

5<sup>th</sup> May 2020

Financial markets had a stellar April 2020 as the degree of uncertainty over the 1st leg of the coronavirus in the major economies of the US and EU reduced.

While the healthcare crisis has obviously not abated or normalized, the so-called “flattening of the curve” in erstwhile hotspots of New York, Italy, Spain, Germany etc has reduced the severe uncertainty investors were grappling with previously. This current shift of the healthcare crisis from an “unknown unknown” to a “known unknown” propelled the MSCI World Index up 10.8% for the month, with the Nifty following too with 14.7% gains. Whether investors are forced to deal with a new “unknown unknown” in the form of a potential 2nd wave remains however to be seen.

As alluded to in our previous communications, fiscal and monetary policy globally (notably barring India, till date) has been undertaken on a massive and unprecedented scale to combat this uncertainty. Central bankers have moved with extreme speed and alacrity to ensure firms and households do not face balance sheet stresses with extraordinary measures to keep the flow of credit on and ensure the financial system is secure. Fiscal policy too has been on at the level of war-time investment in the economy to cushion earnings and income impacts – one point illustrates this concisely: Goldman Sachs estimates using various real-time wage and salary income data indicate disposable personal income to rise 0.5% in 2020, despite 1 in 5 US workers (going by initial jobless claims) being unemployed currently. The massive 14.6% US fiscal deficit is expected to cushion a large part of the drop in incomes.

**Indian economy – coming out of lockdowns, but in what shape?** Two successive, large-scale lockdowns over 40 days to combat the virus put a hard stop on a significant portion of economic activity in the country (India April services PMI dropped to 5.4 from 49.3 – indicating the scale of the month-on-month drop in activity). The ramifications of this are yet to be seen – a hard stop on corporate revenues can permanently impair weak balance sheets, threaten overleveraged firms with insolvency and cause a vicious spiral of reduced incomes, reduced consumption and further distress. An appropriate fiscal and monetary response to prevent this vicious spiral will be urgently needed.

In the Indian context, additionally, unfortunately the financial system was previously already in a state of risk averseness with public sector banks still nursing their previous wounds and aggressive private sector banks and NBFCs shrinking considerably or even winding up. Measures to address credit risk by the sovereign are also crucial if the economy is to revive.

**Portfolio Stance: Protect capital to guard against future “unknown unknowns”, stock-specific upside participation and downside protection**

We believe there are still significant “unknown unknowns” to merit caution instead of a full risk-on: potential 2nd wave being the chief amongst them. We are already seeing signs of cases accelerating in the states in the US which have opened up faster. Murmurs of geopolitical “unknown unknowns” continue with sharp rhetoric from the Trump administration on China on the coronavirus.

Nevertheless we also believe this is a terrific time for stock-specific upside participation as well as downside protection via shorts. We believe businesses such as telecom, insurance, IT and consumer (non-discretionary) have clear upside visibility with no balance sheet stress and only temporary P&L impact. We also believe downside protection via discretionary, capex oriented or lending businesses shorts can be meaningful as the Indian economy traverses through this particularly tough phase with recovery concerns beyond just the coronavirus.

## FUND PROFILE

### Key Fund Information

Launch Date 11<sup>th</sup> 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)

Mar 2020 0.21% (14.68%)

Since Inception\* 26.70% (-5.21%)

\*Till Apr 30, 2020

(figures in brackets correspond to Nifty returns)

Managing Director & CIO

Rajesh Bhatia

Fund Managers

Rajesh Aynor

Siddhartha Bhotika

Research Analyst

Akash Jhaveri

# Monthly Insight

## ANNEXURE

### Performance

#### Quarterly:

Gross 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 20	Since Inception*
ITI LS	5.32%	7.38%	0.62%	4.57%	-0.75%	-1.14%	6.64%	1.51%	0.21%	26.70%
Nifty	3.00%	2.02%	-0.62%	7.00%	1.42%	-2.67%	6.05%	-29.35%	14.68%	-5.21%

#### Monthly:

Gross Returns	Apr-20	Since Inception
ITI LS	0.21%	26.70%
Nifty	14.68%	-5.21%

Gross 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	0.21%	-1.07%	0.11%	-2.64%	-2.81%	4.48%	1.43%	2.50%	2.57%	0.97%	0.87%	-0.33%
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%

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;

Fund returns are after expenses, before management fees and taxes

#### Annual (post fees and taxes):

Gross Returns	FY 19	FY 20	Since Inception till Mar-20
ITI LS	13.9%	-0.8%	13.0%
Nifty	11.7%	-26.0%	-17.3%

Fund returns are after expenses, management fees and taxes

### Portfolio Snapshot

Strategic Long Positions - Top 5		Top Tactical Longs - Top 5		Top Tactical Shorts - Top 3		Exposure	
Stock	PF Weight	Stock	PF Weight	Sector	PF Weight		
HDFC Bank	9.7%	Maruti Suzuki	3.2%	Auto	1.2%	Gross Exposure (month-end)	48%
HDFC Limited	7.7%	Bajaj Finance	3.0%	Consumer	1.1%	Net Exposure (month-end)	41%
Reliance Industries	7.0%	Axis Bank	2.1%	Discretionary		Gross Exposure (month-avg)	37%
Infosys Limited	6.1%	ICICI Prudential	1.5%			Net Exposure (month-avg)	10%
Bharti Airtel	6.0%	Max Financial	1.1%				

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