Monthly Insight

THE INVESTMENT TRUST OF INDIA
LONG-SHORT EQUITY FUND

5th December 2020

News that a successful vaccine could be available for use as soon as December 2020, has fired up a "everything bubble" rally across global markets: metals, oil, equities, bitcoin, junk bonds have all seen a sharp increase in momentum on the upside. Markets believe that with the availability of a vaccine the COVID-19 hindrance to economic activity would be behind us leading to an opening up of activity in 2021, and a sharp "V" shaped recovery across the global economy, in both developed and emerging markets. Given that economic activity is already at 90-95% of pre-COVID levels, the effect of the large fiscal and monetary stimulus already effected in 2020 (and more to come in 2021) could turbocharge global economic activity. This same premise also holds for India.

For the calendar year, the MSCI World Index is up 9.5% and the MSCI Emerging Market Index is up 8.1% - an unthinkable proposition in March 2020 and a testament to the heavy lifting done by policymakers in cushioning the economic blow of the pandemic, as well as of course genuinely staggering innovation in vaccines, therapeutics and medicine by pharmaceutical companies.

Overall, emerging markets have performed better than developed markets, mid and small caps outperforming large caps, crude oil prices up sharply (+27% in Nov-20) and safe havens such as gold and the dollar having a poor month (gold -5.5%, dollar index -2.3%). Helped by a one-time weight increase in MSCI indices, India consequently attracted a massive Rs. 65,317 crores of FII flows for the month – more than 2x the highest ever received in a single month ever. The Nifty was up 11.4% for the month vs. 15.5% for the Nifty Midcap and 13.0% for the Nifty Smallcap. From the March lows, Indian markets are now handily the best performing in the world: the Nifty, Nifty Midcap and Nifty Smallcap are up 70.4%, 79.4% and 94.9% vs. 58.9% for the MSCI Emerging Market and 61.2% for the MSCI World Index.

The question remains though on how much of the current "reflation" and "recovery" trade has played out, or perhaps even gone ahead of itself. Challenges remain on vaccine rollout (in emerging markets especially), on the headwinds from receding stimulus and the surfacing of pre-COVID challenges for the Indian economy. Nonetheless with continuing negative real interest rates, the hunt for yield should keep the outlook buoyant for positive return assets such as equities.

No 2nd COVID-19 wave in India? Despite several weeks passing after the peak of the festive season in India, we have only seen isolated instances of a 2nd wave in India – in places such as New Delhi, Ahmedabad, Surat etc. There has been nothing at all like the wide, pervasive and much worse situation than March-April that most of the world has seen. Even lower testing does not explain this – hospitals across all major cities barring a few are seeing record low COVID occupancies, non-COVID procedures and footfalls have materially increased and even the excess deaths we saw in the 1st wave (for example, excess deaths in Mumbai till September were 2x the reported COVID deaths) have not materialized. Perhaps yet too early, but India seems to have learnt to successfully live with COVID-19.

Portfolio Stance: Medium term outlook continues to be strong on negative real rates

We maintain our medium-term outlook of negative real rates buoying the case for equities. With the strong performance in Indian equity markets we have chosen to calibrate our equity exposures and reduce risk as markets start heating up sharply.

We continue to believe performance of Indian IT services companies will persistently surprise positively over the coming quarters and maintain an overweight stance herein.

FUND PROFILE

Key Fund Information

Launch Date 11th April 2018

Structure: Open-ended, CAT III AIF

Domicile: India

Currency: INR

Min Initial Investment: INR 1 crore

About the Fund

Investment Manager:
The Investment Trust of India

Investment Strategy: To outperform the Nifty index over a full equity market cycle, while protecting downside during equity market downturns

Performance
(before fees and taxes)
Nov 2020 4.50% (11.39%)
Since Inception* 37.82% (24.67%)
*Till Nov 30, 2020
(figures in brackets correspond to Nifty returns)

Managing Director & CIO
Rajesh Bhatia

Fund Managers
Rajesh Aynor
Siddhartha Bhotika

Research Analyst
Akash Jhaveri

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ANNEXURE

Performance

Quarterly:

Returns	Q1 FY 19*	Q2 FY 19	Q3 FY 19	Q4 FY 19	Q1 FY 20	Q2 FY 20	Q3 FY 20	Q4 FY 20	Q1 FY 21	Q2 FY 21	Q3 FY 21	Since Inception*
ITI LS	5.33%	7.41%	0.62%	4.64%	-0.79%	-1.17%	6.97%	1.60%	-1.52%	3.34%	6.67%	37.82%
Nifty	3.00%	2.01%	-0.62%	7.00%	1.43%	-2.67%	6.04%	-29.35%	19.81%	9.18%	15.30%	24.67%

Monthly:

Returns	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Since Inception*
ITI LS	0.24%	-1.05%	-0.71%	5.40%	-1.94%	-0.01%	2.08%	4.50%	37.82%
Nifty	14.68%	-2.84%	7.53%	7.49%	2.84%	-1.23%	3.51%	11.39%	24.67%

Returns	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20
ITI LS	0.22%	-1.12%	0.11%	-2.76%	-2.92%	4.69%	1.50%	2.62%	2.70%	1.02%	0.92%	-0.34%
Nifty	1.07%	1.49%	-1.12%	-5.69%	-0.85%	4.09%	3.51%	1.50%	0.93%	-1.70%	-6.36%	-23.25%

Returns	Apr-18*	May-18	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19
ITI LS	2.32%	1.36%	1.56%	4.69%	2.04%	0.55%	-1.68%	3.03%	-0.67%	1.85%	-2.54%	5.42%
Nifty	3.24%	-0.03%	-0.20%	5.99%	2.85%	-6.42%	-4.98%	4.72%	-0.13%	-0.29%	-0.36%	7.70%

*From 11th April, 2018;
Fund returns are after expenses, before management fees and taxes

Annual (post fees and taxes):

	FY 19	FY 20	Cumulative for FY19 and FY20
ITI LS	13.9%	-0.8%	13.0%
Nifty	11.7%	-26.0%	-17.3%

Fund returns are after expenses, management fees and taxes

Portfolio Snapshot

Strategic Long Positions - Top 5

Stock	PF Weight
HDFC Bank	6.2%
HDFC Ltd	5.4%
Reliance Industries	5.3%
Bharti Airtel	4.3%
Infosys Limited	3.4%

Top Tactical Longs - Top 5

Stock	PF Weight
HCL Tech	8.3%
Infosys	5.6%
ACC	5.0%
ICICI Bank	4.7%
HDFC Life	4.4%

Top Tactical Shorts - Top 3

Sector	PF Weight
IT	1.9%
BFSI	1.0%
Consumer Discretionary	1.0%

Exposure

Gross Exposure (month-end)	130%
Net Exposure (month-end)	72%
Gross Exposure (month-avg)	105%
Net Exposure (month-avg)	71%