



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

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

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

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

Risk adjusted arbitrage and fixed income opportunities arising from

- corporate events
- macro-economic cycles
- emerging credit

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.	Performance Reporting	Monthly NAV & Quarterly Review
Launch Date	04-Apr-2013.	Tenure	Open ended; Monthly subscription and redemption
AUM (INR Crs)	INR 1079 crores	Fees	1% per annum fixed and 20% performance over hurdle rate (Monthly Chargeable)
Min Investment	INR 1 crore	Hurdle Rate	Non cumulative pre-tax return of 10% per annum
Setup Fees	None	Independent Custodian & Accountant	HDFC Bank
Lock in period	Exit load of 2% if redeemed within 6 months.		
Valuation	S&P CRISIL		

Strategies	Range	Average allocation							
		FY22	FY21	FY20	FY19	FY18	FY17	FY16	FY15
Event Arbitrage Arbitrage opportunities in listed equities arising from open offers, delisting, corporate actions, IPOs & cash-Futures.	0 – 100%	6%	14%	8%	11%	21%	26%	16%	11%
Nominal Bonds Conventional AAA & AA bonds of various Indian companies – Typically HTM.	0 – 50%	12%	22%	16%	22%	26%	23%	23%	26%
Structured & High yield Debt Structured Secured Corporate Debt, Commercial Papers, PTC's of NBFCs focusing on SME loans, Commercial Vehicle, Micro finance, School loans, Consumer finance, Housing, Agri and 2-Wheeler finance.	0 – 75%	72%	52%	72%	65%	46%	46%	52%	58%
Directional Calls Equity, G-Secs and AAA debt (duration calls)	0 – 10%	3%	2%	1%	2%	1%	2%	2%	2%
Cash / Liquid For liquidity purposes / temporary parking of funds.		7%	10%	3%	- 0.3%	6%	3%	7%	3%

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.

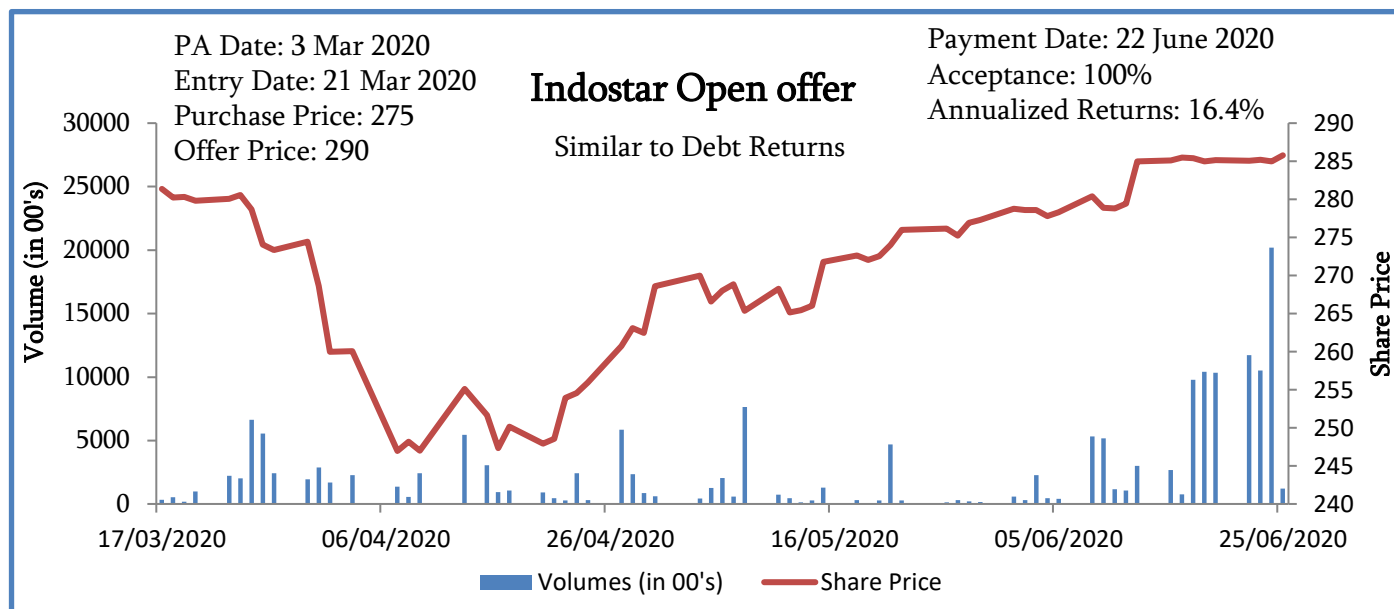
Type of opportunity	Recent / Notable deals
➤ Mandatory open offer or Voluntary open offer	ACC & Ambuja, Butterfly, Escorts, JB Chemicals, Indostar, Vedanta, WABCO etc.
➤ Selective participation in IPO's	Happiest Minds, Burger King, Bectors Foods
➤ Buybacks through tender offer route	Just dial, Hindustan 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)	FY22	FY21	FY20	FY19	FY18	FY17	FY16	FY15
Total no. of opportunities during the year	64	42	32	42	92	78	95	60
No. of offers participated	22	20	9	7	20	17	10	9
Average offer size (in crs)	2400	1329	1182	2178	1212	773	407	287
Largest Offer invested (in crs)	7700	5948	10355	17000	14512	6000	1621	11449
Smallest Offer invested (in crs)	500	318	448	212	152	130	474	251

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.

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.

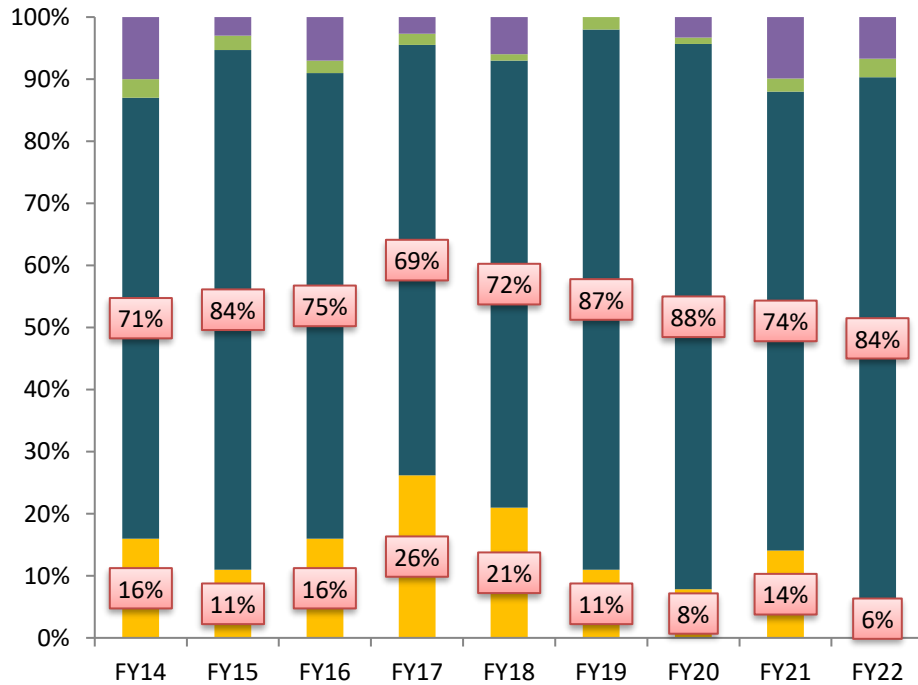
Rs. in Crore	Favourable Asset Liability Profile at the time of Investment – July 2020							
	<30 days	31 - 60 days	61-90 days	91 - 365 days	1 -3 years	3-5 years	> 5 years	Total
Total Assets (a)	93.87	61.15	61.11	55.31	156.97	144.97	115.78	689.17
Total Liabilities (b)	9.11	4.74	10.37	63.30	193.79	35.86	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	Movement	From	To	Year
TVS Credit Services Limited	Upgrade	A+	AA-	FY 2023
Krazybee Services Private Limited	Upgrade	BBB-	BBB	FY 2023
Earlysalary Services Private Limited	Upgrade	BBB	BBB+	FY 2023
Finova Capital	Upgrade	A-	A	FY 2023
Kogta Financial	Upgrade	A-	A	FY 2023
Quadrillion Slice	Upgrade	BBB-	BBB+	FY 2023
Mintifi Finserv	Upgrade	BBB-	BBB	FY 2023
Capsave Finance	Upgrade	A-	A	FY 2022
Oxyzo Financial	Upgrade	BBB	A+	FY 2022
Five Star Business Finance	Upgrade	A	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
Satya Microcapital	Downgrade	A-	BBB+	FY 2023

- 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)

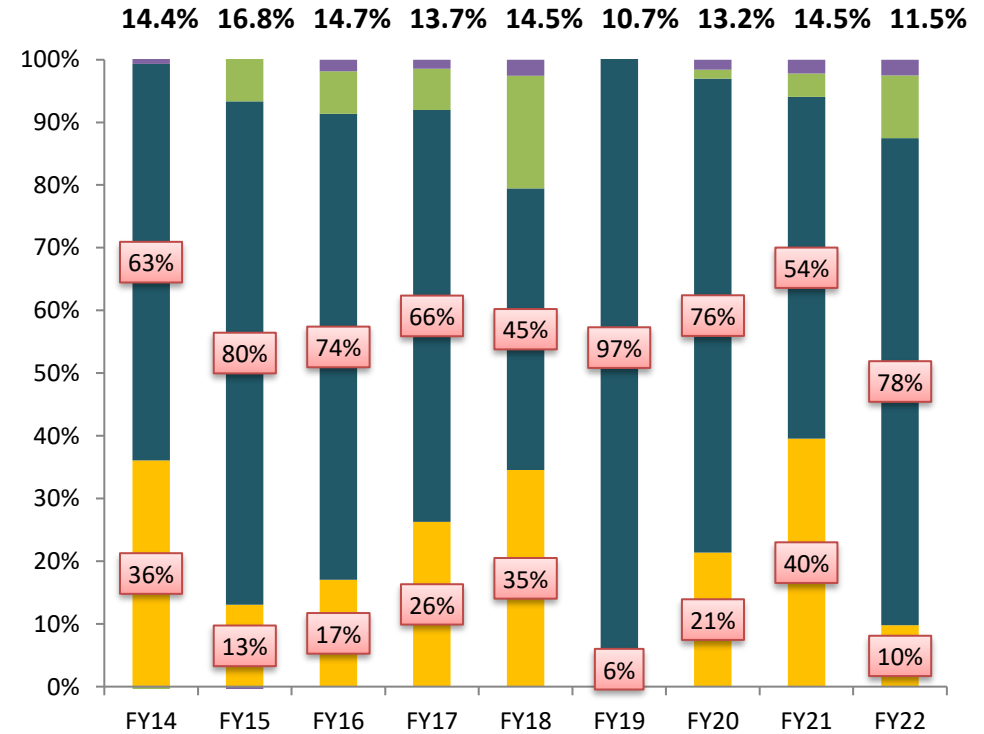
Company	Credit Rating	Exposure as % of AUM	Sector	Residual Tenor	Cap. Adequacy
Aye Finance	IND A-	5.34%	MSME Finance	1.5 years	36%
Navi Finserv	IND A	5.17%	Diversified NBFC	1 year	27%
SiCreva Kissht	CARE BBB-	4.84%	Personal Loan	6 months	37%
GMR Goa Airport (Non NBFC)	CARE BBB+	4.74%	Airports Infra	2.8 years	na
Incred Financial	CRISIL A+	4.40%	Diversified NBFC	1.3 years	33%
Kogta Finance	CARE A	3.92%	Vehicle Finance	1.4 years	42%
IIFL Samasta	CRISIL AA-	3.66%	Micro Finance	2 years	18%
Krazybee	CRISIL BBB+	3.36%	Consumer Finance	1 year	34%
Five Star Business	[ICRA]A+	3.02%	MSME Finance	6 months	68%
Clix Capital	CARE A	2.73%	Diversified NBFC	5 months	34%
Avendus Finance	CRISIL A+	2.54%	Diversified NBFC	1.1 years	47%
Satya Microcapital	Acuite BBB+	2.22%	Micro Finance	1.3 years	24%
Stashfin	ICRA BBB	2.10%	Personal Loan	1.2 years	40%
Altum Credo	CARE BBB	1.86%	Housing	4.9 years	104%
Capsave Finance	CRISIL A	1.82%	Leasing Finance	1.7 years	31%
Bhanix (Cash E)	CARE BBB-	1.72%	Personal Loan	7 months	27%
IKF Finance	CARE A	1.58%	Vehicle Finance	7 months	22%
OFBusiness Oxyzo	ICRA A+	1.54%	Supply Chain Finance	8 months	53%
Namdev Finvest	CARE BBB	1.48%	SME Finance	1.9 years	31%
Esskay Finance	CARE A+	1.41%	Vehicle Finance	1.7 years	27%
Moneyview	Unrated	1.32%	Personal Loan	10 months	40%
Slice Money	CARE BBB+	1.32%	Credit Card	4 months	35%
Loantap	CARE BBB-	1.11%	Personal Loan	10 months	33%
Berar Finance	ICRA BBB	0.86%	2-wheeler Finance	2 years	29%
Ashv Finance	CARE BBB	0.74%	MSME Finance	1.6 years	22%
Epimoney (Flexiloans)	CRISIL BBB-	0.70%	SME Finance	9 months	68%
Belstar Microfinance	[ICRA]A+	0.65%	Micro Finance	3 months	24%
Eduvanz	Crisil BBB-	0.57%	Education Finance	1 year	39%
Mintifi Finserv	CRISIL BBB	0.35%	Supply Chain Finance	6 months	63%
Earlysalary	CARE BBB+	0.15%	Personal Loan	4 months	37%

Average Allocation



- Liquid Funds / (Leverage)
- Directional Calls
- Fixed Income
- Event Arbitrage

Return Attribution

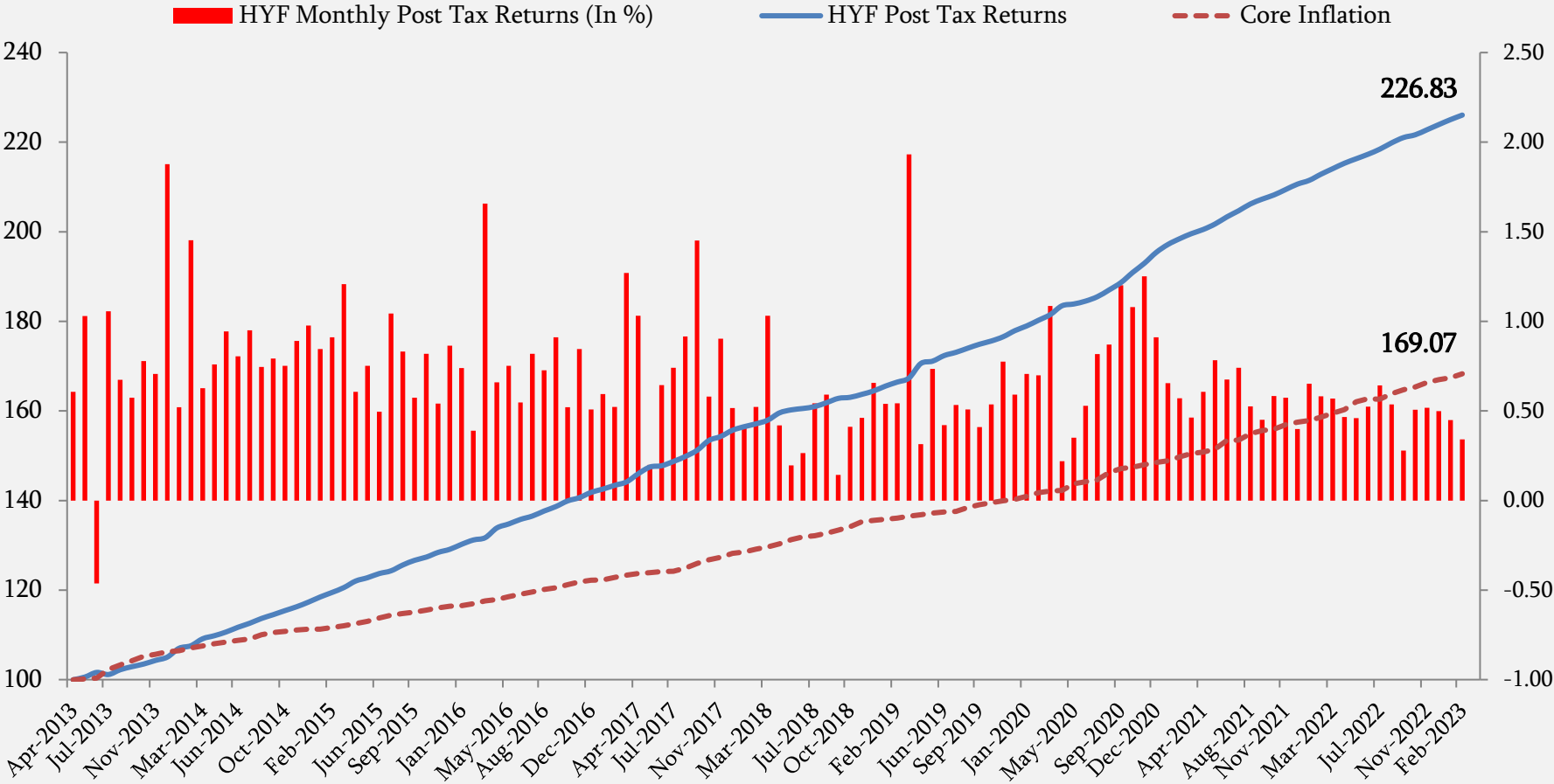


- Liquid Funds / (Leverage)
- Directional Calls
- Fixed Income
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Portfolio as of 28th Feb 2023

High Yield Fund Portfolio	% of Portfolio	Key Constituents
Listed Equity Arbitrage, Hybrid & Cash	21%	Embassy Office Reit, Tamilnadu Mercantile Bank, Fusion MFI, Virescent Invit & Liquid MF's
Highly Liquid & Well Rated Debt	19%	Indusind Bank, Cholamandalam Finance, Credit Access Grameen, Svatantra MFI (Aditya Birla group), Avanse Financial & TVS Credit Services
High Yield Debt	60%	Investments in Emerging NBFCs – periodical amortising structure [80% of this portfolio is getting redeemed in the next 12 months]
Total	100%	

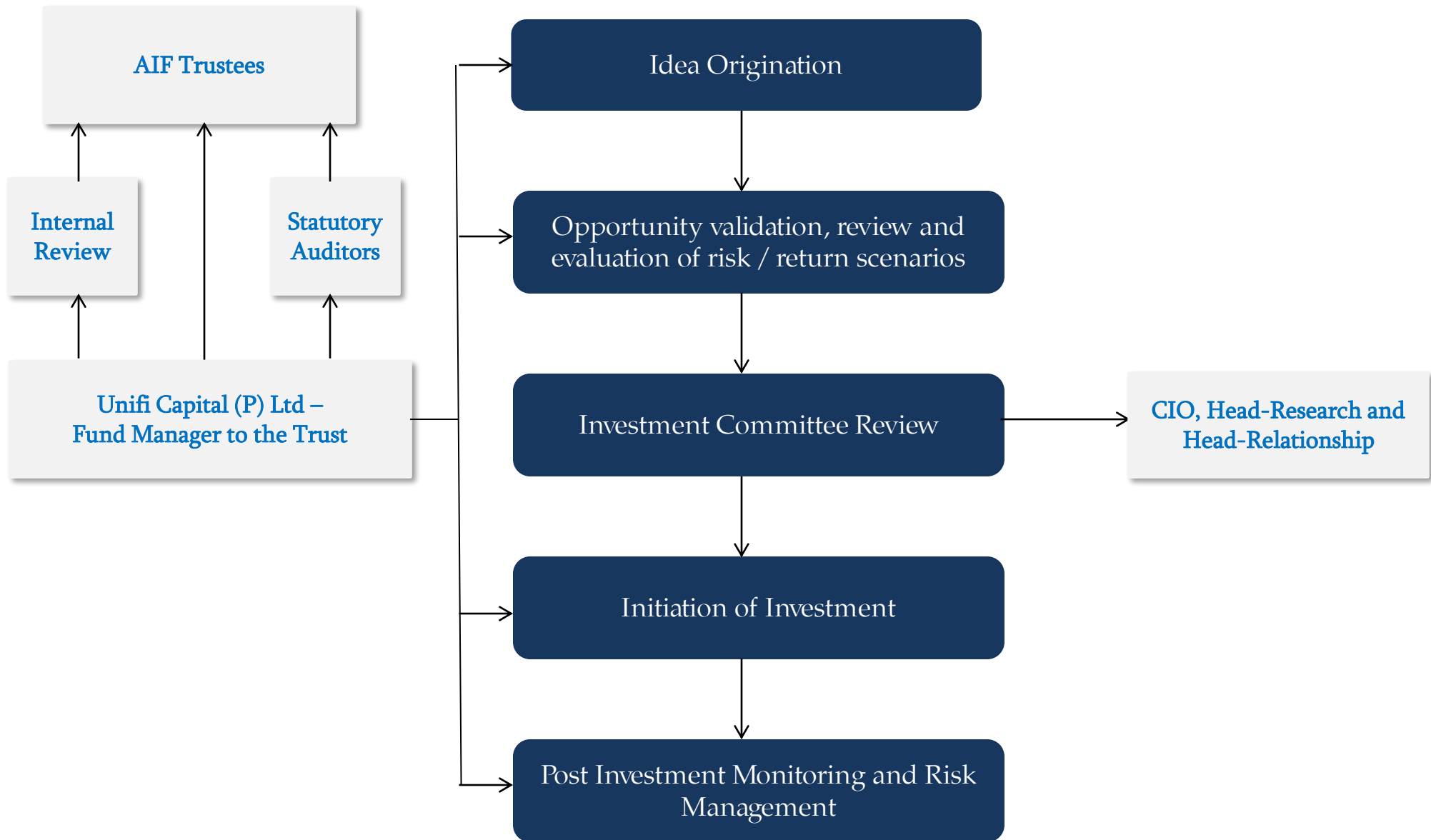
The graph hereunder shows the returns earned by Unifi HYF compared with lines that represent core inflation as well as our target i.e. core inflation + real returns of 3% post tax. [RBI measures core inflation as CPI excluding Food & Fuel]



** - The value addition of Unifi HYF over Core CPI is about 3.17% on CAGR terms since inception.

	UNIFI HYF	Time Period	Returns %
Average Monthly Return	1.07%	3 months	2.02%
CAGR	13.33%	6 months	4.11%
Largest Monthly Gain	3.01%	12 months	9.41%
Largest Monthly Loss	-0.70%	2 Years CAGR	10.47%
% of positive Months	99.16%	3 Years CAGR	12.32%
Standard Deviation (Annualised)	1.73%	5 Years CAGR	12.16%

0.81													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%	1.16%	0.82%	0.70%	0.91%	0.90%	0.62%	1.02%	0.91%	0.89%	11.50%	7.38%
FY23	0.73%	0.72%	0.82%	1.00%	0.84%	0.44%	0.79%	0.81%	0.78%	0.70%	0.53%		8.34%	5.35%



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.

- 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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