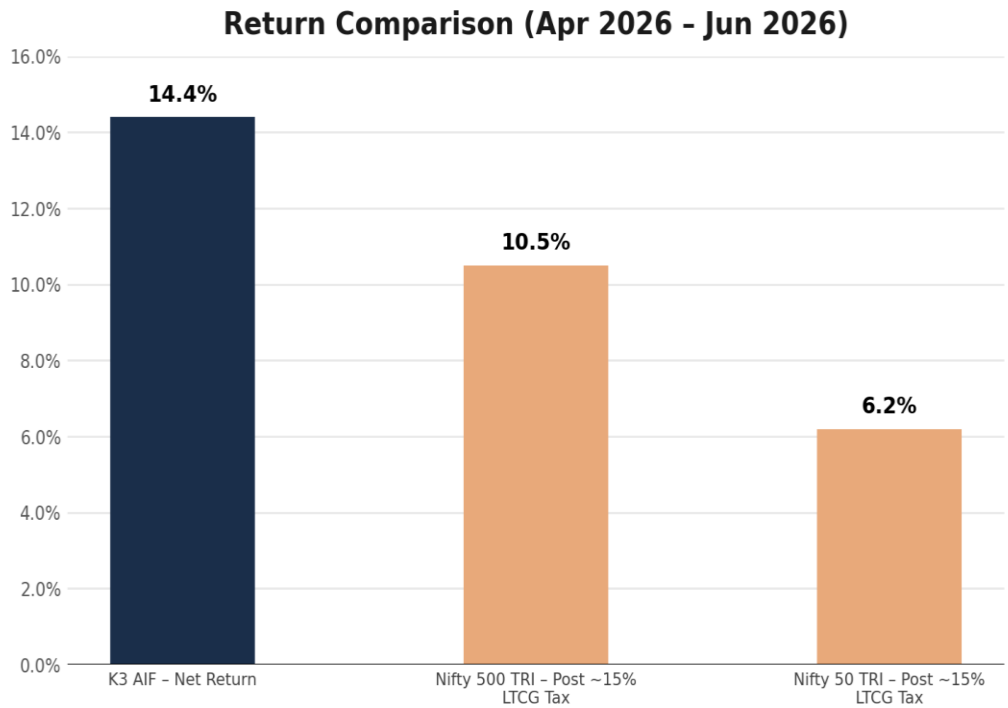
K3 Domestic AIF: Newsletter for Apr–Jun 2026 (Q1 FY27)

The April–June 2026 quarter has been one of the most eventful — and one of the most rewarding for K3. Markets saw a sharp sell-off in March (war-led crude spike, FII panic), a strong V-shaped recovery in April, and a measured but positive consolidation in May and June. Through this entire arc, K3 outperformed at every stage that mattered. This was our **first year of operations**, and we navigated a genuinely difficult environment — geopolitical shock, FII selling, currency stress — while delivering meaningful outperformance across every relevant benchmark.

A key reason we navigated the quarter as well as we did is that we stayed **active across all three sub-strategies — Core, Trading, and Quant.** Core anchored the portfolio through fundamental conviction while trading played both sides of the April V-shape effectively. Quant managed net exposure and provided a data-backed read on risk.

K3 delivered net returns of +14.4% for the April–June 2026 quarter, against +10.5% for the Nifty 500 TRI (post-tax). On a pre-tax basis, the outperformance is even more pronounced: K3 returned 20.5% versus the Nifty 500 TRI's 12.4%. Our investment philosophy remains unchanged — grounded in fundamentals, disciplined in execution, and focused on protecting and compounding capital over the long term. *While returns will vary quarter to quarter, our objective is to deliver a post-tax alpha of 300–500bps annually over the broader market, and to protect capital during market drawdowns (like what we demonstrated last year).*

We are becoming increasingly constructive on Indian markets – a theme which we have explored later in this newsletter. In summary, we expect the broad market to deliver returns of approximately 35-40% over the next 18-24 months.



Notes:

1. *Gross Returns (Pre-Fees, Pre-Tax) over Apr-June '26: K3 AIF: 20.5% | Nifty 500 TRI: 12.4% | Nifty 50 TRI: 7.4%*
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.*

F U N D S

Return Comparison – Since Inception (May 2025 to Jun 2026)

K3 AIF Pre Fees Pre Tax vs Nifty 500 TRI

Year	Series	CY	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2026	K3 AIF Pre Fees Pre Tax	+7.4%	+1.0	-2.3	-9.6	+16.3	+2.6	+0.9						
	Nifty 500 TRI	-3.2%	-3.3	+0.5	-11.4	+10.5	0.0	+1.7						
2025	K3 AIF Pre Fees Pre Tax	+11.5%					+3.1	+5.2	-1.4	-3.0	-1.1	+2.6	+2.4	+3.6
	Nifty 500 TRI	+9.2%					+3.7	+3.8	-2.8	-1.8	+1.2	+4.4	+1.0	-0.3

K3 AIF Net Return vs Nifty 500 TRI (Post ~15% LTCG Tax)

Year	Series	CY	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2026	K3 AIF Net	+5.1%	+0.3	-1.5	-7.1	+11.1	+2.1	+0.9						
	Nifty 500 TRI (post-tax)	-2.7%	-2.8	+0.4	-9.7	+8.9	0.0	+1.4						
2025	K3 AIF Net	+6.6%					+2.1	+3.9	-1.4	-2.3	-1.1	+1.8	+1.7	+1.9
	Nifty 500 TRI (post-tax)	+7.7%					+3.1	+3.2	-2.4	-1.6	+1.0	+3.7	+0.8	-0.2

Outperformance vs Nifty 500 TRI (post LTCG tax): ~720 bps since inception (May 2025 – Jun 2026)
Outperformance vs Nifty 50 TRI (post LTCG tax): ~1200+ bps since inception

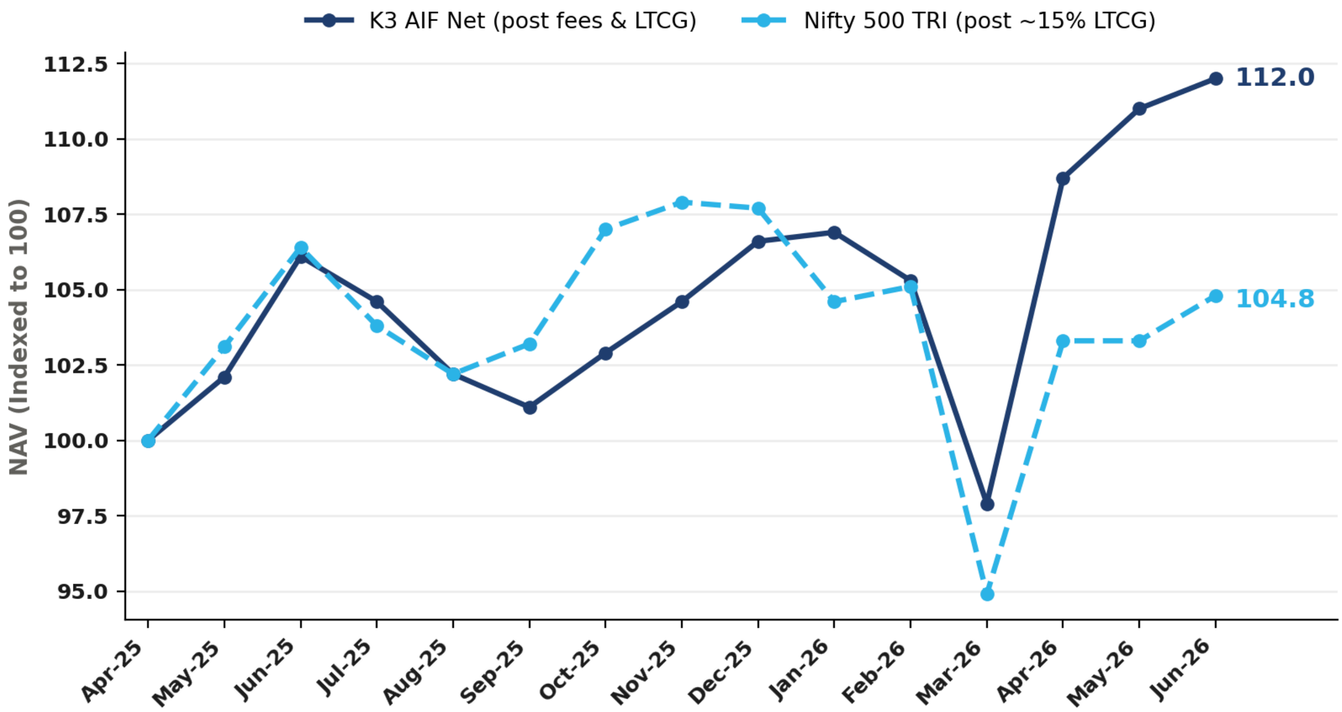
Cumulative Returns: K3 AIF Pre Fees Pre Tax vs Nifty 500 TRI

Period	K3 AIF Pre Fees Pre Tax	Nifty 500 TRI	Alpha
1 Month	+0.9%	+1.7%	-0.8%
3 Months	+20.5%	+12.4%	+8.1%
6 Months	+7.4%	-3.2%	+10.6%
12 Months	+10.4%	-1.7%	+12.1%

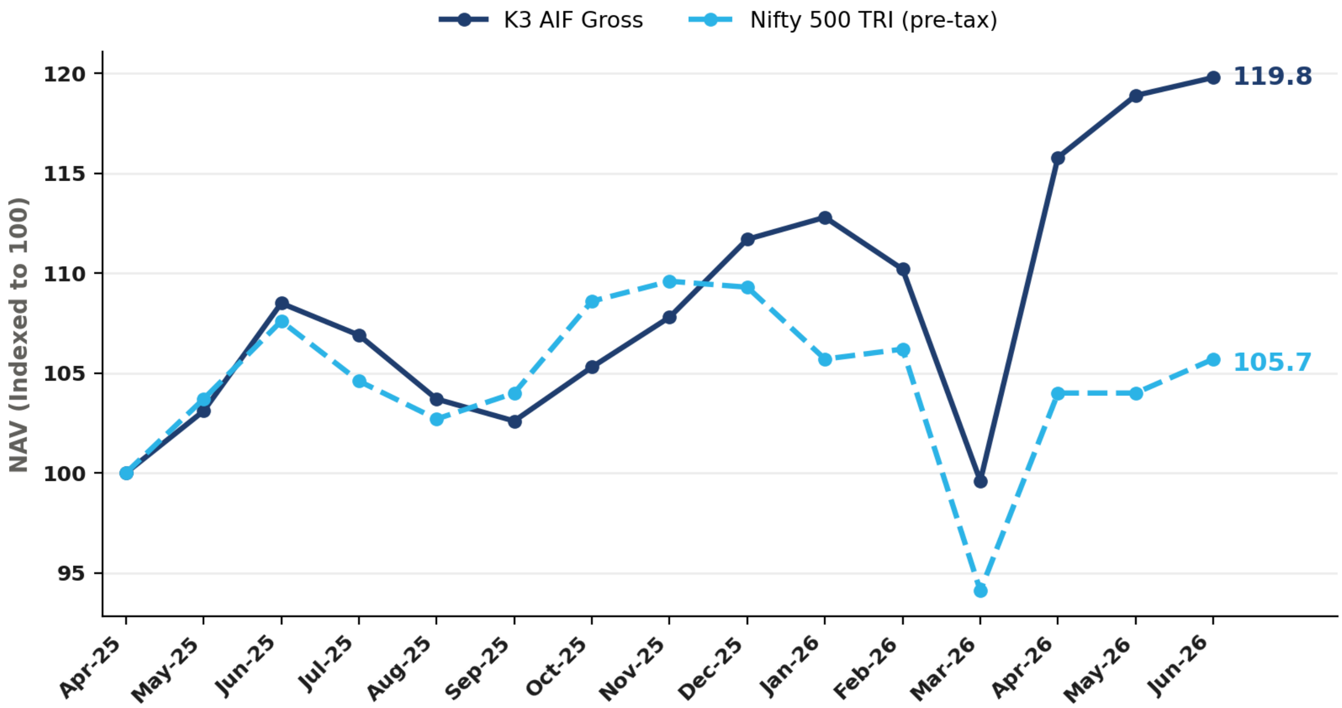
Cumulative Returns: K3 AIF Net vs Nifty 500 TRI (Post ~15% LTCG Tax)

Period	K3 AIF Net	Nifty 500 TRI (post-tax)	Alpha
1 Month	+0.9%	+1.4%	-0.5%
3 Months	+14.4%	+10.5%	+3.9%
6 Months	+5.1%	-2.7%	+7.8%
12 Months	+5.6%	-1.5%	+7.1%

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



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

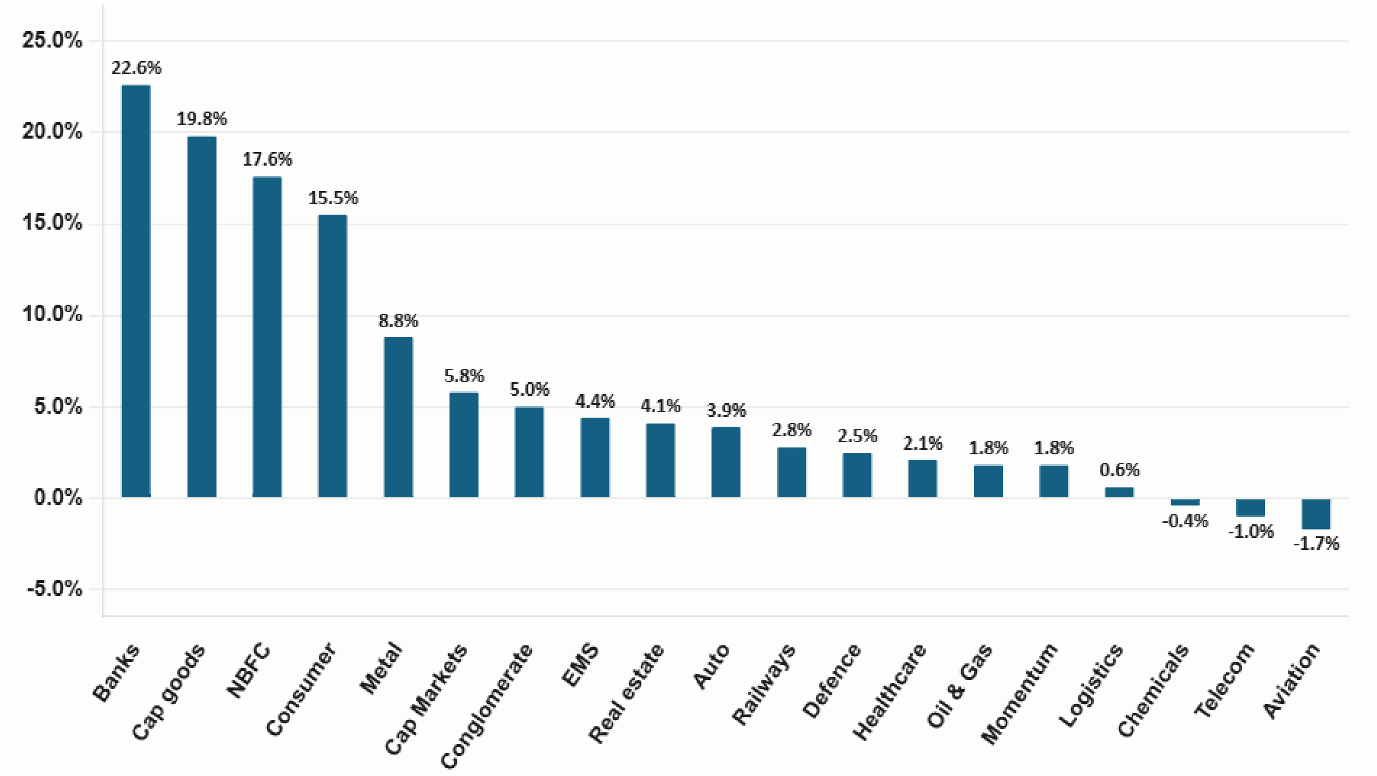


Portfolio Positioning

K3 Domestic AIF: Portfolio Breakup — June 2026

Category	Long	Short	Gross	Net
Large	56%	10%	66%	46%
Mid & Small	75%	5%	80%	70%
Total	**131%**	**15%**	**147%**	**116%**

Sector Allocation — June 2026



Our book today reflects a decisively constructive stance, with gross and net exposure now at the higher end of our range as the macro picture has continued to firm. The portfolio is anchored in domestic cyclicals that benefit most directly from the policy tailwinds we've been flagging — Banks (23%), NBFCs (18%) and Capital Goods (20%) are our largest positions, playing the RBI's 100bps of cumulative easing, resilient credit growth, and the government's capex-led fiscal discipline. Consumer (16%) captures the rural and urban demand recovery, while our Metal weight (9%) reflects a softer-dollar, stabilising-crude backdrop.

Beyond the core, we've been adding selectively in structural-growth pockets — Cap Markets, EMS, Real Estate, Defence and Railways — where earnings visibility is strong and the order-book runway is long. On the other side, we're carrying modest shorts in Chemicals, Telecom and Aviation, where either fundamentals remain soft or valuations have run ahead of the cycle. We remain disciplined on sizing, with hedges calibrated to the two tail risks we're watching — a crude re-spike and monsoon disruption — but our base case keeps us leaning long.

The Stars Are Aligning

As we step into H2 2026, a confluence of macro and relative factors is aligning simultaneously in India's favour — several of which have not been positive at the same time for the past two years. This gives us confidence that Indian markets are setup for a good rally in the next 18-24 months. Our base case is that broader markets should give a return of 35-40% over this period.

Below is our integrated scorecard, followed by detailed elaboration on each factor.

Executive Scorecard — Factors at a Glance

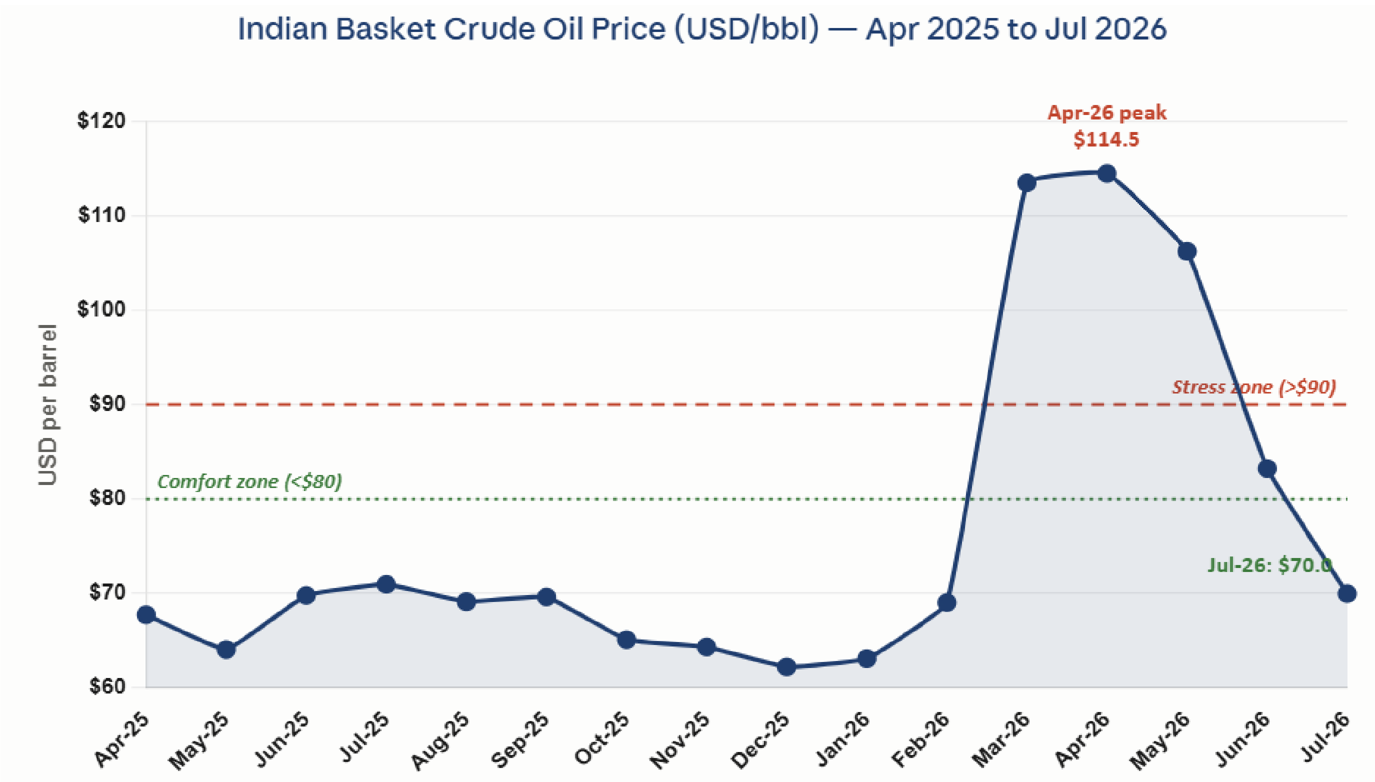
Factor	Bull Case / Why We Are Constructive	Bear Risk / What We Watch	K3 View
Fiscal / Crude	Crude at ~$80 — fiscal relief, CAD compression, INR stability, subsidy pressure easing	War restarts → crude spikes >$100; OMC losses, subsidy strain	**Positive ↑**
FII Flows	Ownership at multi year low; sellers turning neutral/buyers in May-Jun	US yields break 5%+; risk-off resumes; FII selling extends	**Positive ↑**
Policy (Govt & RBI)	FCNR-B, bond taxation changes—coordinated defence of INR	Rupee stress returns if crude rises; confidence fragile	**Positive ↑**
Economy / Earnings	Credit +18% YoY, GST ₹1.95L Cr, Best June auto ever, Net Profit growth in double digit%	If earnings recovery is sustainable or not	**Positive ↑**
AI / Data Centres	AI trade crowded → flow rebalancing; DC infra cycle for India	Capex stays in US/TW/KR; India misses infrastructure cycle	**Constructive ↑**
Global Rates / Dollar	10Y range-bound 4.1–4.6%; inflation spike transitory; dollar hardening to stop	Sticky CPI forces Fed hikes; 10Y breaks 5%+; EM outflows	**Constructive ↑**
Risk: War Restarts	Ceasefire holds; Qatar LNG signal positive; diplomacy active	Full re-escalation → crude spike, INR pressure, risk-off	**Watch**
Risk: El Niño	Normal monsoon forecast 2026; reservoir levels at 6-yr high	El Niño disrupts Kharif; rural demand, food inflation suffer	**Watch**
Risk: New Issuance	Strong domestic flows — SIPs ~₹27k Cr/month + DII firepower absorbing supply; IPO quality improving; primary pipeline still measured; retail/HNI appetite healthy.	Heavy IPO + QIP + promoter/PE/anchor-unlock pipeline floods the market; supply outpaces flows; secondary liquidity diverted, mid/small-cap valuations pressured.	**Watch**

Risk factors (war restart, El Niño) are currently at low to medium probability but are actively monitored. The direction of travel across the domestic picture — fiscal, flows, policy, and economy — is the clearest it has been in last few years.

India-Specific Factors

1. The Fiscal Picture — Crude Is the Key Variable

India's fiscal arithmetic is highly sensitive to one variable above all others: crude oil. The Indian basket price is the single most important number for the government's finances, the current account deficit, the rupee, and ultimately the RBI's ability to cut rates. The chart below tells a story of stress followed by meaningful relief.



Indian Basket Crude Oil Price (USD/bbl) | Source: PPAC, Ministry of Petroleum & Natural Gas

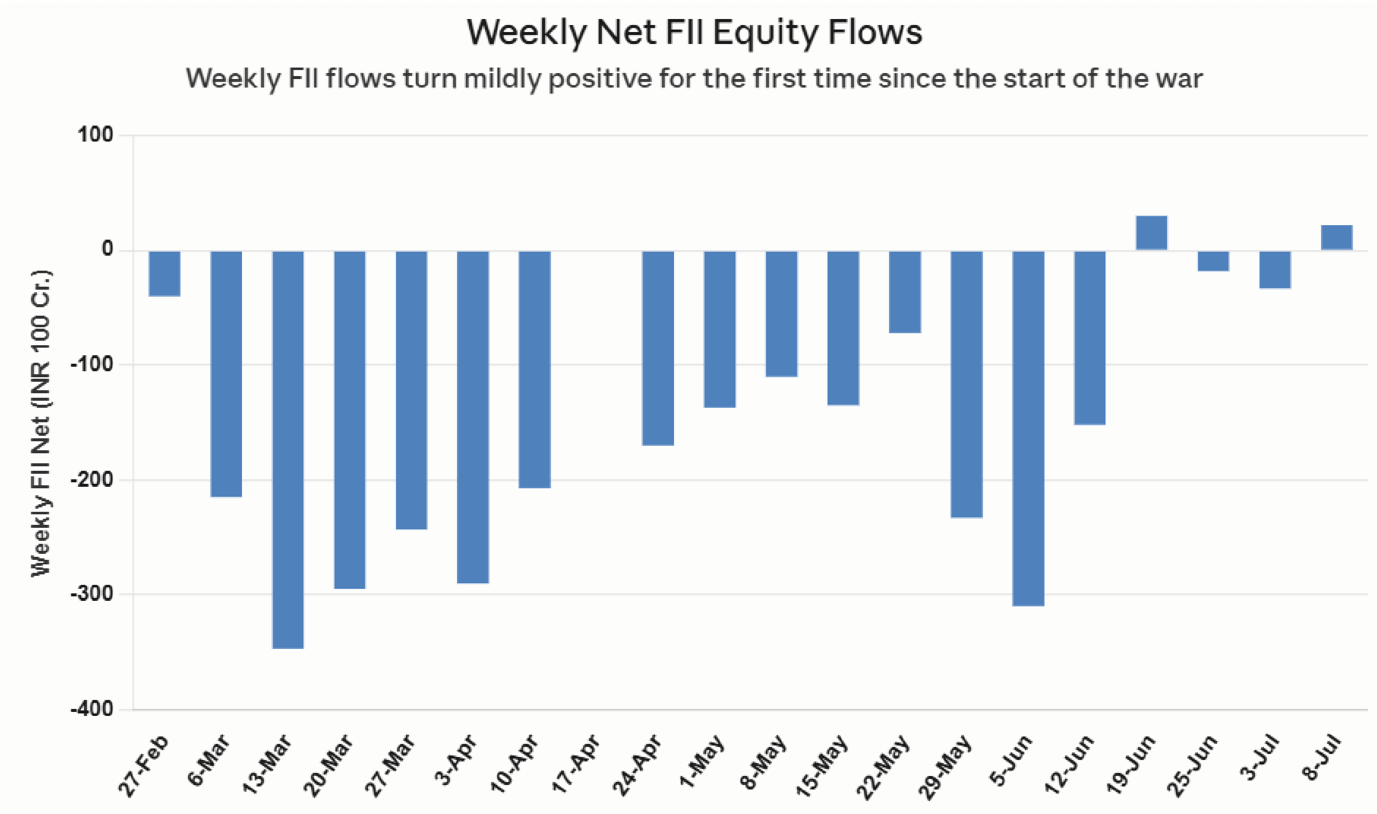
After spiking to a peak of approximately **$114/bbl in April 2026** (as Iran-related fears gripped oil markets), the Indian basket has corrected sharply to around **$84/bbl in June 2026**. This $24 decline matters enormously:

- Every $10 fall in crude reduces India's annual petroleum import bill by approximately $13–15 billion — narrowing the CAD by $12–15 billion
- At $80–85/bbl, India's FY27 fiscal deficit is tracking materially below budget assumptions. This gives the government room on both capex and welfare spending without fiscal slippage
- Subsidy pressures on LPG and fertiliser ease significantly at sub-$90 crude — a relief for the Ministry of Finance
- FY26 fiscal deficit came in at ₹15.2 trillion — ₹0.4 trillion better than the Revised Estimate

At $70–80/bbl crude — plausible if Middle East tensions fully de-escalate — India could return to a 7%+ GDP growth trajectory with fiscal deficit approaching 4% of GDP.

2. The Flow Picture — From Sellers to Neutral, Turning Buyers

The FII sell-off that defined the last 12 months appears to be reaching exhaustion. FIIs sold approximately ₹1.98 lakh crore in January–April 2026 alone, pushing their ownership of Indian equities to a **two-decade low** — below DII ownership for the first time in a generation. But the tide is turning.



FII Net Equity Flows (₹ 100 Crore) | Source: NSE/NSDL. May–Jun 2026 turning to neutral/small net buy territory.

The shift in June and July 2026 is meaningful — FIIs turned from aggressive sellers to broadly neutral, with small net buying days becoming more frequent. The structural drivers for mean reversion are building:

- **Extreme positioning**: FII ownership at a 20-year low is a classic contrarian indicator. Every prior cycle of extreme FII underweighting in India has reversed within 12–24 months

- **DII absorption**: Domestic institutions absorbed nearly 90% of FII outflows through SIP-led monthly contributions — ₹27,000+ crore per month in SIP flows alone provide a structural floor

- **FCNR-B liberalisation**: The RBI's recent relaxation — raising interest rate ceilings and allowing loans against deposits — significantly enhances attractiveness for NRI capital. This scheme is expected to bring in about US$ 50-70bn as per initial estimates.

- **Bond taxation**: India's improving bond market infrastructure and favourable tax treatment are nudging longer-horizon institutional capital toward both bonds and equities

The combination of extreme underweight positioning, improving macro, and specific policy interventions (FCNR-B, bond taxation) creates a powerful setup for reversal.

3. The Policy Picture — Government and RBI Acting with Urgency

One of the most underappreciated positives of the last quarter is the quality and speed of the policy response. Both the government and the RBI have moved with a clarity of purpose that is unusual in recent history — and the market has not yet fully credited this.

- **RBI's coordinated INR defence**: The central bank intervened actively in FX markets during the rupee's slide to ₹96.8/$, deploying reserves and signalling credibly that it would not allow disorderly depreciation. This confidence signal matters — markets know the RBI has the tools and the will to act

- **FCNR-B scheme**: Announced quickly after the INR hit stress levels, with ceiling rates raised to attract NRI deposits. The 2013 FCNR-B scheme raised $26 billion in 60 days — expectation is that this time the number could be around 50-70bn US$

- **Government fiscal discipline**: The FY26 fiscal print at ₹15.2 trillion (below RE) demonstrates that the government is not using the war period as cover for fiscal profligacy

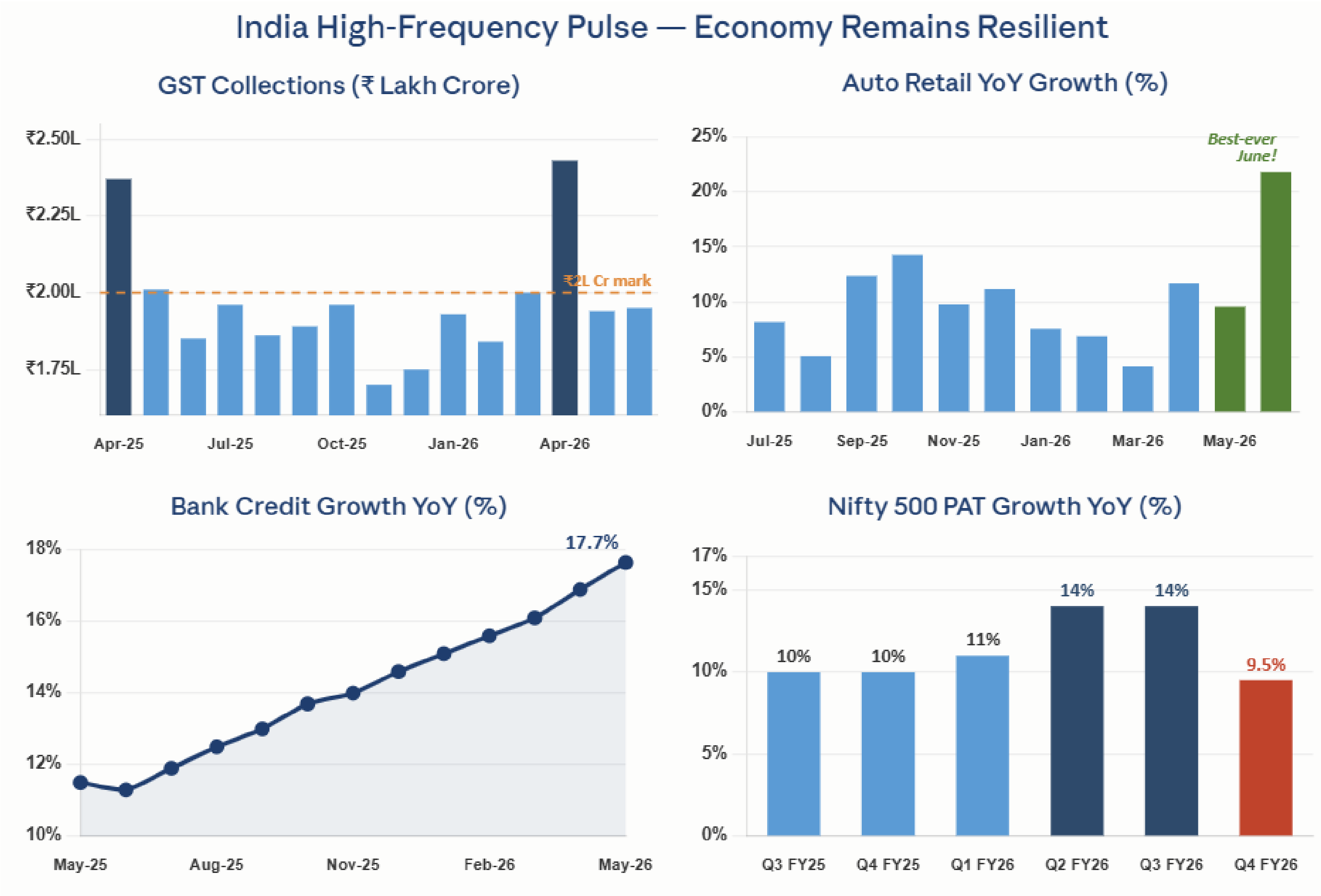
- **Diplomatic engagement**: India's active diplomatic posture — maintaining relations with all parties, facilitating dialogue — has protected India's economic interests while the conflict evolved

- **Trade Agreements:** India has locked in the EFTA TEPA (in force since Oct 2025, $100bn investment pledge), the UK CETA (effective Apr 2026) and a landmark EU FTA (concluded Jan 2026), plus a framework interim tariff deal with the US in Feb 2026 that removes the biggest overhang. With GCC, Israel, Peru and Chile talks in progress, India is systematically de-risking exports — a structural tailwind the market is under-pricing.

> Policy credibility is not often cited as a market catalyst. But after a period of INR stress and external uncertainty, seeing both institutions act decisively and competently is precisely what restores investor confidence.

4. The Economy Picture — Resilient Through the Storm

The doomsday scenarios that circulated in March 2026 — India facing a massive external account shortfall, credit crunch, consumption collapse — have not materialised. The high-frequency data tells a consistent story of an economy that absorbed the shock and kept moving.



India High-Frequency Dashboard | Sources: GST Council, FADA, RBI, NSE corporate earnings reviews

- **GST collections**: June 2026 came in at ₹1.9 lakh crore, up 13.9% YoY — the fastest growth in 13 months and the second straight month above ₹1.9 lakh crore. The GST base is broadening, compliance is improving, and the underlying demand signal is clear

- **Auto retail (best-ever June):** Auto retail grew 21.8% YoY in June 2026 to a record 25.6 lakh units — the best-ever June across every segment. Passenger vehicles surged 28.6% YoY, and alternative-fuel (CNG/hybrid/EV) share of PVs crossed 40% for the first time. This follows a best-ever May (+9.6%), underscoring durable, broad-based demand

- **Bank credit growth**: System credit grew 17.6% YoY in the fortnight ended 31 May 2026 — a near two-year high — while deposit growth lagged at 12.2%. Services (led by NBFCs) and retail are driving the expansion, and surplus system liquidity leaves ample transmission headroom. The credit cycle is in full expansion mode

- **Corporate earnings**: Nifty 500 PAT grew 14% YoY in Q3 FY26, with 17 of 29 sectors in double digits. Q4 FY26 headline growth cooled to ~9.5%, but breadth stayed strong — **ex-Nifty 50 companies rose ~20.7% (best in five quarters)** and small-caps ~19%; the drag was large-cap Nifty 50 (FY26 EPS +4.5%). No significant earnings damage from the war period.

> The economy has passed the stress test. Every major high-frequency indicator — tax collections, auto sales, credit growth, earnings — is pointing in the same direction: resilient domestic demand, improving rural cycle, and credit expansion.

External Factors

5. AI and Data Centres — India's Next Wave Opportunity

Having used large language models extensively in our own investment process, we are convinced the AI productivity transformation is real, durable, and accelerating. The question is not whether AI matters — it is where the value accrues and at what stage India participates.

The first wave of AI capex was concentrated in the US, Taiwan, and South Korea. India was largely absent from that trade. As the first wave matures and the AI trade becomes increasingly crowded and volatile, the second wave is beginning — and this is where India can participate:

- **Data centre infrastructure**: Physical compute, power, cooling, and connectivity. India has a credible and growing story — government policy support, industrial land availability, and a growing ecosystem. Major global hyperscalers have announced India data centre investments worth $15+ billion over the next 3–5 years

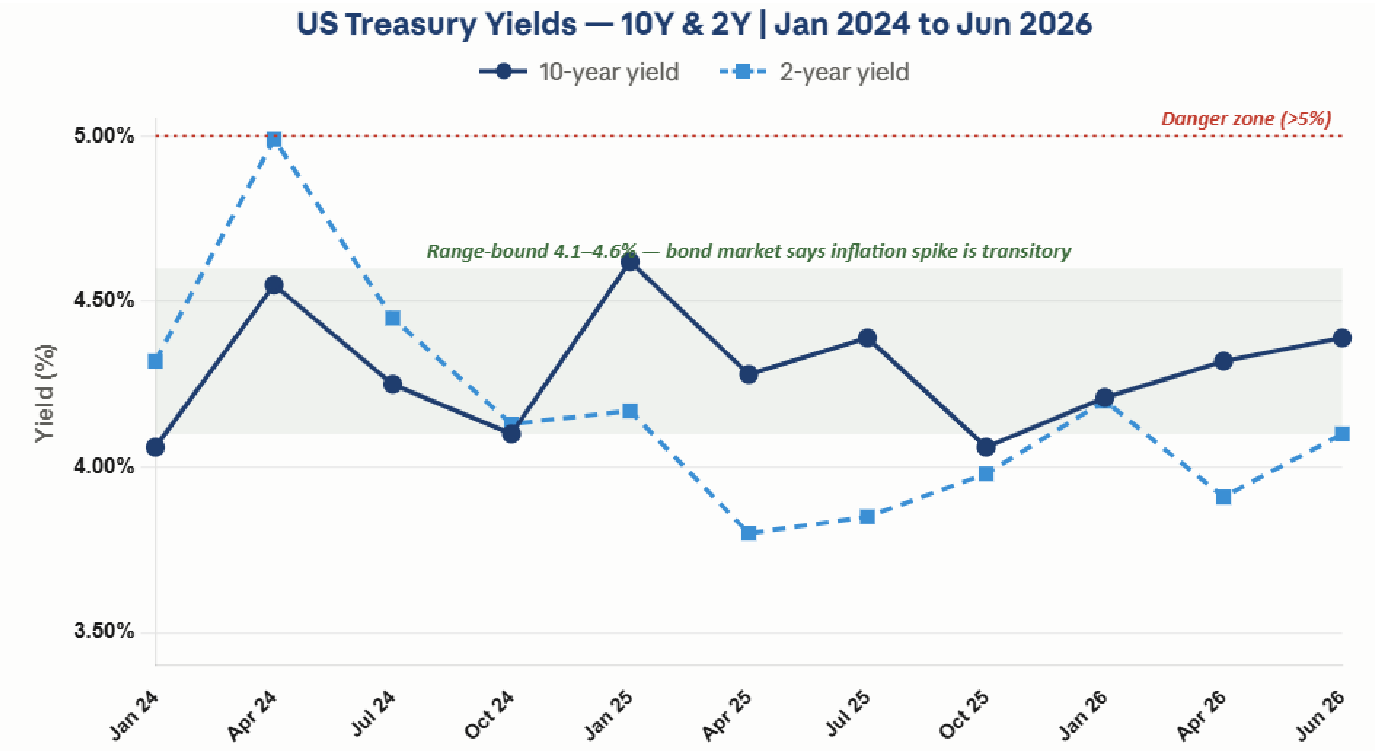
- **Flow rebalancing**: As the crowded AI trade in US/TW/KR experiences volatility, capital looking for alternatives will revisit India. The "anti-India, anti-AI" narrative that drove some FII selling is beginning to reverse

- **AI-augmented services**: India's talent base positions it well for AI-augmented delivery in finance, healthcare, and engineering — a medium-term productivity story the market has not fully priced

> We are not commenting on the Indian IT sector specifically. The AI and data centre opportunity for India is a separate, infrastructure-led thesis that does not depend on legacy IT services re-rating.

6. Global Rates and the Dollar — The Fear Is Ahead of the Reality

The most significant driver of EM outflows in 2025–2026 has been fear of a new Federal Reserve tightening cycle, triggered by Middle East conflict-driven oil inflation. While it's too early to take a directional view on this, we believe this fear is overblown. We would monitor US 10 year and 2-year rates closely on this.



US Treasury Yields — 10Y & 2Y (Jan 2024 to Jun 2026)

The US 10-year yield has remained range-bound at 4.1–4.6% for most of the past two years — never breaking materially higher despite multiple geopolitical shocks. This could also be on account of perception that the inflation spike appears transitory. Supply chains have proven remarkably resilient. Qatar signalled LNG flow resumption within weeks of any ceasefire. Without a structural supply shock, the inflation spike fades and the case for multiple Fed hikes diminishes.

A US 10-year yield staying in the 4.0–4.5% corridor is not a headwind for EM equities — it is neutral to supportive. Add a modestly weaker dollar, and the external environment is the most supportive it has been for India in 18 months.

Risk Factors — What We Are Watching

Risk 1: War Restarts and Crude Re-Spikes

The single most important tail risk for India is a re-escalation of the West Asia conflict that drives the Indian basket back above $100/bbl on a sustained basis. Above $90/bbl, India's external account comes under meaningful stress; above $100/bbl, the pain compounds rapidly through the fiscal, INR, inflation, and rate channels simultaneously. The key monitoring variables are: Strait of Hormuz status, Qatar LNG flow resumption, and the durability of any ceasefire. Our base case is a $75–90/bbl range over the next 12 months — but we size positions to survive a spike above $100.

Risk 2: El Niño and Monsoon Disruption

India's rural economy — which has been one of the strongest performers in the high-frequency data — is directly dependent on a good monsoon. The current forecast for the 2026 south-west monsoon is broadly normal, and reservoir levels entering the season are at a 6-year high. However, El Niño risks cannot be dismissed entirely. A deficient monsoon would hurt Kharif sowing and rural cash flows, push food inflation higher constraining the RBI's easing runway, and dampen rural auto, consumer staples, and FMCG demand.

Risk 3: New Issuance Overwhelming Flows

A more domestic, structural risk is the wave of new equity paper — IPOs, QIPs, OFS, and promoter/PE/anchor unlocks — hitting the market at pace. Strong domestic flows have been this market's bedrock: SIPs near ₹27,000 Cr/month plus deep DII firepower have absorbed both FII selling and fresh supply. The risk is that a record primary pipeline, combined with promoters and PE holders using strength to exit, tips the supply-demand balance. Our base case is that flows stay strong enough to absorb supply — but we stay selective on valuations and avoid the most supply-heavy, frothiest mid- and small-cap pockets.

> These risk factors are currently at moderate probability. But these risks are binary in their impact, and so we maintain disciplined position sizing and hedges accordingly.

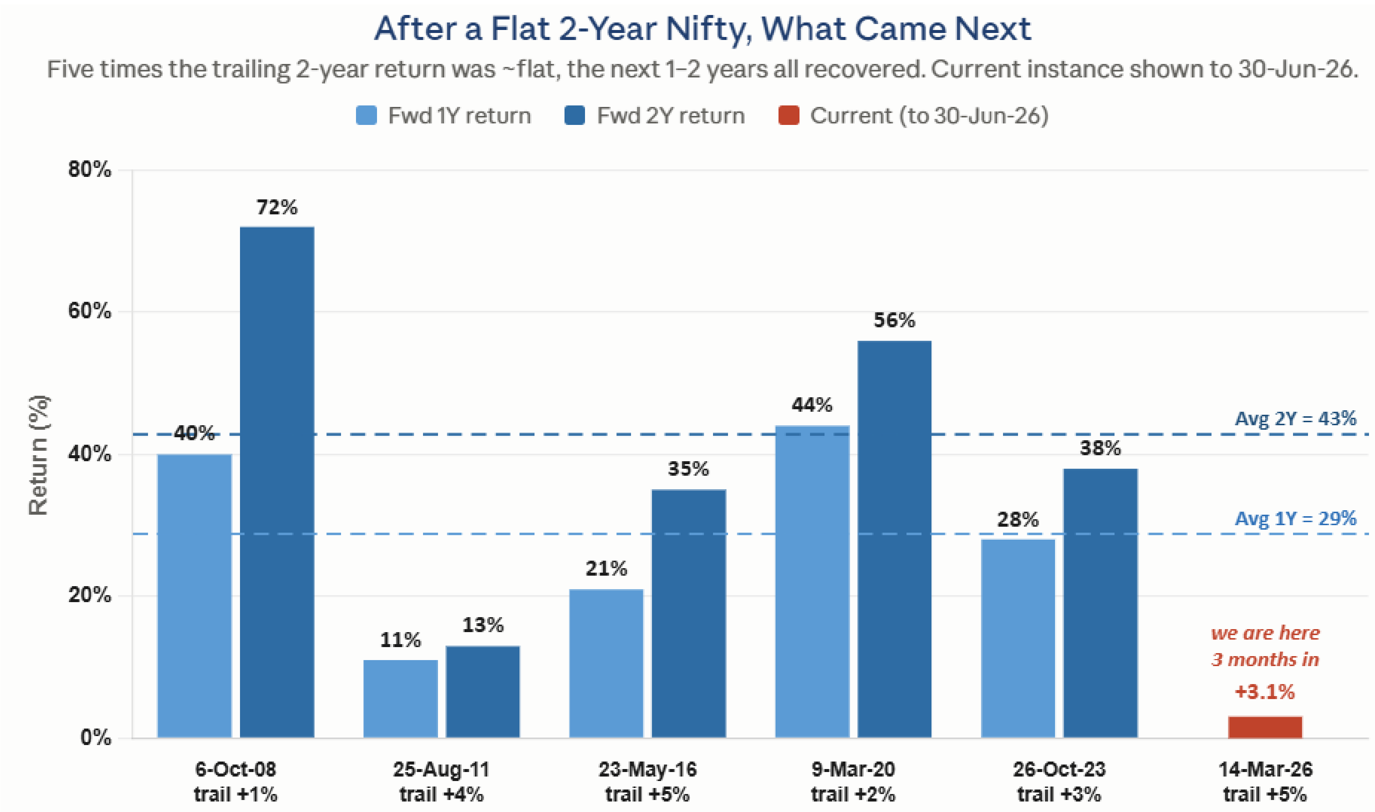
Our Conclusion

Six of nine factors point constructively. The three watch items — war restart, El Niño and new paper supply— are tracked actively. The domestic economy has absorbed the geopolitical shock without breaking. Policy has responded credibly and quickly. Flows are turning. And crude — the master variable — is coming down.

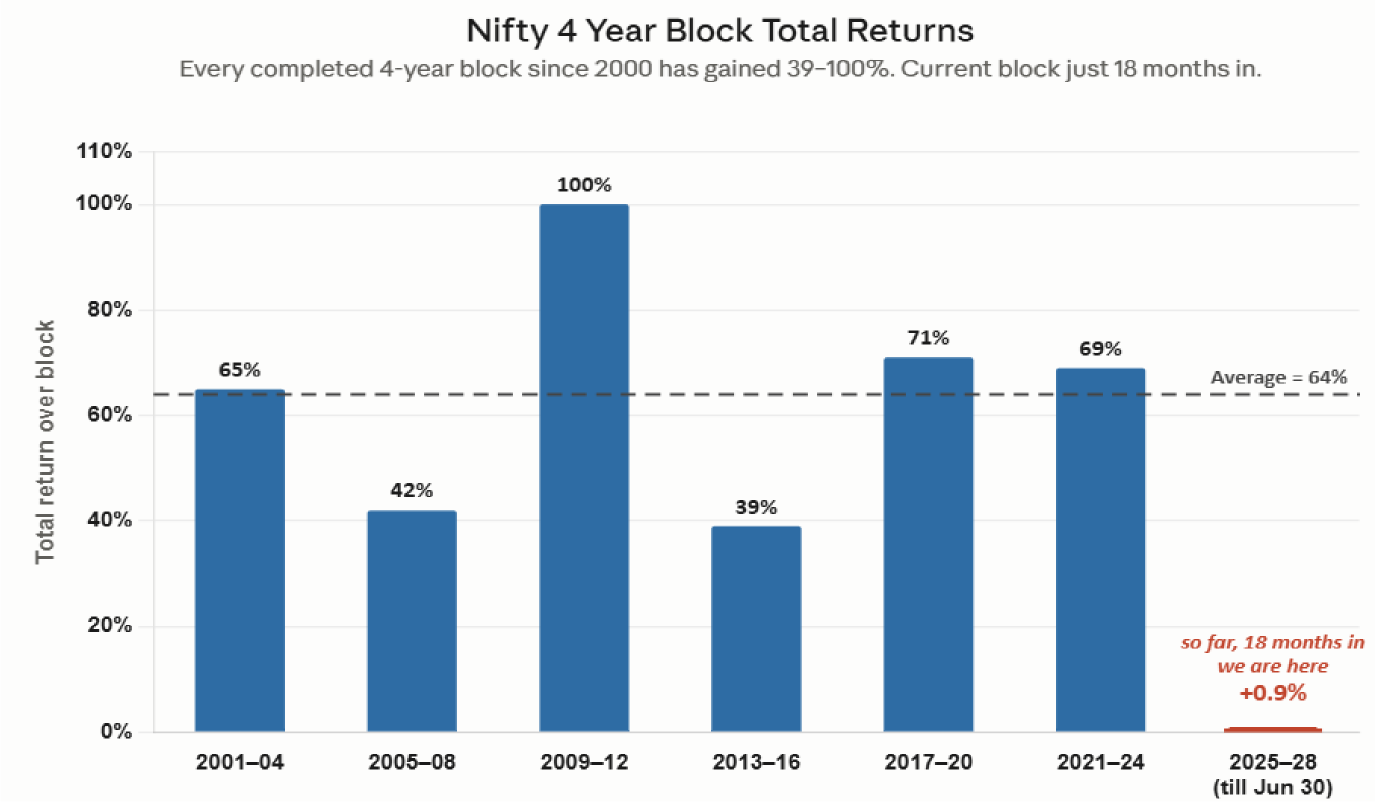
> The stars are aligning for Indian markets. We are broadly constructive on H2 2026, positioned to participate in the recovery while maintaining disciplined risk management on the tail scenarios.

Market Outlook – Technical Aspect

This section just gives some observation which we have heard or noticed and cross checked by us. This may or may not make a lot of sense based on fundamentals but makes for interesting charts and data points.



Whenever the Nifty has drifted sideways for two years — a trailing return of just 1–5% — the next stretch has been unusually rewarding. Across the five prior instances since 2008, the index returned an average of +29% over the following year and +43% over two years, and not one was negative, spanning the muted 2011 case to the powerful 2008 and 2020 rebounds. We're now in the sixth such setup: 14 March 2026 marked another flat two-year point, and three months on the Nifty is up +3.1% — early days, with the historical range still ahead.



Viewed in four-year blocks, Nifty's record since 2000 is strikingly consistent: every completed block has returned between +39% and +100% total (averaging ~64%), even the 2005–08 block that swallowed the global financial crisis and still finished +42%. We're only 18 months into the current 2025–28 block, with the index essentially flat at +0.9% — leaving plenty of room to compound toward that historical range and echoing the pattern where long sideways stretches precede strong recoveries.

Again, this is just an observation, and one can argue why the 4 year blocks start at a particular time or not. However intuitively this makes sense as Indian corporate earnings grow at approx. 40-60% in a 4-year period so assuming there is no multiple derating or rerating, the broader market returns should be the same.

Thank you for being a part of K3 Funds
K3 Team