THE INVESTMENT TRUST OF INDIA
LONG-SHORT EQUITY FUND

MONTHLY INSIGHT

February 2023

After amongst the largest ever historical outperformances in a calendar year, Indian equity markets have started 2023 on a rough note. For the month of Jan-23, the MSCI World, MSCI EM, S&P 500, Euro Stoxx and Nikkei 225 indices have returned +7.0%, +7.9%, +6.2%, +9.7% and +4.7% respectively. Chinese equity markets continue to be buoyed by reopening expectations with the Hang Seng Index up +10.4%. In contrast, the Nifty, Nifty Midcap and Nifty Smallcap indices have returned -2.4%, -2.6% and -2.4% respectively.

While the tribulations at the Adani Group have played a role in the performance of Indian equity markets, note that Indian markets till 24th Jan 2023 (i.e. the date of the release of Hindenburg Research report on the Adani Group) were also underperforming – the Nifty was flat vs. +4.6% for the S&P 500 till 24th Jan. After the significant outperformance in 2022 and perhaps more importantly signs of optimism in the rest of the world (the so-called "soft landing" scenario in the developed world with falling inflation and strong growth – with the US in particular for example delivering +2.9% annualized GDP growth in Q4 CY 2022 – being increasingly priced in, China reopening leading to reallocation of flows, crash in energy prices in Europe due to milder than expected weather etc etc), the bar for Indian equity market outperformance has gone higher in 2023.

Too Late to Be Pessimistic?

In absolute terms, Indian equity markets have been flat since Oct-21. The risk factors we have discussed in these newsletters back then were:

1. The primary trend driving financial markets since Mar-20 was the expansionary policy followed by almost all policymakers across the globe. Anticipation of this trend reversing and then its actual reversal have weighed on markets heavily since.
2. Far more persistent underlying inflationary risks than appreciated by markets (looking beyond commodity price volatility) and the need for policymakers to sharply pivot (indeed, positive real interest rates seem to be the goal now).
3. Sentiment and valuations historically on the extreme side, especially the relative outperformance of Indian equity markets.

These risks above have largely kept equity returns subdued over the past 15 months. Looking ahead however, the underlying performance of the Indian economy and specific sectors/companies and easing global headwinds can potentially make the setting fertile for active stock-picking to succeed.

India – Strong Budget and Growth Outlook

Budget 2023 was a strong, growth-oriented Budget that also respected fiscal deficit restrictions. A total 18% YoY increase in capital expenditure (including extra budgetary sources), no tinkering in capital gains taxes, no additional taxes on consumers even if no major stimulus (the reduction in personal income tax rates do not benefit 95%-99.5% of IT filers who were hitherto in the old tax regime – the reduced new tax regime broadly equates to the old tax regime) and reasonable assumptions make the Budget a credible continuation of this government's aim to increase medium-term growth potential of the economy via supply-side efforts (rather than, even in an election year, shorter term demand-stimulative populism).

Beyond the Budget, the growth outlook for India has started to look incrementally better. Benign crude oil prices, a better exports outlook (both services and goods) on a better-than-expected world economic outlook, continued China+1 market share gains (especially in mobile phones for example with Dec-22 exports at a massive Rs. 10,000 cr+), a very healthy and resilient banking system (credit growth remains in the 15% YoY odd range) and buoyant GST collections (12.6% YoY growth in Jan-23) paint a reasonably strong picture. The troubles in the Adani Group seem unlikely to cause any major systemic issues and all exposed banks have quickly allayed any concerns on that front.

Portfolio Stance – Protecting Downside, However Watchful of Worst Being Behind

"Sometimes there's time to make money. Sometimes there's times not to lose money."
- David Tepper, 2021

We think, since Oct-21, the "time has been not to lose money" in equity markets. After 15 months of zero equity returns however, the "time to make money" could be coming soon.

Overall Indian corporate earnings have been broadly in-line with some sectors in particular being quite lacklustre. Both time and price corrections in various sectors have therefore made valuations more reasonable now. While our exposures are at this moment relatively moderate, we are watching stocks and sectors that are correcting and believe the time to aggressively increase our exposures could be on the anvil.

FUND PROFILE

Key Fund Information

Launch Date : 11th April 2018

Structure : Open-ended, CAT III AIF

Domicile : India

Currency : INR

Min Initial Investment : ₹ 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)

January 2023: -0.18% (-2.45%)

Since Inception* 78.07% (69.79%)

*Till Jan 31st, 2023
(figures in brackets correspond to Nifty returns)

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	Since Inception*
ITI LS	2.93%	12.08%	-0.83%	-1.20%	-0.29%	3.56%	0.88%	-0.18%	78.07%
Nifty	7.02%	12.06%	-1.50%	0.64%	-9.65%	8.33%	5.91%	-2.45%	69.79%

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	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22	Jan-23	Since Inception*
ITI LS	-2.16%	2.35%	-0.43%	2.46%	0.82%	0.24%	0.64%	0.90%	-0.65%	-0.18%	78.07%
Nifty	-2.07%	-3.03%	-4.85%	8.73%	3.50%	-3.74%	5.37%	4.14%	-3.48%	-2.45%	69.79%

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	.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
Cumulative returns post fees and taxes since inception till FY 22:
ITI LS Fund: 45.9%
Nifty: 54.6%

ANNEXURE

PORTFOLIO SNAPSHOT

Portfolio Snapshot

Strategic Long Positions – Top 5	
Stock	**PF Weight**
Infosys Limited	6.9%
Bharti Airtel	5.8%
SBI Life	5.2%
HDFC Bank	4.6%
RIL	3.5%

Top Tactical Longs – Top 5	
Stock	**PF Weight**
L&T	4.0%
Max Financial Serv	3.5%
M&M	2.9%
Indraprastha Gas	2.0%
TVS Motors	1.4%

Top Tactical Shorts – Top 3	
Stock	**PF Weight**
Consumer Discretionary	1.9%
Oil & Gas	1.5%
Pharma	1.2%

Exposure	
Gross Exposure (month-end)	45%
Net Exposure (month-end)	27%
Gross Exposure (month-avg)	47%
Net Exposure (month-avg)	28%

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

Disclaimer