THE INVESTMENT TRUST OF INDIA
LONG-SHORT EQUITY FUND

MONTHLY INSIGHT

10th June, 2022

Broader equity markets in India witnessed a steep correction in the month of May 2022 with the Nifty Midcap and Nifty Smallcap 100 indices down -5.3% and -10.2% respectively. The Nifty too was down -3.0% vs. -0.2% for the MSCI World and +0.1% for the MSCI Emerging Markets indices. To keep the performance of Indian equity markets in context however, returns over pre COVID levels are still a healthy +14.9%, +21.6% and +19.3% CAGR for the Nifty, Nifty Midcap and Nifty Smallcap 100 indices. In comparison the MSCI World and MSCI EM are +6.5% and -0.7% respectively.

The Indian economy continues to buffet the cross-currents of slowing global growth, a robust domestic recovery and fiscal/monetary actions being taken to respond to an ever-evolving post COVID world. Exports FYTD have grown at an 11.6% CAGR over pre COVID levels (i.e. 2M FY 20), down modestly from the earlier pace. Non-oil exports FYTD have grown at a 8.8% CAGR over pre COVID levels. GST collections remain strong with April-22 collections at Rs. 1.41 lakh crore a healthy 12% CAGR over April-19 levels. Credit growth of the banking sector improved to 11.9 per cent as per the most recently available data.

To combat the building inflationary pressures and decisively break from the pandemic induced emergency policy settings, Indian policymakers have taken a slew of actions: fiscal authorities have cut the excise duty on petrol and diesel (prices down by 7%-8%), imposed a 15% export duty on steel (prices now down close to 20% from the peak), provided higher subsidies for LPG cylinders and fertilizers and cut customs duties on a range of products. Monetary actions have been taken in tandem with amongst the fastest rate hikes in Indian monetary history (90 bps in just one month). These actions are part of a global trend with policymakers the world over taking aggressive actions to head off inflation expectations before they take root, cool off excess demand and protect vulnerable sections of society from the spiralling costs of living essentials.

Inflation tugs and pulls: The Ukraine-Russia War recently crossed the 100 day mark – what was initially expected to concluded in weeks if not days by some experts. The far reaching consequences of the war are now slowly coming to light: from Sri Lanka to Pakistan to frontier economies in Africa, acceleration in global inflationary impulses (now seeping into core inflation too, as evidenced by 4.4% core Eurozone May-22 inflation up from 3.9% in Apr-22) to turmoil in FX markets (Turkish lira back to all time lows, USD-JPY now up 16% for the year). Global food prices continue to be near record highs (the FAO World Food Price Index was up 22.8% YoY in May-22).

On the other hand there are also visible downward pressures on global inflation – the two largest US retailers Walmart and Target have for example warned of bloated inventories as demand has shifted back from goods to services, chip shortages are easing (which will reduce auto-related inflation), metal prices are off highs and container back-ups and shipping rates have fallen sharply. Rising interest rates are also fast cooling overheated housing markets in the developed world.

With several imponderables (the course of the war, the recovery – or not – in the Chinese economy, the impact on government and household balance sheets from rising interest rates etc), the course of inflation remains difficult to call out.

Portfolio Stance: Reduced Exposure

As financial markets adjust to the new paradigm of inflation-focused monetary authorities (the ECB, atleast relative to its history, being now the latest to join the hawkish camp) and slowing growth as fiscal/monetary actions take effect (not just lower stimulus but outright contraction), we believe having reduced exposure as markets find their feet is appropriate.

For India specifically, energy inflation is becoming a significant risk we believe requires close monitoring. The transition to clean energy has resulted in output challenges for fossil fuel-based energy sources due to underinvestment in supply. The Ukraine-Russia war has further compounded energy inflation challenges – in the coming months if Russian oil (estimated at 3 million bpd) is forced to exit the market, demand-supply equations will be severely challenged. Oil prices going up from current levels will have a severely deleterious effect on Indian macros – BoP, fiscal space and monetary policy flexibility. This is a key risk we believe to watch in the coming months.

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)

May 2022: 2.35% (-3.03%)

Since Inception* 71.49% (59.43%)

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

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ANNEXURE

PERFORMANCE

QUARTERLY

Returns	Q1 FY 22	Q2 FY 22	Q3 FY 22	Q4 FY 22	Q1 FY 23	Since Inception*
ITI LS	2.93%	12.08%	-0.83%	-1.20%	0.14%	71.49%
Nifty	7.02%	12.06%	-1.50%	0.64%	-5.04%	59.43%

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	Since Inception*
ITI LS	-2.16%	2.35%	71.49%
Nifty	-2.07%	-3.03%	59.43%

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

ANNEXURE

PORTFOLIO SNAPSHOT

Portfolio Snapshot

Strategic Long Positions – Top 5	
Stock	**PF Weight**
Infosys Limited	5.8%
HDFC Ltd	5.5%
Bharti Airtel	4.2%
HDFC Bank	4.1%
SBI Life	4.1%

Top Tactical Longs – Top 5	
Stock	**PF Weight**
M&M	4.4%
Infosys	4.2%
ICICI Bank	3.9%
L&T	3.9%
TCS	3.0%

Top Tactical Shorts – Top 3	
Stock	**PF Weight**
BFSI	2.1%
Cement	2.0%
Building Materials	2.0%

Exposure	
Gross Exposure (month-end)	74%
Net Exposure (month-end)	38%
Gross Exposure (month-avg)	54%
Net Exposure (month-avg)	16%

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

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