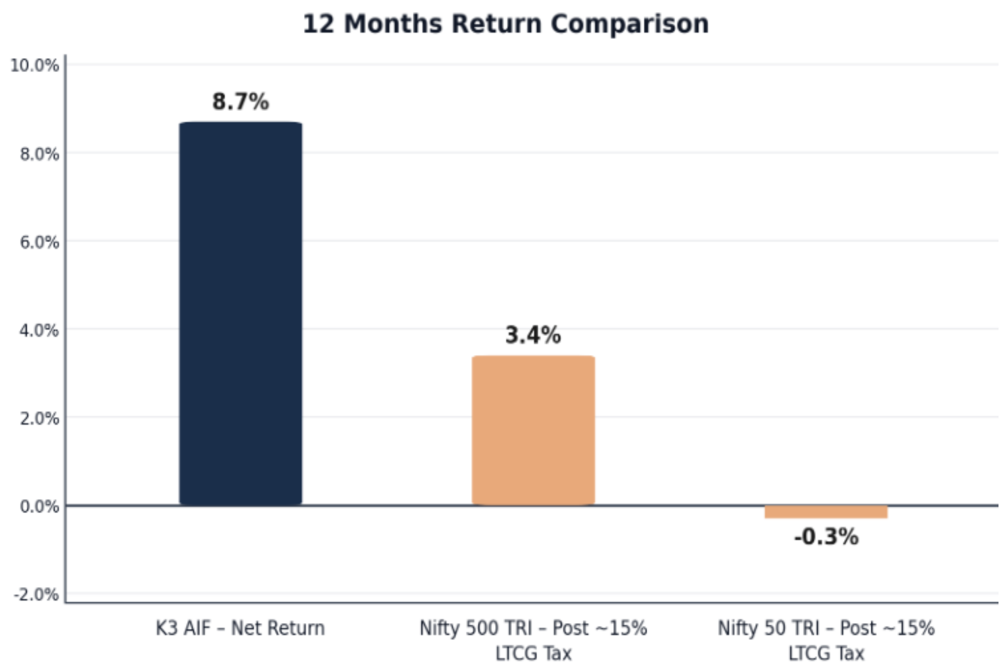
K3 Domestic AIF: Newsletter for Apr 2026

The last 12 months have been one of the toughest and most eventful periods in recent memory for Indian equity markets. The year threw up one shock after another — an India-Pakistan flare-up, a fresh wave of US tariff actions, the Iran-US confrontation, and the escalation of the Iran-Israel conflict in March, which triggered a sharp global risk-off move. Through all of this noise, K3 did well over the year. This was our **first full year of operations**, and we ran the book with a degree of caution that we felt the environment — and our own track record length — warranted. Even so, we captured the opportunity set well: a net return of **8.7%** against the Nifty 500 TRI's **3.4%** (post fees and LTCG tax). We see this first year as a foundation — the experience gained navigating a genuinely difficult environment is something we intend to build on.

A key reason we navigated the year as well as we did is that we stayed **active across all three sub-strategies — Core, Trading, and Quant**. Each pulled its weight at different points in the year: Core anchored the portfolio through fundamental conviction, Trading allowed us to flex exposure and play both sides through events, and Quant helped manage net exposure and provided a data-backed read on the market. The three working together is what allowed us to protect capital in the drawdown and still participate in the recovery. **K3 Funds outperformed the benchmark in both March (down month) and April (up month).**

On a **gross return basis**, the picture is even clearer: K3 delivered **15.7%** vs the Nifty 500 TRI's **4.0%** from May 2025 (fund inception) to Apr 2026 — a margin that reflects the underlying alpha generation of the strategy before fees and tax friction.

We remain steadfast in our investment philosophy — guided by fundamentals, disciplined in execution, and focused on protecting and compounding capital over the long term.



Notes:

1. ***Gross Returns (Pre-Fees, Pre-Tax) over 12 months: K3 AIF: 15.7% | Nifty 500 TRI: 4.0% | Nifty 50 TRI: -0.3%***
2. *Nifty 500 TRI & Nifty 50 TRI Index returns have been adjusted for ~15% Long Term Capital Gains (LTCG) tax applicable on equity investments held for more than 1 year, along with ~20 bps ETF fees reflecting the actual post-tax return for investors.*
3. *K3 Net Return is post management fees and taxes.*

Outperformance vs Nifty 500 TRI (post LTCG tax): ~530 bps for the last 12 months
Outperformance vs Nifty 50 TRI (post LTCG tax): ~890 bps for the last 12 months

Return Comparison – Last 12 months

Month	K3 AIF Pre Fees Pre Tax	Nifty 500 TRI	K3 AIF Net Return	Nifty 500 TRI - Post ~15% LTCG Tax
May-25	3.1%	3.7%	2.1%	3.1%
Jun-25	5.2%	3.8%	3.9%	3.2%
Jul-25	-1.4%	-2.8%	-1.4%	-2.4%
Aug-25	-3.0%	-1.8%	-2.3%	-1.6%
Sep-25	-1.1%	1.2%	-1.1%	1.0%
Oct-25	2.6%	4.4%	1.8%	3.7%
Nov-25	2.4%	1.0%	1.7%	0.8%
Dec-25	3.6%	-0.3%	1.9%	-0.2%
Jan-26	1.0%	-3.3%	0.3%	-2.8%
Feb-26	-2.3%	0.5%	-1.5%	0.4%
Mar-26	-9.6%	-11.4%	-7.1%	-9.7%
Apr-26	16.3%	10.5%	11.1%	8.9%
Total	**15.7%**	**4.0%**	**8.7%**	**3.4%**

Alpha Analysis — Where the Outperformance Came From

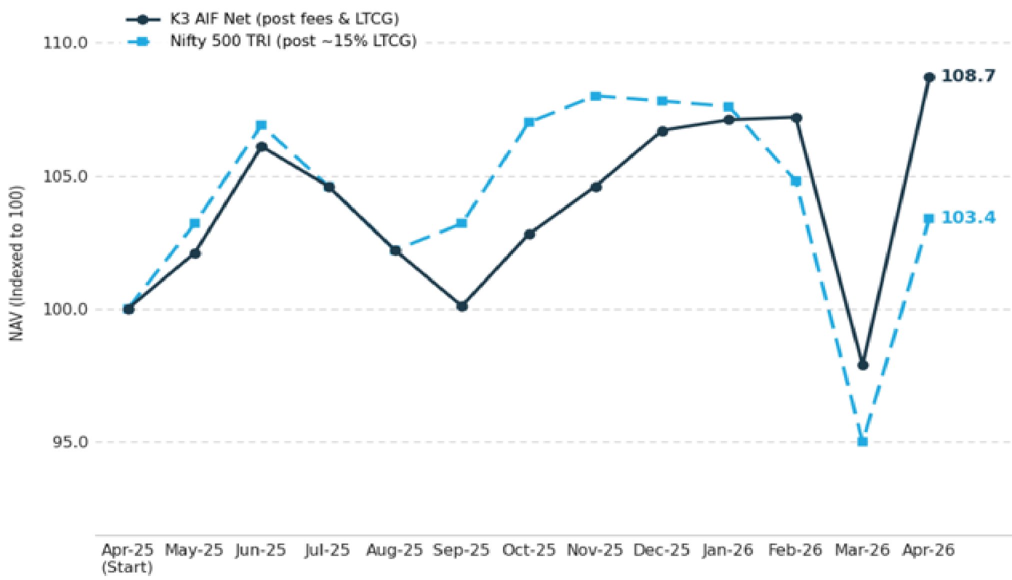
Monthly hit-rate vs Nifty 500 TRI (post-LTCG), May-25 to Apr-26

Period	K3 Outperformed	Hit Rate
All months (May-25 to Apr-26)	7 of 12	58%
Down months (Nifty 500 TRI negative)	**4 of 5**	**80%**
Up months (Nifty 500 TRI positive)	3 of 7	43%

K3's alpha vs Nifty 500 TRI is visible even in down months

When the market fell, K3 protected capital meaningfully in 4 of 5 instances. In rising markets, the cost of carrying short positions meant that K3 captured most — but not always all — of the upside. The net result over 12 months: ~530 bps of net alpha, generated almost entirely through downside protection.

Cumulative NAV — Net of Fees & LTCG Tax (K3 vs Nifty 500 TRI)



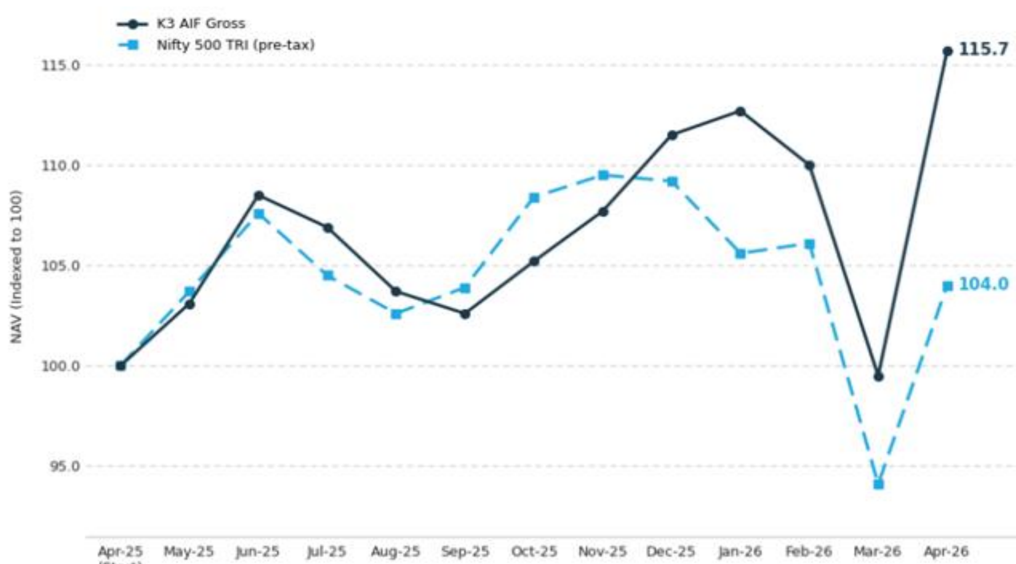
Alpha on a Gross Basis

What the underlying portfolio is generating before fees and tax

K3 GROSS RETURN — 12 MONTHS: +15.7% *vs +4.0% for Nifty 500 TRI (pre-tax)*
• *outperformance* ***of ~1,170 bps***

Why gross matters -Gross returns reflect the underlying alpha generation of the strategy before fund-level expenses and tax friction. As tax efficiency improves with the maturing book (more positions crossing into LTCG) and as gross exposure scales up to its 2x NAV ceiling, more of this gross alpha will translate into investor net returns.

Cumulative NAV — Gross (Pre Fees & Tax) - K3 vs Nifty 500 TRI



Why Net Returns Could Go Higher — Structurally

Three levers, all available without taking incremental market risk

1. **Tax efficiency: +150 to +250 bps**

   STCG vs LTCG creates a meaningful tax drag in the deployment year. As inception-period positions cross 12 months, an increasing share qualifies for the lower long-term capital gains regime — improving net-of-tax returns without any change in gross alpha.

2. **Leverage runway: +200 to +400 bps**

   Fund permitted to run gross exposure up to 2x NAV. We deliberately ran gross on the lower side through Q1 CY26 volatility. As conditions stabilize, scope to scale gross back up — combined with our alpha generation — translates to higher absolute returns from the same capital base.

3. **Mid-cap coverage**

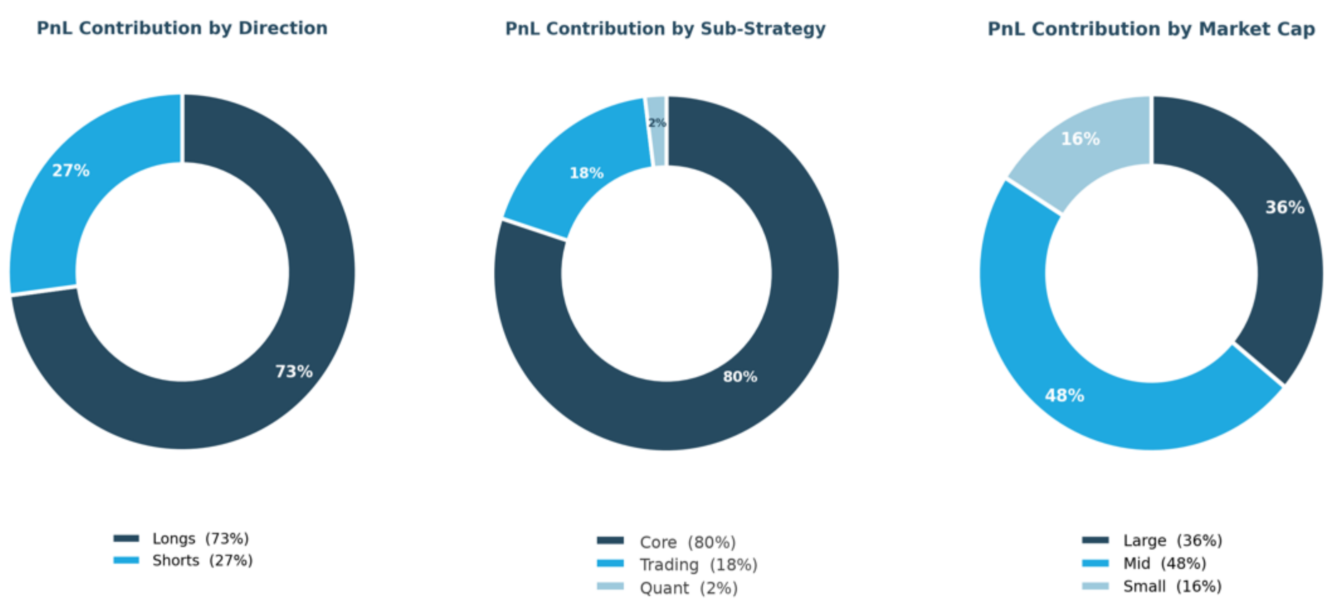
   Our edge is most pronounced in under-researched mid and small-cap names. As we deepen bottom-up coverage, the addressable set widens — both for under-followed compounders on the long side and for frothy names on the short side.

Estimated potential uplift ranges. Combined, these structural levers could lift net returns by approximately 350–650 bps over the medium term — without any change in gross alpha generation.

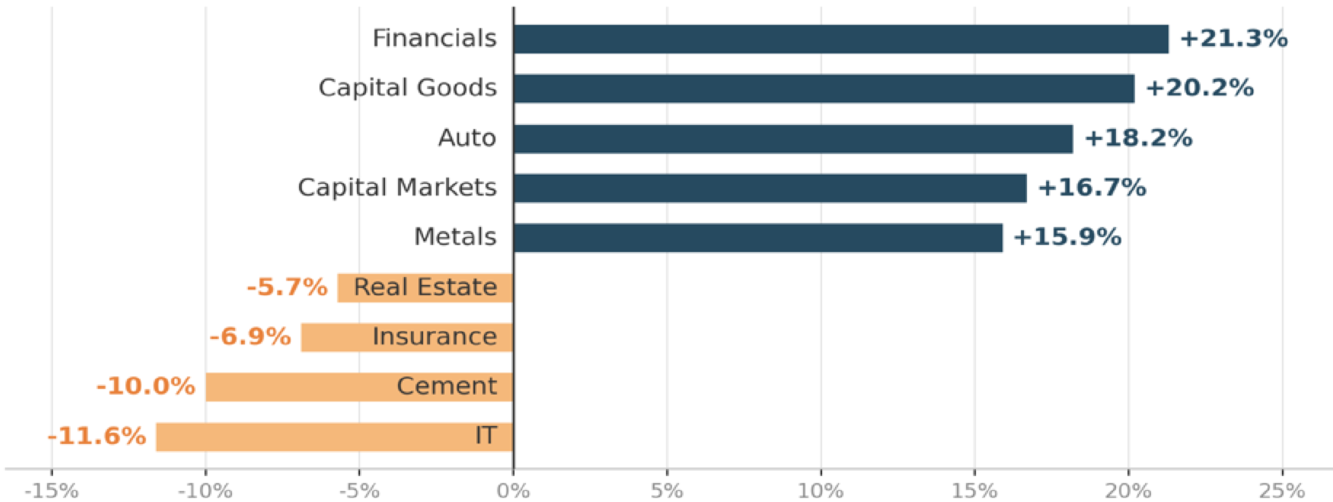
P&L Attribution

P&L Attribution — Where the Returns Came From

Trailing 12 months: May-25 to Apr-26



Top Contributors & Detractors by Sector (% of Total PnL)

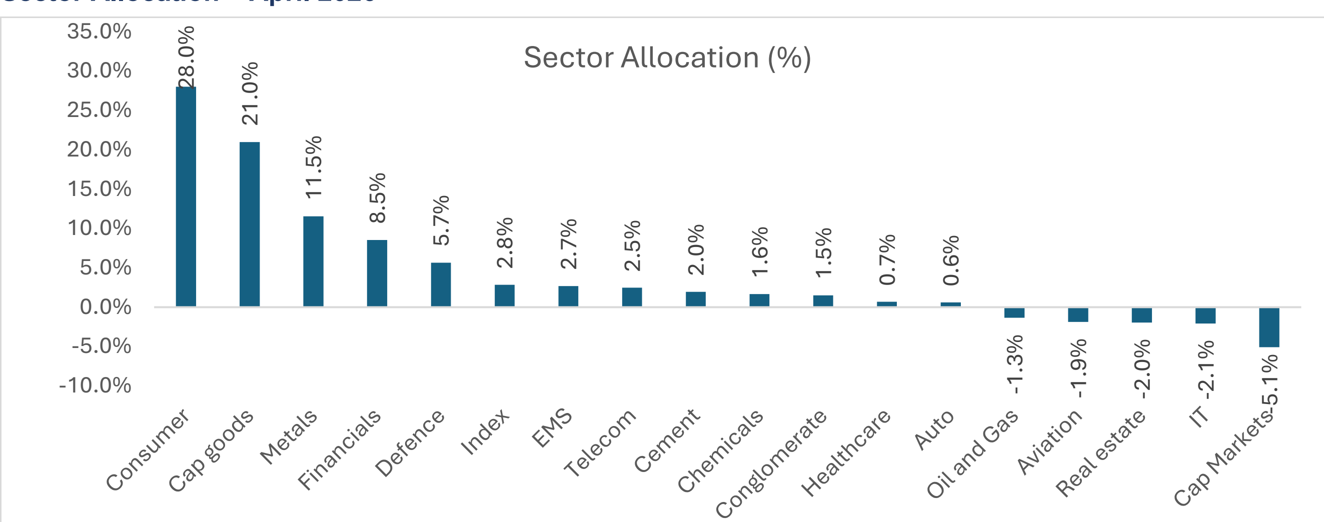


As of Apr end, we were at 167% gross and 85% net exposure for the fund. During the sharp March sell-off, we actively managed gross exposure lower. We covered a lot of our short positions in 2nd half of March. As markets turned in April, we started building up long positions and took our gross/ net exposure higher from 103%/72% to 167%/85%. We increased our exposure broadly in mid and small caps especially in cap goods and commodities space and made some tactical shorts in sectors which are anti-AI trade like IT.

K3 Domestic AIF: Portfolio Breakup — April 2026

Category	Long	Short	Gross	Net
Large	52.9%	29.8%	82.6%	23.1%
Mid & Small	72.9%	11.5%	84.4%	61.4%
Total	**125.8%**	**41.2%**	**167.0%**	**84.5%**

Sector Allocation – April 2026



Thoughts on Iran War and Impact on Indian Markets

This war is, in some ways, unique. Each of the parties involved — Iran, Israel, and the US — is pursuing a different result, which makes the path to resolution harder to read than in past conflicts. A conflict of this nature does impact India in a meaningful way — through crude, the currency, and risk sentiment. Still, **one cannot stay negative for long simply because a war is ongoing.** Markets have a long and consistent history of bouncing back very sharply once the initial shock is absorbed.

The table below illustrates how Indian markets have historically reacted to major geopolitical and macro shocks — and what followed. The pattern is remarkably consistent: **drawdowns are sharp but short-lived, and recoveries have been both swift and meaningful.**

Indian Markets: V-Shaped Recoveries After Major Shocks

Event	Peak Drawdown	Time to Bottom	6M Return After Bottom	12M Return After Bottom
Kargil War (1999)	~-15%	2–3 mths	+38%	+55%
9/11 Shock (2001)	~-18%	~2 mths	+22%	+31%
SARS / Macro fears (2003)	~-12%	1–2 mths	+55%	+112%
Global Financial Crisis (2008)	~-60%	~12 mths	+75%	+150%
Eurozone Crisis (2011)	~-25%	4–5 mths	+20%	+32%
COVID Crash (Mar 2020)	~-38%	~6 wks	+60%	+105%
Russia-Ukraine (Feb 2022)	~-15%	2–3 mths	+14%	+24%
Iran-Israel War (Mar 2026)	**~-15%***	**?**	**?**	**?**

*Source: Bloomberg, K3 Funds. *Mar-26 drawdown is Nifty 500 peak-to-trough in Q1 CY26. Past performance is not indicative of future results.*

If history tells us that recoveries follow shocks, the next question is one of timing — and here, **valuations play an important role in finding bottoms, most of the time.** When markets de-rate to levels that have historically marked durable floors, the odds shift in favour risk taking.

Market reversed from level witnessed in last 4-5 shock instances

At the end of March, Nifty trailing P/E stood at approximately **19.6x** (based on trailing EPS of ~INR 1,140). The table below maps every instance where markets have touched a similar or lower trailing P/E in recent years — and what happened next. This level yet again proved to be a turning point for broader markets. If this will hold even if the Hormuz closure continues for long is yet to be seen, however for now we would think that odds are in Favor that worst maybe behind us.

Period	Trailing PE (Bottom)	Corresponding Nifty Levels on Today's EPS	% Upside/ Downside vs Current Trailing PE	Event
Mar-20	17.6	20,052	-10%	Covid
Mar-22	20.4	23,242	+4%	Russia-Ukraine War
Jun-22	18.9	21,533	-4%	FED Rate Hikes
Mar-23	20.0	22,787	+2%	Slowdown, IT drag
Mar-25	19.6	22,331	0%	Valuation concerns, FII sell-off
Apr-25	20.1	22,901	+3%	Liberation Day
Mar-26	**19.6**	**22,331**	**0%**	**Iran-Israel War**

**Trailing Nifty EPS ~INR 1,140. Source: Bloomberg, K3 Funds.*

The Road Ahead — Headwinds & Tailwinds

Conventional wisdom would suggest that elevated crude, geopolitical risk, and global uncertainty are unambiguously negative for India. We believe the reality is more nuanced. The domestic economy is entering this period with stronger shock absorbers than in any recent cycle, and several structural tailwinds remain firmly intact. At the same time, the risks are real and we are not dismissive of them. Below, we lay out both sides of the ledger transparently — the positives that give us comfort, and the negatives we are actively watching.

TAILWINDS — What Gives Us Comfort

- **India's macro shock absorbers are significantly stronger than prior cycles.** System liquidity stands at INR 5.1tn (vs a INR 1.5tn deficit in FY19). Forex reserves provide 11 months of import cover (up from 9). Services exports have grown from USD 81bn to USD 240bn — a structural buffer that simply didn't exist before.

- **India's oil tolerance threshold has effectively risen to ~USD 90/bbl.** The growth in services exports means our external account remains comfortable at USD 70–80/bbl. Meaningful stress only emerges above USD90/bbl. Every USD 10/bbl rise in crude widens CAD by ~USD 18bn (0.41% of GDP) — manageable at current oil price levels.

- **The Rupee appears undervalued and has room to recover.** The INR is ~5% undervalued vs its historical REER average. India-US bond yield differential at 2.6%, CPI at 2.7%, and potential Bloomberg Bond Index inclusion (~USD 25bn FPI inflows) are tailwinds. We expect the Rupee to rebound to 92/USD in FY27.

- **Credit growth is accelerating meaningfully.** Total credit grew 16% YoY in the fortnight ended April 30, 2026, accelerating from 15% in the prior fortnight. System liquidity of INR 5.1tn and an expected ~INR 3tn RBI dividend in May '26 ease any residual constraints.

- **Rural demand is recovering strongly.** Real rural wages grew ~8% in recent months. Reservoir water levels at a 6-year high. Two-wheeler sales grew 13% YoY in April '26 to a record 19.2 lakh units (FADA) and tractor registrations surged +23.2% YoY — confirming the rural recovery thesis.

- **Household deleveraging is well underway.** Growth in multi-loan borrowers has plateaued. Retail personal loan disbursements are recovering. The worst of the consumer balance sheet stress appears to be behind us.

- **Domestic institutional flows remain the bedrock.** SIP flows remained robust at INR 311bn in April '26. DII buying has consistently provided a strong floor even during peak FII selling. This structural domestic bid is unlike anything seen in prior cycles.

- **Private sector capex is picking up.** Private sector share in capex has risen from 21% to 36% (L&T data). Power, pharma, chemicals, and services are leading the acceleration — a positive signal for mid-cycle earnings recovery.

HEADWINDS — What We Are Watching Carefully

- **Balance of Payments risk if crude stays elevated above USD 90/bbl.** India imports ~87% of its crude needs. If oil sustains above USD 90/bbl due to the Iran-Israel conflict, CAD widens materially and INR faces renewed pressure. This is the single most important macro variable to monitor in the coming months.

- **AI disruption is a medium-term structural headwind for IT services exports.** India's services export engine is heavily weighted towards IT — a sector structurally 'short' the AI theme. The important caveat: major IT companies are still guiding for revenue growth in FY26/27, so this is not an immediate crisis. But the multi-year trajectory bears watching, and we remain cautious on export-facing IT in our portfolio.

- **Inflation resurgence if the oil shock persists.** Every USD 10/bbl rise in crude increases CPI by ~50bps and WPI by ~110bps. A sustained oil shock could force RBI to pause its easing cycle — a negative for rate-sensitive sectors and the consumption recovery narrative.

- **FII flows remain fragile and vulnerable to global risk-off.** India's premium valuation vs other EMs leaves it exposed to de-allocation when global uncertainty spikes. The AI trade continues to draw flows towards tech-heavy markets, keeping India structurally under-owned by global funds.

- **Earnings revision risk has not fully played out.** While FY27 Nifty earnings are expected to grow 13–15%, consensus estimates for export-facing sectors may still face downgrades if global demand slows or tariff headwinds intensify. We remain vigilant about this in our portfolio construction.

- **US tariff policy remains a live and unpredictable risk.** Any escalation or failure to finalise a US-India trade deal would compound headwinds for merchandise exporters and further dampen FII sentiment.

- **Weak net FDI and stretched state finances.** Net FDI has fallen sharply to ~USD3bn. State government finances remain stretched by welfare commitments, limiting their ability to drive incremental capex — a softer underbelly in the otherwise constructive fiscal picture.

Portfolio Positioning & Outlook

We entered the war with caution — conscious of the seasonal weakness in Jan-Mar and the unresolved macro headwinds we flagged in our December newsletter. That caution proved well-founded, and our active hedging through net short positions in vulnerable sectors protected the portfolio meaningfully during the March sell-off. As the shock was absorbed, we turned constructive and positioned the book to participate in the recovery.

Looking ahead, we are **broadly constructive on markets**. Earnings growth is decent, valuations are at historically supportive levels, and the domestic macro is on a firmer footing than in any recent cycle. The flow picture is admittedly not that appealing — FII appetite remains fragile — but domestic flows into equities continue, largely because there is no real alternative for the Indian saver. That structural domestic bid remains the bedrock of the market.

It remains a tough environment to navigate, and we are managing the book by following a few clear rules:

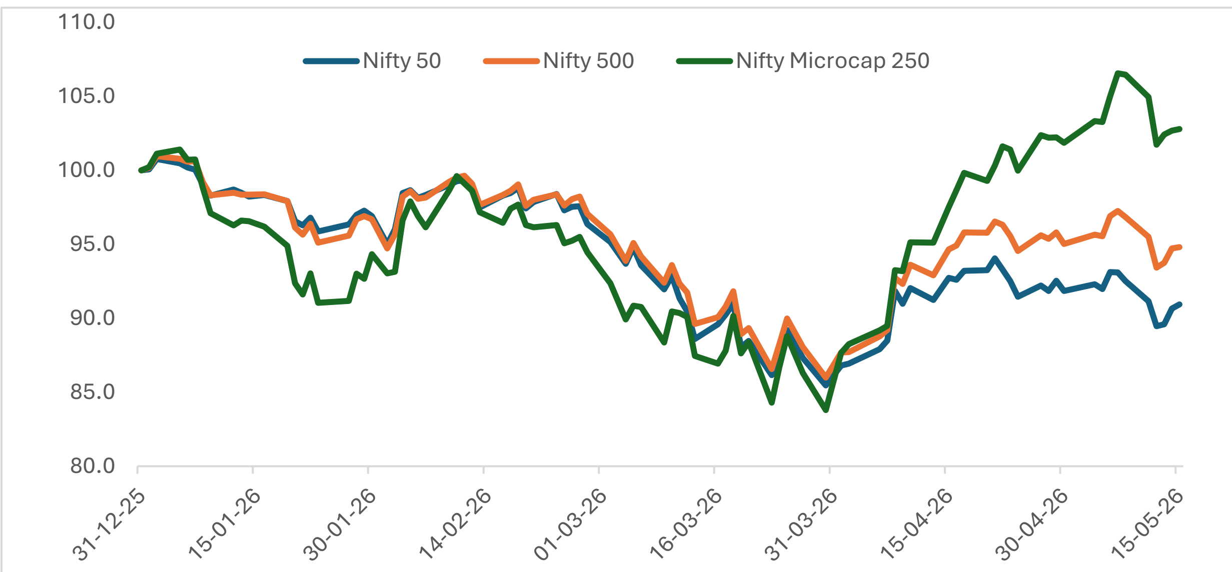
- **Following growth.** We are positioned in sectors where earnings growth is visible and durable — the power sector and consumer staples being the clearest examples. Growth is scarce in this environment, and we are willing to pay up for it where the runway is long.

- **Following global prices.** In metals, chemicals, etc. we are tracking global price action closely and favour companies that are converting the cycle into genuinely better cash flows and stronger balance sheets rather than just reporting higher headline realisations.

- **Negative on sectors caught in the AI crossfire.** We remain cautious on software, where the multi-year disruption from AI is a structural headwind that the market is yet to fully reflect in earnings estimates.

- **Negative on financials — for now.** We stay cautious on financials until the war actually ends and crude comes down. Until then, fiscal pressure is likely to manifest through rates, liquidity, and the currency — all of which weigh on the sector.

- **Respecting the "non-benchmark" factor.** One should look beyond the benchmark. Through this period, stocks outside the Nifty have done better than the Nifty, and stocks outside the Nifty 500 have done better still. We respect this factor and continue to hunt for opportunities in the under-owned, under-researched part of the market.



Finally, we retain our earlier view that **the second half of the year should get better for markets**. The year 2026 is playing out broadly in line with our December outlook — a grinding, back-ended year with meaningful upside concentrated in H2. We remain disciplined, patient, and focused on capital preservation and long-term compounding.

Thank you for being a part of K3 Funds

K3 Team