

10th August 2019

The month of July was one of the worst for Indian markets on a relative basis in recent memory. In July, the Nifty underperformed almost every major equity market by a minimum of 3% to as high as 8%. While the MSCI Emerging Markets Index and Europe were at the lower end of that range, the S&P 500, FTSE 100 and the Nikkei 225 were all at the higher end. Global markets continued to benefit from monetary policy tailwinds even as recession concerns have started to surface in key European economies such as Germany.

Indian markets have suffered primarily due to a perfect storm of continued weak macroeconomic fundamentals, muted corporate earnings and very weak sentiment, engendered by issues such as higher taxation on market participants (surcharge on FPIs and AIFs) and the constrained financial system (continued lack of resolution of the NBFC crisis). In this backdrop, it is no surprise the Nifty Midcap and Nifty Smallcap have continued their close to 18 months of significant underperformance – in July, these indices fell 9.8% and 10.9% respectively.

Looking forward, India's macroeconomic challenges seem to be here to stay for the short-term. Limited fiscal space, global tailwinds to export growth and structural impediments to monetary transmission hurting private investment are resulting in a serious consumption slowdown, reflected in both discretionary and staples sales (decadal low household savings are also acting as a constraint). On the positive side however, corporate earnings as a % of GDP can be reasonably judged to have limited downside hereon and the strong monsoon recovery can bode well for rural incomes (the spatial distribution however, evidenced by large-scale flooding, is worrying).

Global recession fears and inverted yield curves: On August 1st, President Trump escalated the Sino-US trade war once again, declaring the imposition of 10% tariffs on \$300 billion worth of goods from Sept 1st, as the two sides continued negotiations after the truce agreed at the Osaka G-20 Summit. With the Chinese viewing this as an unacceptable break from the truce, the move only served to make each side dig in and postpone resolution even further. Trade concerns have now started to seriously hurt global growth with Germany, Singapore and South Korea specifically citing global trade behind their Q2 2019 GDP weakness. Bond markets everywhere are flashing recessionary warnings signs: yield curve inversion in the US, UK, Germany, France and Canada; negative yields on 30 year bonds in Switzerland and Germany; and \$16 trillion of global negative yielding debt.

Monetary easing by the RBI not enough, structural reforms needed: The RBI in its August policy meet cut rates by an unconventional 35 bps, reflecting the growth challenges the Indian economy currently faces. While policy rates have been cut by a cumulative 110 bps from Feb-19, weak transmission due to fiscal leakages and financial system capacity have meant there has been a less-than-desired salutary effect on growth. Structural reforms on privatization (freeing up fiscal resources and aiding transmission), labour productivity etc are the need of hour, even as previous reforms such as GST, RERA etc continue to take root.

Portfolio Stance: Limited participation

The hope of a quick, sharp economic recovery as a consequence of a stable government with a strong mandate has taken a backseat, for now. Although the sharp correction in equity markets seems to have built-in considerable elements of transient negative sentiment too, we prefer to wait for clues of the economy having conclusively turned a corner before participating further. We are also watchful of global recessionary developments in the context of our extant fundamentally positive view on the multi-year structural opportunity for Indian IT businesses.

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)

July 2019 -2.64% (-5.69%)

Since Inception* 14.98% (6.88%)

*Till July 31, 2019

(figures in brackets correspond to Nifty returns)

Managing Director & CIO

Rajesh Bhatia

Fund Managers

Rajesh Aynor

Siddhartha Bhotika

Research Analyst

Akash Jhaveri

Head –Business Development

Vinay Mahajan

Monthly Insight

Performance

Gross Returns	April-19	May-19	Jun-19**	Jul-19**	Since Inception**
ITI LS	0.21%	-1.07%	0.11%	-2.64%	14.98%
Nifty	1.07%	1.49%	-1.12%	-5.69%	6.88%

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%	5.35%
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;

**Till 31st July, 2019;

Fund returns are after expenses, before management fees and taxes

Portfolio Snapshot

Strategic Long Positions

Stock	PF Weight
HDFC Bank	8.3%
HDFC Limited	6.4%
Infosys Limited	5.2%
L&T Infotech	2.3%

Top Tactical Longs

Stock	PF Weight
NA	NA

Top Tactical Shorts

Sector	PF Weight
NA	NA

Exposure

Gross Exposure (month-end)	101%
Net Exposure (month-end)	58%
Gross Exposure (month-avg)	47%
Net Exposure (month-avg)	33%

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