Axis Income Plus Arbitrage Active FOF

About the Fund

Axis Income Plus Arbitrage Active FoF is an open-ended fund of funds scheme that invests in a mix of high-quality* actively managed debt schemes (50-65%) and arbitrage funds (35-50%). The fund is dynamically managed in terms of duration and accrual, to efficiently navigate different market conditions, with an aim to optimize risk-adjusted returns within a tax-efficient structure (with an investment horizon of over 2 years)—offering a compelling alternative to traditional debt investments for medium-term investors. There are two key differentiators for Axis Income Plus Arbitrage Active FoF vis-à-vis other FOFs in this category:

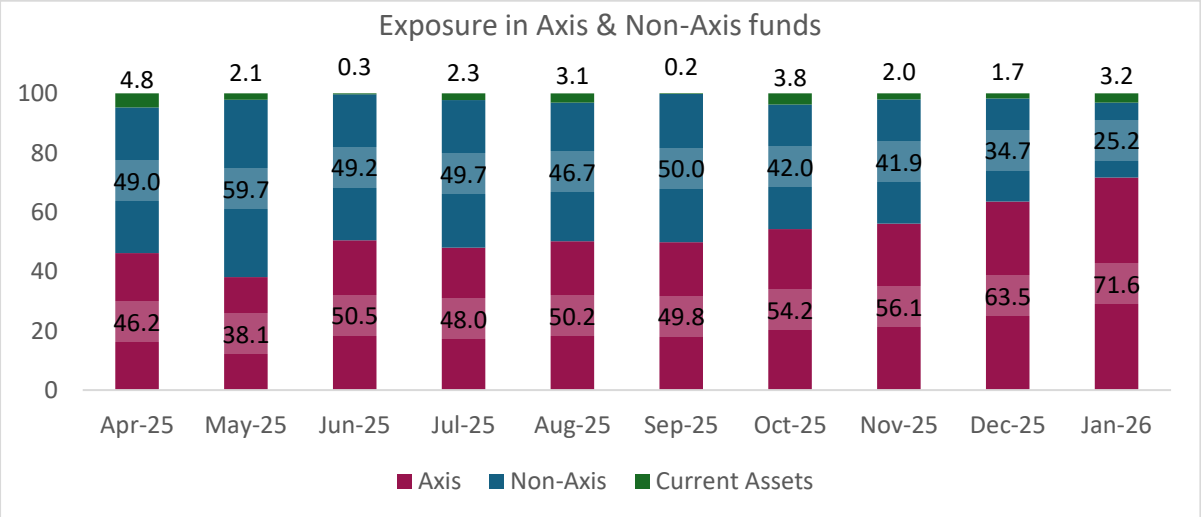
1. Multi Manager Approach
2. Dynamic Management

**Investment in underlying schemes having exposure to AAA/SOV rated instruments as on 31st Jan 2026.*

1. Multi Manager Approach

The scheme diversifies fund manager styles and broadens portfolio exposure by investing in funds of different AMCs, thereby reducing single-manager bias / style drift and concentration risk. The Fund employs a top-down investment approach, conducting a comprehensive analysis of macroeconomic factors to select the fund positioning based on our duration and credit views. Factors such as the yield curve, inflation rates, GDP growth, spreads, monetary policy cycle, demand and supply of G-secs/corporate bonds and overall market liquidity determine the optimal duration for investments.

The underlying debt funds are selected based on their alignment with our macroeconomic views and strategy. Further, the assessment of the underlying debt funds includes evaluating the fund's corpus, track record of execution, consistency in performance, underlying asset allocation, TER and exit load. We aim to allocate in best performing funds from the top 10 debt AMCs by AUM, while maintaining a disciplined single-AMC exposure cap of 25% (except for parking solutions and Axis AMC Schemes).

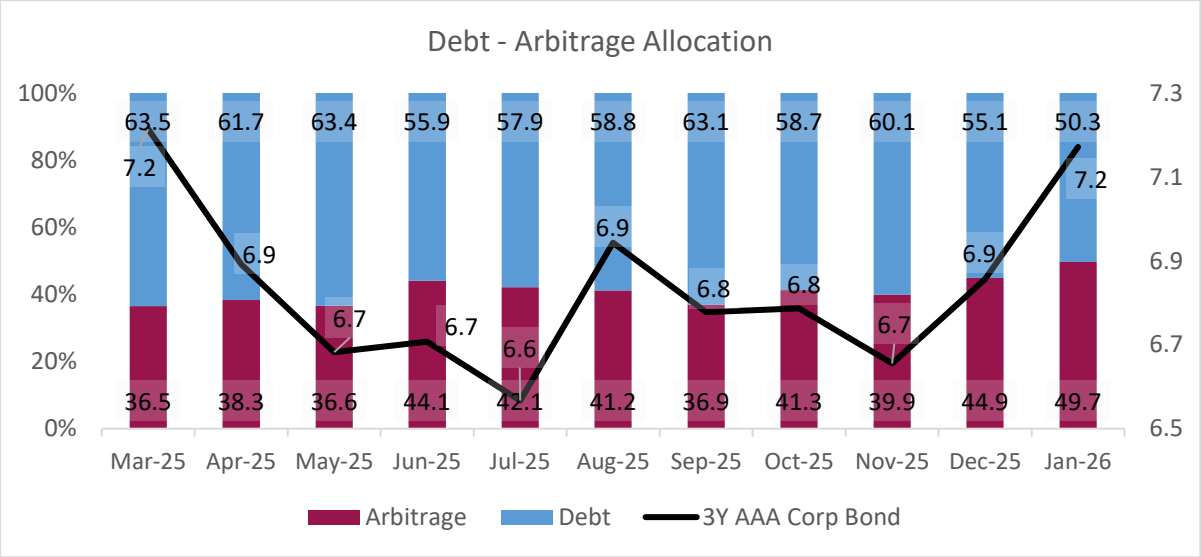


By leveraging various funds for both debt and arbitrage allocations, the FoF stands out as a truly diversified, multi-manager solution that seeks to capture the best opportunities across the market.

2. Dynamic Management:

- Since repositioning, the fund actively moved debt exposure between ~50–63% and arbitrage between ~37–50%, capturing yield opportunities mid-year and reducing duration risk as rate-cut visibility faded.
- Over the last three months, the fund decisively reduced debt, reduced duration and raised arbitrage exposure towards ~50% in anticipation of widening yield spreads and diminishing capital gains owing to a less attractive rate environment.

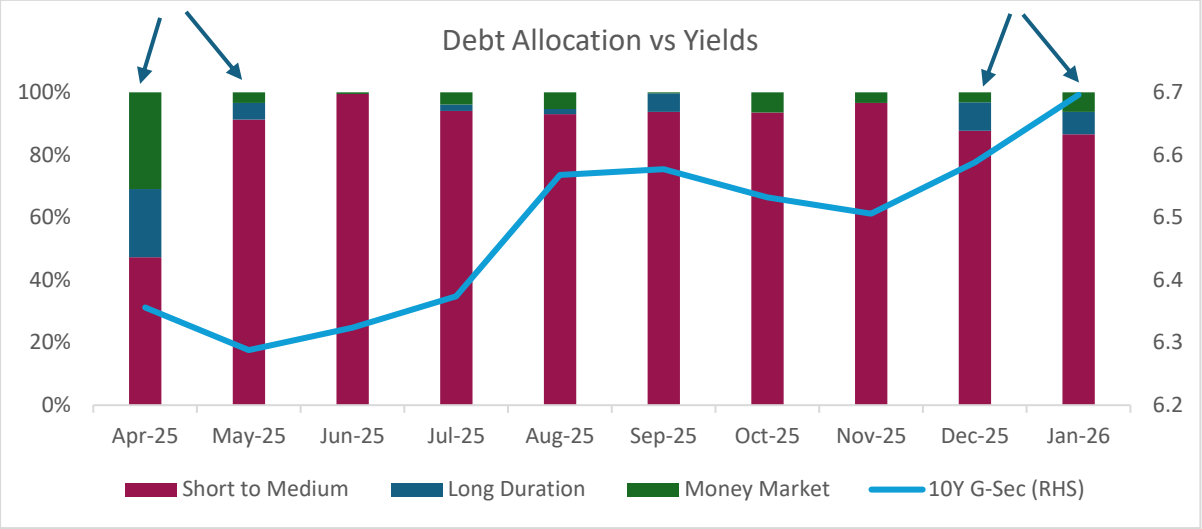
Q2 2025 – Elevated Debt Allocation: The fund maintained a higher allocation to fixed income (55–62% in debt) to capitalize on a favorable bond environment. With a 50 bps repo rate cut in Jun 2025 and bond yields trending down, the fund aimed to capture capital gains. By end of Jun 2025, debt comprised about 56% of the portfolio, while arbitrage peaked around 44% in Jun-25, as the June rate cut boosted equity sentiment (and thus arbitrage opportunities).



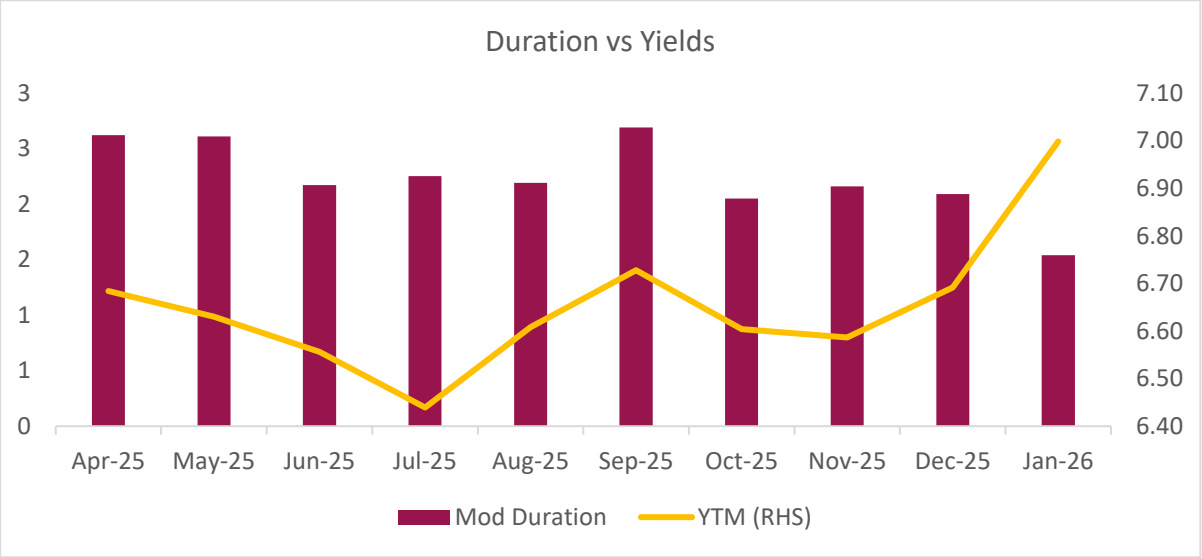
Aug–Sep 2025 – Tactical Tilt to Debt: In late Aug-25, bond yields temporarily spiked – 3Y AAA yields jumped to ~6.94% in August from ~6.57% in July, reaching their highest level of the year. This implied widening credit spreads and an attractive entry point for quality corporate bonds. The fund inched up its debt allocation in August–September to about 63%, whereas arbitrage had been pared down to ~37%. This tactical shift allowed the fund to lock in higher yields on AAA-rated bonds and improve future accrual, essentially "harvesting" the yield spike. It was a relatively **contrarian move in the category**, demonstrating the fund's agility in allocation.

Higher allocation to SDLs as spreads widened, followed by allocation to corporate bonds to lock-in higher yields and accrual

Active cash calls, tactical allocation to Gilt/SDL as yields inched up; and higher allocation to arbitrage funds



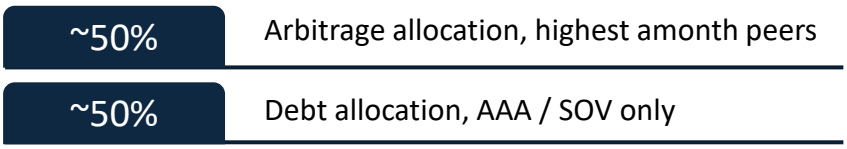
Oct 2025–Jan 2026 – Increasing Arbitrage Exposure: As the RBI MPC's rate cut cycle approached its end, the fund grew cautious on further duration gains. By October 2025, with liquidity normalization under way and possible open-market operations (OMOs) to suck out excess liquidity, long-term bonds looked less compelling. The fund accordingly pivoted back towards arbitrage in late Q4, with allocation increasing steadily from ~37% in Sep-25 to ~50% by Jan-26, one of the highest among the peers (Source: ACE MF, Peers are all the Active FoFs under the Income Plus Arbitrage FOF category as of Jan 31, 2026).



Notably, the fund reduced corporate bond allocation and added Gilt in Dec-25 and short bonds in Jan-26 to benefit from elevated yields (10Y G-Secs at 6.70%) in G-Secs and near-term bonds segment. Axis Income Plus Arbitrage Active FoF demonstrated decent performance for the 3-month, 6-month, and FYTD periods of FY26, all while maintaining a low-risk diversified **high-quality AAA rated portfolio**.

Current Positioning

As of the start of 2026, the fund's portfolio reflects a cautiously balanced stance, in line with its forward-looking view on markets, due to several reasons: (1) the interest rate cut cycle has likely ended, meaning capital gains from bonds will be limited; (2) liquidity remains neutral to mildly surplus in the system, which could put mild upside pressure on yields; (3) demand-supply mismatch on SDLs and Corporate Bonds, putting upward pressure on yields.



Asset Allocation based on Jan-26 portfolio (Source: axismf.com)

As we expect interest rates to remain lower for longer and preference for accrual strategies, we have built positions in the shorter duration segment along with tactical calls in Gilt / SDL. The fund currently aims to build a core portfolio with a duration of 1-3 years.

The fund has recently increased exposure to short-term bonds and G-Secs, as arbitrage spreads continue to compress, reducing return potential in the category. At the same time, elevated G-Sec and SDL spreads present a more attractive accrual opportunity. With expectations of easy liquidity going into next quarter and relatively subdued returns potential in arbitrage category, we may further dynamically look to reduce arbitrage exposure and increase debt exposure through short-term and corporate bonds funds.

Why Axis Income Plus Arbitrage Active FoF remain relevant?

Axis Income Plus Arbitrage Active FoF remains an **all-weather proposition** for the investors who are looking for:

- multi-manager model to reduce FM bias and diversify the risk emanating from a single investment strategy.
- dynamically managed portfolio to navigate market cycles
- debt-like stability with efficient taxation (12.5% LTCG after 2 years)

Portfolio Characteristics (31st Jan 2026)

Security Name	Asset Type	% of Net Assets
Axis Corporate Bond Fund	Debt	40.60%
Axis Arbitrage Fund	Arbitrage	27.45%
Aditya Birla Sun Life Arbitrage Fund	Arbitrage	17.65%
Kotak Arbitrage Fund	Arbitrage	4.55%
Axis Gilt Fund	Debt	3.59%
Bandhan Short Duration Fund	Debt	3.01%
Net Assets	Cash & Cash Equivalent	3.15%

Portfolio Stats (Debt)

Average Maturity	4.11 Years
Macaulay Duration	3.02 Years
Modified Duration	2.87 Years
YTM	7.19%
Underlying Expenses	0.36%

Key Scheme Details (31st Jan 2026)

Benchmark	65% NIFTY Composite Debt Index + 35% Nifty 50 Arbitrage TRI
AUM	1,992.6 Cr.
Fund Manager(s)	Devang Shah, Hardik Shah, Anagha Darade, Karthik Kumar
Total Expense Ratio*	Direct – 0.05%; Regular – 0.45%
Exit Load	Nil

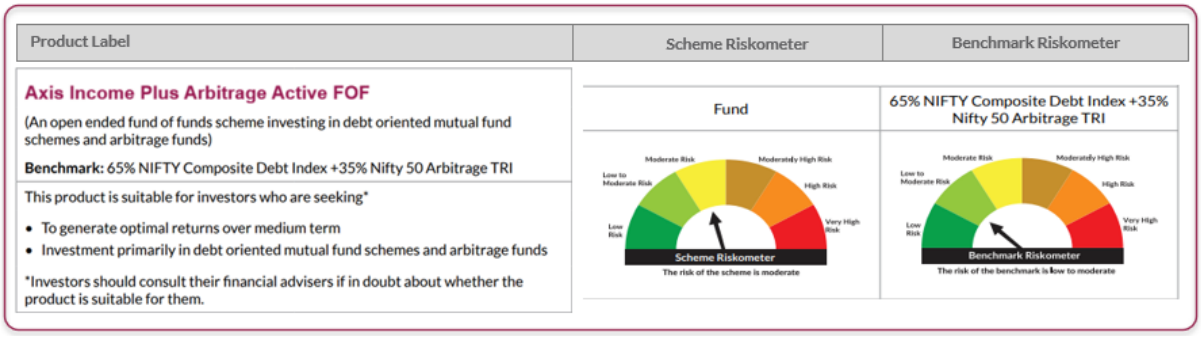
**Investors will bear the recurring expense of the scheme in addition to the expenses of underlying schemes in which Fund of Funds scheme makes investment.*

Performance

		1 Year		3 Years		5 Years		Since Inception	
Fund Name	**Date of inception**	**CAGR (%)**	**Current Value of Rs.10,000/- Investment**	**CAGR (%)**	**Current Value of Rs.10,000/- Investment**	**CAGR (%)**	**Current Value of Rs.10,000/- Investment**	**CAGR (%)**	**Current Value of Rs.10,000/- Investment**
Scheme (Reg-G)	28-Jan-20	7.37%	10,735	7.69%	12,489	6.32%	13,593	6.83%	14,874
Benchmark		5.83%	10,582	7.34%	12,368	5.96%	13,361	6.30%	14,439
Additional Benchmark		5.66%	10,564	7.95%	12,581	5.10%	12,824	5.67%	13,929
Scheme (Dir-G)	28-Jan-20	7.77%	10,775	8.02%	12,603	6.67%	13,818	7.17%	15,162
Benchmark		5.83%	10,582	7.34%	12,368	5.96%	13,361	6.30%	14,439
Additional Benchmark		5.66%	10,564	7.95%	12,581	5.10%	12,824	5.67%	13,929

Scheme: Axis Income Plus Arbitrage Active FOF; Benchmark: 65% NIFTY Composite Debt Index +35% Nifty 50 Arbitrage TRI; Additional Benchmark: NIFTY 10 yr Benchmark G-Sec

Product Labeling



For latest riskometer, refer axismf.com.

Disclaimer

This note is prepared dated 11th Feb 2026. Portfolio data as on 31st Jan 2026. Source: RBI, Bloomberg, axismf.com, ACE MF, ICRA MFI, AxisMF Research.

Past performance may or may not be sustained in future. Investors are advised to check the portfolio of the scheme and consult their tax advisor to determine the taxation applicable.

Sector(s) / Stock(s) / Issuer(s) mentioned above are for the purpose of disclosure of the portfolio of the Scheme(s) and should not be construed as recommendation. The fund manager(s) may or may not choose to hold the stock mentioned, from time to time.

Mutual Fund investments are subject to market risks, read all scheme related documents carefully.