

10th June 2019

Equity markets in India and globally underwent a volatile month due to rising uncertainty on the US-China trade stand-off and election outcomes in India. The fears were further heightened on the last day of the month when US President Trump threatened to open a new front in the global trade conflicts by declaring tariffs against Mexico for not taking adequate measures against illegal immigration of Mexicans into US. These have since been suspended post promises by Mexican authorities to take corrective actions.

Domestically, the Modi government was re-elected with a strong majority for a 2nd consecutive term – a feat unparalleled in India's modern political history. The mandate signifies acceptance of the central Govt policies for the past 5 years and thus is likely to give the returning government to continue on similar lines.

Even as the burgeoning trade war threatens medium term global growth prospects, recent growth prints across the globe have been weak, especially in health bellwether economies such as South Korea and Hong Kong – the former contracting 0.4% in Q1 2019, with the latter growing 0.6%, the slowest in a decade). At the same time, Q4 FY 19 GDP growth at 6.8% (the slowest in 5 years) confirmed the sharp slowdown indicated by higher-frequency variables. The lack of fiscal space, coupled with the NBFC funding and solvency concerns are weighing heavily on the economy and would perhaps require focused intervention by the central bank and the Government.

A fresh wave of global monetary easing? Speaking at a Federal Reserve conference in Chicago to review monetary policy strategies, tools and communication, Fed Chairman Powell committed to "acting as appropriate to sustain the expansion." In light of continued yield curve inversion, weak US jobs data in May (75k vs 175k expected) and rising headwinds from the Trump trade war, expectations are building up for much-sooner-than-expected monetary easing from the Fed. This coincides with the announcement of a possible 2nd round of quantitative easing by the ECB, with growth fears gripping the Eurozone (German bund yields now firmly ensconced in negative territory). Even PBOC Governor Yi Gang reaffirmed a commitment to easing if the trade war worsened. While a decisive tilt to dovishness is not underway, the signs possibly point in that direction.

India – need for decisive action to spur growth: GDP numbers for Q4 confirmed a visible trend from corporate earnings i.e. consumption-growth has slowed down. Recent problems at large NBFC groups point to a continuation of the deleveraging cycle of the past few years and no respite for troubled money markets. The good news is that a government with strong mandate is in place and can take decisive steps to alleviate the various issues immediately. The extension of the PM-KISAN schemes to all small and marginal farmers within days of the new government coming to power is evidence of that. We expect to see further monetary as well as fiscal stimulus over the coming months.

Portfolio Stance: Participate opportunistically

With election uncertainty out of the way, focus shifts squarely back to areas of earnings growth and earnings recovery. While it is too early to say the economic tide has decisively bottomed out, the comfort of a strong political mandate and clearly visible areas of stress indicate decent probabilities of recovery. While we preferred sitting out of elections-related uncertainty, we believe selective participation in areas with decent chances of economic recovery is appropriate. We continue our bullish stance on Indian IT companies and private sector banks.

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)

May 2019 -1.07% (1.49%)

Since Inception* 17.98% (14.62%)

*Till May 31, 2019

(figures in brackets correspond to Nifty returns)

Managing Director & CIO

Rajesh Bhatia

Fund Managers

Rajesh Aynor

Siddhartha Bhotika

Research Analyst

Akash Jhaveri

Head –Business Development

Vinay Mahajan

Monthly Insight

Performance

| Gross Returns | April-19 | May-19** | Since Inception** |
|---------------|----------|----------|-------------------|
| ITI LS | 0.21% | -1.07% | 17.98% |
| Nifty | 1.07% | 1.49% | 14.62% |

| 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;

**Till 31st May, 2019;

Fund returns are after expenses, before management fees and taxes

Portfolio Snapshot

Strategic Long Positions

| Stock | PF Weight |
|-----------------|-----------|
| HDFC Bank | 10.4% |
| HDFC Limited | 7.8% |
| Infosys Limited | 5.6% |
| L&T Infotech | 4.5% |

Top Tactical Longs

| Stock | PF Weight |
|-------|-----------|
| Dabur | 4.8% |
| BPCL | 4.3% |
| HPCL | 3.0% |

Top Tactical Shorts

| Sector | PF Weight |
|--------|-----------|
| NA | NA |

Exposure

| | |
|----------------------------|-----|
| Gross Exposure (month-end) | 35% |
| Net Exposure (month-end) | 35% |
| Gross Exposure (month-avg) | 77% |
| Net Exposure (month-avg) | 49% |

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