TATA BUSINESS CYCLE FUND-DECEMBER 2021 UPDATE

(An open ended equity scheme following business cycles based investing theme)

TATA MUTUAL FUND

For External Circulation

Data as on 30th Nov 2021

Business Cycles

The economy goes through a series of stages as it expands and contracts, characterized by downward or upward fluctuations of GDP. Each economic or business cycle has 4 phases: Recession, Recovery, Expansion and Slowdown. These cycles come about as companies innovate and expand, leading to rapid growth which followed by the inevitable slowdown as business activity declines. This is followed by recession which offers businesses opportunities to reorganize leading to a recovery as they invest in the future.

The particular phase the economy is in can be identified based on macro conditions (inflation, spending patterns, monetary policy etc.), business conditions (expansion or cost cutting, capacity utilization, earnings growth/contraction etc.) and market conditions (investor sentiment). The length of a cycle is based on monetary policy, fiscal policy along with domestic & global events.

Investing in Business Cycles

Each phase in the business cycle presents unique investment opportunities. Incorporating business cycles theme into investments helps make the most of the current economic environment

Recovery & Expansion	Slowdown & Recession
Investments that are more sensitive to faster economic growth and business activity will likely outperform. • Stocks of midsize and small companies, as well as emerging market equities • Younger, growth-oriented firms and industries	Defensive investments and those that are sensitive to falling interest rates have greater potential to outperform • Stocks of larger and stable companies • Businesses that experience steady consumer demand even during economic slowdowns
Generally referred to as Cyclical Stocks • Cyclical Stocks have a direct relationship to the economy. These are Companies that make or sell discretionary items and services that are in demand when the economy is doing well. • These are stocks which do well during phases of increased consumption and high employment. Capital Goods, Industrials and other high capex sectors tend to perform well during economic upcycle	**Generally referred to as Defensive Stocks** • Defensive/Structural growth Stocks outperform the market when economic growth slows. They produce or distribute goods and services we always need. • Characterized by low penetration i.e long runway for growth, strong balance sheet and robust ESG track record.

Investment Approach*

Aims to deploy the business cycle approach to investing to identify economic trends and invest in sectors and stocks that are likely to outperform. The fund looks to invest as per economic conditions– Cyclicals during Expansion and Defensives during Contraction.

The Focus is on sector calls buying either the sector leaders or Companies benefitting disproportionately from sectoral tailwinds during economic & business cycles during periods of expansion and invest in sectors which provide cushion during downcycles.

Stock Selection is:

- Based on extent of leverage to the cycle
- Market cap agnostic
- Based on record of management

*Based on Current Market Conditions and subject to change in the future

Equity Markets Update

Market View

- Despite the impact of second wave and a semi lockdown environment, corporate profitability has stood its ground. The estimates for profit growth on an aggregate level have managed to inch up.

- Indian corporate sector has absorbed the first and second wave impact fully. While rising input costs and slower recovery in rural markets are a cause of worry, it has been offset by faster recovery in industrials, banks, real estate and open-up trades. The above trend is likely to continue in H2FY22.

- Governments tax collections and fiscal deficits are faring better than in the past and which bodes well for government spending targets in H2FY22.

- We are going into second half with positive expectations in terms of corporate profitability growth and pick up in capital expenditure cycle notwithstanding the inflationary and moderate upward on interest rates.

Outlook for H1-FY22

- Despite the impact of second wave and a semi lockdown environment, corporate profitability has stood its ground. The estimates for profit growth on an aggregate level have managed to inch up. Indian corporate sector has absorbed the first and second wave impact fully.

- With the festival season upon us and strong fundamentals across sectors (Banking, Pharma, Real Estate, Capital Goods, Commodities, IT), it seems like a positive trajectory ahead for the economy.
- Governments tax collections is running ahead of schedule.

- We are going into second half with positive expectations in terms of growth corporate profitability, pick up in capital expenditure cycle and pick up in tax revenue

Investment Cycle

- Investment rate as a percentage of GDP declined steadily from about 35% in early 2010s to 27% by end of the decade.

- For economic growth to sustain at 6-7% and beyond, investment cycle has to revive and play its role.

- Three important levers required for a virtuous capex cycle seem to be falling in place- new global dynamics (commodities boom), domestic macro & proactive government policy (PLI success). Household investments in real estate will also be critical in reviving a critical sector of the economy and easing the pain caused by stress in real estate developers over last 4-5 years.

- The government has allocated significant spending on capital expenditure which is expected be beneficial for cyclical sectors such as industrials, capital goods, metals & mining etc.

- We are also witnessing the green shoots in the capex cycle of the domestic centric sectors viz. Cement, consumer goods, paints and now commodities.

- Increased spending on key infrastructure such as Power, highways, gas distribution networks, renewable energy and transportation is also a positive for infrastructure sector.

Portfolio Positions

The fund holds significant position in the financial services sector, with bulk of the holdings in large cap banks (~19% of the portfolio), and smaller holdings in smaller banks (~3%). The fund also holds ~4% in NBFCs/HFCs. The large private banks have held up even during economic downturn. Lower Credit Growth, High coverage ratios and lower than expected bad loans make us confident of our positions. Additionally, we have some exposure in reasonably valued mid and small sized banks which look strongly placed for another good year.

The fund has significant presence in sectors such as Industrials (~11%), Power & IT (~8% each), Pharma (~7%) and Auto (~5%).
For the first time in many years that we have multiple drivers of earnings cutting across IT, Pharma, Financials (ROE normalization), commodities and real estate with some green shoots visible in the capex cycle as well. Another driver for sectors such as industrials, pharmaceuticals and Infrastructure.

Government's production-linked incentive (PLI) has witnessed remarkable early success and is likely to be widened to other 'Champion' sectors. The emphasis of the PLI scheme is on encouraging scale in downstream capacities which will in due course lead to commensurate additions in upstream capacities as well.

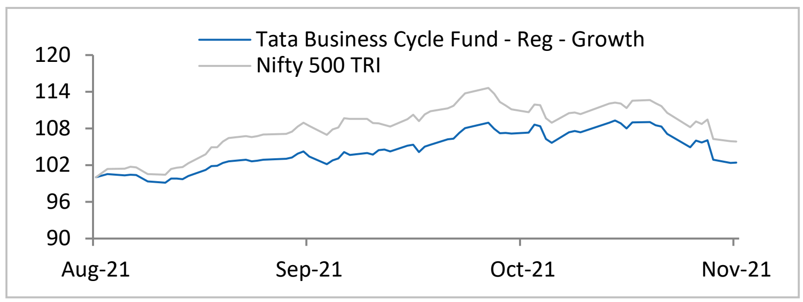
The fund also holds significant positions in commodity related sectors such as Oil & Gas (~7%), Metals (~6%) and Cement (~4%). The boom in commodity prices and expansion in capex along with the revival in the real estate sector makes us incrementally positive on these sectors.

FUND SNAPSHOT

Benchmark	Nifty 500 TRI
AUM	Rs. 917.69 Crores
Inception Date	August 4,2021
Expense Ratio	Direct-0.89 Regular- 2.35
Fund Manager	Rahul Singh (Managing Since 16-Jul-21 and overall experience of 25 years), Murthy Nagarajan (Debt Portfolio) (Managing Since 16-Jul-21 and overall experience of 25 years), Venkat Samala (Overseas Investment) (Managing Since 16-Jul-21 and overall experience
Options	Growth & IDCW
Weightage of top 10	36.1%

Statistic	Fund	Benchmark
Std. Dev	10.30	11.01
Sharpe Ratio	-0.02	0.01
Portfolio Beta	0.91	1.00
R Squared	0.94	1.00
Treynor	-0.07	0.04
Jenson	-0.11	NA

NAV Movement since inception (rebased to 100)



Fund Holdings

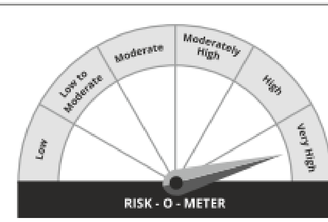
Top 10 Holdings (%)	
Company	**Fund**
ICICI Bank Ltd.	5.80
Reliance Industries Ltd.	5.09
Larsen & Toubro Ltd.	4.18
State Bank Of India	3.90
Bharat Forge Ltd.	3.42
Sun Pharmaceutical Industries Ltd.	2.99
HDFC Bank Ltd.	2.77
Bharti Airtel Ltd.	2.69
Axis Bank Ltd.	2.64
Cipla Ltd.	2.62

Top 10 Sectors(%)	
Sector	**Fund**
Financial Services	24.36
Industrial Manufacturing	10.68
Construction	9.49
IT	8.49
Power	7.69
Oil & Gas	7.18
Pharma	7.02
Metals	5.70
Automobile	5.03
Cement & Cement Products	3.97

This product is suitable for investors who are seeking*:

- Long Term Capital Appreciation.
- An equity scheme that invests predominantly in Indian markets with focus on riding business cycles through dynamic allocation between various sectors and stocks at different stages of business cycles.

***Investors should consult their financial advisors if in doubt about whether the product is suitable for them**



Investors understand that their principal will be at Very High Risk

Mutual Fund Investments are subject to market risk, read all scheme related documents carefully