THE INVESTMENT TRUST OF INDIA
LONG-SHORT EQUITY FUND

# MONTHLY INSIGHT

## 11th OCTOBER, 2021

The dream run for Indian equity markets continued in September 2021. The Nifty, Nifty Midcap and Nifty Smallcap returned +2.8%, +6.9% and +6.1% respectively. Over the past 3 months, the outperformance of Indian equity markets is particularly stark: +12.1% for the Nifty (similar for mid and small caps) vs. +0.2% for the S&P 500, -0.4% for the Euro Stoxx, +2.3% for the Nikkei 225, -6.9% for the KOSPI and -8.8% for the MSCI Emerging Markets Index.

On the economic front, while the positive momentum of the post COVID recovery and stimulative conditions continued, Sept-21 saw alarm bells ringing on the energy front – in some cases, quite loudly – globally. Shortages of coal and natural gas along with galloping prices resulted in large electricity shortages in some places, fears of a lack of availability of fuels in others and hardening of inflation pressures across the globe.

The nature of the energy disruptions currently seem to be dominated by supply issues – underinvestment and enforced curbs due to specific policy goals (the so-called "dual control" policy in China, especially affecting coal), expectations of future market tightness causing price gyrations before supply side has a chance to respond (natural gas and wholesale electricity prices in Europe and the UK) or just other temporary supply chain issues which are expected to resolve over time.

India has of course not remained unscathed – both availability and prices of a variety of fuels are worsening. Coal stocks are down to just 3.9 odd days currently and petrol, diesel, LPG etc prices have been following global cues higher.

## STAGFLATION – A POSSIBLE RISK?

Not just energy, but prices across the board, from metals to food crops, cash crops, chemicals, building materials, durables etc etc have been increasing. The increases are due to a variety of factors – supply curtailments, semiconductor shortages causing availability-driven price increases, energy prices feeding into final goods costs, shipping freight increases, weather emergencies and also higher than estimated demand.

While stagflation historically has been caused by large, episodic and specific supply shocks, the COVID-19 pandemic has clearly been unusual in more ways than one. Both the breadth of current price increases and their volatility point to a possibility of "higher for longer" prices than currently assumed.

## GLOBAL ENERGY CHALLENGES – FOSSIL FUELS CAN'T JUST BE WISHED AWAY

Over the past month, globally the hard reality of the world's dependence on fossil fuels has manifested sharply. The largest impact has been on China – massive power cuts have shuttered China's factories (the Sept-21 official manufacturing PMI came in at 49.6, a 19 month low) and in some provinces even traffic lights and household power. The so-called "dual control" strategy on emissions coupled with determined efforts in the past to shift away from coal (and hence underinvest) culminated in an abrupt shortage with Chinese authorities now scrambling to acquire fuel "at any cost".

In Europe, benchmark natural gas prices spiked 93% for the month as markets feared that 10 year low inventories could prove problematic in the event of a cold winter. Prices are now up close to 400% YTD. In the UK 9 energy providers catering to close to 1.7 million households have already failed due to wholesale electricity price spikes and several more expected to follow in the coming months. With expectations of strong gas to oil shift demand (estimated at 500k bpd by Saudi Aramco) and the global rush for substitutes, crude oil, LPG and global coal prices have all spiked – crude oil rising from $73 to now $80+ a barrel.

Perhaps the starkest visuals were from petrol stations in the UK – albeit for entirely different reasons. An estimated shortage of 100,000 truck drivers and initial sparks of shortages at a handful of petrol stations sparked an almighty frenzy. At the height of the panic, some 60% of all petrol stations in the UK were drained completely dry.

## PORTFOLIO STANCE: BUOYANT OUTLOOK, BUT CAUTIOUS ON INFLATION RISKS

Policymakers over the past few months have been repeatedly making the case for "transitory" inflation as COVID-19 recedes. The belief remains of risks on growth not being supported adequately rather than of overheating. The challenge of course is that as price disruptions continue to last longer than expected, policymakers could be forced to act.
At the moment, on balance the outlook remains of continued growth-focused policy with asset inflation rather than out-of-control goods and services price increases. For markets, inflation risks will need to continue to be monitored as they evolve.

Growth remains robust at the moment. Several sectors are reporting concrete signs of strong, multi-year growth trends – not least the IT services sector, in which we continue to be overweight.

# 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)

**September 2021 1.14% (2.84%)**
**Since Inception* 72.94% (69.37%)**

*Till Sept 30th, 2021
(figures in brackets correspond to Nifty returns))

**Rajesh Bhatia**
*Managing Director & CIO*

**Rajesh Aynor**
*Fund Manager*

**Siddhartha Bhotika**
*Fund Manager*

**Akash Jhaveri**
*Sr. Research Analyst*

# ANNEXURE

## PERFORMANCE

## QUARTERLY

| Returns | Q1 FY 22 | Q2 FY 22 | Since Inception* |
|---|---|---|---|
| ITI LS | 2.86% | 12.02% | 72.94% |
| Nifty (%) | 7.02% | 12.06% | 69.37% |

* till 30th Sept, 2021

| Returns | Q1 FY 19* | Q2 FY 19 | Q3 FY 19 | Q4 FY 20 | 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 | 5.33% | 7.41% | 0.62% | 4.64% | -0.79% | -1.17% | 6.97% | 1.60% | -1.52% | 3.34% | 12.55% | 3.21% |
| 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% |

* from 11-Apr-18. Fund returns are after expenses, before management fees and taxes

## MONTHLY

| Returns | Apr-21 | May-21 | Jun-21 | Jul-21 | Aug-21 | Sep-21 | Since Inception* |
|---|---|---|---|---|---|---|---|
| ITI LS | -0.97% | 3.24% | 0.60% | 1.89% | 8.70% | 1.14% | 72.94% |
| Nifty (%) | -0.41% | 6.50% | 0.89% | 0.26% | 8.69% | 2.84% | 69.37% |

* till 30th Sept, 2021

| 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 | 0.24% | -1.05% | -0.71% | 5.40% | -1.94% | -0.01% | 2.08% | 4.50% | 5.51% | 0.53% | 2.52% | 0.15% |
| 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 | 0.22% | -1.12% | 0.11% | -2.76% | -2.92% | 4.69% | 1.50% | 2.62% | 2.70% | 1.02% | 0.92% | -0.34% |
| 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 | 2.32% | 1.36% | 1.56% | 4.69% | 2.04% | 0.55% | -1.68% | 3.03% | -0.67% | 1.85% | -2.54% | 5.42% |
| 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

*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

## QUARTERLY

| Strategic Long Positions - Top 5 | |
|---|---|
| Stock | PF Weight |
| Infosys Limited | 6.2% |
| HDFC Ltd | 6.2% |
| HDFC Bank | 6.0% |
| Reliance Industries | 5.5% |
| SBI Life | 4.8% |

| Top Tactical Longs - Top 5 | |
|---|---|
| Stock | PF Weight |
| RIL | 3.8% |
| TCS | 3.2% |
| ICICI Bank | 2.9% |
| United Spirits | 2.8% |
| Max Fin. Serv. | 2.6% |

| Top Tactical Longs - Top 3 | |
|---|---|
| Stock | PF Weight |
| Auto | 2.1% |
| Pharma | 1.6% |
| BFSI | 1.6% |

| Exposure | |
|---|---|
| Gross Exposure (month-end) | 71% |
| Net Exposure (month-end) | 59% |
| Gross Exposure (month-avg) | 131% |
| Net Exposure (month-avg) | 86% |

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

## RISK METRICS

| Key Ratios | | |
|---|---|---|
| | ITI LS Fund | Nifty |
| Sharpe Ratio | 1.94 | 0.85 |
| Annualized Standard Deviation | 8.59 | 20.68 |
| CAPM Beta | 0.22 | 1.00 |
| Treynor Ratio | 77.24 | 17.60 |

* for the period 11-Apr-18 to 30-Sept-21
Source: Kotak Fund Accounting