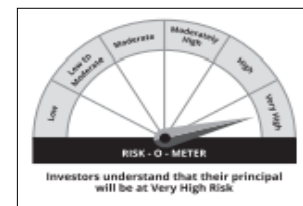


This product is suitable for investors who are seeking*:

- Long Term Capital Appreciation.
- Investment in equity/equity related instruments of the companies in Information Technology Sector.

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



Benchmark: Nifty IT TRI

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

About the Sector*

The Indian Information Technology sector in FY21 stood at ~\$194 billion, up by 2.3%. The IT industry now accounts for 8% of Indian GDP, contributes to over half of services exports. The sector employs ~45 lakh people.

India has the largest base of quality IT talent in the world and the offshore-based companies have best access to this talent. Additionally, deep expertise, presence across technologies like cloud and digital in multiple domain areas and best-in-class execution makes India well-suited to enable holistic digital transformation for clients

The sector comprises of companies providing 4 broad groups of services: IT services, Engineering, Research & Design (E-R&D), Business Processing and Outsourcing (BPO) and Hardware.

In terms of clients, the BFSI sector is the largest customer, followed by manufacturing, and retail.

*Information based on NASSCOM Strategic Review/ Motilal Oswal

Constituents of the Indian IT Sector	
IT Services	~\$100 billion
E-R&D	~\$40 Billion
BPO	~\$35 Billion
Hardware	~\$15 billion

Largest Clients of Indian IT Sector	
BFSI	~25-30%
Manufacturing	~20%
Retail	10%

Largest Markets for Indian IT Sector	
USA	~50%
Europe (Including UK)	~30%

Sub Sectors within the IT Sector

IT Services: Some of the largest listed companies in India belong to the sector. Indian service providers have increased their market shares at the expense of global peers. IT spending increases in automation and collaboration tools is likely to benefit this sector.

E-R&D: A large proportion of work in IT related research and design is still done in-house for large companies. However, there is large scope for the outsourcing of these services to companies with specialized departments in this field.

Business Processing & Outsourcing: BPOs had seen growth slowing down due to a shift from offsite to onsite and increased automation before the pandemic. However, post the pandemic we are seeing momentum in offshore deals and growth seems to be reviving in the segment. Generally, the sector is characterized by strong cash flows and dividends and reasonable valuations.

Digital Platforms: Provide platforms to connect market players and are re-imagining traditional business models.

Sector Update: Near Term

- Recent quarters have seen very positive demand driven growth and it is likely to continue led by digital transformation and cloud migration. Demand environment remains optimistic.
- As travel has started again there may be cost escalations.
- Managements are indicating headwinds in the near term as costs from travel, operation expenses, personnel attrition (which has yet to cool off meaningfully) impact margins.

- The attrition rate for the large IT services companies has been high, along with increased personnel costs putting a damper on margins. However, companies believe that by increase hiring of freshers and increasing the hiring of subcontractors for specific projects, reducing long term labor costs. This is termed as pyramid rationalization.
- Recent quarters highlighted that the offshore mix for the companies has been changing, with a greater number of employees working from India rather than being physically present on-site. But in the near term, resumption of travel to onsite locations will cause headwinds.
- The sector has seen a shift in deal sizes (contracts). Instead of large deals, the sector is seeing multiple smaller segmented deals. Growth is still intact for the industry and the velocity of these deals is large.
- Next few months pointed to a slowdown in margins . However, we could see strong margin defense led by operating leverage, higher offshoring and pyramid rationalization over the medium to long term (over ~1-2 years.)
- Until recently, investments in the IT sector were a mixture of growth and value plays, with opportunities for re-rating. Going forward, earnings growth is likely to be in line with growth, with select companies in the midcap space expected to outpace the industry growth on revenues.

Sector Update: Medium Term

- Market Leaders as well as laggards emphasize the critical role of technology in building resiliency, improving experience and building new revenue streams. Hence, many clients are undertaking a core transformation, which is a multi-year journey. (F- 500 clients have indicated their acceleration of digitization and digitalization initiatives).
- Clients are still in the early phase of cloud migration with only a minor portion of workloads. on the cloud. Cloud penetration is currently at ~25%, which is expected to rise to ~50% in coming couple of years. Their transformation journeys include (1) infrastructure migration to the cloud, (2) adoption of cloud native technology stack and (3) new ways of collaboration among organizations, resulting in a strong multi-year increase in technology spending across industries.

The digital transformation and cloud migration is likely to be a ~3-5-year journey for organizations which is a benefit to the sector.

Source: Internal Research

Valuations

Valuations of the IT sector in terms of P/E ratio increased from ~20x to 25x in the past two years, with significant intra-period movement. These valuations are largely expected to sustain due to good growth rates and a 3-4 year demand cycle. Some midcaps which saw valuations climb very high have corrected. In general, valuations in the broader markets have also increased in the past year and IT sector valuations must be seen in this context.

Source: Internal Research

Positions taken in the IT Sector

- The majority of the positions taken are in IT services companies. This segment of the sector provides both traditional IT services as well as providing services in digital transformations. We also hold positions in companies that are in the industrial automation segment, to capitalize on the expectations of capex expansion in the industrial sector.
- The fund holds positions in the Telecom services segment and in businesses providing consumer services ranging from delivery platforms to gaming. The fund also holds positions in overseas companies in segments ranging from E-Commerce to search engines and cybersecurity.
- Our endeavor is to drive Alpha through picking stocks which give valuation comfort as well as growth visibility. We also try to add alpha through some turnaround companies with improved visibility.
- Recently the fund has reduced allocation in the mid and smallcap companies and has increased allocations to the large caps.

Fund Snapshot

Type of Fund	An open-ended equity scheme investing in the Information Technology sector
Benchmark (Tier-1)	Nifty IT TRI
AUM	Rs. 5583.70 Crores
Inception Date	28th December 2015
No of Holdings	38
Fund Managers	Meeta Shetty (Managing since 9th March 2021); Venkat Samala– Managing over-seas investment (since 26th Nov 2020)

Investment Objective

The investment objective of the scheme is to seek long term capital appreciation by investing at least 80% of its net assets in equity/equity related instruments of companies in the Information Technology (IT) sector.

Market Cap allocations

Large Cap	Midcap	Smallcap
78%	13%	9%

Sectoral Allocation

Sector	Allocation
Information Technology	83.56%
Telecommunication	7.53%
Consumer Services	1.92%
Services	1.42%
Capital Goods	1.83%

Portfolio Construction*

The fund manager builds the portfolio around the following parameters:

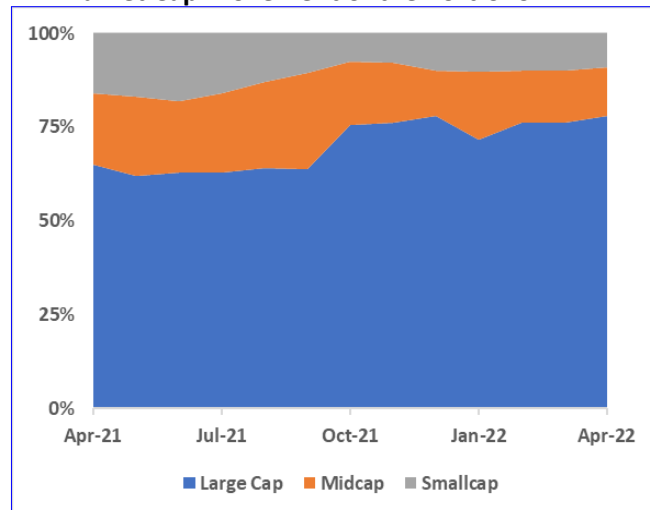
- Endeavors to invest according to Growth at Reasonable Price.
- Prefers companies that have a long term potential for growth.
- Looks for structural stories: companies with strong balance sheets and the ability to invest in emerging technologies.
- Fund usually has significant allocations to top 5 stocks in the portfolio

*Based on current scenario and may change in the future

Fund Statistics

Statistic	Portfolio	Benchmark
Std Deviation	24.27	27.41
Beta (Slope)	0.87	1.00
Sharpe	0.31	0.41
R– Squared	0.95	1.00
Treynor	2.46	1.54
Jenson	0.51	—

Market Cap Movement of the Portfolio



*Large, Mid and Small Cap are defined as follows:

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

Top 10 Portfolio Holdings

Stock	Allocation
Infosys Ltd.	23.92%
Tata Consultancy Services Ltd.	9.68%
HCL Technologies Ltd.	6.81%
Tech Mahindra Ltd.	6.57%
Bharti Airtel Ltd.	6.01%
Larsen & Tuobro Ltd.	4.33%
Persistent Systems Ltd.	4.28%
Mphasis Ltd.	4.19%
WIPRO Ltd.	3.37%
Coforge Ltd.	3.09%

Note: With reference to SEBI's email dated 28th Jan 2022, in order to avoid breach of industry-wide overseas investments limits as permitted by RBI, SEBI had advised all AMCs to stop subscriptions intending to invest in overseas securities. In compliance with SEBI's directive, the scheme 'Tata Digital India Fund' has stopped investments in overseas securities till further notice. However, we will continue to accept inflows for the scheme for investing in domestic equity securities.

• The recent RBI embargo has raised concerns on the continuity of several overseas funds however, with regards to Tata Digital India Fund, we would like to clarify that though Tata Digital India Fund has the flexibility to invest up to 20% of the assets in overseas securities, our exposure in overseas securities is currently at ~6% currently. The restrictions by RBI do not impact our fund, our investment strategy, and our outlook for the fund.

• We believe, the Indian IT sector is at the center of the digital transformation wave that we are seeing globally. Tata Digital India Fund is largely focused on capturing the growth of the Indian IT services sector and more than 90% of our fund is invested in Indian listed entities.

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