

10th September 2019

Indian equity markets continued their subdued performance in the month of August as sustained domestic economic weakness (India reported Q1 FY 20 GDP at 5%, a 6 year low) coalesced with fresh global concerns (escalation in the Sino-US trade war with both China and the US slapping additional tariffs on each other; yuan depreciation by the Chinese beyond the psychologically important 7 mark). Global equity markets as a consequence too had a poor August.

Looking forward, while global economic conditions remain mixed (trade policy uncertainty and a few geopolitical hotspots such as Brexit and Hong Kong buffeted by worldwide monetary easing and stimulus), the possibility of green shoots emerging for the domestic economy have strengthened. India's fundamental constraints are well known (limited fiscal space, weak export tailwinds, and constricted financial system capacity), but a slew of positives (lower interest rates, a strong monsoon, surplus system liquidity etc) also potentially counterbalance the current pessimism trough.

Are we at the bottom of weak domestic economic sentiment? Economic slowdown is the buzzword for the moment in India. From staples to autos to real estate, economic pessimism is truly pervasive. Whether structural or cyclical, what seems to have lost its fair share of voice are several supportive positive factors gaining traction:

- A declining interest rate trajectory ("gravity" for stock prices, and supportive for private investment on effective transmission)
- A strong monsoon, with season-to-date 1% above LPA now
- Surplus systemic liquidity
- Benign input costs with commodity headwinds globally
- Decadal low corporate earnings to GDP, a fillip to which from GST etc could be forthcoming
- A government clearly seized of the problem at hand

On their own, these factors are potent forces to propel the economy forward. Occurring as they are along with the economic slowdown, the salutary effect on both fundamentals and sentiment seems to be getting drowned out. We could be therefore at the bottom at least as far as the widespread economic pessimism is concerned.

Trade wars and global growth: A sudden, sharp escalation in the Sino-US trade war with new rounds of retaliatory tariffs by both China and the US caused a fresh bout of global risk-off and global economic weakness in August. Fears of a hard Brexit also resurfaced in August with gyrations playing out between a determined PM Johnson and a seemingly even more determined British Parliament. On the pluses, US economic growth continues to be strong – US investment grade bonds now account for a staggering 95% of all global investment grade debt delivering any positive yield.

Portfolio Stance: Limited participation

We believe the current widespread economic pessimism, while not misplaced, nevertheless indicates we have reached a broad trough as government measures hopefully act as the catalyst the economy needs. While we do not think the data is favourable for a sharp rally, we believe limited participation (rather than none) is appropriate at this juncture. As earlier, we are watchful of global recessionary developments in the context of our extant fundamentally positive view on the multi-year structural 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)

Aug 2019 -2.81% (-0.85%)

Since Inception* 11.76% (5.97%)

*Till Aug 31, 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**	Since Inception**
ITI LS	0.21%	-1.07%	0.11%	-2.64%	-2.81%	11.76%
Nifty	1.07%	1.49%	-1.12%	-5.69%	-0.85%	5.97%

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 31st Aug, 2019;

Fund returns are after expenses, before management fees and taxes

Portfolio Snapshot

Strategic Long Positions

Stock	PF Weight
HDFC Bank	8.3%
HDFC Limited	6.7%
Infosys Limited	5.4%
L&T Infotech	2.5%

Top Tactical Longs

Sector	PF Weight
TCS	3.9%
Infosys	3.1%

Top Tactical Shorts

Stock	PF Weight
Auto	5.8%
Banks	2.0%

Exposure

Gross Exposure (month-end)	41%
Net Exposure (month-end)	19%
Gross Exposure (month-avg)	33%
Net Exposure (month-avg)	17%

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