The Investment Trust of India Limited
(A part of The Investment Trust of India Limited Group)
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THE INVESTMENT TRUST OF INDIA
LONG-SHORT EQUITY FUND

August 20th, 2018

Dear Investor,

Welcome to the ITI Long-Short Equity Fund!

We commenced our investing operations from April 11th, 2018. Below is the performance of the fund up to July 31st, 2018:

Gross Returns	Since Inception	Jul-18	Jun-18	May-18	Apr-18*
ITI LS	10.33%	4.69%	1.57%	1.37%	2.36%
Nifty	9.17%	5.99%	-0.20%	-0.03%	3.24%
*Since April 11; before expenses, fees and taxes					

We have been building our portfolio during this period so while the average gross equity exposure from April 11th, 2018 to July 31st, 2018 was 47% and the net equity exposure was 36%, at July end we ended with gross exposure of 91% (gross longs :75% and gross shorts:17%) and a net exposure of 58%.

The recent rally in the market has been extremely narrow, with just 10 stocks accounting for the entire rise of the Nifty during the above stated period. At the same time, the Nifty Midcap 100 index is actually down ~4%, perhaps reflecting the worsening in the overall macro-environment both locally and globally. As such, several long-only funds have been struggling to keep up with the indexes.

Notwithstanding this discussion on our short term performance, we think of ourselves as a fundamental driven, stock-picking oriented investment fund focussed on long term capital appreciation. To be clear, our fund objective is to outperform the Nifty index over a full equity market cycle, while protecting downside during equity market downturns along the way; the result being lower volatility in performance and lower risks for the investor.

We also recognise that long short equity funds, under the Alternate Investments Funds (AIF) structure are a relatively new asset class for Indian investors. There are but a few firms that are offering these products (although we are sure in a few years, there will be many more!).

Structure: Open-ended, CAT III AIF

Domicile: India

Currency: INR

Liquidity:
Contribution: Monthly
Redemption: Monthly

Min Initial Investment: INR 1 crore

Auditor: S.R. Batliboi & Associates

Investment Manager: The Investment Trust of India

Fund Accountant: IL&FS Securities Services Ltd

Custodian: IL&FS Securities Services Ltd

Trustee: Vistra ITCL (India)

Managing Director & CIO: Rajesh Bhatia

Fund Managers:
Rajesh Aynor
Siddhartha Bhotika

Analyst:
Akash Jhaveri

Even here, some of these long short products are positioned as market-neutral or fixed income plus returns whilst others promise to offer greater equity type upsides. Hence we thought it is only appropriate that we communicate a little more to you about what we are and what to expect from us:

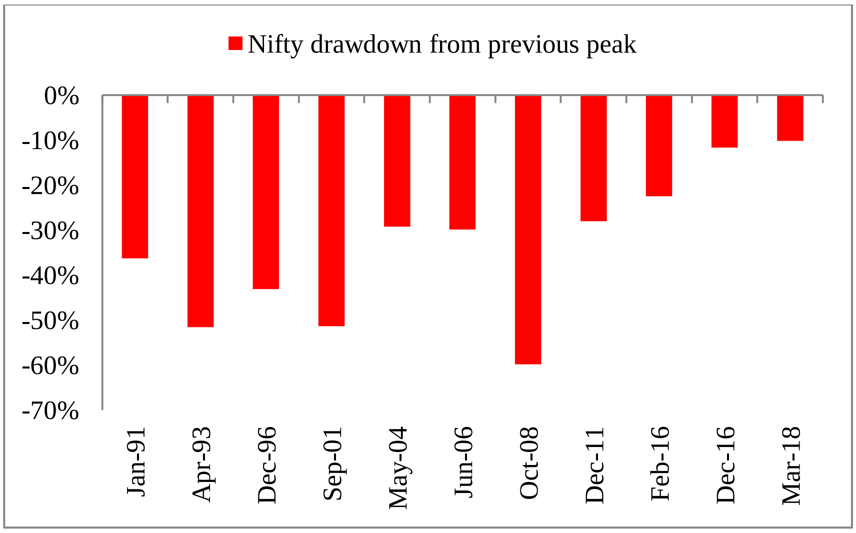
(A) How is our long short equity fund different from a conventional long only fund and why does it merit a separate asset allocation?

The goal of a long-short fund is to profit from both rising as well as declining securities. Conventional long-only funds can at best express a negative view on a stock or a sector by not owning it, whereas the canvas for a "stock-picking" oriented long-short fund such as ours is larger, with the ability to find and short declining securities as well, hence expanding the opportunity to generate alpha. We today live in a world of massive technological change. Some argue that we are at the cusp of one of the biggest and the most disruptive technology transitions of all time and this accelerated pace of technology changes makes it imperative that several businesses will face declines. Thus, we believe that the ability to identify and short such businesses is a meaningful differentiator for a long-short fund like ours.

Conventional long-only funds are usually fully invested at all times; and while they benefit from rising markets, they are also likely to be hurt by a falling market. Long-short funds, on the other hand, have the flexibility to reduce exposures (by either reducing the long positions or increasing shorts or both) to overheated/overvalued/declining markets, while increasing exposures in oversold/undervalued/rising markets. The result is that long-short funds, therefore, have the ability to participate in rising markets and protect capital in declining ones (or even better, earn returns even in declining markets due to their flexibility to short). Thus, this asymmetric returns profile (participating in rising markets and protecting downside during downturns) helps to lower volatility in performance, lowers risks and increases the odds of beating the indexes, or even long-only funds, over a full cycle.

So how frequent are sharp declines in stock markets? According to Ned Davis Research, the US markets (which have the longest recorded history for stock market returns), from the year 1900 to 2013 has recorded 123 corrections (defined as a decline of over 10% but less than 20%) or a correction occurring every year and 32 bear markets (defined as decline of over 20% or more) or a bear market occurring every three and a half years. The history of volatility of the Indian markets is no different (see graph below).

Some experts today argue that global equity markets are close to an inflexion point. The US, the largest equity market in the world, is witnessing the longest bull market in its history. However, the reversal of Quantitative Easing (QE), rising interest rates globally, tariff wars, currency wars, asset bubbles, EM shocks have the potential to lead to a sharp meltdown of equities globally. While forecasting such events is a futile exercise, we believe the flexibility to protect capital or even take advantage of any such declines which may occur, is an advantage for a long-short fund such as ours.



(B) What is the importance of downside protection and moderating volatility if eventually over the long run markets go up?

It is conventionally argued that since stocks and markets go up over the long term, it is wise to just stay invested at all times. However, consider the following performance of a fund:

Return Data	**Period 1**	**Period 2**	**Period 3**	**Period 4**	**Period 5**	**Total Return**
Fund Return	-1.5%	30.0%	21.2%	-1.9%	2.0%	55.3%
Nifty	-24.0%	75.8%	18.0%	-24.5%	16.5%	38.6%

As can be seen, the fund has underperformed in two out of the five periods and still generated significant excess returns over a longer time-frame. A closer look will show that the excess returns are largely thanks to the downside protection in the two sharp declining periods. Also, notice that not only is the volatility of performance lower, but the risk of capital declines has also been lower. In case you are wondering why we have presented the above fund data, it is because this is the actual performance of Heritage India Fund, which was managed by our CIO during 2008-12 (for more disclosures on the performance, please see Annexure 1).

The key point being made here is the simple arithmetic of declines; if you lose 50% from your starting capital, then it requires a 100% return after the decline to reach back to your starting capital level. In effect, for the purposes of compounding your wealth, it is more damaging to lose money than make it. Losing less in down years and compounding from a higher level of capital base make it possible to earn higher equity type returns while taking lower risks.

Our Guiding Light:

- Warren Buffett's core investing principle:

  Rule No 1: Don't lose money

  Rule No 2: Don't forget Rule No 1

- "Avoiding Serious loss is a precondition for sustaining a high compound rate of growth" – Roger Lowenstein, "The Essential Lessons"

- "We have never gone two steps forward and then one step back, maybe only a fraction of a step back" – Charlie Munger

(C) What differentiates the ITI Long Short Equity Fund in the market place and what is our competitive advantage in executing this strategy?

1. The initial corpus of over Rs 100 crore is internal to the Sponsors/CIO and their families and affiliates as their own skin in the game.

2. The CIO of ITI Long Short Equity Fund has a healthy track record over the last ten years in managing India long-short portfolios (overall 25+ years in Indian equity markets); we believe this experience is helping imbibe the correct processes to successfully manage and navigate such a fund through a capital market cycle.

3. Our consistent focus on risk-return tradeoff, our culture of patience and discipline and our long term orientation to build investment performance are, we believe, virtues for this strategy. Our attempt is to benefit from our temperament and avoid or benefit, as the case maybe, from the excesses of markets and its participants.

To conclude, we recognise that an investment firm will eventually get the investors they deserve. We hope to earn our stripes along the way. We thank you for reposing your faith in us. Once again, welcome to the ITI Long Short Equity Fund!

Sincerely,

Rajesh Bhatia
Managing Director & CIO
ITI Long Short Equity Fund

ANNEXURES

Annexure 1:

Rajesh Bhatia, the CIO of ITI Long Short Equity Fund, was the CIO of Heritage India Advisors, which was the exclusive advisor to the Heritage India Long-Short Fund. Below is the performance of the Heritage India Long Short Fund:

Return Data	2008	2009	2010	2011	2012	Total Return
Fund Return	-1.5%	30.0%	21.2%	-1.9%	2.0%	55.3%
Nifty	-24.0%	75.8%	18.0%	-24.5%	16.5%	38.6%

1) 2008 data is from July 2008; 2012 data is till February 2012.
2) From July 2008 to October 2008, Heritage ran its portfolio on Kotak's PIFL platform. From November 2012, Heritage moved to its own FII structure.
3) The performance of Heritage FII as above, has been certified by Apex Fund Services, its fund accountants.
4) The performance is in INR terms, after expenses but before management fees.
5) Since Heritage was an FII, by regulation it could not park surplus cash in Indian liquid funds, so the cash position earned zero interest; although under the current AIF structure, the unused cash can be deployed in liquid funds to earn extra returns.

Annexure 2: Statement of Top 5 Holdings as of 31st July, 2018

Stock	PF Weight
Infosys Limited	10.0%
HDFC Bank	8.2%
Reliance Limited	8.2%
HDFC Limited	7.7%
Tata Consultancy Services Ltd	5.7%

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