Monthly Insight

THE INVESTMENT TRUST OF INDIA
LONG-SHORT EQUITY FUND

10th May 2019

Global equity markets had largely continued the momentum with which they entered financial year 2020 up till the 1st week of May. On 6th May however President Trump dramatically escalated the US-China trade war with threats to, within a week, increase tariffs from 10% to 25% on $200 billion of goods and slap 25% tariffs on a further $325 billion of goods in short order if a deal is not struck.

With the current escalation not happening in the backdrop of tightening Fed monetary policy, as was the case in Sept-Dec 2018, a similar reaction in markets is not expected. Nonetheless, this latest round of sharply heightened tensions between the two economic superpowers does underscore the uneasy risks to global growth.

There are green shoots too: US Q1 GDP growth at 3.2% was significantly better than estimates, the US unemployment rate is at 50 year lows, China has announced overall stimulus measures of 1.5% of GDP (turning on previously constrained credit taps, a $298 billion tax cut etc) and the Eurozone too has started responding to stimulus vs. the weak end-2018 numbers (Q1 2019 growth for all major economies was positive – Italy out of recession, Spain posting robust growth, the French economy buoyed by tax cuts to consumers and Germany too recovering from its growth trough).

For India, the macroeconomic condition has decisively taken a turn for the worse. With extended liquidity tightness, a government spending squeeze and still recovering money markets, the economy is now facing a clear consumption slowdown. Additionally, while rural distress was a widely known fact, it has now started showing up in FMCG sales – an unambiguous sign of the macroeconomic challenges facing India today. As stated in previous updates, the new government will clearly have its economic task cut out.

A clouded outlook for global growth – not disastrous, not optimistic: it is important to put the US-China trade war in context – even at the full extent of tariffs threatened, the impact on the US economy will not be more than 0.5% of GDP. In contrast, current US fiscal stimulus itself is close to 5% of GDP (measured by the cyclically adjusted budget balance). While the impact on China, and other countries potentially caught in the crossfire will be much larger (via countries exposed to a Chinese slowdown, forced shifting of global supply chains, lower passive flows to emerging markets etc etc), it is unlikely to cause a global recession.

Further escalations cannot be ruled out, but it is possible these initial escalations end up appeasing immediate political needs without causing further economic damage. Nonetheless, these are real disruptions and real pain – which certainly muddy the growth waters.

Indian macroeconomic challenges: FMCG companies, NBFCs, HFCs and auto companies were some of the leaders of the last bull rally before the IL&FS crisis. All of these sectors have been or had already started reporting weak numbers. In its monthly note for March, the Ministry of Finance too acknowledged a slowing Indian economy with official growth projections of 7% for 2018-19, the weakest in 5 years. In addition to several years of anaemic exports and private investment, the Indian economy also has to now contend with severely reduced fiscal space (for FY 19, the government is expected to report a shortfall of Rs. 1.6 lakh crore against its earlier estimates) and, most worryingly, a consumption slowdown. A post election government stimulus, debottlenecked financial system/credit markets and liquidity normalization are just some of the tasks awaiting the next government to bring the economy back on track.

Portfolio Stance: Participate opportunistically

With the current economic weakness, we believe participating selectively is of prime importance. We prefer select private banks and continue our long-held constructive stance on IT sector (reflecting our fundamental conviction on the long-term, sustainable and structurally bullish growth opportunity for Indian IT businesses).

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)
April 2019 0.21% (1.07%)
Since Inception* 19.25% (12.94%)
*Till Apr 30, 2019
(figures in brackets correspond to Nifty returns)

Managing Director & CIO
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Fund Managers
Rajesh Aynor
Siddhartha Bhotika

Research Analyst
Akash Jhaveri

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Vinay Mahajan

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Performance

Gross Returns	April-19**	Since Inception**
ITI LS	0.21%	19.25%
Nifty	1.07%	12.94%

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%	5.35%
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 30th April, 2019;
Fund returns are after expenses, before management fees and taxes

Portfolio Snapshot

Strategic Long Positions	
Stock	**PF Weight**
HDFC Bank	10.3%
HDFC Limited	7.3%
Infosys Limited	5.9%
L&T Infotech	4.5%

Top Tactical Longs	
Stock	**PF Weight**
Kotak Mah Bank	9.7%
TCS	9.4%
ICICI Bank	9.3%
Reliance Ind.	9.1%

Top Tactical Shorts	
Sector	**PF Weight**
Consumer	2.6%
Auto	2.2%

Exposure	
Gross Exposure (month-end)	114%
Net Exposure (month-end)	82%
Gross Exposure (month-avg)	105%
Net Exposure (month-avg)	80%