HSBC Asset Management

# HSBC Asia Pacific (Ex Japan) Dividend Yield Fund

An Open Ended Fund of Funds Scheme investing in HSBC Global Investments Fund - Asia Pacific Ex Japan Equity High Dividend Fund.

October 2022

## Investment Objective:

HSBC Asia Pacific (Ex Japan) Dividend Yield Fund (Fund of Fund)

To provide long term capital appreciation by investing predominantly in units of HSBC Global Investment Funds (HGIF) Asia Pacific Ex Japan Equity High Dividend Fund (HAHDF). The Scheme may also invest a certain proportion of its corpus in money market instruments and / or units of liquid mutual fund schemes, in order to meet liquidity requirements from time to time. However, there can be no assurance or guarantee that the investment objective of the scheme would be achieved.

## Fund Details

**Fund Manager**
B. Aswin Kumar (since 06 October 2021)

**AUM** (as on 30.09.22)
7.16 Cr

**Minimum Investment**

| Lumpsum | SIP | Additional Purchase |
|---|---|---|
| ₹ 5,000 | ₹ 500 | ₹ 1,000 |

| | |
|---|---|
| Standard Deviation [1] | 15.55% |
| Beta (Slope) [1] | 0.84 |
| Sharpe Ratio [2, 1] | -0.15 |
| R2 | 0.83 |

**Benchmark**
MSCI AC Asia Pacific ex Japan TRI[4]

**Inception Date**
24 February 2014

**Exit Load**[3]
1% if redeemed / switched out within 1 year from date of allotment, else nil

## HAHDF - Underlying fund strategy

- Dividends remain a key driver of long-term total return in Asia
- Investing in high dividend stocks is a good long term strategy
- Aims to invest in companies with quality management and strong cash flows
- Focus on quality businesses offering attractive dividend yields
- Follows environmental, social and governance principles
- Combination of defensive, cyclical and growth companies to generate income and total returns
- Structured investment process – seeking to identify mispriced stocks at attractive valuations.
- Key focus on stock selection, while managing sector exposures
- A focus on total return while managing portfolio risk

## Who can benefit from this fund?

- Investor who wish to have geographical and sectorial diversification leading to risk reduction

Data as on 30 September 2022
[1] Statistical Ratios disclosed are as per monthly returns (Annualized) for the last 3 years.
[2] Risk free rate: 6.17% (FIMMDA-NSE MIBOR) as on September 30, 2022
[3] Effective from March 14, 2018 for prospective investments.
Investment Commentary - Data as on 31 July 2022, HSBC Asset Management, Bloomberg, HGIF Asia Pac Ex Japan Equity High Dividend Fund – underlying funds investment commentary
[4] SEBI vide its circular no. SEBI/HO/IMD/IMD-II DF3/P/CIR/2021/652 dated October 27, 2021, on 'Guiding Principles for bringing uniformity in Benchmarks of Mutual Fund Schemes' has introduced two-tiered structure for benchmarking of certain categories of schemes. Accordingly, the benchmark has been classified as Tier 1 benchmark. Furthermore , the same is effective from 01 December 2021

# HSBC Global Investment Funds (HGIF) Asia Pacific Ex Japan Equity High Dividend Fund (HAHDF)

## INVESTMENT COMMENTARY – ASIAN EQUITY STRATEGIES SEPTEMBER 2022

KEY TAKEAWAYS

- Asian markets had the worst monthly return since 2011 in September. South East Asia (Indonesia) and India relatively outperformed while Korea was amongst the worst performing market within Asia in September.
- Asia core Equity: Overweight on China for the first time since Aug 2013 while India is the biggest underweight and used as a funding source to buy China.
- Asia high dividend Equity: information technology's relative weighting vs the benchmark has narrowed to +1.5%.
- Small cap Equity: We believe certain stocks are looking very attractive in the long term especially in the Taiwan technology as well as Hong Kong and China space, and are slowly accumulating these names on any weakness.
- India Equity: We have tamed our pro-cyclical bias slightly and increased our exposure in the defensive sectors to de-risk our portfolio.

## SEPTEMBER MARKET COMMENTARY - ASIAN EQUITIES

- MSCI Asia ex Japan (MXASJ) fell by 12.9% in September, the worst monthly return since 2011 and suffered on global cues such as the hawkish Fed rate hike outlook, a resilient USD and UK's fiscal risks.
- South East Asia generally outperformed in September with Indonesia being the best performing market again (-0.7%) extending the YTD outperformance vs other markets. Singapore, India and Thailand also relatively outperformed down between 5-7% over the month.
- China underperformed the market (-14.7%) in September given renewed geopolitical concerns and several of China's biggest cities imposed tougher COVID-19 curbs again, despite regulators announcing measures to support the property sector towards the end of the month.
- On the other hand, North Asia countries such as Korea (-18.5%) and Taiwan (-16.0%) underperformed the most as growth sensitive sectors such as information technology underperformed during the month.
- Overall MSCI Asia ex Japan dropped 14.6% over 3Q22 with majority of the underperformance coming from September. Indonesia and India are the two best performing markets within the region up 7.6% / 6.3% respectively, while the index was dragged down by North Asian markets with China being the worst performing market down 23.2% to end the quarter. From a sector level defensive sectors such as consumer staples and utilities outperformed while communication services and consumer discretionary were the worst performing sectors to end the quarter.

## (a) PERFORMANCE SYNOPSIS:

- By country favourable stock selection in Korea is the top contributor to performance in September. On the other hand, unfavourable stock selection effect in Taiwan detracted the overall performance.
- Sectorally favourable stock selection in communication services contributed most to fund performance this month. On the other hand, unfavourable allocation effect in consumer staples detracted from overall performance.
- DBS is the top contributor to strategy performance. The bank continues to be well positioned on the rising rate story.
- On the other hand, Mediatek is amongst the top detractors to strategy performance along with the overall information technology sector driven the rising rate narrative.
- Overall the strategy has outperformed the benchmark in 3Q. Sectorally communication services is the biggest contributor due to positive stock selection while financials partially detracted from overall performance driven by unfavourable stock selection effect. On a country basis, Mainland China is the biggest contributor due to both allocation (we are underweight) and favourable stock selection. On the other hand, unfavourable allocation (we are underweight) and stock selection in India partially detracted from overall performance. DBS (Singapore financials) and Hong Kong Exchanges (Hong Kong financials) are the biggest stock contributor and detractor respectively.

Data as on 30 September 2022, HSBC Asset Management, Bloomberg, HGIF Asia Pac Ex Japan Equity High Dividend Fund – underlying funds investment commentary

## (b) OUR APPROACH AND POSITIONING

- Asian earnings delivery has been strong in 2021 with rising cash levels on balance sheets – this has contributed to a rising dividend payout ratio in the region in 2022 YTD.

- Our 6.2% forward portfolio yield (September; Source: Bloomberg PORT), 2.6% premium to the market benchmark yield, provides steady income amidst market volatility. Returns over the last 5 years have averaged 10%pa with roughly 50% comes from dividend and 50% from capital gain, providing investors attractive income with growth optionality.

- Our high dividend strategy invests in three types of companies: (i) leading cyclical/value companies with scale/low-cost advantage, (ii) defensive companies preferably with catalysts, and (iii) net cash positive growth companies, which we find in emerging Asian markets such as India, Indonesia, Korea and Taiwan.

- Country Positioning:
  - Hong Kong and Indonesia are the two largest country overweights.
  - Mainland China continues to be our biggest underweight given dividends / dividend potential is lacking in many Chinese companies as they are still at the growth stage.

- Sector Positioning:
  - Sectorally communication services and financials are the biggest active sector weights in the portfolio.
  - Information technology: We have consolidated our exposure in the sector to an active weight of +1.6% vs the benchmark. Over the last month we have continued to sell down companies

## INDIAN EQUITY

(a) SEPTEMBER PERFORMANCE SYNOPSIS:

- The fund is neutral the benchmark on a gross basis in September.

- Top sector contributor performance is utilities driven by favourable allocation (we are underweight) and stock selection effect. On the other hand, the fund is partially detracted by the unfavorable stock selection effect in consumer discretionary.

- Sun Pharma is the top contributor to fund performance. The company's share price continued to be strong post a set of solid results amidst sector headwinds of price erosion and input cost inflation.

- On the other hand, Tata Motors is the top stock detractor to fund performance. The company's retail business is tracking weaker than expected during the quarter given chip supply issues.

- Overall the strategy has underperformed the benchmark in 3Q. Healthcare is the biggest sector contributor to fund performance due to positive stock selection effect, while consumer discretionary is the biggest detractor driven by unfavorable stock selection effect.

(b) OUR APPROACH AND POSITIONING:

- In the macro set up of rising rates, depreciating currency and slowing growth, corporate earnings would likely see a downward revision after second quarter results. On the other hand valuation is elevated both in absolute and relative basis against the Asian markets. In light of the above we have tamed our pro-cyclical bias slightly and increased our exposure in the defensive sectors to de-risk our portfolio.
- From a thematic perspective, we are closely watching out for the right risk reward opportunity to add to companies which could play on the increase in manufacturing theme driven by China plus one, government's production linked incentive scheme, as well as sector formalization and tax compliance.
- Financials: our overweight of the sector vs the benchmark has decreased from 7% to around 4.7% as of end September. This is due to index addition of HDFC Bank and Induslnd Bank (combined weight of 6.5%), which led to a cut in weighting of many large caps. As a result, we had to trim several positions to maintain our active weight level. On a fundamental basis we continue to favour some of the big private bank players with a market share gain story along with a strong low cost deposit franchise.
- Real Estate: Portfolio's second largest active weight (+2.94%) – we continue to favour this sector given improving residential affordability and industry consolidation.

- Autos: We have top sliced in this sector after recent outperformance.

- Utilities: Biggest sector underweight in the portfolio but relative weighting has narrowed from over -5% to -4.1%. We have bought into a gas utility company in September.

Data as on 30 September 2022, HSBC Asset Management, Bloomberg, HGIF Asia Pac Ex Japan Equity High Dividend Fund – underlying funds investment commentary

## Monthly Commentary -- September 30, 2022

Stock selection was positive for the month. Positive performance came from Communication Services and Information Technology, though this was offset by negative stock selection in Real Estate and Financials.

At the country level, stock selection was positive for the month. Positive performance came from Korea and Australia, though this was offset by negative stock selection in Taiwan and Hong Kong (SAR).

Singaporean Financials security, DBS GROUP HOLDINGS with total effect 0.45% was the top contributor. Additionally, Indian Information Technology security, HCL TECHNOLOGIES was the second largest contributor with total effect 0.33%. Indonesian Communication Services security, TELKOM INDONESIA PERSERO TBK also contributed with total effect 0.32%.

On the other side, detractors include mainland China Real Estate security SHIMAO GROUP HOLDINGS with total effect -0.36%, Taiwan Information Technology holding MEDIATEK with total effect -0.34%, and mainland China Communication Services holding BAIDU with total effect -0.24%

During this period, positions were initiated in POWER GRID CORP OF INDIA.No positions were opened during the period.

Sector and country allocation effects are residual to stock selection. At the country level, effects were positive, given an overweight exposure to Indonesia. At the sector level, effects were positive, given an underweight exposure to Consumer Discretionary.

## Quarterly Commentary -- September 30, 2022

Stock selection was positive for the quarter. Positive performance came from Communication Services and Energy, though this was offset by negative stock selection in Financials and Real Estate.

Singaporean Financials security, DBS GROUP HOLDINGS with total effect 0.78% was the top contributor. Additionally, Indonesian Communication Services security, TELKOM INDONESIA PERSERO TBK was the second largest contributor with total effect 0.77%. Indonesian Energy security, UNITED TRACTORS TBK PT also contributed with total effect 0.72%.

On the other side, detractors include Hong Kong (SAR) Financials security HONG KONG EXCHANGES & CLEAR with total effect -0.56%, mainland China Communication Services holding BAIDU with total effect -0.36%, and mainland China Financials holding PING AN INSURANCE GROUP CO-H with total effect -0.36%

During this period, positions were initiated in POWER GRID CORP OF INDIA and PROSUS.

Sector and country allocation effects are residual to stock selection. At the country level, effects were positive, given an overweight exposure to Indonesia. At the sector level, effects were positive, given an underweight exposure to Consumer Discretionary.

## OUTLOOK

Asia is not immune from rising rates, recession risk and dollar strength, and this year has been a major bear market for Asian and Emerging Market equities. The decline in the MSCI Asia ex Japan Index since the peak in February 2021 is a staggering -41%, which is greater the ten prior bear markets back to the Asia Financial crisis.

After a very negative 3Q and as we look ahead to 4Q, a major event we would be focusing on remains to be the Chinese party congress to provide visibility on China's re-opening and execution of existing stimulus. In recent weeks, Hong Kong, Macau, Taiwan and Japan have all made moves to ease travel. Tourist inflows remain nascent in North Asia and leaves significant room for improvement in local consumption.

- Earnings: Earnings have been revised down in the region by 4.7% over 3Q, with earnings risks now being well understood. Looking ahead we would likely continue to see divergence of earnings growth by country and sector, but overall the trajectory of forward earnings per share still remains in the region at 8% / 7% in 2022/2023 based on consensus, with India and parts of South East Asia leading the growth.
- Valuations at this juncture are approaching prior trough levels with MSCI Asia ex Japan now trading at 11.3x forward P/E as of end September vs 12.4x in August and is trading at over 30% discount to the US and 17% discount to global markets. This increases the likelihood that investors take advantage of higher implied risk premiums as soon as macro backdrop stabilizes.
- Sectorally we hold a medium to long term investment horizon and believe that investing more in leaders within the space they operate will help mitigate short term impact from market volatility.

Data as on 30 September 2022, HSBC Asset Management, Bloomberg, HGIF Asia Pac Ex Japan Equity High Dividend Fund – underlying funds investment commentary

# HGIF Global Asia Pacific ex Japan Equity High Dividend
## Underlying Fund

### Portfolio

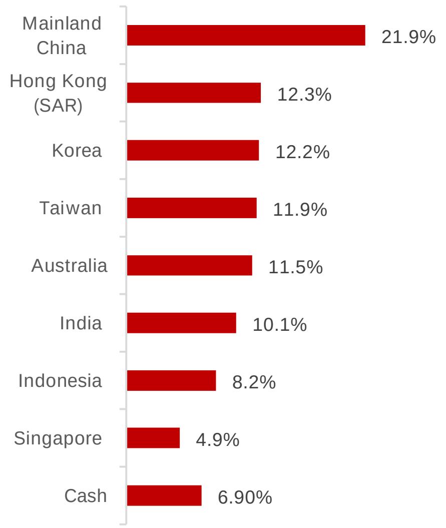
| Instrument | Weight (%) |
|---|---|
| TAIWAN SEMICONDUCTOR CO LTD | 6.6% |
| AIA GROUP LTD | 5.0% |
| DBS GROUP HOLDINGS LTD | 4.9% |
| TELKOM INDONESIA PERSERO TBK | 4.6% |
| SK TELECOM | 4.6% |
| MEDIATEK INC | 4.5% |
| KB FINANCIAL GROUP INC | 4.2% |
| CHINA CONSTRUCTION BANK-H | 4.2% |
| BAIDU INC-CLASS A | 4.2% |
| HCL TECHNOLOGIES LTD | 4.0% |
| HONG KONG EXCHANGES & CLEAR | 3.9% |
| TELSTRA CORP LTD | 3.7% |
| PING AN INSURANCE GROUP CO-H | 3.7% |
| UNITED TRACTORS TBK PT | 3.6% |
| IND & COMM BK OF CHINA-H | 3.6% |
| CHINA STATE CONSTRUCTION INT | 3.5% |
| NEW WORLD DEVELOPMENT | 3.4% |
| INDUS TOWERS LTD | 3.2% |
| BHP GROUP LTD | 2.8% |
| FORTESCUE METALS GROUP LTD | 1.9% |
| SAMSUNG ELECTRONICS CO LTD | 1.8% |
| COMMONWEALTH BANK OF AUSTRAL | 1.8% |
| SK SQUARE CO LTD | 1.5% |
| MINDSPACE BUSINESS PARKS REI | 1.5% |
| SOUTH32 LTD | 1.2% |
| INDIA GRID TRUST | 1.1% |
| CHINA RESOURCES CEMENT | 1.1% |
| TENCENT HOLDINGS LTD | 0.9% |
| WIWYNN CORP | 0.8% |
| SHIMAO GROUP HOLDINGS LTD | 0.5% |
| POWER GRID CORP OF INDIA LTD | 0.3% |
| PROSUS NV | 0.2% |
| Cash | 6.9% |
| **Total** | **100.00%** |

Data as on 30 September 2022, Source – HSBC Asset Management

### Sector Allocation (%)

| Name | End Weight |
|---|---|
| Financials | 31.4% |
| Communication Services | 21.1% |
| Information Technology | 19.3% |
| Materials | 7.1% |
| Real Estate | 5.4% |
| Energy | 3.6% |
| Industrials | 3.5% |
| Utilities | 1.4% |
| Consumer Discretionary | 0.2% |
| Cash | 6.9% |

### Weighting - Country



# HSBC Asia Pacific (Ex Japan) Dividend Fund of Fund

An Open Ended Fund of Funds Scheme investing in HSBC Global Investments Fund - Asia Pacific Ex Japan Equity High Dividend Fund.

## Portfolio

| Issuer | Industries | % to Net Assets |
|---|---|---|
| EQUITY | | 99.19% |
| HSBC GIFAsia Pacific Fund | Overseas Mutual Fund | 99.19% |
| Cash Equivalent | | 0.81% |
| TREPS* | | 1.20% |
| Net Current Assets: | | -0.39% |
| Total Net Assets as on 30-September-2022 | | 100.00% |

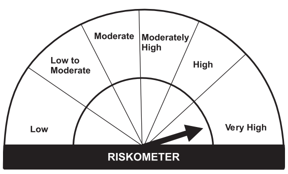
*TREPS : Tri-Party Repo Data as on 30 September '22

## Asset Allocation

| | |
|---|---|
| Overseas Mutual Fund | 99.19% |
| Reverse Repos/TREPS | 1.20% |
| Net Current Assets | -0.39% |
| Total Net Assets as on 30-September-2022 | 100.00% |

**HSBC Asia Pacific (Ex Japan) Dividend Yield Fund Riskometer**

**HSBC Asia Pacific (Ex Japan) Dividend Yield Fund**




Investors understand that their principal Will be at Very High risk

**Fund of Funds (Overseas)** – An Open Ended Fund of Funds Scheme investing in HSBC Global Investments Fund - (HGIF) Asia Pacific Ex Japan Equity High Dividend Fund

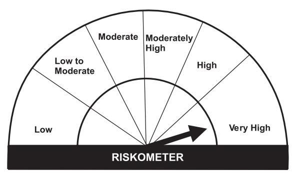
**This product is suitable for investors who are seeking##:**

- To create wealth over long term
- Investment in equity and equity related securities of Asia Pacific countries (excluding Japan) through fund of funds route

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

Please note that the above risk-o-meter is as per the product labelling of the scheme available as on the date of this communication/ disclosure. As per SEBI circular dated October 5, 2020 on product labelling (as amended from time to time), risk-o-meter will be calculated on a monthly basis based on the risk value of the scheme portfolio based on the methodology specified by SEBI in the above stated circular. The AMC shall disclose the risk-o-meter along with portfolio disclosure for all their schemes on their respective website and on AMFI website within 10 days from the close of each month. Any change in risk-o-meter shall be communicated by way of Notice cum Addendum and by way of an e-mail or SMS to unitholders of that particular Scheme.

**Benchmark: MSCI AC Asia Pacific ex Japan TRI**




Source: HSBC Asset Management, India

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