HSBC Mutual Fund

Investment Conversations

Theory-based support for your investments

February 2024

Theory-based support for your investments

HSBC Mutual Fund present three themes with related sales aids to help you handle the difficult questions and concerns from clients.

1. Why should I invest?

- Holding cash means your money is losing value
- Real interest rates are negative
- A way to grow your money

2. Should I wait for the right time to invest?

- Time in, not timing: the power of compounding
- Missed opportunities can be costly
- Long-term gains overcome short-term declines
- Regular investing helps smooth out the effects and fear of market movements

3. How can I start investing?

- Achieving a smoother ride
- Select a portfolio that matches your risk appetite
- Diversify through more than stocks and bonds
- Prepare for different scenarios
- Professional attention to detail can help improve outcomes
- Focus on long-term sustainability and objectives

The calculations included are based on INR investments. Specific investor outcomes would be impacted by factors such as currency movements and taxes. Nonetheless, these differences would not change the broad outcomes or takeaways.

Why should I invest?

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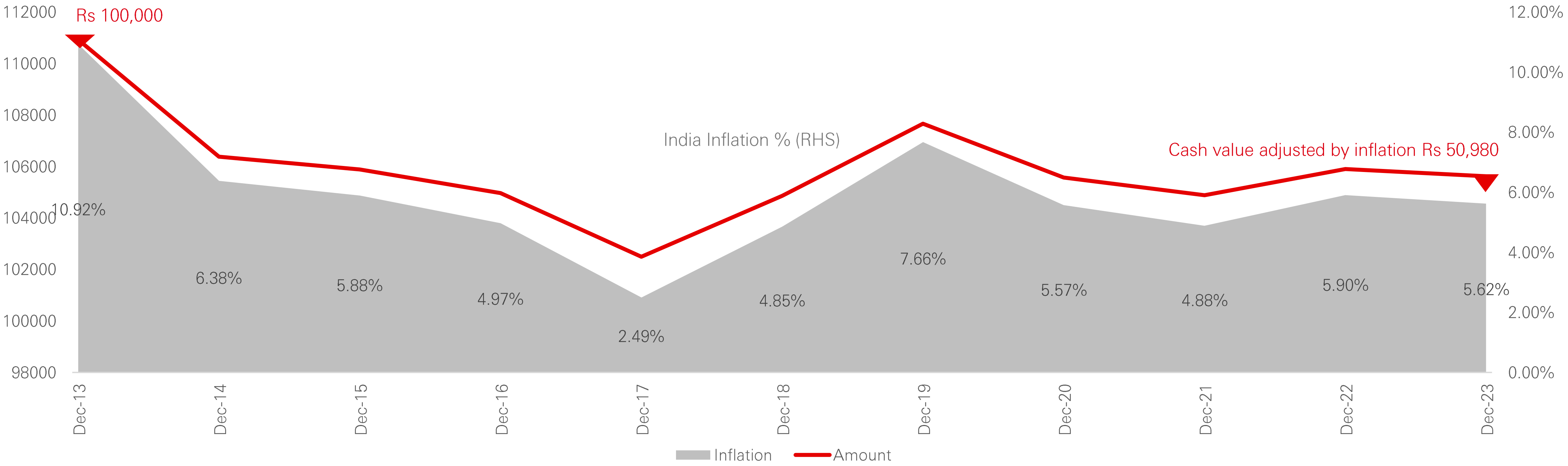

- If one holds money (cash) without investing, inflation can erode value of money and over the period value of money will reduce
- The chart demonstrates this decline in the value of money (In this illustration Rs.1 Lakh cash became ~Rs.50K in 10 years due to inflation adjustment.)
- Inflation, or rising prices for goods and services, means what you can buy with your cash now is diminishing over time

Holding cash means your money may lose value every day

Source – CRISIL Research, Data as on 31 Dec 2023, India Inflation - average of annual CPI-IW inflation
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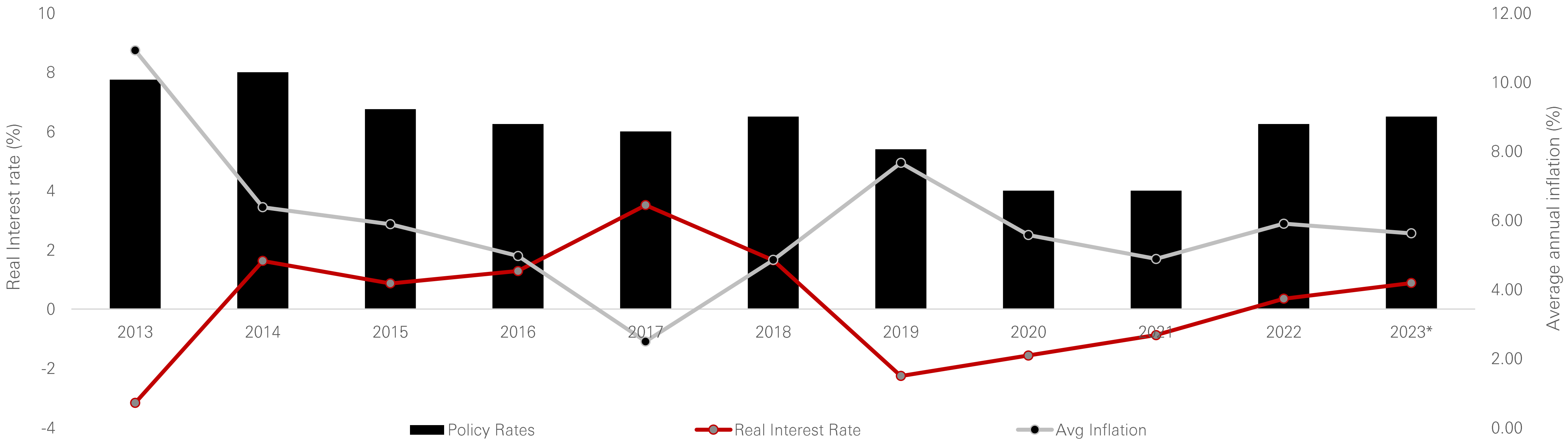
Why should I invest?



- The 'real interest rate' considers the effect of inflation
- Negative real interest rates mean that inflation is higher than interest rates
- Thus, even after accounting for interest payments you may receive, the value of your cash is still diminishing

Real interest rates are negative

Source – CRISIL Research, Data as on 31 Dec 2023, Inflation by average of annual CPI-IW inflation.
Real Interest rate calculated using average CPI for the year and year-end central bank/base rate.

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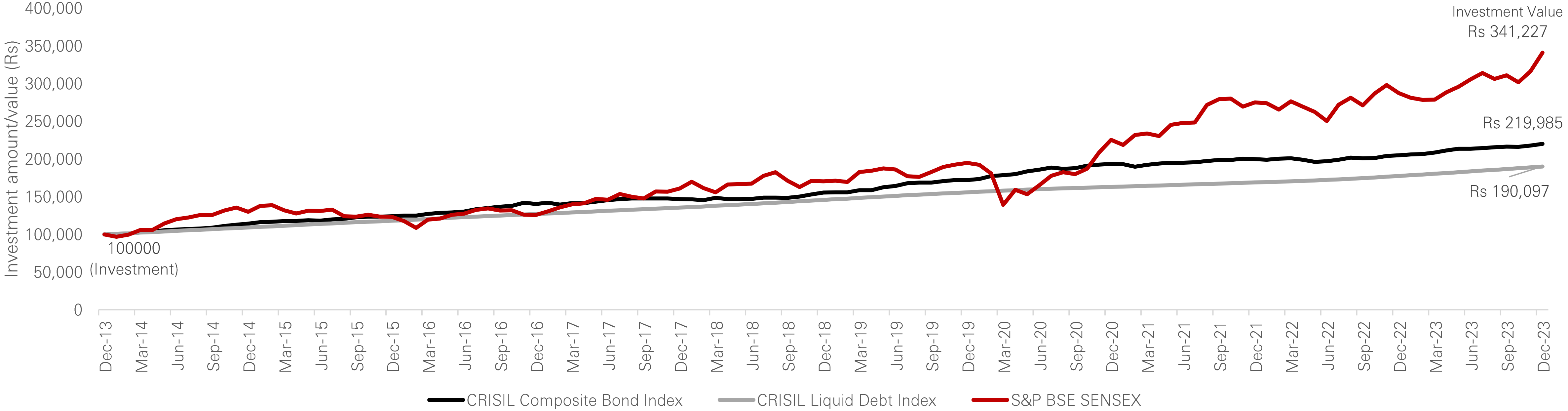
Why should I invest?

Growth of Rs100,000 since start of 2013



- Above illustration shows growth of investment of Rs100,000 between the year 2013 to 2023
- Investing is an effective way to grow the value of your savings above and beyond inflation over the long term
- Starting sooner will allow you to benefit more from the compounding effect
- This means as you reinvest the returns from your investment, the original investment can continue to grow along with the money the investment has generated
- Nobody can predict when the right time is, so it is important to determine an appropriate long-term investment strategy

A way to grow your money

Source: CRISIL Research, Data as on 31 Dec 2023. Lumpsum investment of Rs.1 lakh on 31 Dec 2013, Value of Lumpsum investment on 31 Dec 2023, Indices : Equities - S&P BSE Sensex. Bonds – CRISIL Composite Bond Index. Savings – CRISIL Liquid Debt Index

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1. Why should I invest?

Summary

Typical questions

- Why should I invest?
- The world is so uncertain, isn't it better to hold cash instead?
- Why does inflation matter for investors?
- If prices keep going up how can we maintain our purchasing power?

Talking points

- Investing is making your money work for you over the long term.
- Everyone needs to hold some cash for 'rainy days' or to meet living expenses. However, with rising living costs, the value of your cash is declining, even after accounting for interest payments.
- The effects of inflation are a serious consideration as the value of your savings is reducing over time.
- Investing is a way to grow the value of your long-term savings at a higher rate than inflation.

Summary:

1. Cash tends to buy less over time.
2. Investing over the long term has proven to be an effective way to grow savings beyond inflation.
3. Staying invested for longer periods may have return potential.

Cash tends to buy less over time so investing to make fair real returns makes sense

Source - HSBC Mutual Fund, Data as on 31 Dec 2023

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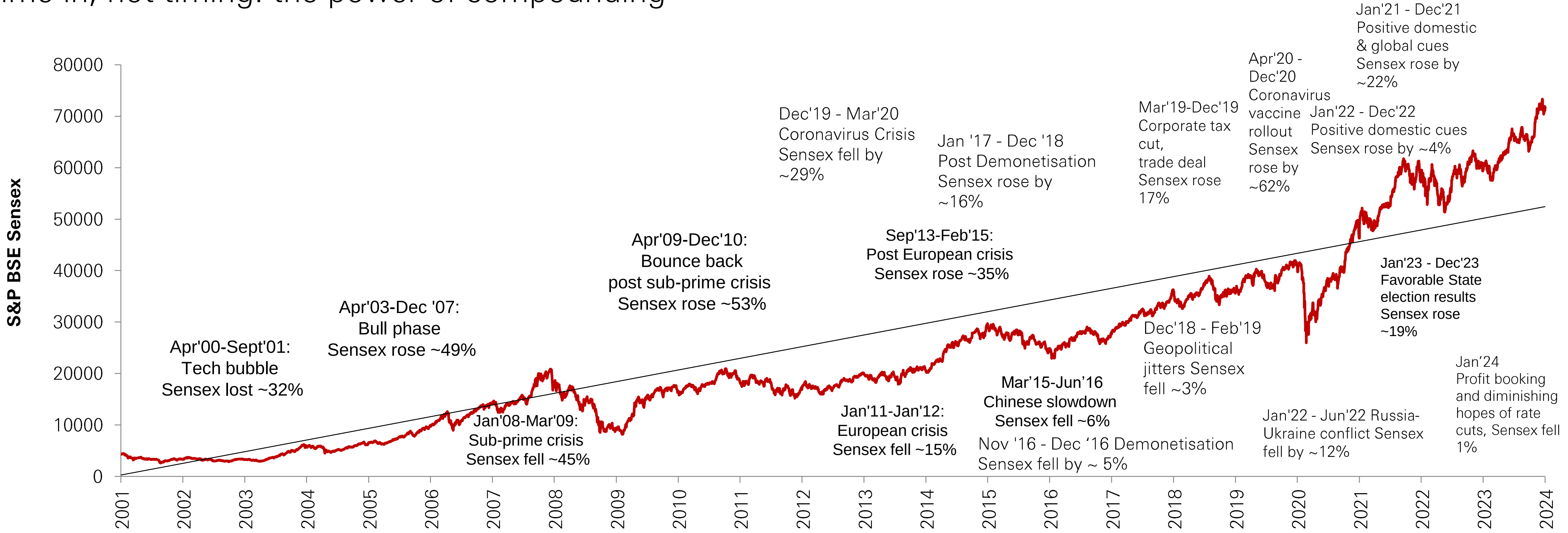
Should
I wait for the right time to invest?

Should I wait for the right time to invest?

Time in, not timing: the power of compounding



- Rupee cost averaging works well through SIPs as you don't need to time the market
- Regular investing helps smooth out the effects and fear of market movements

When market falls, your SIP may accumulate more units

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Source: BSE, CRISIL Research, Data as on 31 January 2024.

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2. Should I wait for the right time to invest?

Summary

Typical questions

- If I can avoid the worst days, will my investment return increase?
- What happens during times of market turmoil?
- Perhaps I can time the market to buy low and sell high? Why don't I just invest when prices are low?
- I only have a small amount to invest each month, does it make sense?

Talking points

- In trying to time the market, you run the risk of missing out on some of the best performing days. Missing just a few of those best performing days can result in a huge difference in your return.
- For growing your savings over the long-term, starting to invest sooner, rather than later, is typically more important than whether you are investing at low or high points in financial markets.
- The longer you invest, the greater the effect of compounding. As you reinvest the returns, the original investment can continue to grow along with the money the investment has generated.
- If you are nervous about investing a lump sum, you can split the amount and make regular investments (known as dollar-cost averaging).

Summary:

1. If you wait for what seems like the right moment to invest, you may miss out on periods of performance.
2. The longer you invest the greater the effect of compounding.
3. Regular investing can help you start and stay invested without the need to worry about market fluctuations.

Long-term gains may overcome short-term declines

Source - HSBC Mutual Fund, Data as on 31 Dec 2023

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How can I start investing?

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Most common assets

- Cash involves putting money into accounts which are easily accessible whilst also providing an interest rate return .
- Government Bonds are loans to a national government in return for which the lender receives regular payments, (known as the coupon) and aims to pay back the original investment (principal) at a specified date.
- Corporate Bonds are issued by a company to raise money. In return for lending the company money the investor will receive interest payments (coupon) plus the return of the original investment when the bond matures.
- High Yield Bonds are issued by companies of lower credit quality. These companies are high risk investments
- Asset-Backed Securities (ABS) are a type of debt instrument backed by a pool of assets, such as mortgages or other financial products.
- Equities is another name for shares/stocks. A share is a stake in the company that has issued it. The value of the shares will depend on a number of factors including how well the company is performing financially.
- Alternatives are assets that do not fall into the traditional asset class categories such as shares, bonds and cash, and can include property, and commodities such as gold.
- Property consists of investments in physical buildings which could be built for corporate, retail or residential purposes

Source – HSBC Mutual Fund,

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How can I start investing?

Single asset class performance can vary significantly from year to year

Diversification means investing in various asset classes at the same time – allowing your investment to be less exposed to large fluctuations

The best-performing asset class in one year...

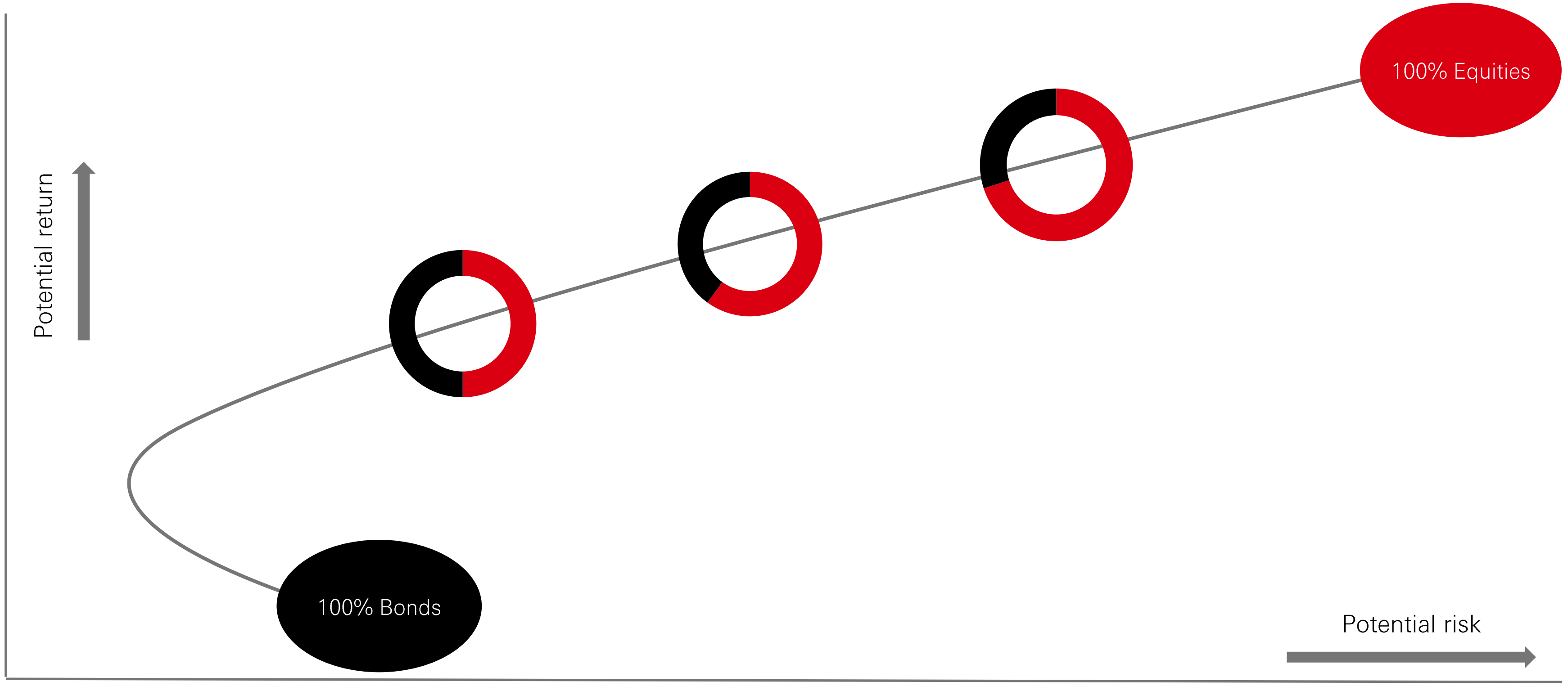
	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
Equity	19%	4%	22%	16%	14%	6%	28%	2%	-5%	30%	9%
Debt	7%	3%	3%	12%	11%	6%	5%	13%	9%	14%	4%
Gold	15%	14%	-4%	28%	24%	8%	5%	12%	-7%	-8%	-4%
CRISIL Short Term Bond Index	7%	4%	4%	10%	10%	7%	6%	10%	9%	10%	8%

...can be the worst-performing the following year

Achieving a smoother ride

Source: Equity represented by S&P BSE SENSEX, debt by CRISIL Composite Bond Fund Index, and gold by IBJA/MCX spot gold prices (PM) (per 10 gram) value as of 31-Dec-2023 Source: BSE, CRISIL Research. **Past performance may or may not be sustained in the future and is not indicative of future results**

How can I start investing?



Compared to investing in a single type of asset such as bonds, a diversified approach may generate reasonable performance for the same level of risk.

As the chart illustrates, adding equities to a bond portfolio can reduce risk while improving returns.

A diversified portfolio can offer access to different asset classes that together aim to deliver reasonable risk adjusted performance.

- Investing involves taking a risk to gain a potential reward
- Everybody has a risk appetite level, meaning a level of risk they are willing to take. It’s important for investors to understand their risk tolerance level in order to choose a portfolio that best suits their financial goals and risk appetite

Select a portfolio that matches your risk appetite

Source: HSBC Mutual Fund, For illustrative purposes only.

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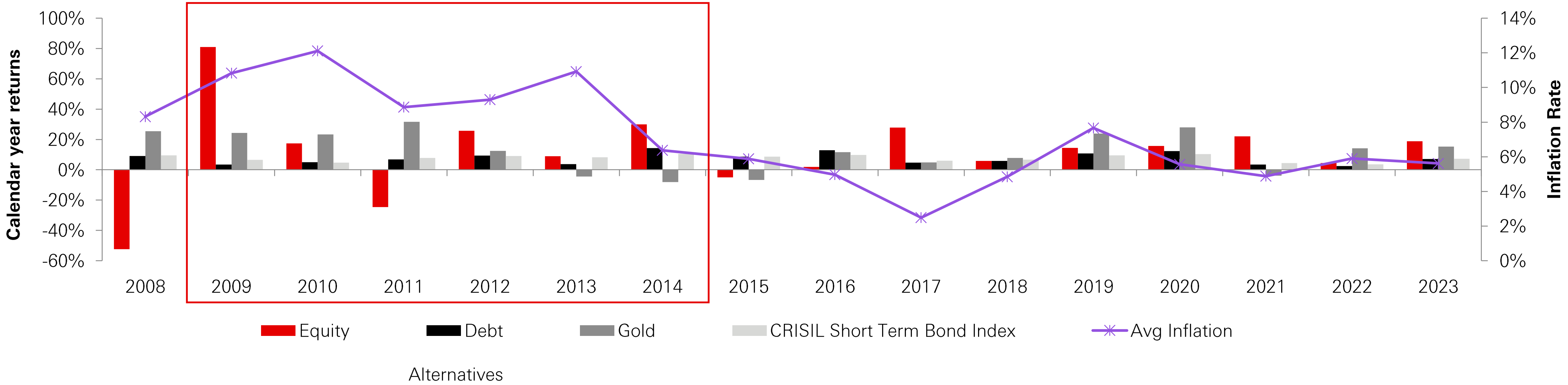
How can I start investing?

Average annual real return



- The below chart shows just how differently asset classes can react to market conditions
- When inflation is high, central banks raise interest rates to reduce borrowing and investment to slow the economy. Bonds see a particularly negative impact because the relative value of their coupon payments declines as interest rates rise
- On the other hand, we can see that many alternative assets have performed better during high inflation periods due to their returns being tied to inflation in various ways

Prepare for different scenarios

Equity represented by S&P BSE SENSEX, Debt by CRISIL Composite Bond Fund Index, and Gold by IBJA/MCX spot gold prices (PM) (per 10 gram), Inflation by average of annual CPI-IW inflation. Source: BSE, CRISIL Research, Data as of 31 December 2023.

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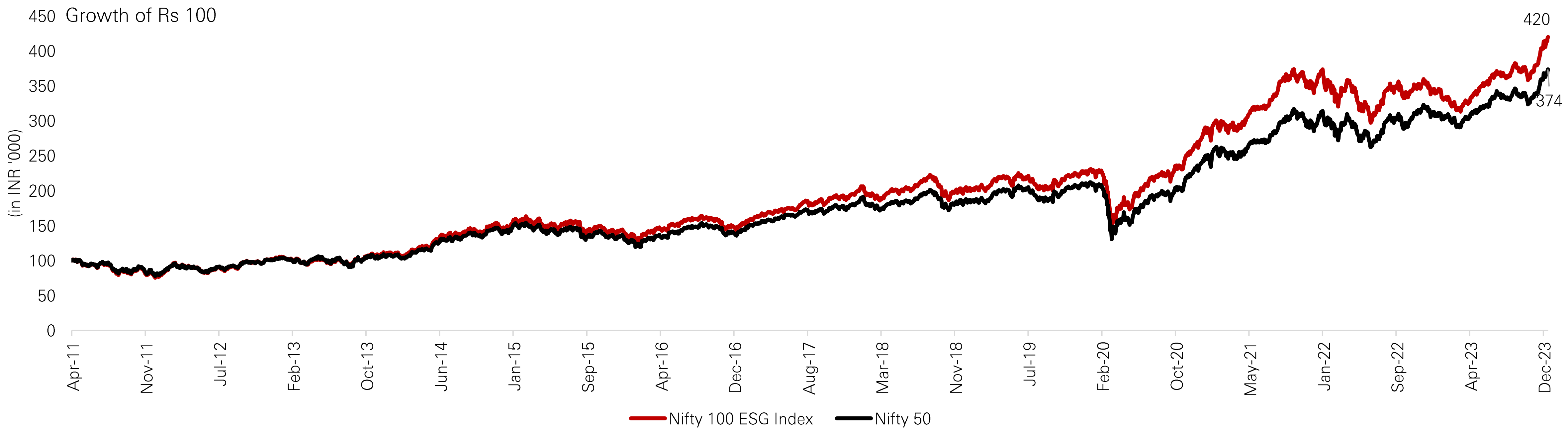
How can I start investing?

Nifty 50 vs Nifty 100 ESG Index



- Prioritising environmental, social and governance (ESG) considerations can reduce your exposure to companies with less responsible approaches to important issues such as climate change or their social impact
- Such an approach will help shift your investments towards higher quality companies
- As such, an emphasis on ESG qualities has become more widespread and can improve long-run returns

Focus on long-term sustainability

Source - CRISIL Research, Data as on 31 Dec 2023, **Past performance may or may not be sustained in the future and is not indicative of future results**

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3. How can I start investing?

Summary

Typical questions	Talking points
◆ Why is it important to assess my risk/return profile? ◆ Although I can see my money growing, I don't feel comfortable with how often I see negative returns in my investments. How can I have a smoother investment journey? ◆ I read some recommendations for an asset that will be the best performer of the year. How much of my portfolio should I invest in it? ◆ How can I invest more responsibly and will it hurt my returns?	◆ Every investment involves a certain level of risk and the level varies depending on the type of asset. The higher the risk, the greater the potential returns but also the bigger the potential for surprises. ◆ Diversification means investing in various asset classes at the same time – which can smooth your returns over time because you are less exposed to the large fluctuations of a single asset. ◆ A professionally diversified portfolio is the best way to gain exposure to global investment opportunities within a portfolio that meets the level of risk you are willing to take. ◆ ESG considerations allow investors to better understand companies' long-term sustainability impacts. Businesses that are more future-fit stand to generate better long-term returns.

Summary:

1. It is crucial to understand investment goals and appetite for risk.
2. Diversifying can improve returns for the same level of risk as investing in a single asset class.
3. Professionals can help ease the burden on yourself, and also maximise returns for a given risk level by optimising the asset mix based on today's opportunities and market conditions.

Source - HSBC Mutual Fund, Data as on 31 Dec 2023

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