

MONTHLY INSIGHT

December, 2023

For the month of November 2023, the ITI Long-Short Equity Fund reported its second best performance of 7.98% gross return. The month was also the best “alpha” month in a positive/rising market of 2.46%. We would attribute the alpha to good sector selection and emphasis on “stock-picking”.

Philosophically, we believe in markets rewards go to those investors who are willing to stick their neck out and see something that the rest of the market will see only later. Basically, you must be ahead of the crowd. That can only happen if you have a clear thought process and conviction to form independent views away from the market. So, it is important to base opinions on facts and thoughtful analysis. Keeping this in mind, we rely on the depth and breadth of our experienced team, who contribute to make this happen.

In our last newsletter, we had the following observations: “What has impressed us about the rise of the markets since March 2023, has been the breadth of sector participation based on positive fundamental sector narratives (auto, banks, non-banking finance companies, capital goods, insurance, telecom, pharma etc). Our experience is that when the breadth of the market is so broad, it suggests that the quality of the market is very good and unlikely to be shaken quickly. Also, when so many economy-related sectors start to rise, it usually also portends the start of an economic cycle (remember, the markets are the lead indicator)”. We continue to believe that we are in a strong market, even as we are in the lookout for any emerging risks. In terms of valuations, we believe large caps are the ones offering attractive risk-rewards today.

At the portfolio level, we have benefited from our tactical exposures to the capital goods, power and utilities, energy, banks, telecom, auto, defence etc - essentially strong domestic play opportunities. A segmental exposure we must call out that we have benefitted from is our exposure to Public Sector Enterprises (PSUs); companies in this segment had earned the disdain of the markets over the last few years and hence across sectors were quoting at half or lesser valuations than their private sector counter parts in similar businesses. We would like to observe that the PSU companies have transformed considerably in recent years in terms of rational capital allocation decisions, increasing shareholder orientation, improved transparency and low or no governmental interference. The valuation gap therefore became an opportunity, allowing a greater margin of safety to investors. The catalyst for the up move for PSU stocks was also the fact that these companies are strong players in the domestic plays such as power, capital goods, energy, defence etc.

FUND PROFILE

Key Fund Information

Launch Date : 11th April 2018
Structure : Open-ended, CAT III AIF
Domicile : Currency : India
Min Initial : INR 1 crore
Investment

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)

November 2023: - 7.98% (5.52%)
Since Inception* 105.33% (93.55%)

*Till November 30th, 2023
(Figures in brackets correspond to Nifty returns)



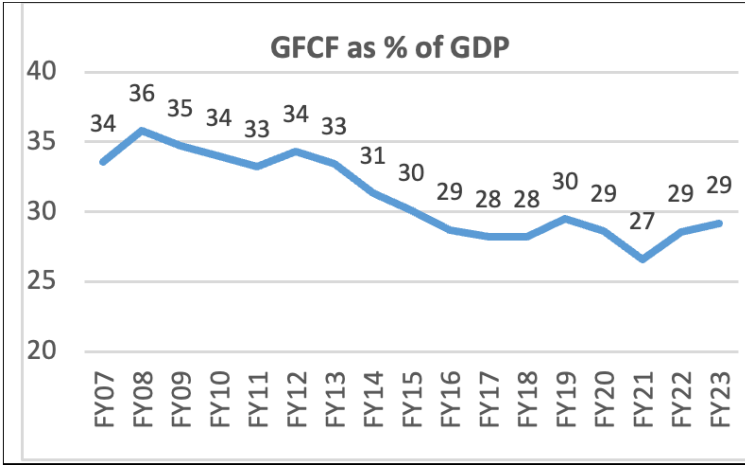
Celebrating
ITI Long Short Equity Fund
5 Year completion...

What has helped the India story further for the domestic sectors is the easing of a major risk to the markets, the continuation of government policies. The recent results of the state elections declared on 29th November, where the current ruling central government, the Bhartiya Janata Party (BJP) had a strong showing. This is making political and market observers believe that the BJP will come back as a majority in the national elections of 2024. Markets like continuity and predictability. The BJP has had a record of being pro-business and has been credited for its role in ensuring macro stability post covid, jump starting infrastructure investments, supporting manufacturing in India through various production linked incentives (PLIs), introducing the goods and services tax (GST) etc. A clearer view of central government for the next 5 years is further aiding market conviction to economic stability and growth.

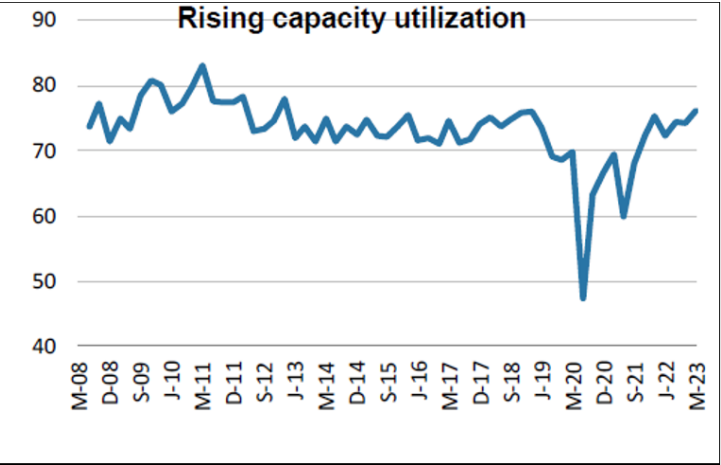
The domestic market participants, retail and institutional investors alike, have benefited from the recent market rise. What has been baffling has been the unenthusiastic participation of the foreign investors (in fact, the marginal foreign trader was net short in the last few months). It was not difficult to see the strong market foundations, leading one to believe that perhaps the foreigners lack boots on the ground to gauge the undercurrent.

A sector trend we would like to highlight is the capex cycle after almost a decade of stagnation. Order books have started improving since last 2 years. Domestic capital investment cycle is being driven by demand from Power, Railways and Defence sectors. Catch up to meet higher power demand and strong push from Government to localise especially in defence, renewables and electronics makes **India Capex a decadal opportunity**.

So far capex has been driven by central and state government, reflecting in uptick in GFCF as % of GDP after decade long downtrend. With improving capacity utilisation level we expect private sector investment cycle will join sooner than later.



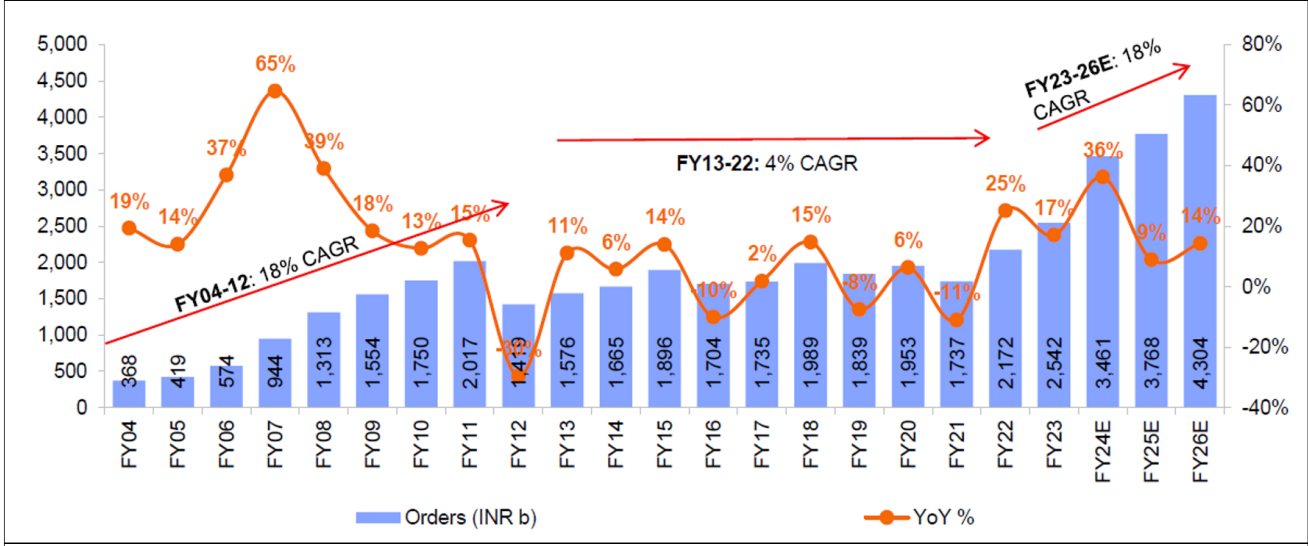
Source: Economic Survey



Source: RBI, Economic Survey

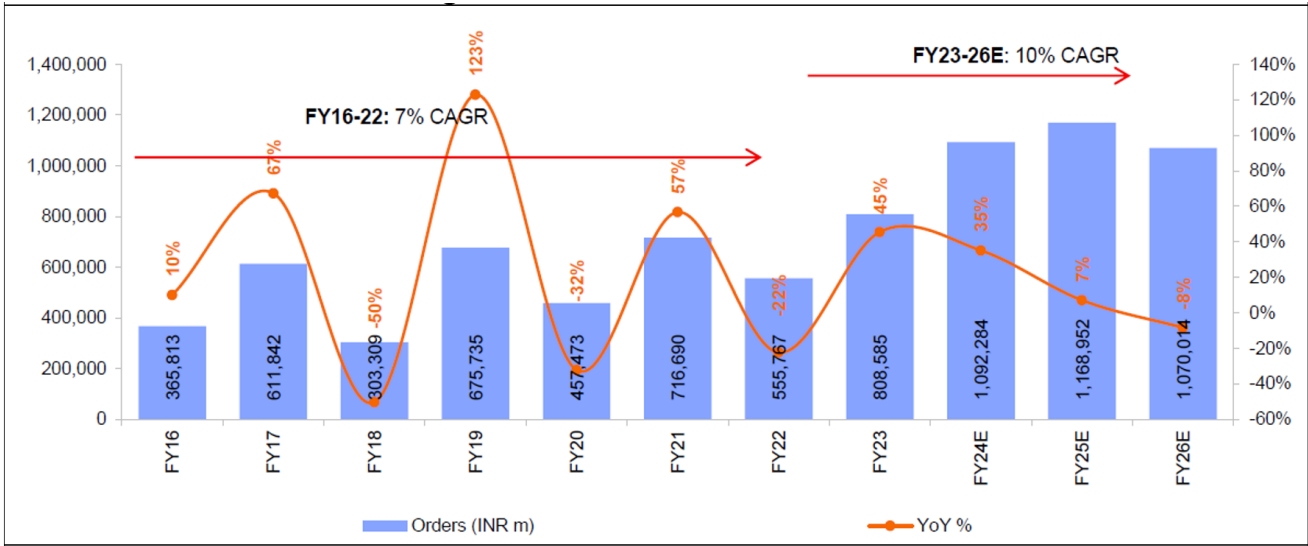
This shift has started reflecting in order inflow and execution of listed companies as reflected in charts below.

Industrial: Order inflow at all time high and strong momentum to continue



Source: Broker estimates for aggregate of 15 industrial companies

Defence: Robust order inflow growth in FY23



Source: Broker estimates for aggregate of 7 defence companies

As per industry estimates capex expected in Power sector over FY23-30 is USD 280bn which is more than 2x of USD 125bn capax during FY17-23. This provides investment opportunities across spectrum of generation companies, power financiers and equipment suppliers.

To conclude, we feel quite good about the India story for next 5-7 years and the breadth of sector opportunities. Having said that there is a degree of enthusiasm creeping in. The risk to the Indian market is that of **Irrational Exuberance** in select pockets. We think in case this enthusiasm accelerates moving forward as investors we will need to keep assessing risk-returns more carefully.

ANNEXURE

PERFORMANCE

QUARTERLY

Returns	Q1 FY 22	Q2 FY 22	Q3 FY 22	Q4 FY 22	Q1 FY 23	Q2 FY 23	Q3 FY 23	Q4 FY 23	Q1 FY 24	Q2 FY 24	Q3 FY 24	Since Inception*
ITI LS	2.93%	12.08%	-0.83%	-1.20%	-0.29%	3.56%	0.88%	-1.40%	8.55%	0.96%	6.46%	105.33%
Nifty	7.02%	12.06%	-1.50%	0.64%	-9.65%	8.33%	5.91%	-4.43%	10.54%	2.34%	2.52%	93.55%

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	Q4 FY 21
ITI LS	5.37%	7.45%	0.68%	4.72%	-0.67%	-1.08%	7.09%	1.70%	-1.45%	3.45%	12.64%	3.30%
Nifty	3.00%	2.01%	-0.62%	7.00%	1.43%	-2.67%	6.04%	-29.35%	19.81%	9.18%	24.30%	5.07%

MONTHLY:

Returns	April-23	May- 23	June- 23	July- 23	Aug- 23	Sept 23	Oct 23	Nov 23	Since Inception*
ITI LS	2.60%	1.43%	4.31%	1.29%	-2.02%	1.73%	-1.40%	7.98%	105.33%
Nifty (%)	4.06%	2.60%	3.53%	2.94%	-2.53%	2.00%	-2.84%	5.52%	93.55%
*till 30st November 2023									

Returns	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sept-22	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23
ITI LS	-2.16%	2.35%	-0.43%	2.46%	0.82%	0.24%	0.64%	0.90%	-0.65%	-0.18%	-1.22%	0.04%
Nifty	-2.07%	-3.03%	-4.85%	8.73%	3.50%	-3.74%	5.37%	4.14%	-3.48%	-2.45%	-2.03%	0.32%

Returns	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sept-21	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22
ITI LS	-0.94%	3.27%	0.62%	1.90%	8.72%	1.17%	-0.97%	-0.83%	0.97%	-0.82%	-2.69%	2.36%
Nifty	-0.41%	6.50%	0.89%	0.26%	8.69%	2.84%	0.30%	-3.90%	2.18%	-0.08%	-3.15%	3.99%

Returns	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21
ITI LS	0.25%	-1.03%	-0.68%	5.44%	-1.91%	0.02%	2.11%	4.53%	5.53%	0.56%	2.55%	0.17%
Nifty	14.68%	-2.84%	7.53%	7.49%	2.84%	-1.23%	3.51%	11.39%	7.81%	-2.48%	6.56%	1.11%

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	0.25%	-1.06%	0.14%	-2.72%	-2.90%	4.72%	1.54%	2.65%	2.74%	1.06%	0.95%	-0.31%
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	2.35%	1.36%	1.57%	4.69%	2.05%	0.57%	-1.66%	3.04%	-0.64%	1.88%	-2.52%	5.44%
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%

ANNEXURE

PERFORMANCE

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	2.35%	1.36%	1.57%	4.69%	2.05%	0.57%	-1.66%	3.04%	-0.64%	1.88%	-2.52%	5.44%
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%

PORTFOLIO SNAPSHOT

Portfolio Snapshot

Strategic Long Positions – Top 5	
Stock	PF Weight
Bharti Airtel	5.89%
HDFC Bank	5.81%
RIL	4.61%
SBI Life	3.45%
Infosys	2.94%

Top Tactical Longs – Top 5	
Stock	PF Weight
HEROMOTOCO	3.88%
BEL	3.23%
COAL	3.17%
LARSEN & TOUBRO	3.16%
BAJAJ-AUTO	3.15%

Top Tactical Shorts – Top 3	
Stock	PF Weight
BFSI	1.91%
CONSUMER	1.56%
CONSUMER	1.46%

Exposure	
Gross Exposure (month-end)	115%
Net Exposure (month-end)	87%
Gross Exposure (month-avg)	104%
Net Exposure (month-avg)	86%

* Note: Gross and Net Exposures above are calculated only on exposure to direct equity instruments of the fund

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