

HSBC Small Cap Equity Fund (HSEF)

Small Cap Fund - An open ended equity scheme predominantly investing in small cap stocks



HSBC
Asset Management

Case for Small Cap funds

Underlying Small Cap stock features:

- Small Caps have potential to outperform in an economic up-cycle

Performance

- Subject to relatively very high volatility

Volatility

- Better earnings acceleration effect v/s large/midcaps due to base effect and emerging businesses

Earnings acceleration

- May lead to mis-appraisal and mispricing by the market

Under-researched

- Provides opportunities to accumulate small cap stocks at lower valuations

Under-owned

- On account of above average growth but at the same time undiscovered due to less research coverage on small caps

Valuation discount

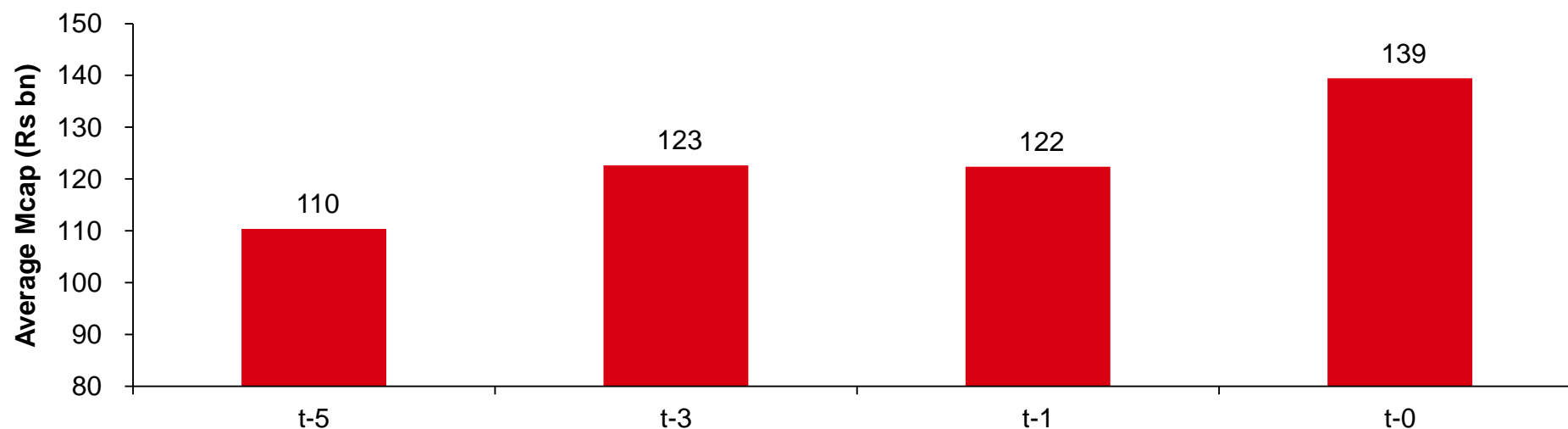
- Offers diversity with potential to generate better performance

Diversity and alpha

Small Caps: High growth asset class within equities

Small Cap progress in size before Mid Cap inclusion

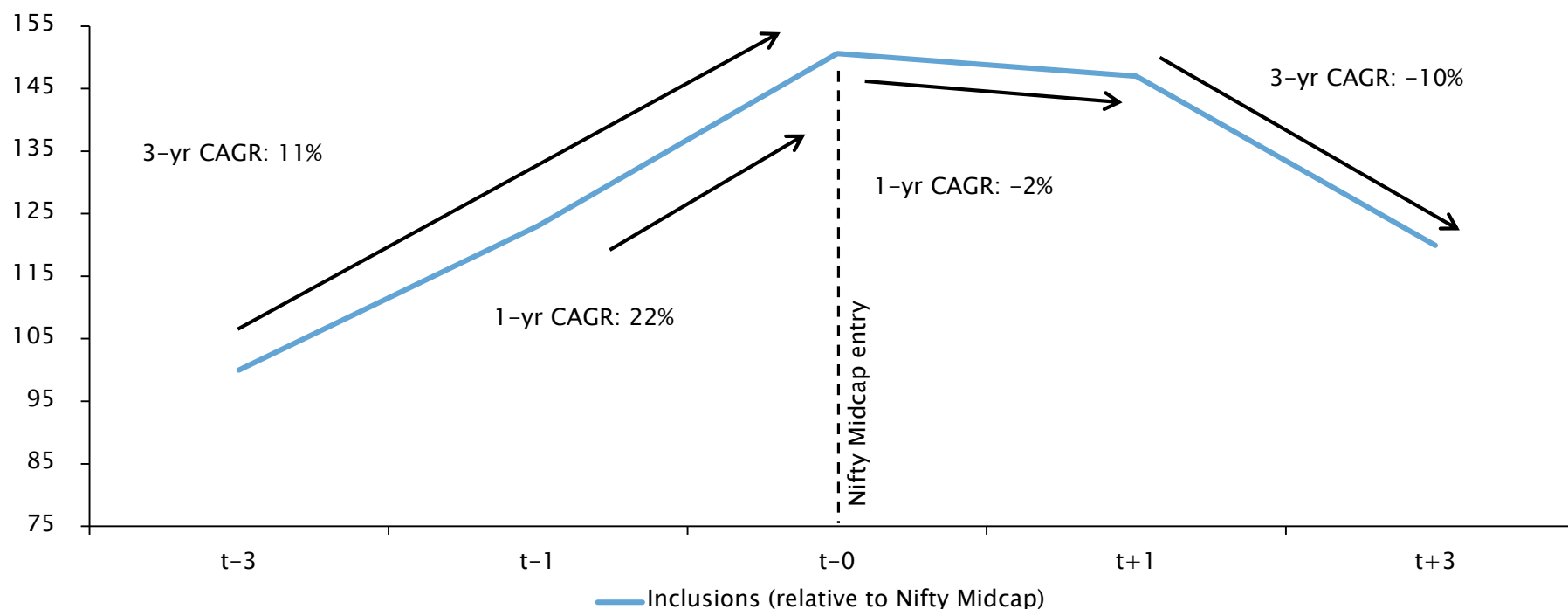
- Small Caps can be Mid & Large caps of tomorrow
 - Historically, Index constituents change by ~50% every decade
 - Small caps today have potential to become Midcaps and may graduate to become the large caps of tomorrow thereby, replacing the current Nifty constituents
 - Small cap investment is also one of the best way for aggressive investors to gain exposure to some of the rapidly growing industries and business
- Over the last 3 years some of the small cap stocks that have entered become Mid cap or Large caps
- But 5 years prior to their inclusion, they were small caps, much smaller in size and much less discussed!



Don't ignore today's small caps: tomorrow's potential mid and large caps

Transition phase offers opportunity

- Small cap stocks should be tapped at an early stage of their life-cycle
- A look at the price-performance of all Nifty entrants historically suggests that the value in investing in these stocks is before they enter the index and not after!

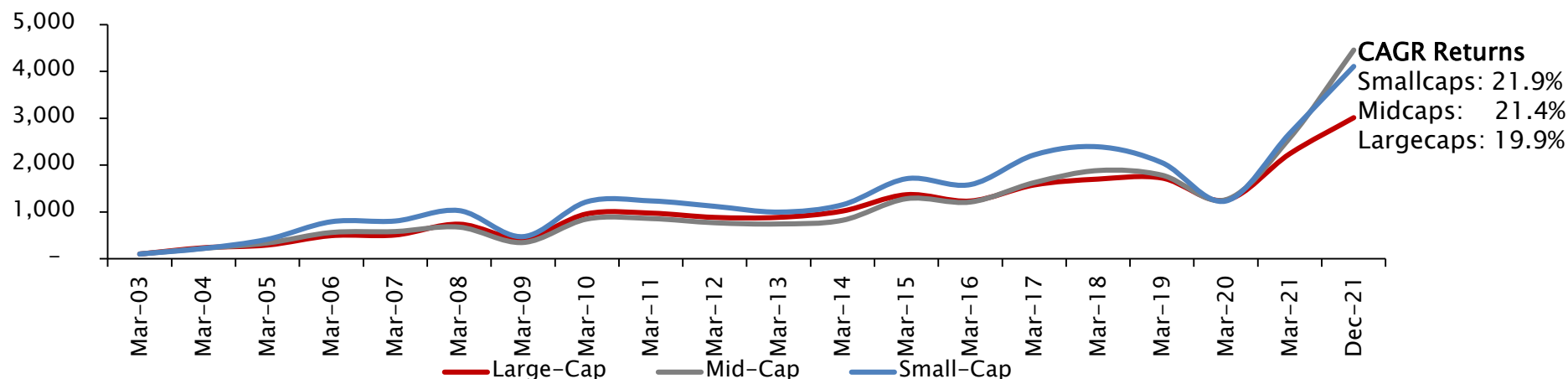


The value in investing in Small Cap stocks is before they enter the index and not after!

Source – AMBIT Capital Research, Note: For this exhibit, we have considered the stock inclusions in the Nifty Midcap 100 index since 2005. The performance denoted as 3 year CAGR from t-3 to t-0 reflects the median annualized returns of these inclusions over a 3 year period prior to inclusion in the Nifty Midcap index. Similarly, the 1 year CAGR from t-1 to t-0 reflects the average return over a 1 Year period prior to inclusion. The returns from t-0 to t+1 & t-0 to t+3 reflect the median returns of these inclusions over a 1 year & 3 year period post inclusion in the Nifty Midcap index. Data as at December 2021

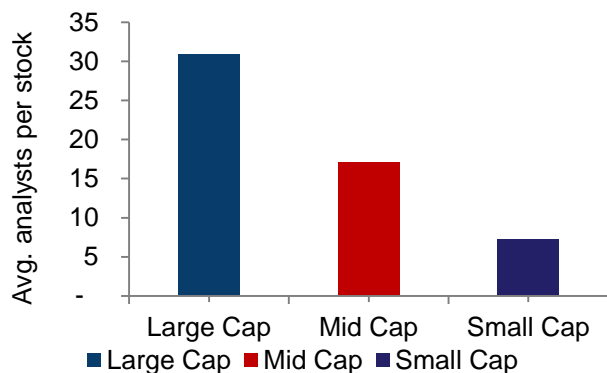
Case for long term investing in small caps

Small caps have done well over the long run historically*

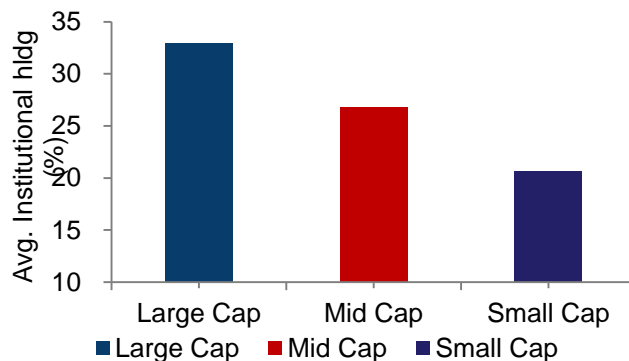


Source: Bloomberg, Capitaline, Ambit Capital research. Note: Universe is top 500 stocks based on 6 month average market cap each year. Large-caps are defined as top 100 stocks on market capitalization, between 101-250 as mid-caps, and between 251-500 as small-caps. *Performance has been calculated on a Mar-Mar basis starting from Mar-03, latest year performance is updated till 31 Dec'21.

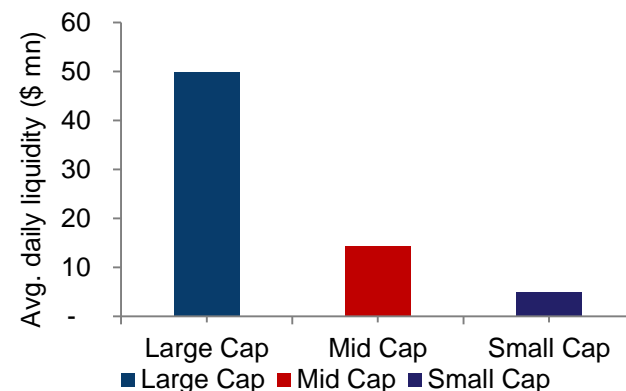
Higher returns attributable to inefficient price discovery owing to lower analyst coverage...#



Lower institutional ownership*



... and lower activity levels#



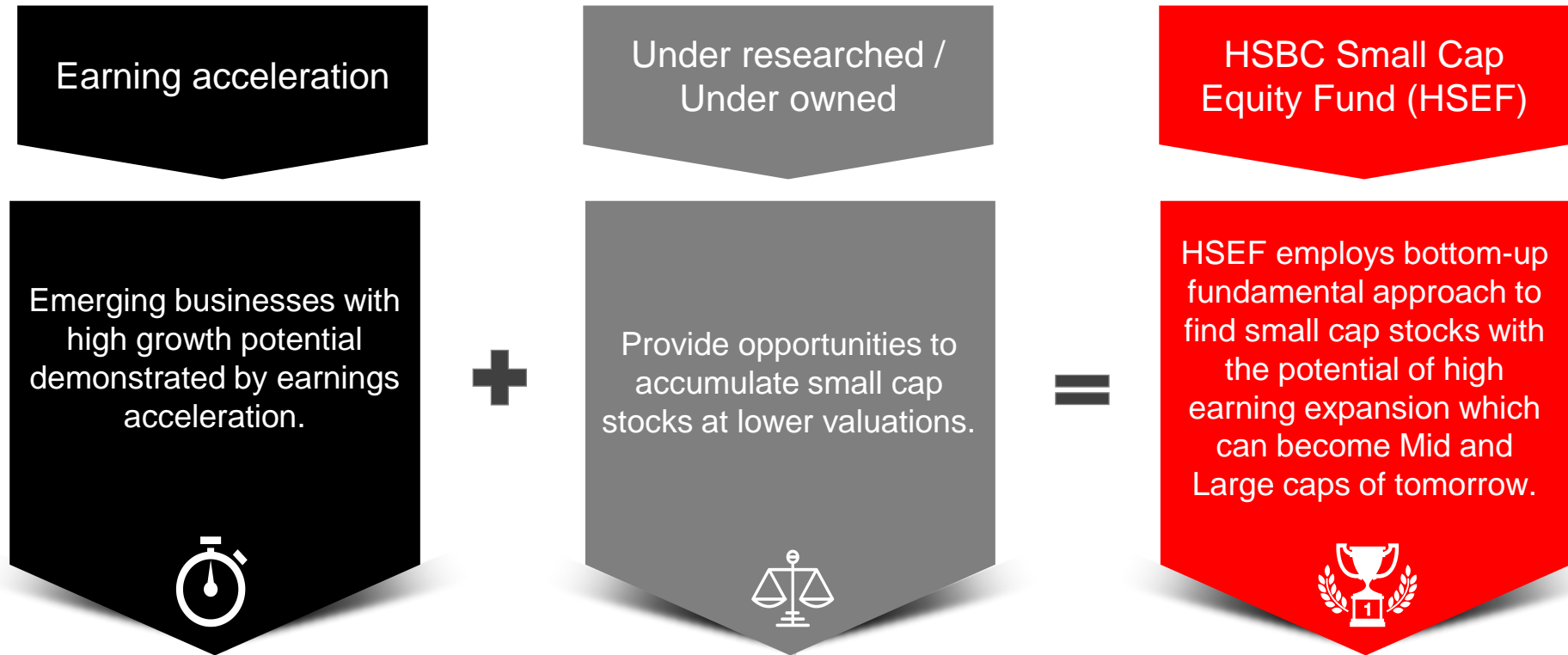
Gain from inefficient price discovery in Small Caps

Ambit Capital research. Note: Universe is top 500 stocks based on 6 month average market cap each year. Large-caps are defined as top 100 stocks on market capitalization, between 101-250 as mid-caps, and between 251-500 as small-caps. *Institutional ownership as at Dec'20, #Analyst coverage and average daily liquidity as on 31 Dec '21

Past performance may or may not be sustained in the future,

PUBLIC

HSBC Small Cap Equity Fund



Aims to invests in small cap companies that can become mid/large caps of tomorrow

HSBC Small Cap Equity Fund ¹



Fund strategy

- Fund strategy is centered around superior quality businesses that generate sustainable growth with good capital efficiency
- Bottom-up fundamental approach; looking for stocks that are in the growth phase of the business lifecycle, experiencing higher earnings expansion as compared to their mid / large cap counterparts
- Long term horizon; looking to identify companies that may migrate from small caps to midcaps and eventually large caps
- Disciplined, repeatable approach to generate long-term alpha – good stocks at inexpensive valuations that can get re-rated v/s popular stocks at high valuations
- Avoid stocks with poor corporate governance, inefficient capital allocators, value traps and poor quality of business

18.04%

CAGR over 5 years ¹



2.2X

In 5 years ¹



Rs1,090,515

Value of SIP investment INR
10,000 p.m. 5 years ²



Rs229,330

Value of INR 100,000 in 5
years ¹

As on 31 December 2021 of Growth option. The launch date of the S&P BSE 250 Small Cap Index (INR) is November 30, 2017 whereas the inception date of the scheme is May 19, 2005. All information presented prior to the index launch date is back-tested which is available from Mar 31, 2008. Please refer page no. 11 for detailed performance of HSBC Small Cap Equity Fund. 1, 2 S&P BSE 250 small cap index TRI) data is not available for the period.

Fund philosophy - HSEF

- Prefer efficient and scalable small cap businesses available at reasonable valuations
- Invest in businesses that are leader or strong challenger in their own respective sub-segments.
- Focus is on companies that are likely to deliver strong earnings growth in the medium term as they continue to outperform the market growth.

HSEF portfolio strategy

- Corporate earnings outlook continues to remain strong. Maintain positive stance on companies that are delivering sustainable strong growth.
- Positive on exports as India continues to gain from 'China + 1' strategy which is being adopted by corporates as well as economies to diversify their global supply chains. Also maintaining positive stance on IT.
- Positive on make in India theme and the opportunities it is providing to many corporates
- Positive stance on industrial space given the improving capacity utilization rate across sectors.

Positive on make in India theme and the opportunities it is providing to many corporates

HSEF portfolio key sectors

View	Sector			
Positive	Specialty Chemical	Building Material	IT	Consumer Discretionary
Neutral	Infrastructure	Real Estate	Real Estate	Industrials
Negative	Financials	Energy	Communication Services	-

Specialty Chemicals

- We continue to maintain a positive view on Specialty chemicals space, as we believe it will benefit on demand arising from end user industries like agrochemicals, pharma etc.
- Diversification of global supply chain away from China is also improving the outlook for Indian companies.

Building Material

- We find attractive opportunities in building material space given the large recovery in the housing market post covid disruption.
- The market is consolidating towards the leading organized players and that's where our preference lies.

Consumer Discretionary

- We are invested in leading companies in the consumer discretionary space.
- After the covid led disruption, the demand has come back strongly. Most of the leading players are gaining from this underlying demand trends and are gaining market share.
- We continue to invest in market leaders/strong challengers in this space as we believe the trend of these players capturing market share at the cost of weaker players will continue.

Maintain a positive stance on Specialty chemicals, primarily led by the strong growth trends

HSBC Small Cap Equity Fund

Track record

◆ Dixon (up ~3x in fund)



Dixon Tech – The stock has grown by more than ~3 times since initiated

For illustration purposes only. The stock named above is for illustration purposes only and does not constitute investment research, investment advice or a recommendation to any reader of this content to buy or sell investment product. Investors should seek financial advice regarding the appropriateness of investing in any securities or investment strategies that may have been discussed in this report and should understand that the views regarding future prospects may or may not be realised. Currently in the portfolio, does not guarantee the position in the future. (Please refer latest portfolio for the reference).

Past performance may or may not be sustained in the future, Past performance is not indicative of future performance.

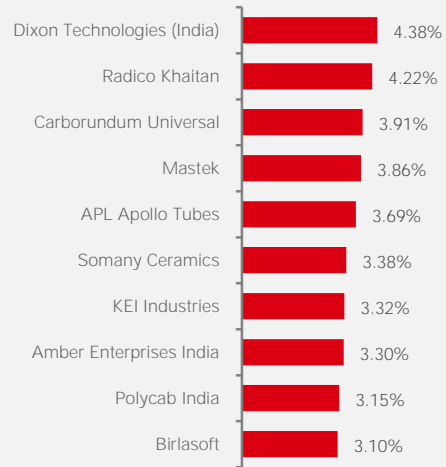
The returns provided above have been rounded off and hence there may be minor differences between point-to-point returns vis-a-vis returns indicated above.

HSBC Small Cap Equity Fund – portfolio

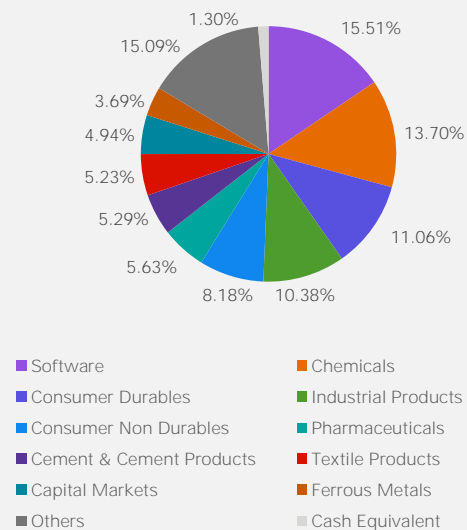


Portfolio

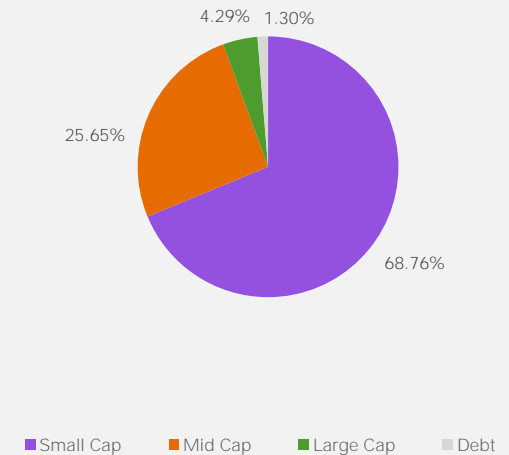
Top 10 Holdings as on 31 December 2021



Sector Allocation



Market Capitalisation



Investment Objective

To generate long term capital growth from an actively managed portfolio of equity and equity related securities of predominantly small cap companies. However, it could move a portion of its assets towards fixed income securities if the fund manager becomes negative on the Indian equity markets. However, there can be no assurance or guarantee that the investment objective of the scheme would be achieved.

Benchmark Index

S&P BSE 250 Small Cap Index TRI

Fund Manager

Ankur Arora

Data as on 31 Dec 2021

For complete portfolio of the scheme, kindly refer the Fund's website, www.assetmanagement.hsbc.co.in for monthly portfolio disclosures

HSBC Small Cap Equity Fund - performance

Lump Sum Investment Performance								
Fund / Benchmark (Value of Rs 10,000 invested)	1 Year		3 Years		5 Years		Since Inception	
	Amount in Rs	Returns %	Amount in Rs	Returns %	Amount in Rs	Returns %	Amount Rs	Returns %
HSBC Small Cap Equity Fund	16,648	66.48	19,120	24.09	22,933	18.04	93,424	14.38
S&P BSE 250 Small Cap Index TRI (Scheme Benchmark) ¹¹	15,911	59.11	18,632	23.03	NA	NA	NA	NA
Nifty 50 TRI (Additional Benchmark)*	12,559	25.59	16,552	18.27	22,561	17.65	107,335	15.34

SIP Performance - HSBC Small Cap Equity Fund				
Scheme Name & Benchmarks	1 Year	3 Years	5 Years	Since Inception
Total amount invested (₹)	120000	360000	600000	1990000
Market Value as on December 31, 2021 (₹)	156,240	670,043	1,090,515	7,634,043
Scheme Returns (%)	60.22	44.79	24.13	14.64
S&P BSE 250 Small Cap Index TRI - Scheme Benchmark (₹) ¹¹	148,761	654,036	N.A.	N.A.
S&P BSE 250 Small Cap Index TRI - Scheme Benchmark Returns (%)	47.13	42.87	N.A.	N.A.
Nifty 50 TRI - Additional Benchmark (₹)*	133,658	518,153	952,649	6,696,707
Nifty 50 TRI - Additional Benchmark Returns (%)*	21.71	25.13	18.54	13.30

Inception
Date:
19-May-05

Inception Date: 19-May-05

Past performance may or may not be sustained in the future. Refer note below. HSBC Small Cap Equity Fund – Fund Manager - Funds Managed by Ankur Arora (Total Schemes Managed1) - Effective (05 Aug 2019)

Please Note : “NA” means not available.

HSBC Mid Cap Fund performance is not given as it has not completed 6 months. Performance of the respective benchmark is calculated as per the Total Return Index (TRI)

*Additional benchmark as per SEBI circular no. SEBI/HO/IMD/DF2/CIR/P/2021/024 dated March 04, 2021

¹¹ The launch date of the S&P BSE 250 Small Cap Index (INR) is November 30, 2017 whereas the inception date of the scheme is May 19, 2005. All information presented prior to the index launch date is back-tested which is available from Mar 31, 2008. The corresponding benchmark returns since inception of the scheme is not available. All index data is available on the website of Asia Index Pvt. Ltd. a joint venture between BSE Ltd. and S&P Dow Jones Indices LLC. (source: <http://www.asiaindex.co.in>). Source: ICRA MFI, Bloomberg. Data as at December 2021

Returns are of growth option. The returns for the respective periods are provided as on December 2021. Returns above 1 year are Compounded Annualized. Standard The performance details provided herein are of other than Direct Plan - Growth Option. Returns on ₹10,000 are point-to-point returns for the specific time period, invested at the start of the period. The returns for the respective periods are provided as on last available NAV of December 2021 for the respective Schemes. Returns for 1 year and Above are Compounded Annualised. Returns for less than 1 year is Simple Annualised. Load is not taken into consideration for computation of performance. Different plans shall have a different expense structure. The expenses of the Direct Plan under the Scheme will be lower to the extent of the distribution expenses / commission charged to the Other than Direct Plan. The performance data of the scheme(s) managed by the respective Fund Manager which has/have not completed 6 month is not provided. Considering the varying maturities of the close ended schemes, the performance of close-ended schemes is not provided as it is strictly not comparable with that of open ended schemes.

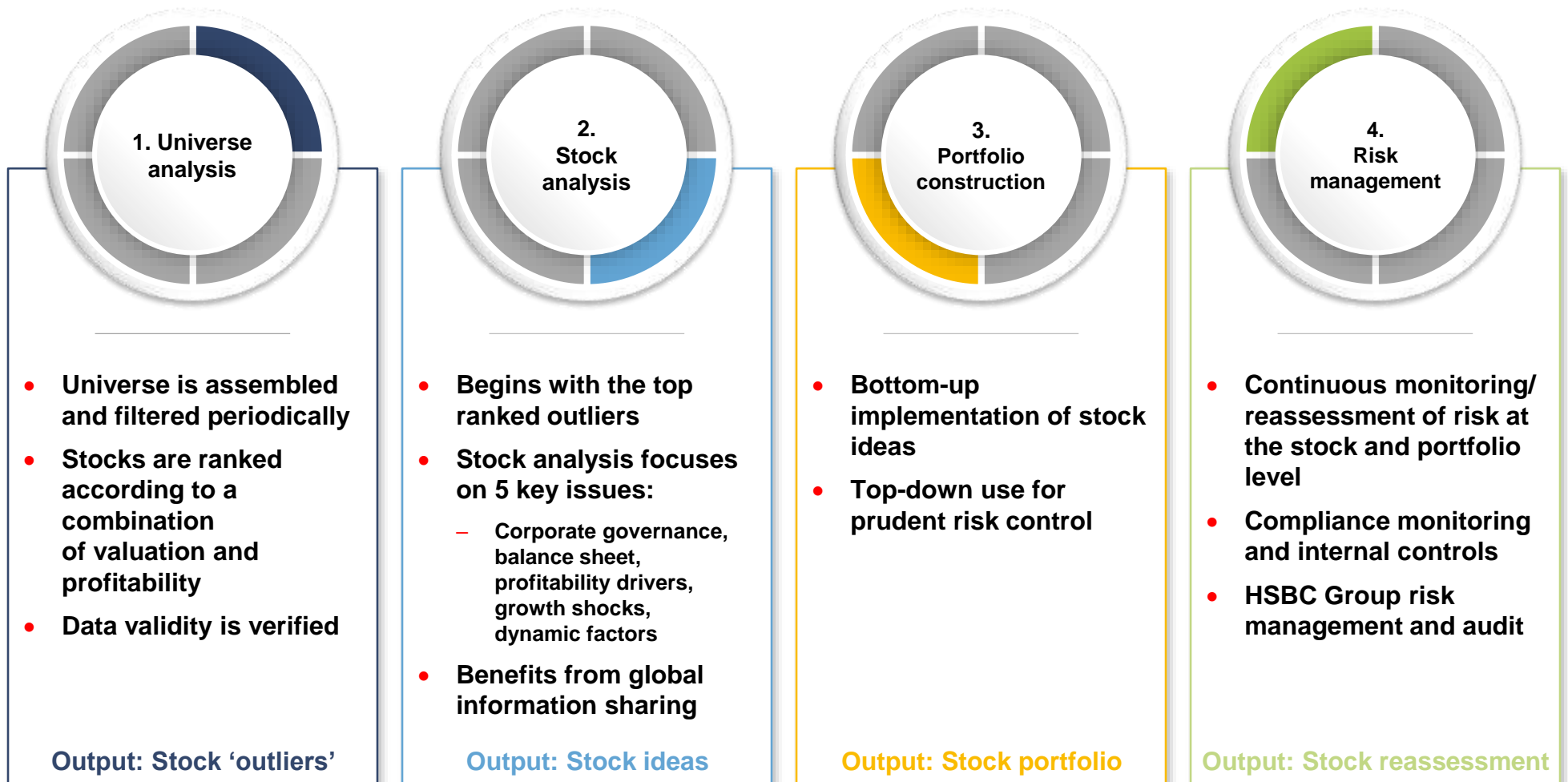
The performance details provided herein are of other than Direct Plan –Growth Option. Assuming ₹ 10,000 invested systematically on the first Business Day of every month over a period of time The returns for the respective periods are provided as on last available NAV of December 2021 for the respective Schemes. Returns for 1 year and Above are Compounded Annualised. Returns for less than 1 year is Simple Annualised. Load is not taken into consideration for computation of performance. Different plans shall have a different expense structure. The expenses of the Direct Plan under the Scheme will be lower to the extent of the distribution expenses / commission charged to the Other than Direct Plan. The performance data of the scheme(s) managed by the respective Fund Manager which has/have not completed 6month is not provided. Considering the varying maturities of the close ended schemes, the performance of close-ended schemes is not provided as it is strictly not comparable with that of open ended schemes.

The Fund offers flexible and convenient Systematic Investment Plan (SIP) facility. To illustrate the advantages of SIP investments, this is how your investments would have grown if you had invested say ₹ 10,000 systematically on the first Business Day of every month over a period of time in the Growth Option of Respective Scheme.

The returns are calculated by XIRR approach assuming investment of ₹ 10,000/- on the 1st working day of every month. XIRR helps in calculating return on investments given an initial and final value and a series of cash inflows and outflows with correct allowance for the time impact of the transactions.

Global investment process overview

Our process is focused on fundamental research within a proven valuation framework



For illustrative purposes only

The information above is provided by and represents the opinions of HSBC Asset Management, India (HSBC AMC) and is subject to change without notice

Investment Team



Tushar Pradhan
Chief Investment Officer

Tushar has over 25 years of experience in various roles through his career. He is an MBA in Investment Finance, having graduated from the University of Hartford, Connecticut, USA in 1992. Prior to joining HSBC Global Asset Management, India in June 2009, Tushar has also worked in international positions in the United States for a couple of years before returning to India. In India he has worked with HDFC Asset Management and more recently with AIG Global Asset Management in senior asset management roles.



Neelotpal Sahai
Head of Equities &
Fund Manager

Neelotpal Sahai is currently Head of Equities and Fund Manager since September 2017. He has been a Senior Vice President and Portfolio Manager in the Onshore India Equity team in Mumbai since 2013, when he joined HSBC. Neelotpal is responsible for managing three HSBC Mutual Fund equity funds. Neelotpal has been working in the industry since 1991. Previously, Neelotpal was Director at IDFC Asset Management Company Ltd in Mumbai, responsible for equity fund management, and held a variety of positions at Motilal Oswal Securities Ltd. in Mumbai, Infosys Technologies in Mumbai, Vickers Ballas Securities Ltd. in Mumbai, SBC Warburg in Mumbai, UTI Securities Ltd. in Mumbai and HCL HP Ltd. in Mumbai. Neelotpal holds a Bachelor's degree in Engineering from IIT BHU – Varanasi and a Post-Graduate Diploma in Business Management from IIM Kolkata, both in India.

Ankur Arora

SVP & Fund Manager

Ankur Arora is a Senior Vice President and Fund Manager – Equities in the onshore India Equity Team. Ankur brings with him more than 15 years of experience spread across fund management, research and strategy. Prior to joining HSBC, Ankur has worked with Aegon Life Insurance, Arvind Ltd, IDFC Asset management, ING Investment Management, Macquarie Securities, Evalueserve and UTI Asset Management in various capacities. A management graduate from of Indian Institute of Management, Lucknow, Ankur also holds a CFA from CFA Institute and a B. Com from Guru Nanak Dev University, Amritsar.

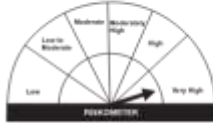
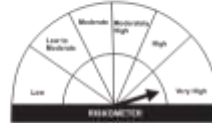

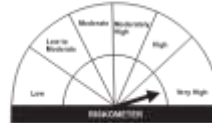
Gautam Bhupal
VP and Fund
Manager

Gautam Bhupal is Vice President and Fund Manager in the India Equity Investment team since 2008 and has over 16 years of experience in areas of research and Fund Management. Prior to joining HSBC Asset Management, India in 2008, Gautam has worked with UTI Asset Management Company as Equity Research Analyst. He holds a Post Graduate Diploma in Business Management from Management Development Institute, Gurgaon and has completed his CA and CS.

Ranjithgopal K A
VP and Fund
Manager

Ranjithgopal K A is a Vice President in the India Equity Investment team and has over 14 years of experience in Equity Research & Sales. He holds a Bachelor of Arts (Economics) degree and holds a Post Graduate Diploma in Business Management from FORE School of Management, New Delhi.

Disclaimer & Riskometer

Riskometer		
HSBC Small Cap Equity Fund  <p>Investors understand that their principal will be at Very High risk.</p>	Small Cap Fund - An open ended equity scheme predominantly investing in small cap stocks. This product is suitable for investors who are seeking¹: <ul style="list-style-type: none"> • To create wealth over. • Investment in predominantly small cap equity and equity related securities. ¹Investors should consult their financial advisers if in doubt about whether the product is suitable for them. <p>Please note that the above riskometer is as per the product labelling of the Scheme available as on the date of this communication/ disclosures. As per SEBI circular dated October 3, 2020 on product labelling (as amended from time to time), riskometer 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 riskometer 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 riskometer shall be communicated by way of Notice cum Addendum and by way of an e-mail or SMS to unitholders of that particular Scheme.</p>	Benchmark: SMC HSI 250 Small Cap Index FII 
Riskometer		
HSBC Mid Cap Equity Fund  <p>Investors understand that their principal will be at Very High risk.</p>	Mid Cap Fund - (Mid Cap Fund – An open ended equity scheme predominantly investing in mid cap stocks). This product is suitable for investors who are seeking¹: <ul style="list-style-type: none"> • Long term wealth creation. • Investment predominantly in equity and equity related securities of mid cap companies. ¹Investors should consult their financial advisers if in doubt about whether the product is suitable for them. <p>Please note that the above riskometer is as per the product labelling of the Scheme available as on the date of this communication/ disclosures. As per SEBI circular dated October 3, 2020 on product labelling (as amended from time to time), riskometer 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 riskometer 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 riskometer shall be communicated by way of Notice cum Addendum and by way of an e-mail or SMS to unitholders of that particular Scheme.</p>	Benchmark: NIFTY Midcap 150 Index 

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

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