

5th April 2020

An oft-used expression in equity markets is instructive for where markets find themselves today: “Give me bad news any day, but don’t give me uncertainty (because we don’t know how to price uncertainty).”

We refer to the below statistics on US equity and credit markets from Howard Marks, co-Chairman Oaktree Capital and celebrated investor. As the mother market and a barometer of which direction the global economic tide is turning, the path US markets take are quite relevant for Indian equity investors too:

- From February 19 to March 23, the U.S. stock market saw the quickest meltdown in history, for a loss of 33.9% on the S&P 500. Then its 17.5% gain from Tuesday through Thursday of the last week of March made for the best three-day stretch since the 1930s.
- Of the 21 trading days between February 27 and March 27, a total of 18 days saw moves in the S&P 500 of more than 2%: eleven down and seven up. They included the biggest daily percentage gain since 1933 and the second-biggest percentage loss since 1940 (exceeded only by Black Monday in 1987).
- From March 9 through March 20, issuing a new investment grade bond seemed inconceivable. Then news of the government’s rescue package enabled 49 companies to issue \$107 billion of IG bonds. That made it the biggest week for issuance on record; part of the biggest month on record (\$213 billion from 106 issuers); and part of the biggest quarter on record (\$473 billion, up 40% from the first quarter of 2019). In fact, there was more issuance in the last week of March than in nine of the 12 months in 2019.

Clearly unprecedented and pervasive uncertainty is the defining feature – however uncomfortable – of current times, for however long they last.

Monetary and fiscal responses – not what they used to mean for investors: In the backdrop of this dynamic of extreme uncertainty, monetary and fiscal policy are really reactions to the unfolding reality – rather than determinants of the economic reality investors and society can expect in the future.

The massive scale and extent of actions taken globally in fact serve to illustrate how foggy the economic reality really is – massive central bank balance sheet expansions, interest rate cuts, money market interventions, federal loan guarantees, federal cash handouts (to combat record unemployment numbers), loan moratoriums, SME cash grants, bank capital requirement relaxations, food security assistance and many, many more. These interventions, and new ones every day, point to the nature of the underlying reality. Uncertainty will remain the dominant modus operandi to operate under until signs of the crisis abating surface.

Portfolio Stance: Primary dharma to protect capital, long-term view modified to incorporate a steeply uphill recovery path

In our last communication on 5th March 2020, we wrote how we believed Mr Market had, based on various asset class performances, clearly tested positive for coronavirus and also our inability to say when he would recovery from the same. We had made this initial diagnosis in the beginning of the last week of Feb when we sharply reduced our gross exposures to close to single digits (given the uncertainty). We continue to await signs of the crisis ending (reduction in pace of increase of new cases, effective treatments, potential vaccine etc etc) before changing our view.

Our long-term view is also modified to incorporate the specific India challenges – with an economic slowdown predating the coronavirus (albiet previously waning in our opinion buttressed by the reform measures undertaken), this global pandemic sets the Indian economy significantly back. Limited fiscal space, expected several months of weak consumer sentiment even after the virus abating and also global demand headwinds point to the recovery path we believe being unfortunately steep rather than swift. We aim to position our portfolio accordingly if the situation develops as such.

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)

Mar 2020 -0.33% (-23.25%)

Since Inception* 26.41% (-17.35%)

*Till Mar 31, 2020

(figures in brackets correspond to Nifty returns)

Managing Director & CIO

Rajesh Bhatia

Fund Managers

Rajesh Aynor

Siddhartha Bhotika

Research Analyst

Akash Jhaveri

Monthly Insight

Performance

Quarterly:

Gross Returns	Q1 FY 19*	Q2 FY 19	Q3 FY 19	Q4 FY 19	Q1 FY 20	Q2 FY 20	Q3 FY 20	Q4 FY 20TD	Since Inception*
ITI LS	5.32%	7.38%	0.62%	4.57%	-0.75%	-1.14%	6.64%	1.51%	26.41%
Nifty	3.00%	2.02%	-0.62%	7.00%	1.42%	-2.67%	6.05%	-29.35%	-17.35%

Monthly:

Gross 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	Since Inception*
ITI LS	0.21%	-1.07%	0.11%	-2.64%	-2.81%	4.48%	1.43%	2.50%	2.57%	0.97%	0.87%	-0.33%	26.41%
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%	-17.35%

Gross 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%	1.55%	4.68%	2.03%	0.55%	-1.66%	3.00%	-0.66%	1.83%	-2.51%	5.34%
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

Portfolio Snapshot

Strategic Long Positions - Top 5

Stock	PF Weight
HDFC Bank	6.1%
HDFC Limited	4.7%
Reliance Industries	3.9%
Infosys Limited	4.0%
Bharti Airtel	3.7%

Top Tactical Longs - Top 5

Stock	PF Weight
Dr Reddy's Labs	1.1%

Top Tactical Shorts - Top 3

Sector	PF Weight
Auto	1.3%
BFSI	1.2%

Exposure

Gross Exposure (month-end)	16%
Net Exposure (month-end)	1%
Gross Exposure (month-avg)	34%
Net Exposure (month-avg)	6%

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