt portfolio with flexibility to participate in event arbitrage opportunities with high returns potential.
- Complete bottom-up in-house research of all deals and rigorous monitoring mechanism post investment. No outsourcing of research or undue reliance on credit ratings.
- Calibrated raising of fresh capital according to deployment potential. Not looking to scale beyond INR 1500 crores so as to remain nimble and deliver performance across market and economic cycles.

The power of compounding is the eight wonder of the world – Einstein.

A portfolio with consistent above average compounded returns over years creates more wealth than a one offering high returns at a higher volatility. See the example below –

		Year 1	Year 2	Year 3	Year 4	Year 5
Portfolio A	100	18%	16%	17%	19%	15%
						219
Portfolio B	100	40%	27%	-38%	24%	22%
						167

Even one bad year in a 5 yr time period could significantly bring down the returns and dilute the power of compounding.

Thank You

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