EVERY DUSK BRINGS A NEW DAWN

Date: 25.04.2020

Dear Partners & Investors,

- **Markets will bottom out much earlier than the economy.**
- **When the news flows are very bad for an asset class, sector and segment of the market, probably the worst might have already priced in.**
- **We are moving towards the business cycle bottom post government reforms, NBFC/Yes Bank crisis and now COVID-19 crisis. Whenever economy is to improve, the pent up demand is going to be significant in various sectors.**
- **At bottom of the economic cycle Equity as an asset class provides the best risk adjusted returns and can be the ideal recovery play.**

One of the large mutual funds decided to close down 6 debt funds, not much to read into this event. Definitely this is not the time to panic but definitely the time to diligently invest. At present, we need to focus our attention on the removal of lockdown and businesses getting back to normalcy. If we look at the big events in the last 4 years, COVID-19 impact is the biggest one and this too shall pass. Our base case assumption is that in next 6-9 months the businesses will get back to normalcy, like we saw at the time of demonetisation. Moreover in the next financial year India GDP will grow in line with the IMF estimates of 7.4% because of the low base effect and significant pent up demand kicking in. The time to panic in equity market was in Jan'18 when the equity market valuations were super expensive

In Debt, we have been advocating over the last one year, investment in high credit quality and low duration category funds. We think the risk reward is not in favour of investing in credit risk or long duration funds. We believe, over the next one year, the rating downgrades are likely to be higher than rating upgrades. The corporate debt markets are not deep enough and have low liquidity, increasing the impact costs. The asset liability mismatch in the debt funds can get further aggravated in such market conditions. In line with this view, our debt funds are invested in Government securities or TREPs (which are repos backed by Government securities with settlement guaranteed by The Clearing Corporation of India). **Our stance remains the same as before and no change as of now**.

In ITI Balanced Advantage Fund, we sold off our debt holdings and shifted to equity in March 2020 as equity valuations turned very cheap. The fund moves the equity allocation dynamically from 0% net exposure to 100% net exposure, depending upon the equity market valuation, volatility in the markets and earnings growth prospects. Our valuation framework was also suggesting complete shift from debt to equity (large cap companies) when 10 Year G-Sec Yield approached 6% and earnings yield was higher than the G-Sec Yield and equity valuations reached 25 year low on trailing price to book value basis. ITI Balanced Advantage Fund and all our equity funds are well positioned to capture the economic recovery which we believe to happen in coming years.

At ITI Mutual Fund, our view is that the asset markets are in the process of bottoming out (as they often do when the news flows are very bad), though the pace and timing of recovery is uncertain. Our view is that Equity is the best asset class to invest so as to play this recovery cycle and has the potential to generate good long term returns.

We strongly believe, Government should provide significant package or credit guarantee to SMEs at this juncture, increase government capital expenditure and rural development programmes (so that migrant workers can be employed quickly). Such measures will speed up the process and RBI providing forbearance to NBFCs and Banking sector (eg: Issuing a notification mentioning all loans which were standard as of 31st January 2020 are still considered as standard even on 30th September 2020 and no provisions required), is very important at this stage. As we have seen in the case of US, government has taken significant steps and liquidity boosting measures to get back the economy to normalcy. Indian Government also needs to step up the measures by fiscal and monetary measures.

The COVID 2019 pandemic and consequent lock down measures have created dislocations in the economy and thereby impact felt across both equity & debt markets. The lockdown measures have adversely impacted the economic growth and the financial health of large number of businesses and households in the near to medium term. Governments of India and RBI have announced several measures to alleviate the adverse economic impact and both have said more measures will be announced.

Currently, macro liquidity is abundant globally and also in India, but due to the significant uncertainties consequent to COVID and lockdowns, ‘Equity Risk Premium’ or the additional spread over risk free rate is high and hence equity valuations are low. Similarly in debt markets, credit spreads and the yields on corporate debt are high. Thus, both equity markets and corporate debt markets are cheap.

Additional measures by Government and RBI can significantly improve the current tight credit environment. We feel that the consequent upside due to such measures will be equally available in equity markets.

Stay Safe and healthy & warm regards,

GEORGE HEBER JOSEPH

CEO & CIO
ITI MUTUAL FUND

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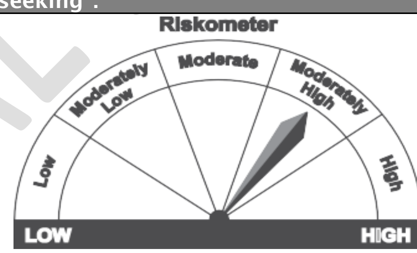
Mutual Fund investments are subject to market risks, read all scheme related documents carefully

Name of the Scheme	This product is suitable for investors who are seeking*:	
ITI Balanced Advantage Fund An open-ended dynamic asset allocation fund	• Capital appreciation while generating income over medium to long term • Dynamic Asset allocation between equity, equity related Instruments and fixed income instruments so as to provide with long term capital appreciation	 Investors understand that their principal will be at Moderately High risk
* Investors should consult their financial advisors if in doubt about whether the product is suitable for them.		