The Investment Trust of India Limited
(A part of The Investment Trust of India Limited Group)
Regd office: Naman Midtown, A Wing, Unit No. 2103, 21st Floor
Senapati Bapat Marg, Prabhadevi, Mumbai 400013

November 20th, 2018

Dear Investor,

We commenced our investing operations from April 11th, 2018. For the quarter ended 30th September, 2018 our returns were 7.32% (vs. 2.02% for the Nifty). For the month ending 31st October, 2018 our returns were -1.69% (vs. -4.98% for the Nifty) and since inception (i.e. from 11th April, 2018 to 31st October, 2018) our returns are 11.06% (vs. -0.15% for the Nifty). All returns are after expenses and before management fees and taxes. Please refer to Annexure 1 for additional details.

It is well acknowledged that genetic researchers consider the Fruit Fly as the preferred species to study due to its short life span of less than a month; a life span short enough to help understand the inheritance, mutation and development of genes over generations. Similarly, while it has been only over seven months since we commenced our investing operations, the equity market has displayed a full cycle swing during this short period (12% up from April to August and 11% down from September to October; see chart below). As such, the performance of the fund during this short period can help investors gain insight into the type of behaviour our fund could display to such cycles over a longer period.

We have mentioned earlier that unlike conventional long-only funds, which are usually fully invested and hence benefit from rising markets but are equally likely to be hurt during falling markets, long-short equity funds such as ours have the flexibility to reduce equity exposures to overheated/ overvalued/ declining markets and increase exposures to oversold/ undervalued/ rising markets. Such flexibility allows the fund to participate in rising markets, while protecting capital during periods of decline (or even look to earning returns in declining markets due to the ability to short). This creates an “asymmetric” returns profile (participating in rising markets and protecting downside during downturns), which effectively helps lower volatility in performance, reduces risks and enhances the odds of beating the indices or even long-only funds over a full cycle. Notice from the chart below that our performance so far has been in line with this expectation. Of course, a seven month period of performance is too short a period to arrive

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

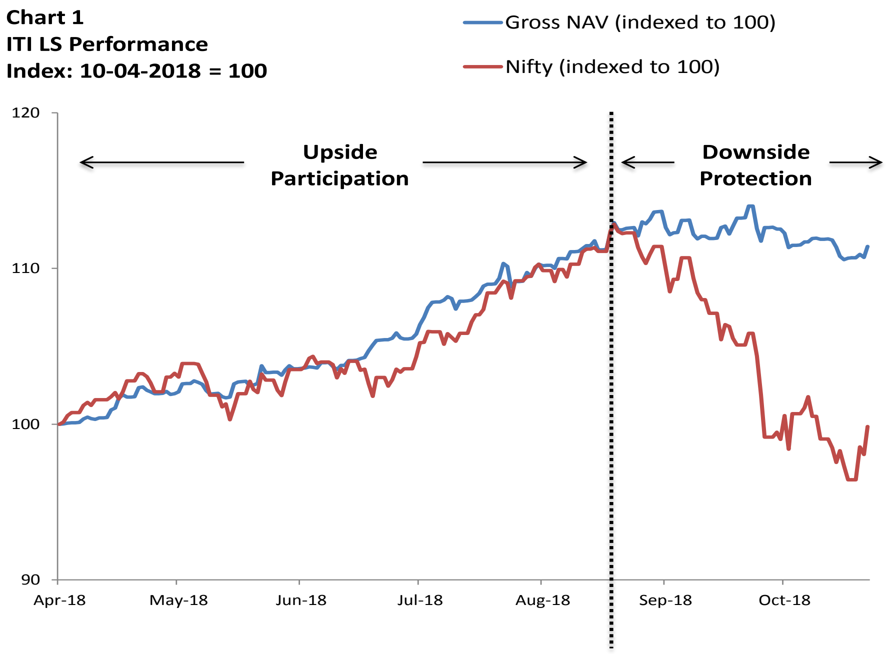
Custodian: IL&FS Securities Services Ltd

Trustee: Vistra ITCL (India)

Managing Director & CIO: Rajesh Bhatia

Fund Managers:
Rajesh Aynor
Siddhartha Bhotika

Analyst:
Akash Jhaveri



"Asymmetric Returns"

	Apr – Aug 2018	Sept – Oct 2018
ITI LS Fund Returns	12.59%	-1.06%
Nifty Returns	12.29%	-11.08%

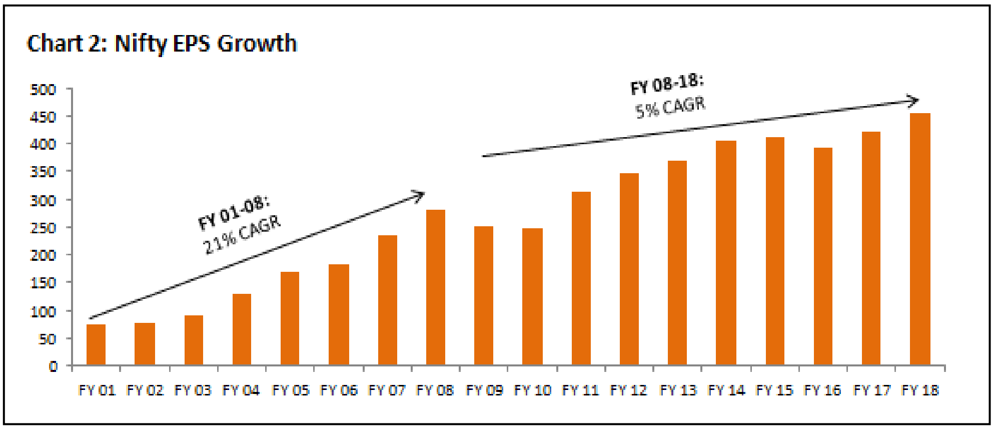
at a conclusion about a fund - we would not do it either! (However, with all humility, we must mention, that the CIO of this fund has achieved a similar performance while managing long-short equity products over the past 10 years!) Suffice to say, we remain strongly motivated to strive to ensure long term results of a similar nature.

To reiterate, we are a fundamental driven, stock picking oriented investment fund focussed on long term capital appreciation. 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.

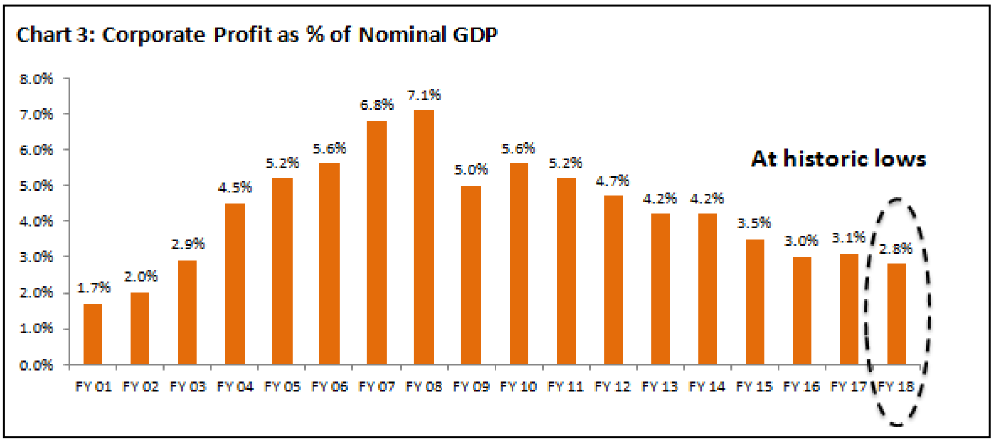
Is India close to witnessing an earnings revival?

This has been a question investment professionals have been asking each year over the past eight years. At the beginning of each financial year, analysts tend to pen down a double digit profit growth forecast for the 12-months and 24-months ahead period, only to scale down these to single digits as the year progresses. This expectation is not without a basis: Earnings have grown at just 5-6% for the last eight years (see chart below) and profits to GDP have dropped to a low of 3% (vs. US markets where profits to GDP are now close to 10%). So why is earnings growth important? Because stock prices are "slave" to earnings and earnings alone – over time, stocks tend to move at the same pace as earnings. Thus, earnings acceleration means a rising stock market.

While the consumption side of the Indian economy has been strong in India over the last several years, private capital investment – both in industrial and infrastructure – has been weak. More recently, even government expenditure has slowed down due to lower tax collections post implementation of the Goods and Services Tax (GST). But the key question to now ask is "Are we now closer to the broad basing and acceleration of the earnings growth cycle?"



Source: Motilal Oswal



Source: CLSA

The twin problems of high corporate debt and bank balance sheets saddled with high non-performing asset (NPA) portfolio has meant a low capacity for private investment. Implementation of Insolvency and Bankruptcy Code (IBC) has instilled improved discipline among errant promoters, and NCLT resolutions are helping unlock funds for banks. This along with corporate debt leverage declining, could usher in a revival in capital investments.

Also, the disruption to businesses due to demonetization and implementation of GST is largely behind us. If the prognosis of several economic observers is correct, GST can bring an increase in tax collections as a percentage to GDP over time. At around 10% to GDP, tax collections for the Indian central government is one of the lowest in the world. An increased revenue collection could mean a higher quality of government spending for India. Hitherto a large part of the budget is spent on revenue expenditure – such as interest payments on debt, subsidies, salaries etc. Incremental tax collections could be spent on investment expenditure which can have a much higher multiplier to growth.

It also needs to be pointed out that India has one of the highest interest rate regimes with the 10-year government bond at 7.5% to 8.0% (real rates today are at almost 4%) - it is entirely conceivable that as government finances improve over time that this risk-free rate would also come down; note equity valuations have an inverse relation with yields on government bonds – thus, lower bond yields could have the effect of expanding valuations of the Indian equity markets. Clearly, we are looking at the next earnings up cycle with a degree of optimism.

Let us be clear here, we are not forecasting an imminent rise in earnings growth but merely outlining a framework for thinking about earnings and its constituents. This framework is important since the effect of a less dispersed earnings growth has resulted in a two-tiered market: equity market funds have gravitated towards consumption oriented stocks that have been exhibiting consistent earnings growth, resulting in these stocks trading at significant premiums valuations compared to their historical averages. Paying a high starting price for an investment has rarely resulted in a good eventual outcome for the investor; we therefore prefer to gravitate towards stocks that have a built in margin of safety to valuations. Furthermore, a broad basing of earnings growth could potentially mean a risk of valuation cool off for these consumer stocks and a valuation expansion (along with earnings acceleration) for the domestic cyclical stocks such as corporate banks, cement, industrials, capital goods and the like. Of course, such an earnings up cycle is also likely to provide the foundation for the next multi-year bull run for the Indian equity markets.

On that ring of optimism, we once again thank you for reposing your faith in us.

Regards,

Rajesh Bhatia

Manging Director & CIO

ITI Long Short Equity Fund

ANNEXURES

Annexure 1: Our Performance

Gross Returns	Since Inception*	Oct-18	Sept-18	Aug-18	Jul-18	Jun-18	May-18	Apr-18*
ITI LS	11.06%	-1.69%	0.53%	2.00%	4.66%	1.53%	1.34%	2.31%
Nifty	-0.15%	-4.98%	-6.42%	2.85%	5.99%	-0.20%	-0.03%	3.24%
*Since April 11; after expenses, before management fees and taxes								

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

Stock	PF Weight
Infosys Limited	5.7%
Reliance Limited	4.8%
L&T Infotech	4.8%
Piramal Enterprises	3.8%
ICICI Bank	2.9%

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