

10<sup>th</sup> October 2019

Indian equities performed strongly in September, ignited by the government's decision to slash corporate tax rates to 25% and provide a 15% tax rate incentive to attract new manufacturing. The Nifty returned 4.1% for the month of September, outperforming the MSCI World and the MSCI Emerging Market indices by 215 and 240 bps respectively.

Indian equity markets have had a chequered 2019. The year started with the subduing headwinds from an escalating Sino-US trade war; Feb-19 to Jun-19 saw gradually increasing euphoria, initially with the expectation of a return of the present governing political dispensation to eventually it materializing after the national elections. This was however happening in the backdrop of a weakening economy. Post the elections, the slowdown crystallized in corporate earnings and earnings expectations, temporarily derailing markets. The government started responding, first slowly and now decisively, with once-in-a-decade decisions to slash corporate taxes and incentivize global investments in India.

With temporary, short-term economic uncertainty still persisting due to a range of factors (financial system headwinds, domestic demand recovery time, global trade etc), the direction the economy and markets take in the coming months remains to be seen.

**No global news is good news:** September was a relatively sombre month for the global economy. There were no fresh escalations in the Sino-US trade war (with in fact a few instances of potential thawing, with goodwill gestures on both sides via tariff imposition delays and agricultural product purchases) and global monetary easing continued its expected picking up of steam. The ECB restarted its QE programme and the Fed, as expected, cut rates by 25 bps. Fears of an unmanageable Brexit too took a breather; the pound stemmed its July and August weakness.

**India corporate tax rate cut:** The, widely unexpected, tax cut by the Modi government was the bold, imaginative, big-bang reform the Indian economy and markets were eagerly awaiting. In one stroke, India took a significant step forward in attracting global supply chains, boosting corporate financial health (via higher savings and formation of equity risk capital), reigniting animal spirits and kickstarting the virtuous cycle of investments, jobs, higher incomes and higher growth.

As a medium-term measure the current transient demand weakness would be expected to continue however the fundamentally stronger long-term economic trajectory the tax cut puts the Indian economy on is undeniable.

**Financial system – a new wave of weakness?** On a less animating note, fears of a fresh round of weakness for the Indian financial system have strongly resurfaced recently even as the system had seemingly just put the pre-2014 excesses behind it. This time a real estate led crisis – of real estate developers and large, systemically important real estate-exposed NBFCs – has gripped the market with fear. Eerie resemblances to 2018's IL&FS crisis could be seen in defaults by companies viewed as unthinkable candidates given their "strong parentage" (in this case, Altico Capital). Further skeletons from the real estate closet could easily cause fresh systemic crises for India.

#### Portfolio Stance: Cautious participation

We believe the tax cut provides a huge statement of intent by the government on its intended trajectory for the economy. Additional reforms therefore – privatization, land, labour etc etc – do not seem to be in the speculative realm, but logical next steps with reasonable probability (we are mindful these are assumptions) over time. We are cautious over systemic issues that could surface in the financial sector. Overall, we believe participating cautiously is merited on the balance.

## 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)

Sep 2019 - 4.50% (4.09%)

Since Inception\* 16.79% (10.31%)

\*Till Sept 30, 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	Jun-19	Jul-19	Aug-19	Sep-19**	Since Inception**
ITI LS	0.21%	-1.07%	0.11%	-2.64%	-2.81%	4.50%	16.79%
Nifty	1.07%	1.49%	-1.12%	-5.69%	-0.85%	4.09%	10.31%

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 Sep, 2019;

Fund returns are after expenses, before management fees and taxes

## Portfolio Snapshot

### Strategic Long Positions

Stock	PF Weight
HDFC Bank	9.5%
HDFC Limited	6.4%
Infosys Limited	5.6%
L&T Infotech	2.4%

### Top Tactical Longs

Sector	PF Weight
Asian Paints	5.2%
Mahindra & Mahindra	4.0%
Infosys Limited	3.2%

### Top Tactical Shorts

Stock	PF Weight
BFSI	10.0%
Auto	4.4%

### Exposure

Gross Exposure (month-end)	78%
Net Exposure (month-end)	11%
Gross Exposure (month-avg)	69%
Net Exposure (month-avg)	49%

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