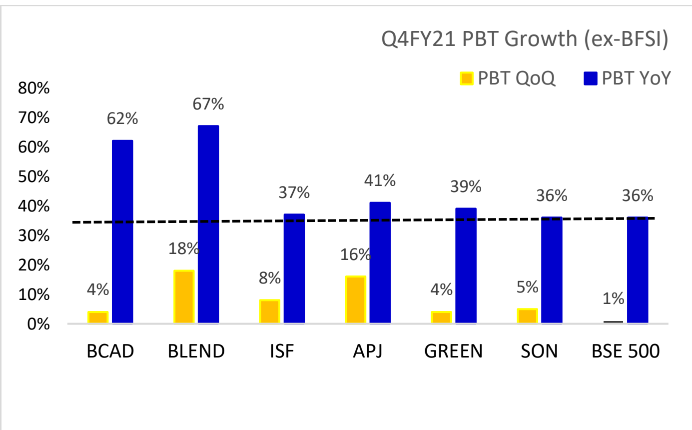
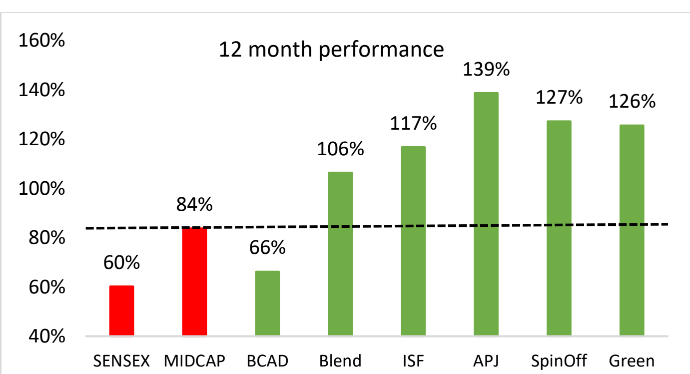
Asymmetric

Most people think in stories instead of numbers. They construct a narrative of how they expect things to play out, with perhaps not the best definition of what constitutes risk, as it is something that may derail that narrative. But risk means different things to different people, and by that extension to different firms, and the idea that there is an equilibrium in what constitutes risk is a mistake. In our line of practice of seeking favorable investment outcomes, it is important to appreciate why risk is a factor in constant disequilibrium. So, while the relationship between the raging pandemic and financial markets seem intuitively risky and symmetric, is it so? The numbers are unequivocal in suggesting otherwise.



BCAD Fund; BLN- Blend, ISF- Insider Shadow Fund; APJ Fund; GRN- Green; SON – Spin Off Fund

The outperformance of our portfolio companies and those outside our coverage is testament to how quickly markets have reimagined the business models of the leaders over the followers. What broke one end of the long tail in most industries, has led to the consolidation of leaders in the same industry. And fundamental performance of this nature represents one of the most intriguing facets of financial markets where the upside skew can be extraordinary.



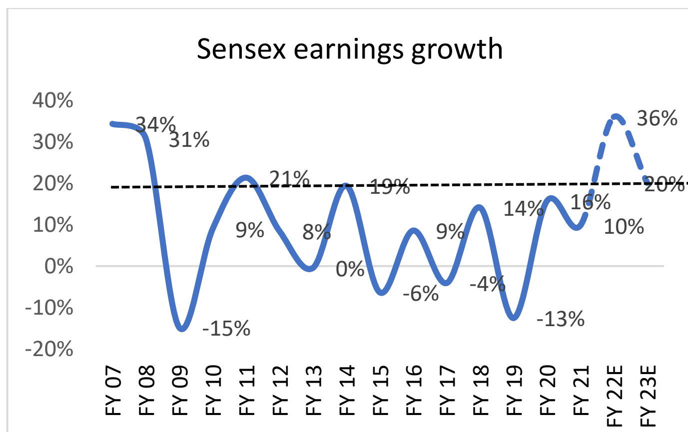
TWRR returns; 31st May 2020 to 31st May 2021.

The old maxim that financial markets are a barometer of the economy long stands modified. Markets have signified a regime change in the new world, representing industry leaders who are consolidating their dominance, and a new monetary policy framework of low interest rates around the World that is repricing equities. So, while there is pain among smaller businesses [organized or otherwise], the leaders have benefited by virtue of their ability to withstand this phase of disruption. Remember, it is an asymmetric world.

At Unifi, we are in a constant state of regression, acutely aware of the changing marketplace, rethinking business models, financial models, the right forecasting horizon, and valuations across the horizons. While individuals are worried about how bad this phase of the pandemic is, the Street is focused on how good things will be for the leaders after the storm passes. And as is the case with most of our companies, and leaders outside our universe, we find that the immediate economic loss is negligible relative to their intrinsic value given the opportunities that lie ahead.

It is Organic

Corporate India is amid its finest earnings growth cycle witnessed in the last 12 years.



The last time corporate India enjoyed this fundamental strength was more than a decade back, fueled with the multiplier effect of capex across the entire spectrum of Indian infrastructure. Today, the confluence of growth drivers are more organic, and sustainable. (A) Strong rural sentiment driven by healthy increase in support prices and two consecutive seasons of bountiful produce have lent strength to all areas of consumption; (B) India is advancing as an alternative sourcing destination to China across a broad spectrum of manufacturing industries [furniture to complex chemicals]. In the process this is also abetting India's decadal effort at import substitution. The multiplier effect of this development across the ecosystem is very healthy and likely to abet enterprise investments in the times to come. Importantly, the

Government's willingness to do what it takes to support domestic industry though generous incentivization of new capacities across sectors is commendable and is setting on course a part of the investment cycle. This confluence has resulted in an abundance of consumer and enterprise sentiment, and the confidence to kick start a new cycle of expansion.

A significant difference from the previous cycle is that corporate balance sheets today are in significantly better shape, and have greater cognizance to capital allocation and governance, and to that extent making the cycle more sustainable.

Tail Risk

Data suggests that there is a less than 0.04% chance that a carrier passing through the Suez Canal will face any issues. Entrusted with handling a significant portion of the World's International trade, the controls at Suez have a highly structured approach to underlying risk management. This came to naught earlier this year, as one of the World's largest ships, *MV Ever Given*, collapsed under its own weight*. Apparently, the Suez is not designed to host a vessel as large as the *MV Ever Given* under non-routine circumstances. And neither the Ship, nor the Suez, is designed to manage risks from non-routine events. And it is the non-routine events that define the course of nature and markets; from a virus escaping a lab to the sheer unpredictability of modern monetary policy theory and everything in between.

As professional investors, every investment decision is fraught with non-routine risks. As we construct your portfolios for times to come, this is a good time for us to re-iterate that we are acutely conscious of the probabilities of such non-routine risks affecting our investment outcomes. As a result, [a] the market caps we are present in today, [b] sectors we have exposure to and [c] our management of absolute exposure is a function of our constant assessment of routine and probability of non-routine risks. These are unlikely to be apparent in a simple evaluation of your portfolios, and a conversation with your relationship manager may enable deeper appreciation of this facet.

As you may have noticed from your portfolios, the stocks that have performed in the 2020 cycle have largely made way for newer investments that are likely to benefit from the new normal and keeping in mind newer kinds of risks. At Unifi, we are aligned with each of the above trends, but at the same time stay true to our core principles of seeking the right mix of risk and reward in each of our investments.

**[For the curious, Fat ships are prone to something known as the bank effect, where in shallow waters, the bow and stern of the boat drift in opposite ways. What followed was an unmitigated supply chain disaster, briefly plunging the World into a moment of vulnerability].*

Review of Strategies

We have captured an outline of each of our investment strategies in the following sections with a summary of how the fundamentals of our key holdings have played out in Q4 FY21. Tail positions which are on their way out of the portfolios have not been discussed. Individual portfolios will vary in holdings and proportion based on the timing of your investment with Unifi. For a detailed review of your portfolios, please do not hesitate to contact your relationship manager.

DVD / Blend

The DVD / Blend fund strategy continues to cherry pick ideas from across the six distinct themes managed by Unifi, thereby investing in "the best of our best" and participating in opportunities across the breadth of the market. The ideas represent a mix of emergent themes, corporate actions and fundamentally attractive bottom-up opportunities. We continue to focus on delivering superior risk adjusted returns from an absolute perspective.

As on June 10, 2021	FY 22E
Wt. Avg PE^	22.4x
Wt. Avg PB	4.7x
Wt. Avg ROE	25%
Wt. Avg Mcap	Rs.70,591cr

^ex- BFSI

BC AD

The fund continues to invest in sectors that are currently witnessing a shift in market share from the unorganized to organized players. While the lockdown related disruption can impact the near-term demand for consumption-based themes, as market leaders with strong net-debt free balance sheets, a majority of our investee companies are likely to see an increase in their market share, as marginal players find it difficult to operate in the new environment.

As on June 10, 2021	FY 22E
Wt. Avg PE^	28.5x
Wt. Avg PB	5.9x
Wt. Avg ROE	27%
Wt. Avg Mcap	Rs. 52,196cr

^ex- BFSI

APJ

The fund seeks to deliver absolute returns over a five-year horizon through investments in sectors that will benefit from the next stage of India's growth on the back of improvement in India's infrastructure, and policy climate. The APJ fund continues to focus on firms delivering manufacturing excellence broadly across technology, chemicals, pharmaceuticals, materials, and infrastructure in general.

As on June 10, 2021	FY 22E
Wt. Avg PE^	21.2x
Wt. Avg PB	6.6x
Wt. Avg ROE	29%
Wt. Avg Mcap	Rs. 72,171cr

^ex- BFSI

Spin Off

The spin off fund seeks to generate superior risk adjusted returns relative to market indices by investing in stocks of companies that are undergoing a corporate demerger. Typically, in a transaction such as this, the sum of the parts of valuation of the different companies that are undergoing a separation is higher than the market cap of the de-merged entity. The fund's proposition is to gain from the fundamental asymmetry linked value-price mismatch, by closely tracking the entire Spin-Off process and investing in such companies, subject to a comfort from bottom-up fundamentals.

As on June 10, 2021	FY 22E
Wt. Avg PE^	18.1x
Wt. Avg PB	5.9x
Wt. Avg ROE	25%
Wt. Avg Mcap	Rs. 50,097cr

^ex- BFSI

ISF

The Insider Shadow Fund invests in fundamentally sound companies where there has been an increase in the promoter holding. Typically, such an action by the controlling shareholder demonstrates their conviction that the company's growth prospects, or inherent value is not captured in the stock price at that moment. Unifi's proposition is to gain from the eventual balancing of the value-price mismatch in the market by identifying and investing in such companies after a detailed review of their fundamentals and corporate governance standards.

As on June 10, 2021	FY 22E
Wt. Avg PE^	16.5x
Wt. Avg PB	2.0x
Wt. Avg ROE	15%
Wt. Avg Mcap	Rs. 39,352cr

^ex- BFSI

Green

The fund continues to invest in sectors that will benefit from India's evolution towards a more "sustainable economy". The investment universe would comprise of well managed businesses offering best in class solutions to address challenges in the areas of Energy, Emissions, Waste and Water.

As on June 10, 2021	FY 22E
Wt. Avg PE^	18.5x
Wt. Avg PB	3.5x
Wt. Avg ROE	21%
Wt. Avg Mcap	Rs.8,322cr

^ex- BFSI

Risk

Risk	Mitigants
Coronavirus Impact	The impact from the ongoing Coronavirus outbreak in India and rest of the World can be multifold. The lockdown related slowdown in consumption can affect several sectors. How long it takes for sentiment to return in consumption remains to be seen. Our investee companies have product & category leadership along the financial wherewithal to withstand temporary phases of demand slowdown and lead consolidation of demand. The BFSI sector could have heightened stressed assets for a certain period of time thereby impacting their profitability.
Geo-political risks	Any geo political tensions between India and neighboring countries can disrupt supply chain in the region. This might have a non-linear impact on business. s
Raw material inflation	India continues to be dependent on the supply of feedstock whose pricing is global in nature. Key categories would be crude, metals, minerals, and natural commodities. Sharp movement in their underlying prices will have a short-term financial impact on the companies. The situation in China (Corona Virus, and political) has the potential to disrupt the supply chain of a few of our investee companies.
Liquidity risk (in case of NBFCs)	The NBFC led liquidity crisis in India has had a systemic effect on the entire economy. Our investee companies have been able to tap diversified sources of liquidity on the back of their long-term track record of comfortable asset quality and asset-liability-management (ALM). However, sustained deterioration of the asset quality can continue to affect our holdings in Banks and NBFCs.
Foreign Exchange risk	The foreign exchange system continues to be guided by global developments spanning Brexit, US-China trade war, OPEC related developments, and other geo-political issues. Our investee companies in the IT sector are subject to sharp movements in the USD and GBP. They mitigate the same via hedging, but there remains a portion of revenues that continue to be subject to the vagaries in fx movements. Most of our non-IT exposure is to companies that derive their revenues from the domestic market. The revenue from exports would be minimal for each strategy as a whole, and where relevant, are adequately hedged. A sharp depreciation in the INR will affect the import of feedstock (higher prices) which can lead to a brief moment of earnings-related volatility.
Leverage risk	Except for financial companies, most of the operating companies in the strategies carry nil to moderate debt on their balance sheets with a track record of having managed leverage well in the past. Their leverage is monitored regularly.
Technology Obsolescence	Technological changes can render the products/services of a company obsolete and thereby hurt its profitability and valuation. Such a risk is generally minimized by limiting the aggregate exposure of portfolio to such investments to less than 10% of value.

Governance risk	We avoid investing in companies with a known history of corporate governance issues. Further, in case such issue arises in an existing investment, we stop additional purchases and start optimally exiting the investment.
Concentration risk	At the portfolio level, such risks are minimized by limiting the aggregate exposure of portfolio to such investments to less than 10% of value at the time of investment.
Stock Illiquidity risk	High Impact cost, due to thin trading at the time of buying or selling is endemic to small & mid-caps. We plan our investment decisions, size of the investment and trading strategies to minimize the costs due to illiquidity.
Key Man Risk	Small and mid-caps are frequently managed by a key promoter / person on whom the business is completely reliant and without whom the business would be materially inferior. We generally avoid such names and in cases where we make any exceptions, the aggregate exposure of portfolio to such investments is limited to less than 10% by value.
Slowdown in global consumption	The wallet-share of the investee companies in the global manufacturing value chain, does not pose a significant risk of loss of business to their vendors. New and high growth areas such as Lithium-Ion batteries, EV vehicles are in relative infancy stage and have a strong growth curve ahead of them.
Softness in IT product spends	The convergence to digital software solutions is a 'must do' proposition and our investee companies have exhibited significant traction in competing in this space. A combination of their recent deal wins, and current bid pipelines bode well for their future.

Thank you for placing your trust in Unifi.

Sincerely

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