Power meets great potential

HSBC Large and Mid Cap Equity Fund Deck

(Large & Mid Cap Fund: An open ended equity scheme investing in both large cap and mid cap stocks)

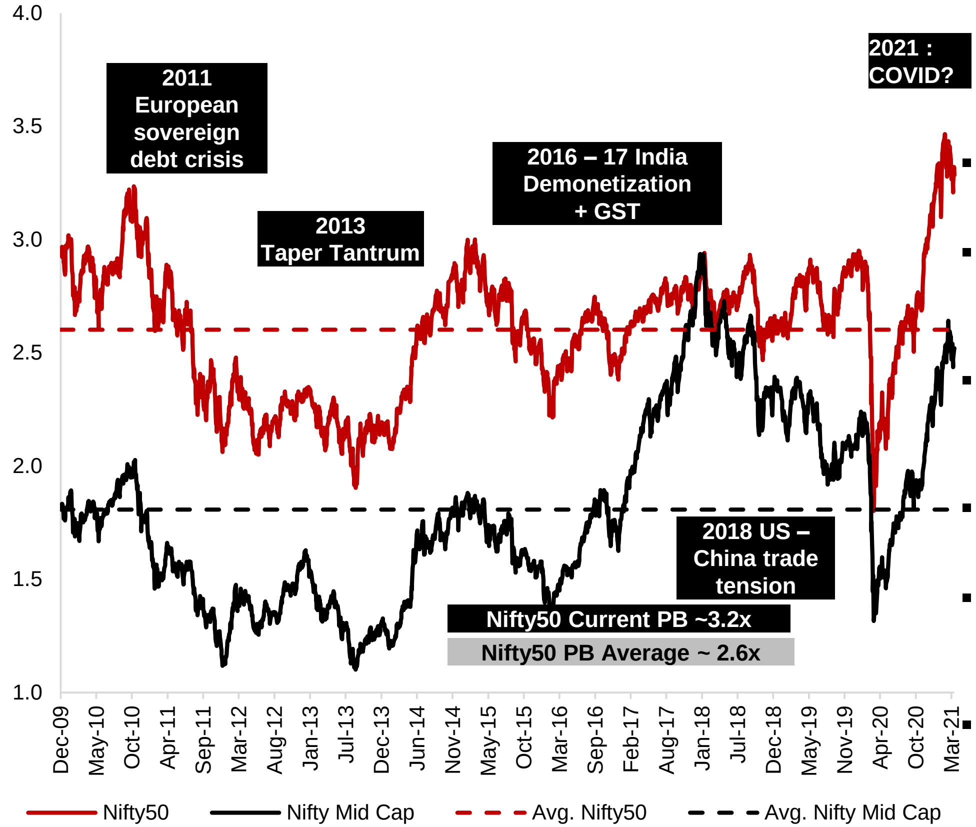
HSBC
Asset Management

20 April 2021

Summary

Why equity now?

NSE Nifty 50 – Price to Book ratio (PB)



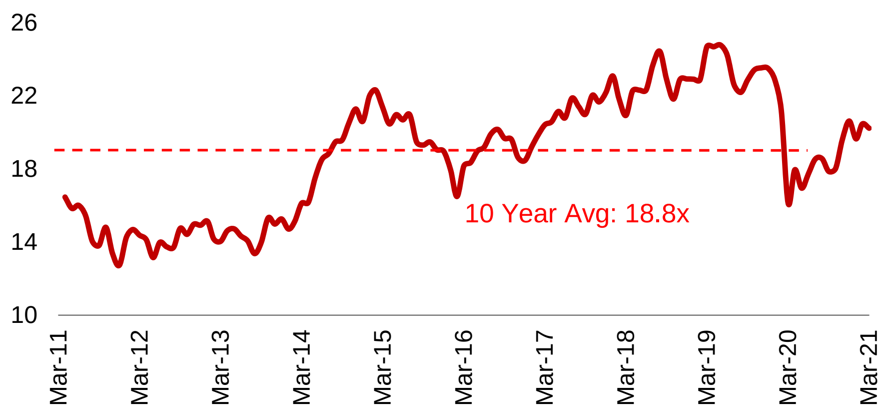
- Equity markets rose during March on the back of strong flows and broadly supportive global cues.
- However, the concerns around the second COVID-19 wave would be a key variable to look out for in the short term.
- The high frequency indicators have held up well despite the emergence of the second wave.
- GST collection once again remained robust at Rs. 1.13 tn (collections for Jan-21), driven by economic rebound.
- Globally, the pace of recovery will depend on vaccine delivery and continued policy support. For laggard economies, there is scope for cyclical catch-up in 2021.
- The recent India budget has envisaged a multi-year expansionary fiscal policy, providing a long runway for India to take its long term sustainable growth higher.
- Expansion in valuations though make the risk- reward for the equity markets, balanced at this juncture.
- On conventional valuation metrics like Price to Earnings / Price to Book ratios, the equity indices are trading above historical averages, which make it expensive.
- However, the lower interest rate environment is likely to remain in the short term as a result the low cost of capital scenario should remain as well.
- This makes equities relatively attractive compared to other asset classes despite the valuations.

Low cost of capital scenario makes equities attractive despite valuations

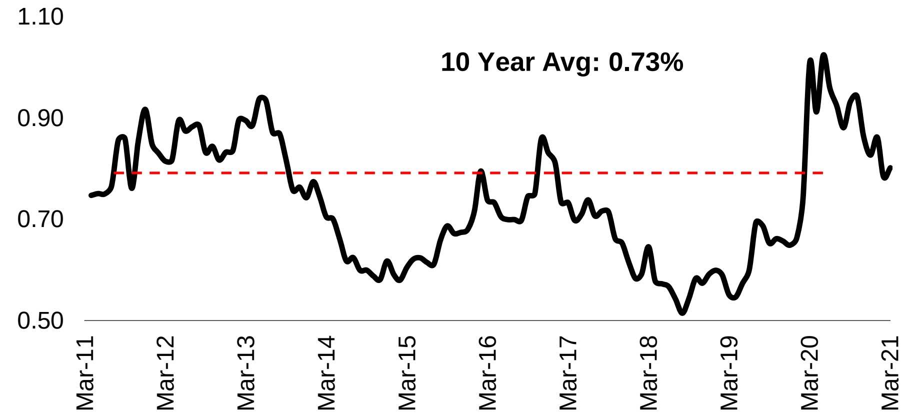
Source: Bloomberg, Nifty Price to Book (PB) ratio, Data as at March 2021,

Valuations slightly above long term averages

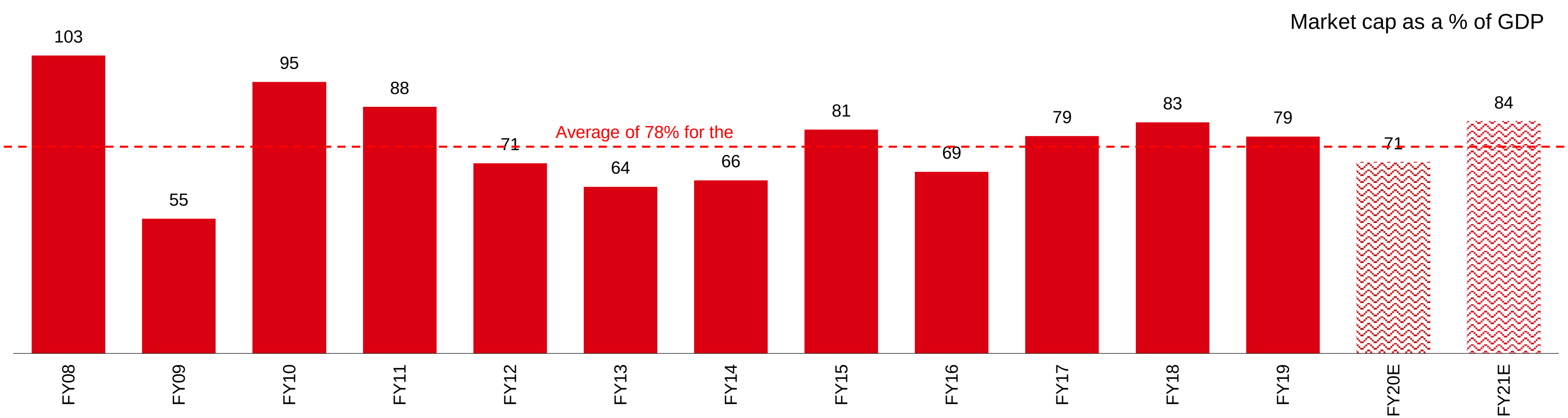
Nifty 50 – 1 year forward Price to Earnings ratio (P/E) (x)



Nifty 50 – Earnings vs Bond yield (10 Y G Sec)



Trend in India's market cap-to-GDP (%)

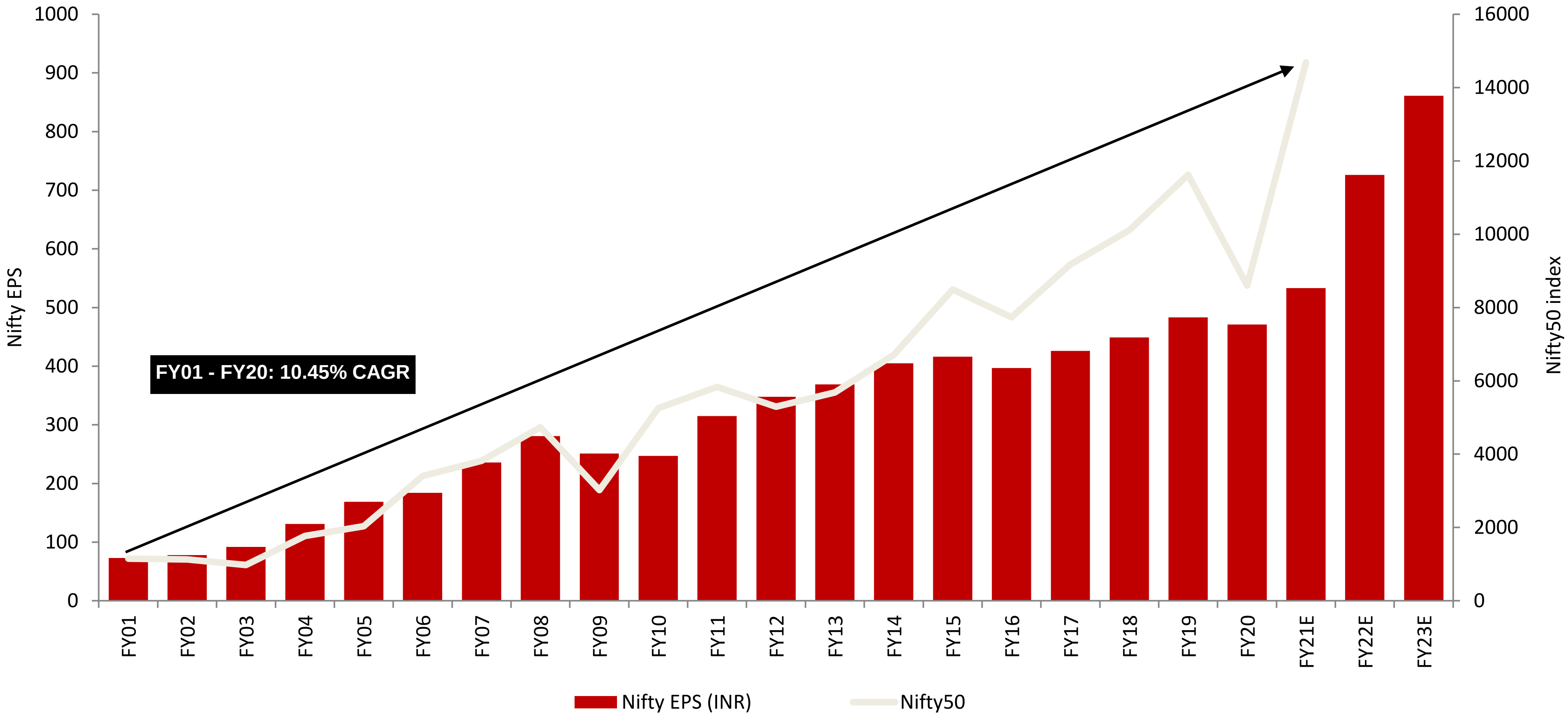


Expansion in valuations make the risk- reward for the equity markets, balanced

Source: Motilal Oswal, CRISIL – Bloomberg, Data as at March 2021, PE – Price to earnings ratio,

Past performance may or may not sustain in the future and does not guarantee or assure future returns, Any views expressed were held at the time of preparation and are subject to change without notice. While any forecast, projection or target where provided is indicative only and not guaranteed in any way. HSBC Asset Management India accepts no liability for any failure to meet such forecast, projection or target.

India’s equity market moves with earnings



- On P/E basis, Nifty is currently trading at 21x / 17.9x FY22/23 earnings estimates, with significant earnings rebound assumed over the next 4 quarters.
- We have witnessed two consecutive quarters of earnings upgrades, which is significant, considering that the prior 23 quarters had witnessed continuous downgrades. On P/B, Nifty is trading at 3x / 2.7x FY22/23 estimates.

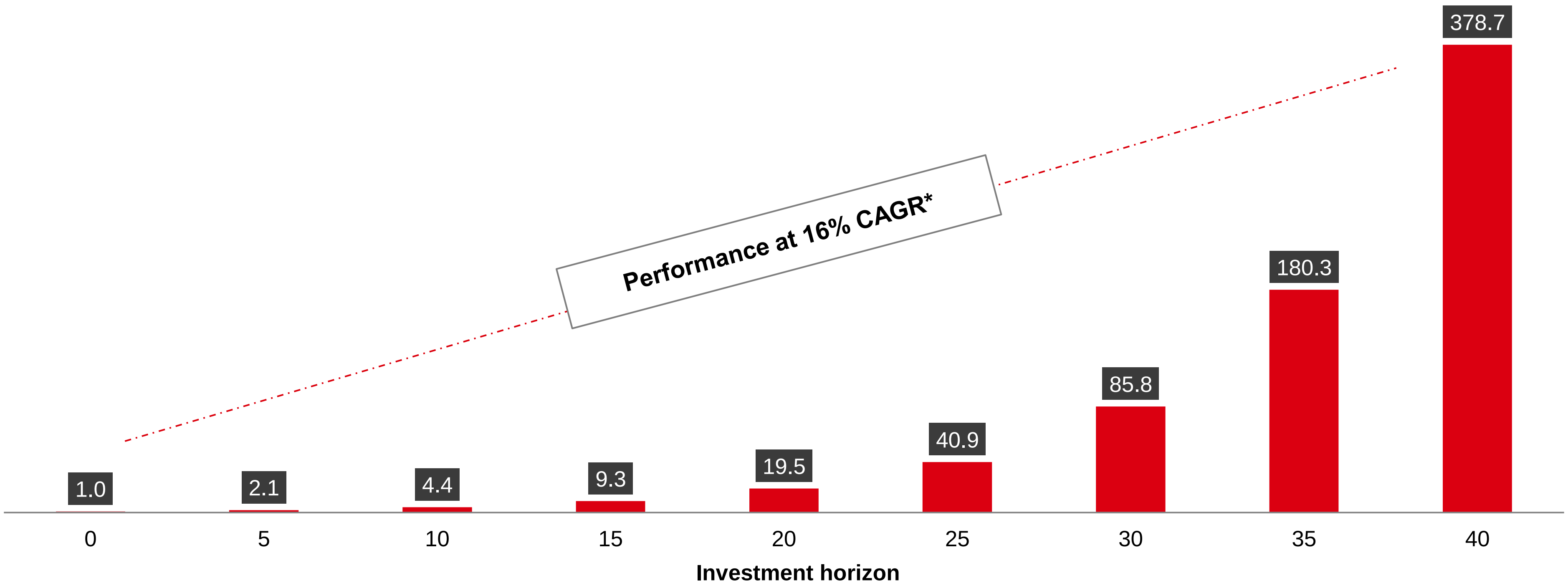
The consensus earnings expectations for FY22 is factoring in a strong rebound

Source: MOSL estimates for Nifty 50 EPS, Nifty index value - Bloomberg, Data as at March 2021
Past performance may or may not sustain in the future and does not guarantee or assure future returns

Useful reminder: ‘power of compounding’

- Equity has returned average ~16% CAGR* on 5 year rolling basis in the past 40 years

Potential growth for investment of Rs.100,000



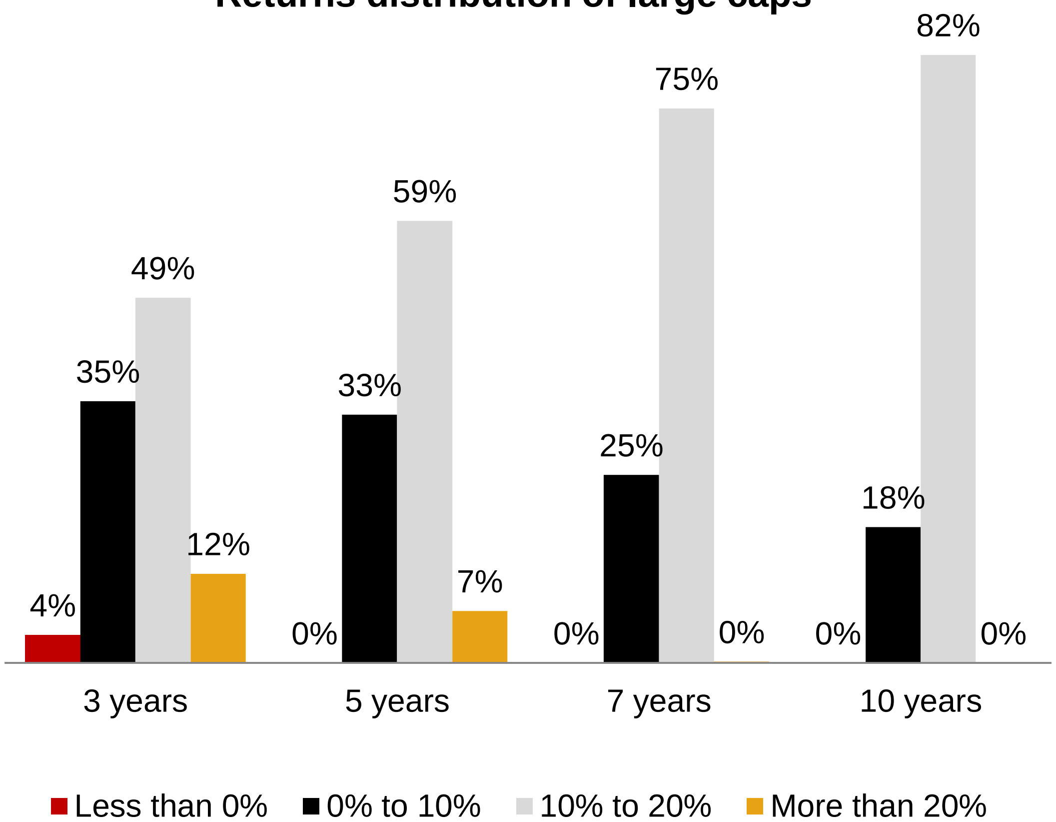
Investment in equity has delivered ~2X multiplier effect every 5 years

The above chart is provided for illustration purpose only
Source: BSE, CRISIL, Equity represented by S&P BSE Sensex, CY Data until calendar year end, Data as at December 2020
* Average of daily rolling CAGR for 5-year holding period of S&P BSE Sensex since CY Jan 1980 - Dec 2020

Past performance may or may not sustain and doesn’t guarantee the future performance

Why Large Caps? – consistency is the key

Returns distribution of large caps



Large Cap features

- Lower volatility
- Stable earnings growth
- Well researched
- Well-owned
- Reasonable valuations

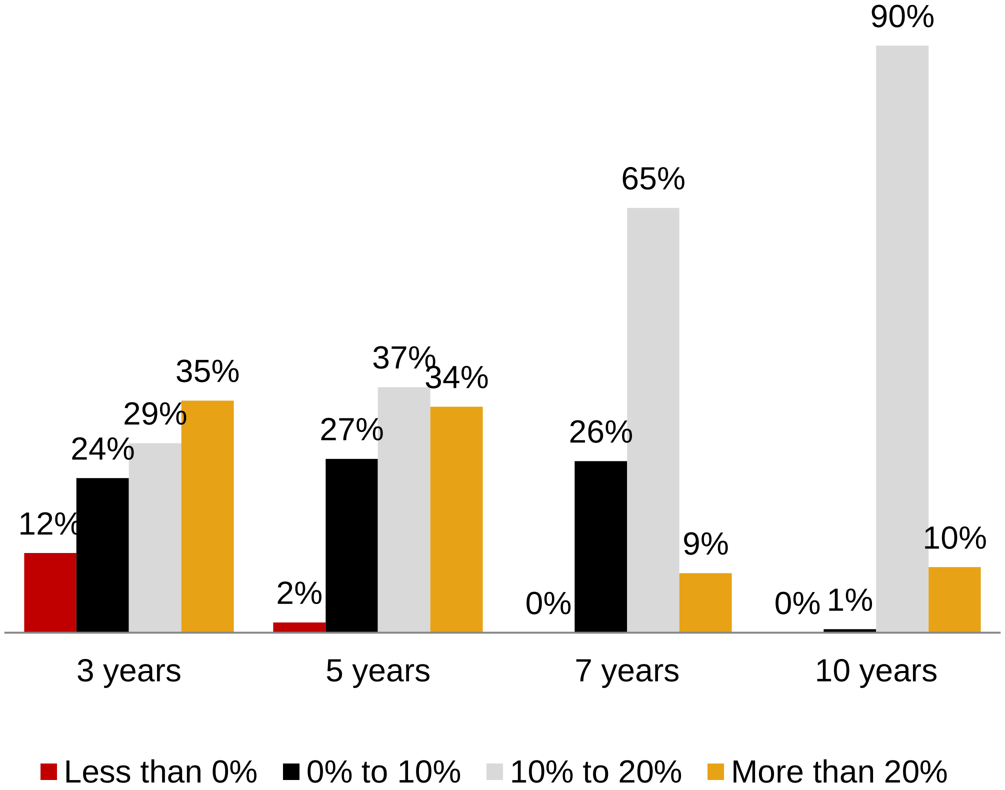
Large Caps offer lower probability of delivering negative returns within equities

For illustration purpose only.
Source: NSE, CRISIL, CY data as at December 2020
Large Cap index is represented by Nifty 100 TRI, Return distribution based on a daily rolling returns of various holding periods. Period considered: CY January 2005 – December 2020

Past performance may or may not sustain and doesn't guarantee the future performance

Why Mid Caps? – long term growth

Returns distribution of Mid Caps



Mid Cap features

- Above average performance
- Earnings acceleration
- Under-researched
- Under- owned
- Diversity and alpha

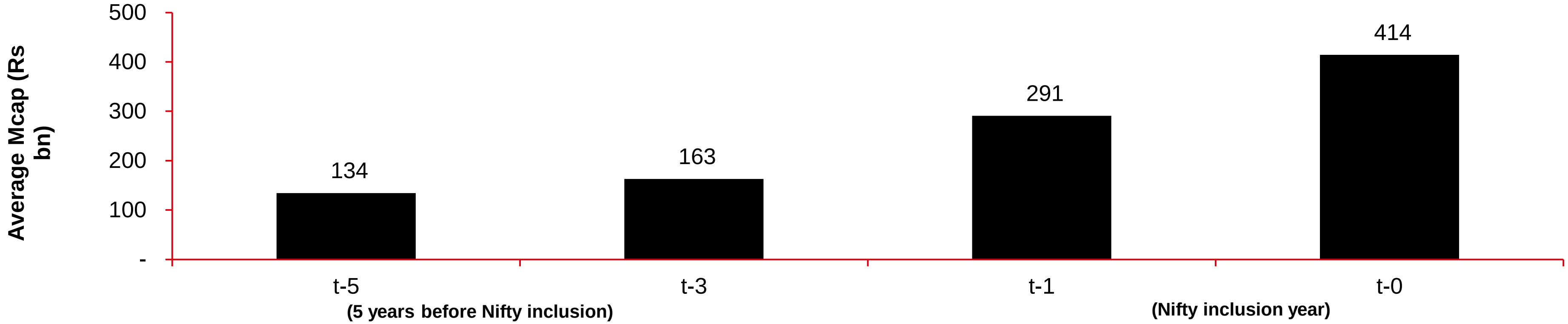
Mid Caps offer more probability of delivering high growth

For illustration purpose only.
Source: NSE, CRISIL, CY data as at December 2020
Mid Cap index represented by Nifty Midcap 150 TRI, Return distribution based on a daily rolling returns of various holding periods. Period considered: CY January 2005 – December 2020
Past performance may or may not sustain and doesn't guarantee the future performance

Mid Caps progress in size before Nifty inclusion

- Large caps of tomorrow
  - Historically, Nifty's constituents change by 50% every decade
  - Midcaps of today may graduate to become the large caps of tomorrow thereby, replacing the current Nifty constituents
  - Midcaps are an ideal way to gain exposure to some of the rapidly growing industries and business
- Over the last 3 years some of the mid cap stocks have become Large caps and entered Large cap indices
- But 5 years prior to their inclusion, they were small or mid caps, much smaller in size and much less discussed!

Average progress of a midcap stocks market cap journey before Nifty50 inclusion (Rs bn)



~Rs.4 bn Aug 2012	~Rs.11 bn	~Rs.60 bn	~Rs.94 bn Aug 2017

e.g. Bajaj Finance – market cap grew by ~22X in 5 years before the inclusion in Nifty

Early exposure to Mid Caps provides access to rapidly growing businesses

Source: AMBIT Capital, Bloomberg, data as at March 2021

The above chart and names of the stock / companies are provided for illustration purpose only and represents historical data without having any regards to their future performance.

Source - Ambit Capital Research, The study has gathered a list of Mid Cap stocks which have entered Nifty. It has given a market cap journey of Mid Cap stocks for 5 years before the inclusion in Nifty index. t-0 represents the year in which the stock has been included in Nifty. t-1 is 1 year before the inclusion in Nifty. Similarly going down to t-5 indicates the market cap of Mid Cap stock 5 years before the inclusion in Nifty. The study has taken an average market cap of all such stocks for these 5 periods which is shown in the chart below. Past performance may or may not sustain and doesn't guarantee the future performance. Further, it does not constitute investment research, investment advice or a recommendation to any reader of this content to buy or sell investments.

Past performance may or may not sustain and doesn't guarantee the future performance

When power meets great potential

Power of Large Caps

Volatility of equities can be kept under check with stability of Large Caps

+

Potential of Mid Caps

Mid Caps can provide necessary high growth potential engine to a portfolio

=

Power meets great potential

Right mix of Large Caps & Mid Caps can deliver higher growth with lesser volatility

Large Caps complement Mid Caps and provide strength to a growth portfolio

HSBC Large and Mid Cap Equity Fund

(Large & Mid Cap Fund: An open ended equity scheme investing in both large cap and mid cap stocks)

HSBC Global Asset Management

Why invest in HSBC Large and Mid Cap Equity Fund (HLMEF)?

Power of consistency and stability

- HLMEF offers consistency with an exposure to Large Cap stocks which are known to be stable compounders

Potential of high growth

- HLMEF's allocation to Mid Cap stocks offers potential of above average growth

Power meets great potential

- The fund offers power of consistent Large Caps and potential of growing Mid Caps with an optimal allocation

Benefit from discipline

- Minimum 35% allocation in each (Large Cap and Mid Cap) helps in instilling discipline and gain from it

Subject to relatively lower volatility

- Less volatile Large Caps can restrict funds downside and encourage investors to remain invested for longer timeframe

Gain from the mix of power of Large Caps and growth potential of Mid Caps with HLMEF

HSBC Large and Midcap Equity Fund – Fund Philosophy

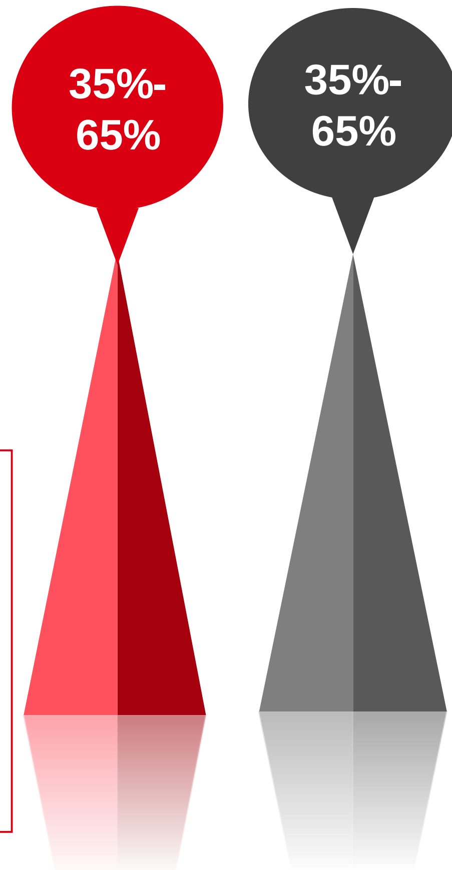
- To invest in dominant businesses having scalable businesses, available at reasonable valuations.
- The trend of profit pool consolidating with the dominant players in respective sectors/industries, is likely to accelerate as the current disruption has higher magnitude as well as it encompasses more sectors.
- This has increased our resolve to be true to our philosophy and we believe that such stocks would stand to gain market share even in the sluggish phases of the economy and achieve revenue traction when the economy returns to normalcy.

A solution to generate better risk adjusted performance

HSBC Large and Mid Cap Equity Fund (HLMEF)

- **Type of scheme -** Large & Mid Cap Fund - An open ended equity scheme investing in both large cap and mid cap stocks.
- **Large and Mid Cap focus** - As the name suggests, the scheme aims to focus on Large Cap and Mid Cap stocks.
- **Minimum investment** - The fund will hold a minimum 35% of the corpus in Large Cap companies, while another 35% will be deployed in Mid Cap companies. There is a provision which allows HLMEF to invest 0% to 30% in other than Large and Mid Cap companies and 0% to 20% in Debt & Money Market instruments (including Cash & Cash equivalents)
- **Benchmark** - NIFTY LargeMidcap 250 TRI

Minimum and maximum investment in equity & equity related instruments of Large Cap stocks between 35% to 65% of total assets



Minimum and maximum investment in equity & equity related instruments of Mid Cap stocks between 35% to 65% of total assets

HLMEF's focus on Large and Mid Caps offer dual advantage of Consistency and Growth

The investment list above is not exhaustive and for illustration purpose only.

HSBC Large and Mid Cap Equity Fund (HLMEF's) investment approach

- **Optimal market cap allocation –** exposure to two market cap classes – Large and Mid Caps to strike the right balance between Stability and Growth

- **Blended strategy** - A top down and bottom up approach will be used to invest in equities. Sector agnostic style of investments with a strategy to build an actively managed diversified portfolio of Large and Mid Cap stocks having great potential using valuation framework

- **Investment style -** HSBC Large and Mid Cap Fund aims to offer a potential quality mix of Large Caps and Mid Caps (35% to 65% each) with a provision to invest 0% to 30% in to other than Large Cap and Mid Cap companies. The fund has a provision to invest across value, growth and market capitalisations.

HLMEF aims for optimal market cap allocation within Large and Mid Caps

Past performance may or may not sustain and doesn't guarantee the future performance

Current investment theme

- In the context of current elevated valuations, a bottom up approach along with focus on earnings growth, would be the right way to approach stock selection in our view. Companies which can provide strong earnings growth along with positive earnings surprises would continue to do well and would be able provide outperformance.
- So while earnings growth will still be the most important element that we focus on, but within that there is an emphasis on ideas with scope for positive earnings surprises.
- Our investment strategy will also focus on earnings growth implied by the valuations.
- Due to the evolving scenario connected to the second wave, the markets may remain volatile in the near term and any sharp corrections would be used to add to our conviction bets or where valuations turn reasonable.
- We reckon that the second COVID would be managed more effectively by the systems and the citizen stakeholders, given the learnings from the first wave.
- From a bottom up perspective, we have exposure to dominant players/leaders in badly disrupted sectors but that are on verge of revival (Eg: Retail, Multiplex, Real Estate etc.).
- The recent budget has envisaged a long road for fiscal consolidation, which provides at least a 4-year window for the pro-growth approach and capex push. This can potentially raise the long term sustainable growth rate of the economy. As a result, we have increased weight to Industrials sector. Financials is another key beneficiary of this budget and we see banks being beneficiaries of system clean-up and growth orientation.

A bottom up approach along with focus on earnings growth

Data as at March 2021
Past performance may or may not sustain and doesn't guarantee the future performance

HSBC Large and Midcap Equity Fund (HLMEF)

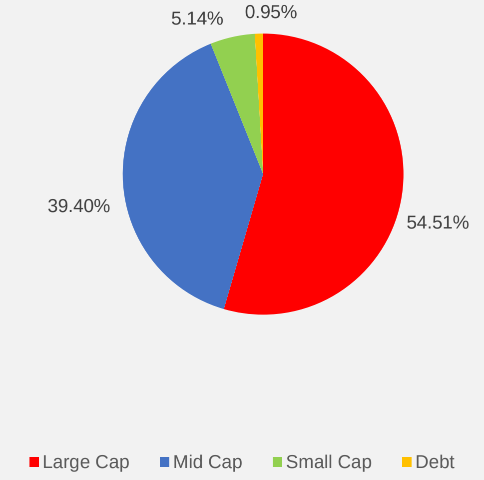
Fund Portfolio

Issuer	Industries	% to Net Assets
EQUITY		**99.05%**
HDFC Bank	Banks	8.12%
ICICI Bank	Banks	7.03%
Infosys	Software	5.08%
Axis Bank	Banks	4.58%
Cholamandalam Investment & Fin Co	Finance	3.44%
Hindustan Unilever	Consumer Non Durables	3.09%
Bajaj Finance	Finance	2.85%
Voltas	Consumer Durables	2.37%
Reliance Industries	Petroleum Products	2.36%
Larsen & Toubro	Construction Project	2.27%
Dalmia Bharat	Cement & Cement Products	2.12%
Supreme Industries	Industrial Products	2.10%
Balkrishna Industries	Auto Ancillaries	2.08%
Housing Development Finance Corp	Finance	2.05%
SRF	Chemicals	2.00%
Sundram Fasteners	Auto Ancillaries	1.97%
Dixon Technologies (India)	Consumer Durables	1.88%
HCL Technologies	Software	1.87%
Mphasis	Software	1.82%
State Bank Of India	Banks	1.75%
JK Cement	Cement & Cement Products	1.72%
Polycab India	Industrial Products	1.70%
Page Industries	Textile Products	1.68%
Dr. Lal Path Labs	Healthcare Services	1.67%
Honeywell Automation India	Industrial Capital Goods	1.66%
Tata Motors	Auto	1.64%
Ashok Leyland	Auto	1.63%
Tata Consumer Products	Consumer Non Durables	1.57%

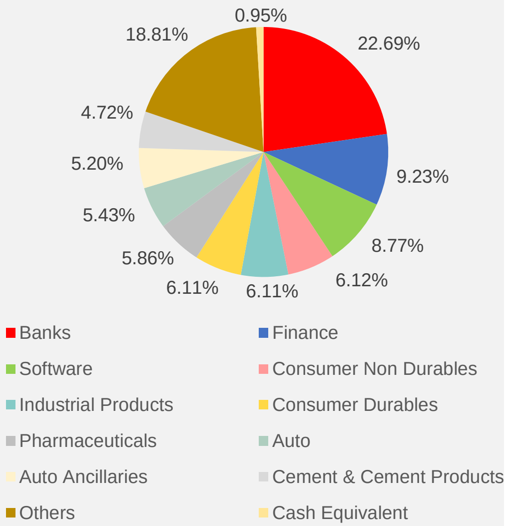
Issuer	Industries/Ratings	% to Net Assets
Aarti Industries	Chemicals	1.49%
Asian Paints	Consumer Non Durables	1.46%
IPCA Laboratories	Pharmaceuticals	1.37%
Max Financial Services	Insurance	1.32%
Sun Pharmaceutical Industries	Pharmaceuticals	1.23%
Kotak Mahindra Bank	Banks	1.21%
AIA Engineering	Industrial Products	1.18%
Apollo Tyres	Auto Ancillaries	1.15%
KEI Industries	Industrial Products	1.13%
Maruti Suzuki India	Auto	1.13%
The Phoenix Mills	Construction	1.12%
Gland Pharma	Pharmaceuticals	1.12%
Dr. Reddy's Laboratories	Pharmaceuticals	1.11%
JB Chemicals & Pharmaceuticals	Pharmaceuticals	1.03%
Mahindra & Mahindra	Auto	1.03%
Kajaria Ceramics	Consumer Durables	0.95%
Whirlpool Of India	Consumer Durables	0.91%
Creditaccess Grameen	Finance	0.89%
Prestige Estates Projects	Construction	0.88%
Birla Corporation	Cement & Cement Products	0.88%
DLF	Construction	0.77%
Jubilant Foodworks	Leisure Services	0.66%
Bharti Airtel	Telecom - Services	0.53%
Coromandel International	Fertilisers	0.40%
Cash Equivalent		**0.95%**
TREPS*		0.45%
Reverse Repos		0.56%
Net Current Assets:		-0.06%
Total Net Assets as on 31-Mar-2021		**100.00%**

*TREPS : Tri-Party Repo

Market Capitalisation



Asset Allocation



Data as on 31 March 2021

Current portfolio positioning

Sector positioning:

– We are current overweight on Financials, Healthcare, Consumer Discretionary, Industrials and Real Estate sectors. We are neutral on Materials and underweight in Staples, Energy and Utilities.

– The focus is on earnings surprises and we reckon Financials and Real Estate to be at the forefront, while our exposure in other sectors is also driven by this theme.

– Real Estate earnings momentum will be driven by demand factors and industry consolidation benefiting the larger listed players.

– In Financials (specifically in private banks), we believe that the earnings surprises will be driven by rebound in credit growth coupled with lower credit costs.

– The renewed capex push and a multi-year expansionary fiscal policy envisaged in the budget is positive for Industrials sector. We also have exposure to CVs, to play the economic recovery theme.

– Technology is another sector that we like (currently neutral) and looking to increase exposure here.

Market Capitalisation Mix:

Currently the allocation to large/mid/small caps are 54.5%/39.4%/5.1% as compared to 55.8%/38.2%/5.2% in the previous month. As per the offer document, a minimum of 80% allocation to equity and equity related securities out of which allocation of at least 35% each will be towards large cap stocks and mid cap stocks. The Scheme will have the flexibility to allocate the balance in a market cap agnostic manner. In terms of the outlook for sectoral allocation, as economic and social normalcy gradually returns, we would be increasing the mid/small cap exposure in the portfolio.

HLMEF is overweight in Financials, Healthcare, Consumer Discretionary, Industrials and Real Estate

Data as at March 2021

Past performance may or may not sustain and doesn't guarantee the future performance

Current key focused sectors in HLMEF

Sectors	Comments
Financials	We maintain a positive view on lending financial institutions and expect them to outperform over the medium to long term. This will be driven by fast normalisation in asset quality, leading to significantly lower credit cost and hence strong earnings growth. Going forward, the focus may shift to growth wherein our investee companies will likely gain market share. We expect Financials to be the biggest driver / contributor of the market earnings growth in FY22. We continue to prefer large private banks and NBFCs (with good parentage), on account of their strength in capital adequacy, granular deposit franchise and investment in digital infrastructure. We believe these large lenders have emerged stronger post crisis – balance sheets are stronger than ever. It has been driven by conservative provisioning and high NPA coverage over the last 3/4 quarters and also, growth/market share gains are accelerating. Now we expect ROAs to be near or cross previous peaks, which will drive multiples above long-term averages. The recently announced budget has addressed concerns on medium term GDP growth, consequently credit growth should see a rebound and while asset quality should improve going forward. Hence, we remain positive in this space. Our smaller exposure to the life insurers is driven by the financialisation of savings theme.
Consumer Discretionary	We continue to remain positive on the discretionary space, however our positioning is more oriented towards the auto names. We have increased exposure to autos (more in the CVs), while trimming exposure to consumer goods. While a direct consumption stimulus was not there in the recent budget; a stable tax regime coupled with improving economic growth outlook augurs well for higher incomes and sustenance of demand. Within the space, valuations have expanded for those names where market ascribe higher probability of being beneficiaries of formalisation and / or continue / sustain the market share gains. We reckon that the valuations for these names would sustain owing to their leadership position in their respective sub-segments along with industry leading growth. Our exposure is through companies that are dominant players in their respective businesses coupled with their ability to gain from the disruption (digital strategy, investing for sustained market share gains etc.). Auto OEMs are facing margin headwind due to higher commodity prices. We believe that current high commodity prices are not sustainable and its reversion will provide relief.

Source – HSBC Asset Management India, Data as at March 2021

Current key focused sectors in HLMEF

Sectors	Comments
Real Estate	While we continue to remain positive on the sector, we have been trimming the extent of our overweight in the sector considering the recent stock performance. We see the sector on a revival path driven by improvement in the residential affordability and listed players being the beneficiaries of industry consolidation. With low interest rates (coupled with negative real rates), the home purchase affordability is best since 2003. In addition, the current crisis shall accelerate the consolidation amongst the residential developers in favour of the major players especially, the listed companies. Commercial assets such as Grade A office spaces and malls will also see consolidation as new supply will be restricted due to current cash flow issues faced by developers coupled high gestation business models. The current recovery in sales looks promising and is much better than anticipated. Our current exposure are to developers who have a mix of residential portfolio and rental assets, along with relatively strong balance sheet.

Source – HSBC Asset Management India, Data as at March 2021

HSBC Large and Mid Cap Equity Fund (HLMEF)

Investment Objective - To seek long term capital growth through investments in both large cap and mid cap stocks. However, there is no assurance that the investment objective of the Scheme will be achieved.

Fund Name	**HSBC Large and Mid Cap Equity Fund**
Benchmark	NIFTY LargeMidcap 250 TRI
Minimum Application Amount	Rs 5,000/- per application
Minimum Application Amount (SIP)	Minimum Investment Amount - Rs. 500 (monthly)
SIP/STP/SWP	Available

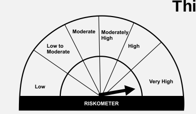
Type	Large and Mid Cap - An open ended equity scheme investing in both large cap and mid cap stocks
Plans / Options / Sub options	Regular, Direct plans/ Growth, Income Distribution cum capital withdrawal (IDCW) option (Payout of IDCW & Reinvestment of IDCW)
Loads (including SIP / STP wherever applicable)	Entry Load* : Nil Exit Load:– Any redemption / switch-out within 1 year from the date of allotment: 1% No Exit Load will be charged, if units are redeemed/switched-out after 1 year from the date of allotment. ^
Fund Managers	Neelotpal Sahai and Amaresh Mishra

^The exit loads set forth above is subject to change at the discretion of the AMC and such changes shall be implemented prospectively
*In terms of SEBI circular no. SEBI/IMD/CIR No.4/ 168230/09 dated June 30, 2009, no entry load will be charged by the Scheme to the investor effective August 1, 2009. No exit load (if any) will be charged for units allotted under bonus / dividend reinvestment option.

Note on Risk-o-meters: 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 05, 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.

HSBC Large & Mid Cap Equity Fund

This product is suitable for investors who are seeking*:



Investors understand that their principal will be at Very High risk

- Long term wealth creation and income
- Investment predominantly in equity and equity related securities of Large and Mid cap companies

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

Disclaimer

This document has been prepared by HSBC Asset Management (India) Private Limited (HSBC) for information purposes only and should not be construed as i) an offer or recommendation to buy or sell securities, commodities, currencies or other investments referred to herein; or ii) an offer to sell or a solicitation or an offer for purchase of any of the funds of HSBC Mutual Fund; or iii) an investment research or investment advice. It does not have regard to specific investment objectives, financial situation and the particular needs of any specific person who may receive this document. Investors should seek personal and independent advice regarding the appropriateness of investing in any of the funds, securities, other investment or investment strategies that may have been discussed or referred herein and should understand that the views regarding future prospects may or may not be realized. In no event shall HSBC Mutual Fund/HSBC Asset management (India) Private Limited and / or its affiliates or any of their directors, trustees, officers and employees be liable for any direct, indirect, special, incidental or consequential damages arising out of the use of information / opinion herein.

This document is intended only for those who access it from within India and approved for distribution in Indian jurisdiction only. Distribution of this document to anyone (including investors, prospective investors or distributors) who are located outside India or foreign nationals residing in India, is strictly prohibited. Neither this document nor the units of HSBC Mutual Fund have been registered under Securities law/Regulations in any foreign jurisdiction. The distribution of this document in certain jurisdictions may be unlawful or restricted or totally prohibited and accordingly, persons who come into possession of this document are required to inform themselves about, and to observe, any such restrictions. If any person chooses to access this document from a jurisdiction other than India, then such person do so at his/her own risk and HSBC and its group companies will not be liable for any breach of local law or regulation that such person commits as a result of doing so.

HSBC Asset Management (India) Private Limited, 16, V.N. Road, Fort, Mumbai-400001
Email: hsbcmf@camsonline.com | Website: www.assetmanagement.hsbc.co.in

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