

“Hedge Funds/ Long Short Equity Fund”

Merits of Long Short Equity Fund

Alternative Investment
Leaders Program

Cohort 2



1. What is the key challenge for investors today?

➔ Today, investors in India are confronted with the following dual challenges:

- Negative real returns in fixed income

- Stretched equity market valuations and risks

Given the above dual challenge, large and sophisticated investors not only in India but also globally are moving towards a **Hedge Fund (or a Long Short Equity Fund)** as an ideal platform to navigate such market conditions

2. What does a hedge fund or a long short equity fund do?

While there are several variants of a hedge fund, the objective of ITI Long Short Equity fund is essentially to achieve the following:

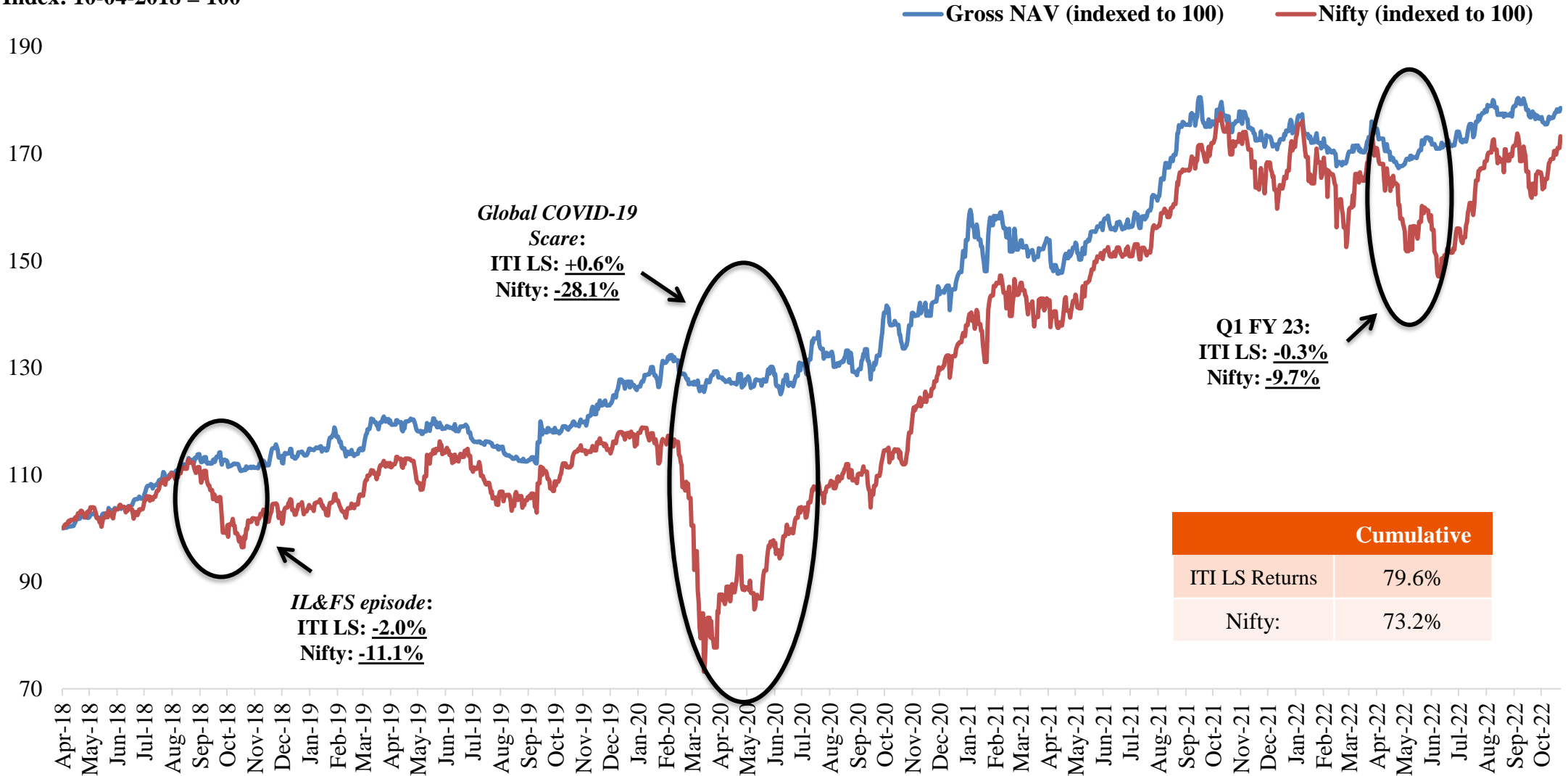
- ➔ In case of a market decline, protect the downside
- ➔ Generate an equity type return on upsides, and
- ➔ Over a full equity market cycle, beat the equity markets; the result achieved with much lower risk and much lower volatility for the investor



Key point: In essence, this “**asymmetric return**” profile makes a hedge fund one of the best platforms to compound wealth for the long term. Basically, lowered risk of capital losses and upside opportunity to make equity returns. This is best illustrated with the experience of our long-short equity fund.

← **Downside protection and upside participation – demonstrated capability across phases** →

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3. Downside protection : an under appreciated investment principle:

So why is downside protection important and does it add value to equity investing in the long term?

Warren Buffett’s first principle of investing: **“Rule No 1 – Don’t lose money, Rule No 2 – Never forget Rule No. 1”**
 The mathematics of declines means **“you win, by not losing”**, as illustrated by the table below.

	Year 0	Year 1	Year 2	Year 3
<u>Portfolio 1</u>				
Returns:		+75%	+75%	-50%
Value (Rs.)	100	175	306	153

	Year 0	Year 1	Year 2	Year 3
<u>Portfolio 2</u>				
Returns:		+45%	+40%	-5%
Value (Rs.)	100	145	203	193

*Conclusion: It is far more important to avoid losing years than to have large winning years;
 Protecting large downsides is an essential condition to compound wealth over the long term*

“Six years of no Returns”



Last Price



Nifty Chart

Risk Statistics

Key Ratios*		
	ITI LS Fund	Nifty
Sharpe Ratio	1.62	0.73
Annualized Standard Deviation	8.17	19.40
CAPM Beta	0.22	1.00
Treynor Ratio	58.93	14.15

*for the period 11-Apr-18 to 31-Oct-22

Source: Kotak Fund Accounting

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Thank You

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