

TATA ETHICAL FUND– DECEMBER 2021 UPDATE

(An open ended equity scheme following Shariah Principles)

This product is suitable for investors who are seeking*:

- Long Term Capital Appreciation.
- Investment predominantly in equity & equity related instruments of shariah principles compliant companies and in other instruments allowed under shariah principles.

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



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

Fund Snapshot

Type of Fund	An open-ended equity scheme following Shariah Principles.
Benchmark	Nifty 500 Sharia TRI
AUM	Rs. 1126.02 Crores
Inception Date	24th May 1996
Expense Ratio	Direct:1.20 Reg: 2.50
No of Holdings	49
Fund Manager	Abhinav Sharma (managing since 6-Sep-21)

Fund Statistics

Statistic	Portfolio	Benchmark
Std. Deviation	16.62	17.24
Beta (Slope)	0.31	0.33
R (squared)	0.95	1.00
Sharpe	0.97	1.00
Treynor	1.56	1.62
Jenson	-0.06	NA

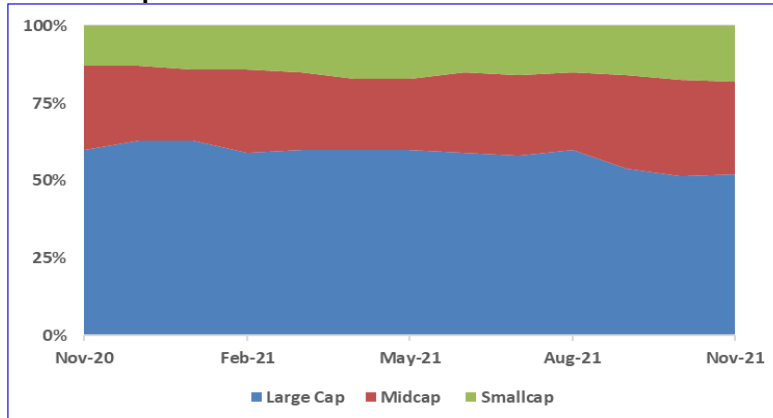
About the Fund

Tata Ethical Fund invests in a diversified equity portfolio based on principles of Shariah. The objective is to provide medium to long-term capital gains by investing in Shariah compliant equity and equity-related instruments of well-researched value and growth-oriented companies.

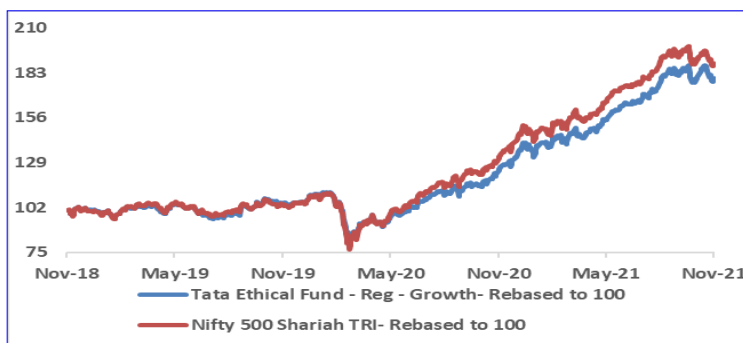
Market Capitalization-wise Exposure

Large Cap	51.68%
Midcap	30.28%
Smallcap	18.04%

Market Cap Movement of the Portfolio



NAV Movement of the Fund



Large Cap: 1st -100th company in terms of full market capitalization
Midcap: 101st -250th company in terms of full market capitalization
Small Cap: 251st company onwards in terms of full market capitalization

Top 10 Sectors

Sector	Allocations
Information Technology	35.94%
Consumer Goods	19.24%
Industrial Manufacturing	12.77%
Pharmaceuticals	8.37%
Cement	4.60%
Automobile	3.62%
Textiles	3.54%
Fertilizers & Pesticides	2.33%
Chemicals	1.86%
Consumer Services	1.76%

Top 10 Holdings

Stock	Allocation
Infosys Ltd.	9.20%
Tata Consultancy Services Ltd.	8.31%
HCL Technologies Ltd.	6.09%
Tech Mahindra Ltd.	4.18%
Tata Elxsi India Ltd.	3.95%
Hindustan Unilever Ltd.	3.85%
Carborundum Universal Ltd.	3.16%
Tata Consumer Products Ltd.	2.90%
Ambuja Cements Ltd.	2.76%
Siemens India Ltd.	2.47%

Shariah Compliant Universe

The universe of stocks that the fund invests in is built by screening out all those companies and sectors whose practices or products are forbidden by Shariah Principles, Further screening is done based on certain financial parameter. This screening is carried out with the advice and assistance of an independent adviser TESIS.

Business Screening for Building Investment Universe

Activities which are not permitted under Shariah are those which involve engaging in interest earning businesses or in those businesses which are mostly harmful to human society and disallowed by Shariah.

Thus, companies engaged in promoting promiscuity, violence, vulgarity and businesses affecting the environment are also considered Shariah non-compliant. Hence all companies which are primarily into the following activities are screened out on the business parameter.

- Conventional financial services such as banks, insurance companies, finance & investment companies, stock broking etc.
- Production, sale and marketing of non-Halal food and beverages such as Pork, Alcohol, Tobacco and such other items etc.
- Companies involved in production or distribution of vulgar entertainment, such as film and other recreational activities where vulgarity, promiscuity is part and parcel of the business undertaken / promoted.
- Hotels and restaurants (providing non-Halal products or entertainment)
- Gambling, Narcotic drugs, etc.

Screening Based on Financial Parameters

Companies are further screened based on financial parameters related to their leverage, cash holdings and interest income. To be included in the universe a company should have - 1) total interest-bearing debt less than 25% of its total assets, 2) interest income less than 3% of total income and 3) cash and receivables should be less than 90% of total assets.

Portfolio Construction

Due to the restrictions on the type of companies available for investment under Shariah Principles, the eligible universe self selects for companies which have low debt, generate high cash flows and have potential for delivering strong dividends.

- **Stock Selection:** The fund manager looks for structural themes such as digitization/automation, diversification of global supply chains, formalization of the Indian economy and premiumization that have the potential for compounded returns and a long runway for growth.
- **Portfolio Turnover:** The fund predominantly follows a buy and hold approach so as to generate returns over a longer time horizon.
- **Portfolio Size:** The fund generally holds a well balanced portfolio of 40-50 stocks. The Fund Manager may take overweight positions to back his convictions. Currently, the portfolio has 49 stocks.
- **Market Cap Allocation:** The portfolio is generally dominated by Large Caps but with significant allocations to midcaps as well

Equity Markets Update

Recovery from the slowdown in business due to the Covid-19 pandemic was driven by factors such as tailwinds from the pandemic itself benefitting sectors such as IT (shift towards Work from Home) and Pharmaceuticals. The pandemic allowed significant cost cutting, of which a major portion will be retained. The Banking system saw that the levels of bad loans/NPAs were not as high as originally feared. The low interest rates in the markets and government support drove the real estate and commodity markets. Earnings growth is very broad based now as compared to pre COVID when it was driven by a select few sectors.

Broader market valuations are higher than historical levels but have come off from the peak levels. Interest rates are also at a very low levels. Hence, we can see that in this context, while valuations are high, but not excessively so. Going ahead, the global markets would be influenced by factors such as the new Omicron variant of Covid-19 and the interest rate-inflation dynamic.

Fund Positioning

The fund will look to build positions across sectors where possible, while being benchmark aware. The major themes within the portfolio include Information Technology & Digitization, Consumption and Infrastructure, with smaller positions in areas such as pharma, commodities, chemicals & fertilizers etc.

Information Technology (~36% of the Portfolio)

COVID has given a massive fillip to digitization which could lead to strong earnings growth over next 3-4 years, however valuations here have rerated considerably.

The fund is near equal-weight in the IT sector with respect to the benchmark, with significant positions in large IT services companies with a major overseas footprint. Holdings in the sector also include positions in the Engineering, Research & Design segment. The fund had an overweight position in this sector but has since reduced weight. The fund has added new names to the portfolio.

Valuations in the sector are scattered. Midcaps are highly valued while large caps have lower valuations in comparison. The fund will continue to add to positions where there is re-rating potential.

Consumer Goods (~19% of the Portfolio)

Large companies have gained market share and thus despite slowdown in consumption due to COVID, earnings have not deteriorated materially.

The fund has an underweight position in this sector with respect to the benchmark. The fund's positions in this sector are equally balanced between staples and discretionary businesses. The staples segment has underperformed in the past few quarters, making valuations attractive. However, consumer staples business' margins have been impacted by rising inflation, which may continue over the next couple of quarters.

The fund has an overweight position in the staples segment. The fund is underweight in the consumer discretionary segment and also holds a small position in the retailing sector.

Infrastructure oriented sectors (~18% of the Portfolio)

Likely to benefit from increasingly positive outlook on private capex and residential real estate. Structural themes of decarbonization and automation also at play. Valuations are closer to historical averages in most cases.

The fund is significantly overweight in this sector, with significant positions in Industrial Manufacturing and capital goods (~13% of the portfolio) and Cement (~5% of the portfolio).

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