

MONTHLY INSIGHT

January 2023

Global markets ended Dec-22 on a dour note with the MSCI World, S&P 500, Euro Stoxx and Nikkei 225 indices dropping by 4.3%, 5.9%, 4.3% and 6.7% respectively. Indian equity markets outperformed but were nevertheless impacted with the Nifty, Nifty Midcap 100 and Nifty Smallcap 100 indices dropping by 3.5%, 1.7% and 2.5% respectively. China was the only bright spot, continuing its recovery from multi-decadal lows on reopening hopes, with the CSI 300 and Hang Seng indices returning +0.5% and +6.4%.

The Year in Review

Indian equity market outperformed global peers significantly in CY22, driven by pickup in economic momentum from pandemic lows, cleaner and sturdier banking and corporate sector balance sheets, hopes on China+1 and a turning housing cycle. The benchmark Nifty 50 index delivered a +4.3% return vs -19.5% for the MSCI World, -19.4% for the S&P 500, -11.7% for the Euro Stoxx and -9.4% for the Nikkei 225. Underneath the surface however the divergence within sectors was quite significant:

1. While the Nifty and Nifty Midcap 100 returned +4.3% and +3.5%, the Nifty Smallcap 100 returned -13.8%.
2. The Nifty Bank was up 21.5%, the Nifty PSU Bank index was up 70.2% and the Nifty Financial Services index was up 9.5% - reflecting stellar returns for PSU banks, strength in select private banks but weak NBFC sector returns and negative returns in the insurance space.
3. Against +22%, +18% and +16% returns for the Nifty Metals, FMCG, and Auto indices, the Nifty Pharma and IT indices returned -11.5% and -25% returns respectively.

Economically, the global and Indian economies too witnessed relatively divergent trends during the year. The global economy was buffeted by a confluence of crises in China (the Chinese property sector, COVID lockdowns beginning from Mar 2022 in Shanghai, weakening exports), the worst war in Europe in 80 years and a sharp tightening of global financial conditions initially in the US (the Fed Funds rate started the year at 0% and ended at 4.25%-4.50%) and then eventually spreading to even the reticent Bank of Japan increasing its cap in Dec-22. The Indian economy on the other hand witnessed steadily improving trends with Q2 FY 23 real GDP 3 year CAGR improving to 2.5% (from 1.3% in Q1 FY 23), banking credit accelerating from 7.0% underlying CAGR in Jan-22 to 9.7% as of Dec-22 and GST collections also improving from 8% odd underlying CAGRs to now 12%-15% levels.

What can 2023 Hold in Store?

At present, Consensus expects a mild slowdown in the US economy and a likely recession in Europe and UK, which could be offset somewhat by a mild recovery in China and South East Asian economies. Inflationary trends are abating as supply chains normalise further and reduced energy costs, while the cumulative impact of higher interest rates on demand is yet to be fully felt. The same is likely to be true for the Indian economy where the impact of interest rate increases is yet to fully crystallise while inflation outlook has become more benign.

Positive surprises could emanate from a soft landing in US economy, larger than expected Chinese stimulus and improvements in Europe (both economically and politically). Risks emanate from a severe downturn than anticipated or more stubborn inflationary trends

For India, election-year related spending could help rural India fortunes recover but any negative spillover from Chinese stimulus (in terms of both commodity and energy prices and also potentially reallocated financial flows) could potentially negatively surprise.

Portfolio Stance: Tactically Strong Market but Fundamentally Weak

We retain our view of fundamental earnings and economic growth-related weakness for Indian equity markets given the global backdrop. India's resilience has been particularly noteworthy for past 12 months but the first signs of that tactical strength cracking have begun to surface as global markets have started pricing in some (still limited) probabilities of a soft landing in the developed world and China economic growth coming back. Consequently, till date in Jan 2023 Indian equity markets have started underperforming globally.

Given this backdrop, we continue to prefer low gross and net exposures. We do however recognize the strength of the medium and long term prospects for India - we have therefore calibrated our exposures to the lower end of our normal range rather than positioned to be outrightly negative.

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)

December 2022: -0.65% (-3.48%)

Since Inception* 78.40% (74.05%)

*Till December 31st, 2022
(figures in brackets correspond to Nifty returns)

HAPPY TO SHARE
ITI Long Short Equity Fund
got nominated for

Best Hedge Fund

under

'Indian Equity Category'
at HFM Asian Performance Awards 2022'

Date: Wednesday, 30th November, 2022 | Venue: Shangri-La Singapore.

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	Since Inception*
ITI LS	2.93%	12.08%	-0.83%	-1.20%	-0.29%	3.56%	0.88%	78.40%
Nifty	7.02%	12.06%	-1.50%	0.64%	-9.65%	8.33%	5.91%	74.05%

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	Since Inception*
ITI LS	-2.16%	2.35%	-0.43%	2.46%	0.82%	0.24%	0.64%	0.90%	-0.65%	78.40%
Nifty	-2.07%	-3.03%	-4.85%	8.73%	3.50%	-3.74%	5.37%	4.14%	-3.48%	74.05%

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%

*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	6.5%
Bharti Airtel	5.8%
SBI Life	5.0%
HDFC Bank	4.5%
RIL	3.7%

Top Tactical Longs – Top 5

Stock	PF Weight
Axis Bank	4.0%
ICICI Bank	2.0%
M&M	1.6%
Maruti Suzuki	1.5%
ITC	0.9%

Top Tactical Shorts – Top 3

Stock	PF Weight
Consumer Discretionary	1.5%
Healthcare	1.5%
Pharma	0.7%

Exposure

Gross Exposure (month-end)	36%
Net Exposure (month-end)	27%
Gross Exposure (month-avg)	63%
Net Exposure (month-avg)	30%

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

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