

# MONTHLY INSIGHT

10<sup>TH</sup> MARCH, 2022

Global equity markets have corrected sharply with the outbreak of war between Ukraine and Russia. While the spectre of rising interest rates amidst higher than expected inflation had been playing on equity prices already, geopolitical events have seriously shaken markets. In Feb 2022, the MSCI World Index and MSCI Emerging Markets Index returned -2.7% and -3.1% respectively – in comparison, the Nifty, Nifty Midcap and Nifty Smallcap indices returned -3.1%, -6.8% and -11.4% respectively.

The performance of Indian equity markets however have to be seen in context – from pre-COVID levels for example, the Nifty, Nifty Midcap and Nifty Smallcap indices have given approximate CAGRs of 18%, 25% and 26%. This is considerably higher than almost any major global equity market. In comparison the MSCI World, MSCI Emerging Market, S&P 500, Euro Stoxx, Nikkei 225 and Shanghai Shenzhen CSI 300 have returned approximately 11%, 3%, 14%, 1%, 6% and 5% respectively. Relentless FII selling being however bulwarked by very strong domestic flows have helped Indian equities till date.

On the economy side, Feb-22 continued the positive momentum of the past few months – FYTD GST collections have grown at a 9.1% 2 year CAGR, FYTD exports have grown at a 12.9% 2 year CAGR, credit growth remains close to the 8% mark, the composite PMI continued in expansionary territory at 53.5 and the early signs from the rabi season are also positive. Of course, with the Ukraine-Russia war underway extant trends are relatively moot – crude has now spiked to above \$120 a barrel, natural gas, coal, wheat, edible oils, fertilizer, freight costs etc etc are all in uncharted territory. The Indian rupee is now flirting with all-time lows.

**Will war lead to recession?** The scale and ferocity of the Ukraine-Russia war has thrown even the most seasoned experts off-guard. Overnight not only have the worst fears of the world been confirmed, but progressively the worst case scenarios have only become darker (including a – thankfully temporary – nuclear accident scare). In such times forecasting economic activity is nigh impossible. Nevertheless, the signs are ominous – a global, unprecedented energy shock, supply chain disruptions across a host of sectors (just as they were recovering from COVID) and wider commodity cost pressures including crucially food (both prices and yields, given fertilizer prices and availability) which can have unforeseen political consequences. Given the building up of inflation fears already, monetary policymakers will have their hands tied to provide stimulus against these costs.

India, aside from the direct crude, commodity and currency costs, will also have to battle a global risk-off (a postponement of the LIC IPO seems all but guaranteed) and significantly reduced fiscal space (higher subsidies across fuel and fertilizer).

If the war and/or its consequences (i.e. higher energy prices due to sanctions even after a cessation of physical hostilities) continue for an extended period of time, the global economy could be facing the spectre of recession with just months of the post COVID optimism surfacing. A few data points currently portend potential weakness – the backlog of ships at the LA/LB port in the US has fallen now to 81 from 100 in a week (and a high of close to 140 in Jan) potentially signalling demand weakness, anecdotally Indian exporters are talking about European export orders falling and European factories are starting to curtail production given electricity prices.

## Portfolio Stance: Risk Off

We have positioned our portfolio in risk-off territory as the economic and financial uncertainty of the war initially surfaced and subsequently intensified. While the range of possibilities are extremely high we do not believe, at this moment, a quick resolution is on the cards. In such times protecting the downside remains our predominant focus.

We feel very fortunate to be running a long-short fund in such an environment – it is for a long-short fund an advantage to be able to set back and gauge the length and depth of challenges that markets could experience and therefore tactically navigate these markets. From our current risk-averse position, we would be tactically advantaged when time or valuations are appropriate.

## 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)

Feb 2022 -2.69% (-3.15%)

Since Inception\* 67.30% (61.44%)

\*Till Feb 28th, 2022  
(figures in brackets correspond to Nifty returns)

## Rajesh Bhatia

*Managing Director & CIO*

## Rajesh Aynor Siddhartha Bhotika

*Fund Managers*

## Akash Jhaveri

*Senior Research Analyst*

# ANNEXURE

## PERFORMANCE

### QUARTERLY

Returns	Q1 FY 22	Q2 FY 22	Q3 FY 22	Q4 FY 22	Since Inception*
ITI LS	2.93%	12.08%	-0.83%	-3.48%	67.30%
Nifty	7.02%	12.06%	-1.50%	-3.23%	61.44%

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-21	May-21	Jun-21	Jul-21	Aug-21	Sept-21	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22	Since Inception*
ITI LS	-0.94%	3.27%	0.62%	1.90%	8.72%	1.17%	-0.97%	-0.83%	0.97%	-0.82%	-2.69%	67.30%
Nifty	-0.41%	6.50%	0.89%	0.26%	8.69%	2.84%	0.30%	-3.90%	2.18%	-0.08%	-3.15%	61.44%

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 21:

ITI LS Fund: 31.97%

Nifty: 41.23%

# ANNEXURE

## PORTFOLIO SNAPSHOT

### Portfolio Snapshot

#### Strategic Long Positions – Top 5

Stock	PF Weight
Infosys Limited	7.1%
HDFC Ltd	6.0%
Grasim Ind	4.7%
Bharti Airtel	4.5%
HDFC Bank	4.5%

#### Top Tactical Longs – Top 5

Stock	PF Weight
Wipro	3.6%
Infosys	2.2%
Mindtree	0.9%
Max Financial Serv	0.8%
Aditya Birla Fashion	0.7%

#### Top Tactical Shorts – Top 3

Stock	PF Weight
Cement	2.6%
Consumer Durables	1.6%
Consumer Durables	1.6%

#### Exposure

Gross Exposure (month-end)	48%
Net Exposure (month-end)	20%
Gross Exposure (month-avg)	61%
Net Exposure (month-avg)	32%

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

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