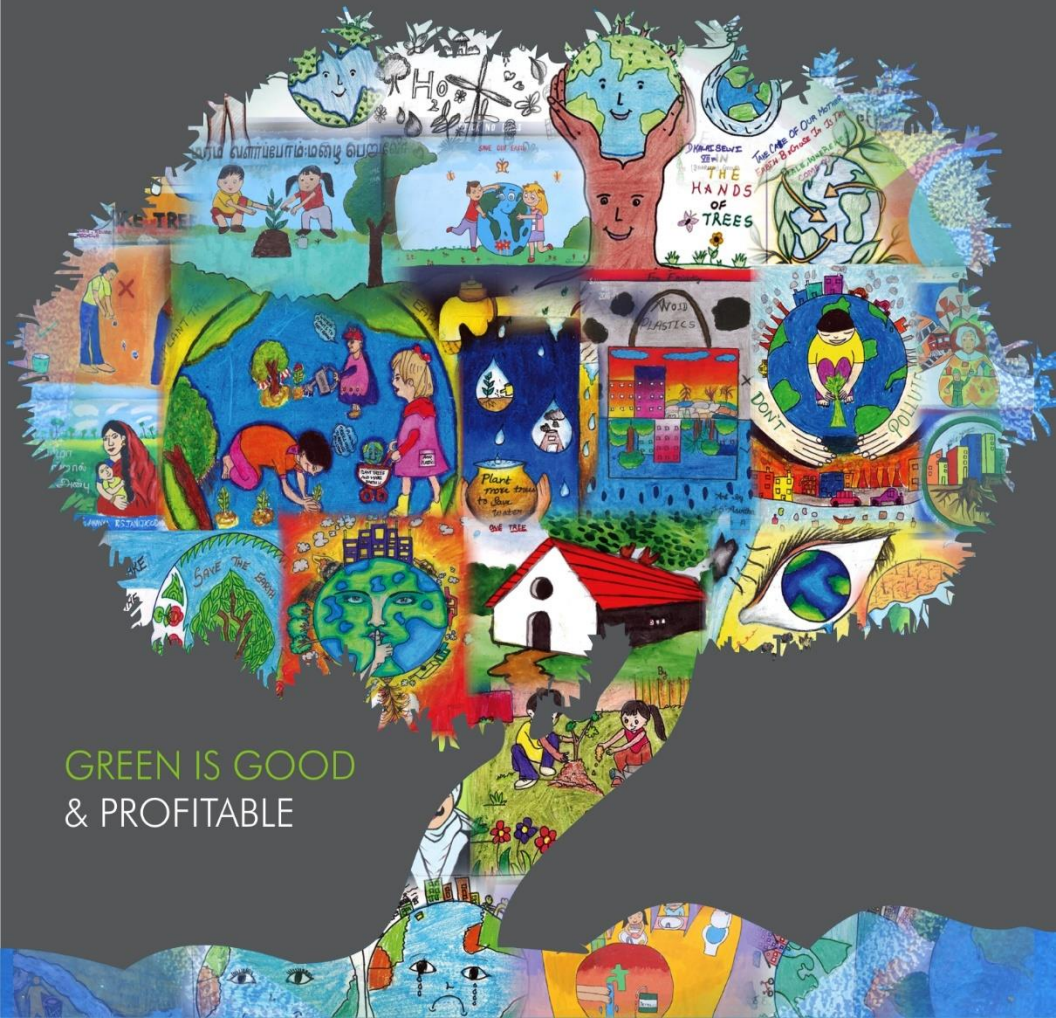




THE GREEN FUND



GREEN IS GOOD
& PROFITABLE



**INTERNATIONAL SOLAR ALLIANCE
OF 121 TROPICAL COUNTRIES
TO DEVELOP & PROMOTE SOLAR ENERGY**

TO BE HEADQUARTERED IN INDIA



Evolution of renewable energy

For the first time, developing nations have invested more in renewables than developed countries.

Developing and emerging economies committed \$156 Bn to renewables; up by 17 times in 2014 from 2004 levels. An unprecedented 118GW of wind and solar photovoltaic capacity was added in 2015.

India was among the top 10 investing countries in renewable energy, with its commitments rising 22% to \$ 10.2 Bn. India has set a target of 175GW of RE by 2022 and mandated the rapid electrification of more than 18,000 villages. This presents an investment opportunity of more than \$150 Bn in clean power generation.

Unifi's Thesis on Green Investing

Green Is Good & Profitable: Global business research firms and academics have studied the merit of a corporate entity in becoming resource efficient (Going Green), by comparing various companies within each business sector across cost and earnings. Such studies clearly demonstrated a significant correlation between resource efficiency and financial performance of the companies. Eco efficiency practices help a company improve their business and contribute to stock price outperformance.

Governments and the global community have accepted climate change as a challenge. Reversing climate change would require: 1) a significant movement from fossil fuels to other energy sources, 2) achieving significant efficiency in the use of raw materials and 3) viewing emissions and waste generation as a sign of process inefficiency.

The green shoots of this transformation are already visible in India. Adoption of solar and wind energy, adoption of zero discharge policies by manufacturing companies, LED lighting in a large scale, drip irrigation in farming and acceptance of eco-chemicals. This transformation requires business enablers like manufacturers and service providers in renewable energy, energy efficient systems, water treatment & recycling and waste management.

Most of the Indian companies in the Green space have had initial level of growth coming from Government and regulatory requirements. But recent technological innovations are making the green transformation profitable for customers. With market forces validating the economic value of the green transformation, these companies are at the cusp of an exponential growth. It is this second phase of growth that triggered Unifi to consider a distinct fund to pursue the opportunities.

Why Unifi?

Since inception in 2001, Unifi has specialized in niche and boutique themes and sectors. Such themes, appeared contrarian in the beginning but, have done well as demonstrated by the exceptional returns earned, both in terms of absolute and relative.

At Unifi, we have certain unique strengths:

1. Our relatively smaller size helps us to focus on niche areas of the market wherein "Institutional" type of capital can't be deployed.
2. A strong research team that believes in primary research and doesn't hesitate from initiating research into companies/sectors that lack analyst coverage and/or are prone to information asymmetry.
3. Our direct engagement with each of our investors at regular intervals enables us to pursue strategies that are not benchmarked with major stock indices.
4. Our alignment of interest model of commercials bring clarity on absolute return targets as well as long term outlook in returns measurement.



The unique characteristics of the Green theme ensures alignment with our strengths. Green ideas are not well represented in stock indices and hence returns could diverge from the performance of the indices. Exponential growth would be some years away and therefore a long term outlook is required to evaluate returns. Also the universe of ideas converge around the small and midcap space wherein it is difficult for "Institutional" type capital to invest and most of the green ideas being evolutionary are under researched and therefore require primary research to validate their proposition.

Green as an Investment Theme

Green investments refer broadly to low carbon and climate resilient investments made in companies that operate primarily in the renewable energy, clean technology and environmental technology space. These would include companies that provide products and services offering solutions to environmental problems or that which would improve the efficiency of use of natural resources.



Emissions

Emissions control involves cleaner energy which includes: non-fossil fuels and natural gas. It would also include companies that manufacture or install equipment and services for prevention/clean-up of air or soil pollution. Would include Green Chemicals both eco-friendly consumer and industrial chemicals.



Alternate Energy

Companies that provide products and services along the renewable and alternative energy value chain. It would include companies that design, develop, manufacture or install wind turbine equipment & components. Similarly in the case of other renewable energy technologies pertaining to hydro, tidal & geothermal.



Water

Companies that provide or operate technologies, infrastructure and services for the supply, management and treatment of water for industrial, residential, utility and agricultural users. This includes: water infrastructure, water treatment equipment & water utilities.

Energy Efficiency

Companies that provide products and services enabling more efficient methods of energy usage. This would include: industrial energy efficiency, building energy efficiency, transport energy efficiency, power network efficiency and consumer energy efficiency.



Waste Management



Companies that provide and/or operate technologies, systems and services for waste management, reuse and recycling. This includes Waste technology equipment, recycling and value added waste processing, general waste management and hazardous waste management.

Investment Universe:

Renewable & alternative energy	Energy Efficiency	Water infrastructure & technologies	Emission control	Waste management & technologies	Others
Wind power generation equipment	Power network efficiency	Water infrastructure	Pollution control solutions	Waste technology equipment	Carbon and other environmental assets trading
Solar energy generation equipment	Industrial energy efficiency	Water treatment equipment	Environmental testing and gas sensing	Recycling and value added waste	Environmental consultancies
Other renewables equipment	Buildings energy efficiency	Water utilities	Public transportation	Hazardous waste management	Sustainable and efficient agriculture
Renewable energy developers and IPPs	Transport energy efficiency	Diversified water infrastructure and technology	Green chemicals: Consumer end user segments	General waste management	Logistics, food safety and packaging
Biofuels	Consumer energy efficiency		Green chemicals: Industrial end user segments	Diversified waste and technology	Sustainable forestry and plantations
Infrastructure for alternative energy	Diversified energy efficiency				

Climate Change and its Consequences

Human-induced climate change is the result of the rising levels of greenhouse gases (GHGs) in the atmosphere. The GHGs include carbon dioxide, methane, nitrous oxide and a few other industrial chemicals. These GHGs have a shared property: "they warm the planet". The greater the concentration of GHGs in the atmosphere, the average temperature on Earth will increase. The most important of the GHGs is carbon dioxide (CO₂). The main source of human-induced CO₂ comes from burning coal, oil and gas.

When the world-leading environmental scientist Johan Rockstrom brought together other leading Earth systems scientists, they asked: "What are the major challenges stemming from humanity's unprecedented impact on the physical environment"? According to them, what humanity is doing, including producing carbon emissions but also much more is disrupting not just the climate but several of Earth's natural systems. These include the depletion of freshwater sources (such as underground aquifers); pollution from heavy use of chemical fertilizers; increasing the acidity of the ocean; the clearing of forests; and particulate pollution caused by many industrial processes.

All these pose deep threats to the Earth and the wellbeing of humanity. These scientists argued that the extent of the damage is so large that humanity is leaving the “safe operating conditions” for the planet. It is as if we are driving the car right off the road and into the ditch, or worse, right over the cliff.

Climate Change in the Indian Context

Emissions due to Energy Consumption: Currently, India accounts for 6% of global emissions. Under a business as usual scenario, India's GHG emissions are projected to grow by 85% by 2030. Energy demand in India is projected to soar over the coming decades, propelled by an economy that grows to reach more than five-times its current size by 2040. The three major energy-consuming sectors are industry, residential and transport.

Waste Generation in India: Every year, about 55-65 million tons of municipal solid waste (MSW) and 38 billion litres of sewage are generated in India. In addition, large quantities of solid and liquid wastes are generated by industries. In addition to the MSW, waste streams like E-waste (any kind of electronic waste) and Packaging waste are growing rapidly. The main greenhouse gases emitted from waste management is Methane (CH_4). Similarly, wastewater becomes a source of CH_4 when treated or disposed anaerobically. It can also be a source of nitrous oxide (N_2O) emissions as well.

Water Usage : According to the U.N, based on the average requirement of water for various purposes, the situation is considered as water stress condition when the per capita water availability ranges from 1000 to 1700 m^3 per year and it is considered water scarcity when the availability reduces to 1000 m^3 per year. In India, the per capita water availability in 1951 was 5177 m^3 per year when the total population was only 361 million. In 2001, as the population increased to 1027 million, the per capita water availability reduced drastically to 1820 m^3 per year. As the water available within the country varies widely as a result of rainfall, ground water reserve and proximity to river basins, most of the Indian States are expected to have reached water stress condition by 2020 and water scarcity condition by 2025.

Innovations & Disruptions: Towards a Clean Tech World & Green India

Innovation:

We often confuse Innovation with Invention. Thomas Edison was an inventor. Steve Jobs was an innovator. The time gap between Invention and Innovation could vary from product to product.

From 1875 when Graham Bell said, “Mr. Watson, come here, I want to see you”, it took 30 years for the first millionth telephone to be connected. But in the next 5 years, about 6 million lines were added. Though handheld mobile phone was invented in 1973 by Motorola and took 10 more years for commercialization, the first millionth subscriber came in next 7 years. Today we are adding millions

every month, just in India. Innovators such as Apple have created more wealth for shareholders than Inventors like Motorola. The first web page went live in '90. It took another 15 years for first billionth user be online whereas we added the last billionth in less than 3 years.

Though the first patent for silicon solar cells was filed in 1940s, commercial power generation through solar panels began slowly only in 80's. It took another 20 years to reach 1 Giga watt (1000 MW) globally. In the next 10 years, it has grown to 50GW.

In India, we began late with a 2 MW plant in 2009. We took almost 5 years to build the first 1000 MW but, this year alone India would be adding 5000 MW. We are targeting to have 1 lakh MW in the next 5 years, an average addition of 2000 MW every month.

Usually, technologies that materially impact human life either by enhancing ease of living or reducing cost of living grow in an exponential manner. The time they take to reach 0 to 1 is what they take to move from 1 to 90 or more in a scale of 100. The fact that more than half of power capacity added this year globally is represented by renewable energy which clearly demonstrates that solar technology is on an exponential growth trajectory.

Disruption:

"Disruption", as a word is being used more frequently nowadays. But it has occurred in business cycles in previous decades too. Invention of motor cars in the beginning of last century disrupted 1000's of years' of horse driven transportation. Our generation is witness to many disruptions. Telephones disrupting telegraphs, mobiles disrupting landline, digital cameras disrupting film rolls, CDs disrupting floppy discs which in turn got disrupted by pen drives, examples are endless. Disruption in businesses get reflected in stock prices and Indices with a lag effect.

The base value of Sensex was taken as 100 on 1st April 1979. Only 9 of the initial 30 companies that were part of Sensex continue to remain. Of the balance 21 companies, 6 companies vanished in the first 10 to 15 years. Rest have become smaller or got acquired. There were many other companies that became part of index in 80's and 90's which don't even exist today. Many of the bluest of blue chip names of yesteryears became marginalized or bankrupt when business cycles changed over a period of time.

This is a global phenomenon. Dow Jones index has undergone 51 changes since its inception about 120 years ago. Initially dominated by railroads and steel, the list of large companies by market capitalization was dominated by oil & gas companies towards the end of the last century. Just 15 years later in the new millennium, 4 of the top 5 market-capitalized companies worldwide are technology companies; some of them didn't even exist few years back.

Innovations that drive “Green”

1. **Solar:** About 70% to 80% of Green House emissions come from three energy sources - Coal, Petroleum and Natural Gas. Technology led innovation in solar photo voltaic cells (PV) have brought down the cost of power generation exponentially. The Power Purchase Agreements (PPA) that are currently getting signed in the United States are below 5 cents per unit of KWh. In India, most of recent contracts are at Rs.5/KWh. The cost was Rs.20 per unit about 5 years back. Decline in PV cell cost due to economies of scale and efficiency improvement has enabled this transformation. In \$ terms, Rs.5 is about 7 cents per unit which is equivalent to oil at \$12 per barrel of energy. Soon it will become cheaper than cost of grid power.
2. **Batteries:** Tesla's Giga factory will produce this year more lithium ion batteries than what was produced globally 3 years back. The prices have declined 70% during this period. It is following Moore's law: “Double the capacity @ half the cost, every 18 months”. The innovation led price decline in solar power when coupled with endless storage capacities can disrupt the energy market. In countries like India, it will be a game changer event in the electrification of rural areas as no major investment in T&D infrastructure would be required. This will tremendously help energy intensive businesses at the cost of conventional energy businesses.
3. **Water & Solid Waste:** Though desalination technologies brought respite to water scarce regions, high energy costs made it economically prohibitive as energy constitutes more than half of the operating cost of desalination. The significant decline in power cost due to renewable energy would make desalination a viable option to meet the water demands of Industry and society. There has been enormous advancement in technologies pertaining to Industrial waste water treatment and agricultural irrigation. The utility scale deployment of such facilities is gaining momentum in India both from municipalities and corporates.

Unlike other innovations that have disrupted only related businesses, innovations in solar energy and storage systems will have a profound impact across a spectrum of industries in India. This is truly game changer innovation for a large economy such as ours which has suffered from high cost power. We had commissioned a research program few years ago to evaluate the impact of disruption from these new technologies. The initial focus of the research was on measuring the impact on select sectors. Subsequent research enlarged the scope of our study across multiple sectors. The findings indicated that some would benefit out of this disruption while others are likely to get disseminated soon. We invited Tony Seba, a global expert on clean technologies (his visiting card recognizes him as “Chief disruption officer”) to address our team few months back. He brought clarity on how confluence of innovations in solar, storage systems and electric cars could disrupt some sectors and open up opportunities in others. The video link of his full presentation made during a lecture organised by Unifi foundation in Mumbai is <https://www.youtube.com/watch?v=ZfXKxThT4HY>

The universe of investment ideas arising out of this exercise is exciting enough for us to pursue further research and contemplate a separate fund for our investor clients. This theme is not just about Green energy. It includes chemical companies trying to address emission issues by replacing hazardous chemicals, companies who bring energy efficiency to multiple products, alternate energy, water recycling & treatment companies and waste management companies.

As mentioned before, disruptions reflect in stock indices with a lag effect. We believe “Green” is likely to be the single most disruptor in the next 5 to 10 years in Nifty and other indices. We may witness many companies moving out of Nifty, some even to bankruptcy. In their place, we will have new companies, which may not figure in a conventional investor radar currently.

The power of disruption led by innovative technologies has opened up pockets of opportunities that enable intelligent entrepreneurs to grow exponentially. Communities feel of “Green is good” is just adding necessary tailwind. Interesting times ahead, for those who invest in such opportunities when the ideas are young and perhaps appear small. What wise buy in the beginning, fools do in the end. We would like to on board our clients early. Welcome on board!



Theme Risks

The Green Fund has all the risks associated with equities common to our earlier contrarian themes. But there are three risks specific to the Green theme detailed below including our risk mitigating strategies. For a detailed review of the theme risks, kindly refer the FAQ section. The best approach to understand this would be a direct interaction with our client managers who would advise you on the suitability of this theme considering the associated risks.

Regulatory Changes: Regulations would be one of the important drivers in the transformation of the economy into a green economy. However, sometimes due to short-term political considerations, the government of the day might hesitate to legislate certain key regulations. For example: The incoming Trump administration has promised to roll back some of the existing environmental regulations. Our assessment is: There is no way to predict future changes to the government or their policies. If transformation into a green economy does not make economic sense and is purely viewed as a cost center, but is still being pursued because of “global good” then such a transformation is unsustainable and investing based on such a transformation would be risky. However if the technology led transformation results in economic value to stake holders in addition to benefitting society at large, then risk of “lack of regulatory push” become inconsequential.



Technology Changes: Technology is playing a key role in many aspects of the evolving green economy across the world. Current technologies could be overshadowed and rendered obsolete due to new innovations and discoveries. In this backdrop, the business models of some of the companies in which we invest may become redundant/obsolete due to technology disruption. But our portfolio is likely to consist primarily of users of technologies rather than technology providers themselves and hence the risk could be marginalized.

Time to payout: Many of the business transformations are evolutionary in nature and is difficult to “time stamp” their evolution in terms of months or even years. As investors, we have a choice to wait till the sector becomes mature with stable returns but with higher valuations or invest before the inflection point of growth and take the time risk. The Green Fund is not a venture capital fund looking for new concept or technologies. The fund will consider opportunities that have already demonstrated growth in a profitable manner with proven technologies but exponential growth is yet to materialise. As contrarian investors we have always preferred to have long term orientation with some element of “ahead of time” risk rather than play momentum with the current favourites. Investors who have similar orientation may appreciate value in such a proposition.



FAQ

FAQs of most investment products would have been designed by the firm. The following FAQ is out of an exercise we engaged with our clients and client advisors. We have listed out below all the questions we encountered and our observations we share with them.

1) Why a green fund? What made Unifi come up with this concept?

We are at an inflexion point as far as sustainability practices around the world are concerned. Renewable power, which is the most highlighted theme in green investing, can be taken as an example. Solar power has now achieved parity with the grid, i.e., they are now at a cost that is equal to or in some cases cheaper than conventional coal fired power. In such an instance, adoption of power that is clean and renewable is not just a good and sensible practice, but also financially attractive. As a parallel, increasing awareness among consumers on the relative benefits of using natural, organic and safer chemicals and natural gas are resulting in a new paradigm of opportunity for the green industry. These developments are translating to a significant investment opportunity across the green value chain.

2) Are there sufficient investable ideas for this theme?

Our research team has identified around 135 companies in the listed space which are relevant to this theme though the materiality of Green aspect and market capitalisation differs. The investment portfolio of around 15 companies will be created from this universe of companies. As our research is an on-going process there is a high possibility of adding more companies to our investable universe.

3) Is the theme too dependent on government regulatory initiatives?

It is a given fact, globally, that regulations provided the first level of thrust in forcing businesses and society to adopt environmentally-friendly practices, but now many businesses are going beyond regulatory requirements. The primary reason being that businesses perceive environmental practices as a form of enhancing operational efficiency and gaining competitive advantage. As an example, the number of companies from India Inc reporting for inclusion in CDLI (Climate Disclosure Leadership Index), which is backed by more than 822 institutional investors representing in excess of \$ 95 Trillion in assets, increased to 31 in 2015, a jump of 35%.



The Government of India has crystalized a target of adding of 175,000 MW of renewable power by 2022. This provides a huge investment opportunity across the value chain of Solar and Wind infrastructure creation. Alongside, policy initiatives such as the smart cities and Swach Bharat campaign will translate to investment opportunities in the water, waste management and energy efficiency space in India. However, the Government policy framework is not the only reason we have considered this theme. The recent technological advancements benefitting the cost economics for the users is the major driver. Societies feel of “Green is Good” combined with techno-economic feasibility is aiding adoption tailwinds.

4) Why is the fund not looking at Disruptive technologies, are there no listed opportunities in India. Why not take exposure to listed opportunities overseas through the fund?

Disruptive technologies irrespective of which sector or category they are in, have high attrition rates. More often than not it is a 'winner takes it all' segment and the price of getting a call wrong is capital loss. It is not in Unifi's DNA to chase investments in themes that are topical, without the underlying visibility of earnings. Besides, it is not fair to take money from investors and go on an 'exploratory' trip! If technologies, whether disruptive or not, are viable and reflect in superior financial performance then such ideas would be part of the portfolio. The fund's mandate is to invest only in listed companies in Indian capital markets.

5) Hypothetically there exists a Green company that would end up polluting environment but is right now at an inflexion point where earnings growth is phenomenal in next 3-5 years. Would you still invest in it?

Investments in the fund would first have to qualify under green parameters and only then would the financial metrics would be considered.

6) Can technological disruption disrupt the selected companies?

When we evaluate companies from a technological perspective, we will invest only in such companies which have a strong technological foundation such that they will have the inbuilt ability to adapt to disruption/changes in technology. Also, from a diversification perspective we will be investing in businesses wherein the competitive advantage flows from execution capability.

7) How does a company enter the Green Universe? Should its business be totally green or partially green or is even a small percentage of green component sufficient? There are people who attend few days of seminar in Harvard and call themselves Harvard educated!

For a company to be part of the green universe, significant portion of the company's value has to emanate from the 'green' business; the test of materiality will be attributed to the percentage of revenues and earnings arising from the green part of the business. If there is an instance where a company in its current form does not have a significant enough green portion, but going forward, a change in revenue and earnings mix towards the green business is imminent, it would still form a part of our green universe.

The only challenge in sectoral funds is when the sector runs out of steam and fund manager runs out of ideas in the sector, for the scheme performance to beat the benchmark he will look for ideas outside. For example, we have seen Colgate in an IT fund and banks in an Infra fund in the boom times of these sectors in the past. We have more than the required pool of ideas in multiple sectors under the Green theme as this is not a single sector fund. We will not "style drift" and rationalise any investment as Green.

8) Even though we tend to provide themes and ideas, wouldn't the stock selection criteria be still done the old fashioned way for this theme? That is focus on earnings growth, avoiding highly leveraged companies, not paying high PE etc?

The Green theme would just provide the broad universe for stock selection, and a green stock by itself will not merit a find in the portfolio. Portfolio construction from the given universe will be subject to the regular business and financial diligence that goes into investing into any small or mid cap stock, as we have successfully done in our other themes over the years. Such companies must demonstrate earnings relative to its current valuations providing an adequate margin of safety to take equity exposure to participate in future upsides.

9) Going Green could be a very long term process, especially in a developing country like India. The UN's flagship \$10 bn Green Climate Fund deployment target for 2016 could not be met due to lack of any credible proposals from developing / under-developed countries. In this backdrop does the green fund run the risk of being launched "ahead of time"?

The Green Climate Fund's \$10bn fund could not be deployed not because of the lack of credible



proposals from developing countries but due to the impractical oversight mechanism required by the donor countries that required enormous paperwork and years of lobbying.

As things stand today, the impact due to climate changes are being felt across the world, be it in Beijing, Delhi or Europe. As a result, there is now global consensus on taking definite measures towards mitigation of the reverse suffered from climate change. It is not necessary that what has been the status quo in the past, will continue. While the Paris Climate agreement mandates countries to reduce carbon emissions, nations are moving towards renewables anyway as they are becoming economically attractive by the day.

10) What are the parameters we look for when defining a company as green?

“Green” investments refer broadly to low carbon and climate resilient investments made in companies that operate primarily in the renewable energy, clean technology and environmental technology space. These would include companies that provide products and services offering solutions to environmental problems or that which would improve the efficiency of use of natural resources.

Our investable universe would broadly consist of: Energy efficiency/ Alternate Energy, Water infrastructure & technologies, Pollution control and Green Chemicals and Waste management & Technologies.

11) Will the portfolio invest equally in all the identified categories (Energy efficiency/ alternate energy, Emissions, water and waste management)?

The four themes only form a framework in selecting and evaluating companies but the selection of companies for the investment portfolio will be based on their potential underlying accretive value. Therefore, this could result in a situation where the portfolio could be overwhelmingly biased towards two or three sectors.

12) Will this theme focus on B2B or B2C companies? Success stories of investors who built wealth in B2C companies are more than that of B2B companies.

The universe of companies in the theme are mostly in B2B space. As the theme would focus more on business enablers than pure tech companies for risk evaluation reasons, it is natural to find many opportunities in B2B space.

15) Are there tax benefits to The Green Fund?

We invest in stocks of companies listed in NSE/BSE as we do in our themes and intend to hold them for the long term. The relevant capital gains taxation will apply and is a function of the period held. We intend to hold the investments with a long term outlook that help in lower transaction costs and brings tax efficiency. There is no special tax concession for this theme.

16) How will performance compare to the broader stock market? Which is the relevant benchmark index with which it could be evaluated?

Most of Unifi's products including this theme have absolute return focus and not relative return. "Relative return" means the fund manager is expected to beat the index return by delivering a return higher than that of index. This would effectively make the manager overweight or underweight the sectors of stocks in his portfolio in such a manner it will help the manager to outperform the index.

In Green theme, outperforming any index is NOT our target. If we generate 200% return over the next 5 years, we believe we have done our job whether index delivers 300% or more. On the other hand, we will be disappointed (obviously, we won't get any share of profits) if we deliver 100% or less even if index return is lower.

For compliance reasons, we will consider BSE midcap Index as our benchmark as most of our underlying companies in this theme are likely to be midcaps.

17) Will the portfolio be fully invested always?

We are planning to raise Rs.500 Cr for this theme. Our current pipeline of ideas will provide sufficient opportunities for investing this capital. However, from a fund management perspective we will be investing in companies at different stages of time depending on our perception on the appropriateness of the entry price and the progress made by the company. Hence, it is quite possible that at distinct periods of time we might be sitting on cash waiting for an opportune moment to invest. Since we are focused on absolute return, worry of underperforming temporarily due to invested capital do not deter us from holding cash.

18) Speed of Nature (Green) is always going to be lesser than speed of investor return expectations? Is this a buy and hold long term fund?

The speed of investor return expectations vary widely. More than 80% of equity market transactions in our country are “day trading” where return expectations are on daily basis. India also has many investors who have held their investments for years if not for decades and have built substantial wealth.

Our portfolio companies have already grown in their green journey and have demonstrated success through their growth. But the communities feel of “Green is Good” and recent technological advances are adding tailwind for their growth to get into an exponential curve. The inflection point of growth is sometime away, may be in years. Most likely, majority of portfolio companies will be held for long term. Some of them could be sold sooner if there is a material weakness in their business economics and/or we have better choices.

19) How is the Green theme distinctly different from the infrastructure story that was euphoric pre-2007?

In hindsight, it was quite clear that the infrastructure theme required huge amounts of debt capital, combined with high level of dependence on government for clearances and approvals specifically in terms of land acquisition. The catastrophic failure of infrastructure companies was the result of huge delays in clearances and therefore the resultant inability to service their debts. In the case of the Green theme, Government role is significantly limited to creating the regulatory framework after which the demand will be driven by the private sector. Even in the case of governmental projects, they are sanctioned only after all clearances and approvals have been obtained such that operational risk is significantly diminished. Further, from a capital structure perspective most of these businesses are under-leveraged. Therefore, a comparison between the two themes may not be appropriate.

20) How does one differentiate between APJ theme and Green Fund from risk perspective?

APJ 20 portfolio companies belong to engineering/manufacturing, speciality chemicals, agri and infrastructure. They are mostly low debt (less than 0.5x debt: equity), have a foreseeable earnings

growth of more than 20% but trade at discounted PE ratios as most of these sectors are not in market fancy. They are typically small/midcaps and hence lack any high degree of analyst coverage.

On the other hand, Green theme would have portfolio companies that belong to water treatment/recycling, waste management, alternate energy, energy efficiency and green chemistry. It is too early to comment on portfolio characteristics like debt/equity ratio, debt level, PE and earnings growth. But both themes are distinctly different. Their return expectations and risk content are therefore different. Because we have similar return targets and period doesn't indicate they are similar. As both have different sector orientation and portfolio characteristics, it is logical to compare their return / risk parameters. Both merit an investor's allocation if their temperament matches with that of these themes.

21) Does green theme fall in the "Ethical" category of funds?

Mutual Funds have a separate category of funds called "ESG" funds (Environment, Social and Governance). Such funds avoid companies that are environmental pollutants, socially unethical businesses like liquor/cigarettes/gambling businesses and those that have poor Governance issues. Such a category of funds are globally popular with certain types of investors. In India too, there are many investors who strictly practice similar "code of conduct" while they screen companies for their portfolio.

Though we developed The Green Fund entirely on the merit of profitability potential, almost all the sectors we invest in are similar to the "E" aspect of the ESG category. We are considering to opt for a relevant certification.

NOTES

Disclaimer

Securities, investments are subject to market risks and there can be no assurance or guarantee that the objectives will be achieved. As with any investment in securities, the value of the portfolio under management may go up or down, depending on the various factors and forces affecting the capital market. Past performance of the Portfolio Managers is not an indication of the future performance of the Portfolio Managers. Investors in the fund are not being offered any guaranteed / assured returns.

This information has been compiled from sources we believe to be reliable, but we do not hold ourselves responsible for its completeness or accuracy. References to actions of specific companies have been made as a matter of fact but the comments on such actions represent only our judgment and analysis and not that of the specific companies. This material is not an offer to sell or a solicitation to buy any securities or any financial instruments mentioned in the report. Unifi Capital Pvt. Ltd. and their officers and employees may or may not have a position with respect to the securities / other financial instruments mentioned herein. Unifi Capital Pvt. Ltd. may from time to time, have a consulting relationship with a company being reported upon. All opinions and estimations included in this report constitute our judgment as of this date and are subject to change without notice.



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