Monthly Insight

THE INVESTMENT TRUST OF INDIA
LONG-SHORT EQUITY FUND

8th January 2019

Global equity markets declined considerably towards the end of 2018, with the fear of continued US-China trade tensions, Fed balance sheet reduction, yield curve inversion and a global growth slowdown weighing on sentiment. The Dow Jones Industrial Index and the S&P 500 posted their worst December since 1931 (down -5.6% and -6.2% respectively), and also their worst year since 2008.

The Indian equity markets mirrored this extreme volatility and were directionless for the month of December – recording declines of 5%, increase of 4%, another decline of 4%, followed by an increase of 3% to end the month flat. Nifty however did end up outperforming globally with the MSCI World Index returning -7.7% for December. A significantly improved macroeconomic outlook (sharp crude oil decline, a stable rupee & an expected-to-be contained fiscal deficit despite election related spending) and an easing liquidity crunch drove the outperformance.

As we entered 2019, continued strong US economic numbers and comments from the Fed on its willingness to be flexible keeping in mind financial market stability have eased fears even as risks on Chinese economic weakness and a potential hard Brexit are key monitorables. In India, general elections are expected to dominate till H1 FY 20, however the market is also keenly watching for earnings recovery in FY 20 (after 5 years of anaemic earnings growth), led by the banking sector and cyclicals.

Volatility and weakness in the US market: the VIX (CBOE Volatility Index) doubled in the month of Dec-18 till Christmas Eve, when US Treasury Secretary Mnuchin inadvertently sparked panic by his outreach to leading bank CEOs. On Christmas Eve, the DJIA closed down -14.6% for the month. A subsequent sharp recovery, recent Fed comments and very strong jobs numbers calmed jittery nerves. Apple's sharp Dec quarter downward guidance on revenues (by 9%) – primarily due to weakness in the Chinese economy – however pointed to underlying risks continuing to persist.

Indian equities on a firmer footing, fiscal deficit question: India's macroeconomic fundamentals continued to be positive, even as crude oil halted its downward spiral. Along with lower crude and a stable rupee, liquidity – which had been constrained post the IL&FS default – was considerably eased by the RBI. The central bank announced ₹ 60,000 crores of additional OMO purchases in December and January, thereby meaningfully reducing the ₹ 1.32 lakh crore liquidity deficit in the banking system.

While populist policies are widely expected from the ruling party after its 3 state defeat – and several farm distress alleviation measures have been speculated – the reduced fiscal space from lower-than-trend GST collections (estimated annual shortfall of ₹ 1 lakh crore) means the Finance Ministry has its task cut out. For now, the government is keeping its cards closely to its chest and markets continued to repose faith in fiscal targets being met.

Portfolio Stance: Cautiously positive

We continue to believe in the reengineering of business models by Indian IT companies bearing substantial fruit in the coming quarters. We also prefer select retail focused financiers, select corporate banks and consumer companies with strong earnings visibility. We continue to have a cautious view on pharma companies.

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)
Dec 2018 -0.66% (-0.13%)
Since Inception* 13.63% (4.43%)
*Till Dec 31, 2018
(figures in brackets correspond to Nifty returns)

Managing Director & CIO
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Performance

Gross Returns	Apr-18*	May-18	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	Since Inception**
ITI LS	2.31%	1.34%	1.53%	4.66%	2.00%	0.53%	-1.69%	3.00%	-0.66%	13.63%
Nifty (%)	3.24%	-0.03%	-0.20%	5.99%	2.85%	-6.42%	-4.98%	4.72%	-0.13%	4.43%

Gross Returns	1M	3M	6M	Since Inception**
ITI LS	-0.66%	0.59%	7.95%	13.63%
Nifty (%)	-0.13%	-0.62%	1.38%	4.43%

*From 11th April, 2018;
**Till 31st December, 2018;
Fund returns are after expenses, before management fees and taxes

Portfolio Snapshot

Exposure	
Gross Exposure (month-end)	78.00%
Net Exposure (month-end)	60.00%
Gross Exposure (month-avg)	75.00%
Net Exposure (month-avg)	58.00%

Strategic Long Positions

Stock	PF Weight
HDFC Bank	9.60%
HDFC Limited	7.40%
Infosys Limited	5.30%
L&T Infotech	4.60%

Top Tactical Longs

Stock	PF Weight
Bajaj Finance	4.90%
Gujarat Ambuja	4.80%
Larsen & Toubro	4.80%

Top Tactical Shorts

Sector	PF Weight
Media	4.00%
Pharma	3.30%