

8th February 2020

The month of January 2020 was an unnerving one for equity markets.

At the start of the year, markets dealt with the very real risk of a full-blown US-Iran war as President Trump ordered the assassination of a man widely considered the 2nd most important leader in Iran – the head of the Iranian Quds Force, General Qasem Soleimani (responsible for implementing Iran's core ideological goal of a "Shiite Crescent" in the Middle East). Thankfully, after a response by the Iranians, both nations stopped further escalations.

Meanwhile, as the risk of war subsided, the threat of widespread disease surfaced. A new novel coronavirus, reminiscent of SARS, sprang up in the city of Wuhan in China. The virus paralyzed several cities in China, spread exponentially (now above 28,000 confirmed cases in China alone, and counting) and has also crossed Chinese shores to 27 other countries/jurisdictions – raising the ugly spectre of a global pandemic. While the situation is still evolving, economic activity in affected regions in China (contributing 69% of China's GDP) nevertheless remains ground to a halt till at least February 10th.

For the Indian economy, global risks notwithstanding, the central government Budget on February 1st and the RBI's monetary, credit and debt market measures a few days later definitively confirmed one thing – policymakers will be throwing whatever they can to reverse the current economic slowdown. While individual steps might be potentially mixed in their outcomes (will the personal income tax rejigs spur consumption? will the RBI improving monetary transmission and incentivizing retail credit lift credit growth from the anaemic 7% as of Dec-19?), viewed as a whole the steps are encouraging evidence of intent.

End of underperformance of mid and small-caps? The month of January was also interesting in it being the 1st month of serious outperformance of mid and small caps versus the Nifty – the Nifty Midcap and Smallcap indices returned 5.3% and 6.7% respectively, vs. -1.70% for the Nifty. Whether this is only a transient pause in the close to 18 months of pain for mid and smallcaps however remains to be seen.

Indian economy – slew of policy measures and possible green shoots: While it is far too early to call out a turnaround in the Indian economy, several positive factors seem to be coalescing at the same time:

- After 3 months of contraction, IIP returned to positive territory in Nov-2019. Core industry output too returned to positive territory in Dec-19. Both the manufacturer and services PMI expanded sharply in Jan-20 over Dec-19. Railway freight and port traffic for Dec-19 showed improvements.
- While the rural economy remains mixed with real wages falling to a 22 month low in Nov-19, recent rabi sowing data and tractor sales are showing at least incrementally encouraging trends.
- Both the government and the RBI have announced a slew of interventions to support growth: rejig in personal income tax rates (probably beneficial to mainly non-salaried individuals i.e. impacting consumption only in FY 22 as potentially lower taxes are paid then), measures to attract foreign capital via DDT removal and SWF infra incentives, RBI's CRR incentive to banks for auto, housing and MSME loans, provision of Rs. 1 lakh crore of durable liquidity, MSME and CRE loan restructuring etc etc.

Viewed altogether, the intent is clearly very encouraging.

Portfolio Stance: Participate while managing risk exposures actively

Global growth scares and the elusive hard confirmation of Indian economic growth momentum (the so-called "animal spirits") are a potent combination to continue to keep Indian equity investors on edge. Nevertheless, we repose faith in growth returning meaningfully faster than currently anticipated – backed by the assumption of policymaker initiatives (both current and as the previous actions take root) accelerating us out of the current funk. We nonetheless acknowledge risks and actively manage our net exposures accordingly.

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)

Jan 2020 0.97% (-1.70%)

Since Inception* 25.74% (15.00%)

*Till Jan 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%	0.97%	25.74%
Nifty	3.00%	2.02%	-0.62%	7.00%	1.42%	-2.67%	6.05%	-1.70%	15.00%

Monthly:

Gross Returns	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19	Jan-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%	25.74%
Nifty	1.07%	1.49%	-1.12%	-5.69%	-0.85%	4.09%	3.51%	1.50%	0.93%	-1.70%	15.00%

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	9.0%
HDFC Limited	7.3%
Reliance Industries	5.1%
Infosys Limited	5.0%
Bharti Airtel	4.4%

Top Tactical Longs - Top 5

Stock	PF Weight
ICICI Bank	9.5%
L&T	5.8%
Bharti Airtel	5.7%
Bajaj Finance	5.1%
Cipla	4.5%

Top Tactical Shorts - Top 3

Sector	PF Weight
BFSI	2.5%
Consumer	1.8%

Exposure

Gross Exposure (month-end)	152%
Net Exposure (month-end)	57%
Gross Exposure (month-avg)	123%
Net Exposure (month-avg)	70%

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