

# Fund Insights

## Overview of the HSBC Small Cap Fund





We present an overview of HSBC Small Cap Fund, launched in 2014, with a commitment to staying true to its label. HSBCB Small Cap Fund is an open ended equity scheme predominantly investing in small cap stocks. The fund primarily invests in small-cap stocks, constituting 65% of the portfolio, with the remaining 35% allocated to other than small-cap stocks. Over the years, some stocks have naturally transitioned from small to mid and large caps, constituting a small percentage of the overall portfolio.

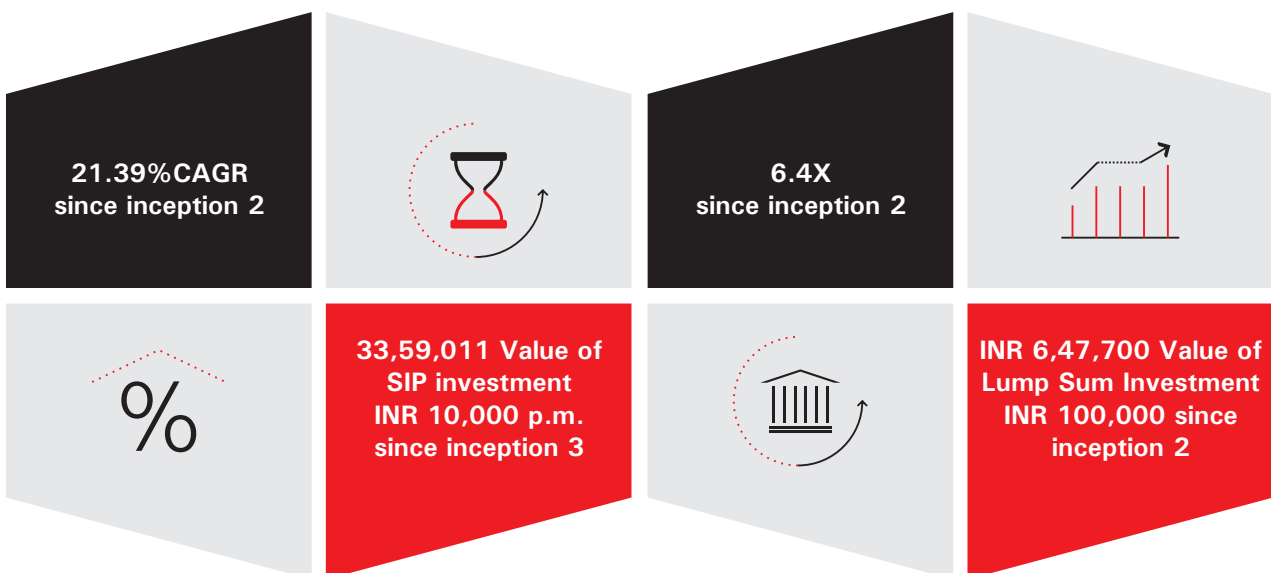
The small-cap category, encompassing stocks from the 251st company onwards in terms of full market capitalization, aims to offer a diverse and expansive universe. This diversity spans various sectors, including emerging and sunrise industries not yet part of the larger market segments.

Over the past couple of years, small and mid-cap stocks have exhibited noteworthy performance. This resurgence is attributed to a positive economic environment, marked by government initiatives favouring corporate profitability and structural reforms such as GST, RERA, and the Bankruptcy Law.

The shift from the unorganized to the organized sector has accelerated, evident in the listing of companies from diverse sectors like children's speciality hospitals, car dealerships, drone technology, and various footwear companies. This trend aligns with India's transition beyond the **\$2,000 per capita income mark**, mirroring China's growth trajectory in 2006.

We are optimistic about the next decade for India, foreseeing opportunities for sustained growth in small companies across various sectors. The unorganized sectors, especially within discretionary consumption, present immense potential for conversion to the organized space over the next ten years.

HSBC Small Cap Fund is strategically positioned to capture this growth. The fund's focus on remaining patiently invested aligns with our belief in the long-term potential of small-cap stocks. We aim to provide investors with exposure to emerging sectors and companies, allowing them to reap the benefits of India's economic progress.



Our approach centres on identifying quality companies with substantial growth potential in long run. Key criteria involve evaluating the business's growth runway and, critically, assessing the management's quality and vision. We emphasize that the right management can drive success even in challenging business scenarios. To identify potential winners, we prioritize companies with a clear runway for growth. This involves assessing the business's potential to expand, capture market share, and thrive in its industry.

Equally crucial is evaluating the management behind the company. Successful small-cap investments hinge on the energy, drive, passion, integrity, and vision of the promoters. Not all small companies evolve into mid and large caps, making the quality of leadership a paramount consideration. Also assessing promoter quality is indeed subjective but crucial. We delve into the long-term behaviour of promoters, observing how they navigate different market cycles. We scrutinize capital allocation decisions, potential conflicts of interest, and the promoter's track record. Key parameters include integrity, team-building capabilities, loyalty of team members, and a strong second line of leadership.

| Portfolio (Top holdings)         | % to net assets |
|----------------------------------|-----------------|
| Apar Industries Limited          | 3.21%           |
| KPR Mill Limited                 | 3.11%           |
| Sonata Software Limited          | 2.75%           |
| Brigade Enterprises Limited      | 2.57%           |
| KPIT Technologies Limited        | 2.50%           |
| KEI Industries Limited           | 2.42%           |
| Birlasoft Limited                | 2.41%           |
| Ratnamani Metals & Tubes Limited | 2.21%           |
| EIH Limited                      | 1.89%           |
| Maharashtra Seamless Limited     | 1.82%           |

**While we adopt a blend of value and growth strategies, we lean towards being growth at a reasonable price (GARP) investor.** This flexibility allows us to seize opportunities in sectors where value or growth may be more pronounced. Our research indicates that if a company demonstrates strong growth potential and is led by a capable management team, a significant portion of our investment success is probable. This dual focus on growth prospects and management quality forms the foundation of our investment decisions.

Due to the nature of small-cap investments, thorough due diligence is imperative. Due diligence is not a one-time affair but an ongoing process. Regular interactions with companies and continuous monitoring ensure that we stay abreast of developments, mitigating potential risks and maximizing opportunities.

| Sector Allocation (Top holdings) | % to net assets | Our experience, gained over several years, enables us to understand market cycles, identify patterns, and make informed investment decisions. This extensive track record positions us well to navigate the nuances of the small-cap market. Our strategy focuses on maintaining a balance for overall portfolio liquidity. Regarding sector limits, we operate without predefined restrictions. |
|----------------------------------|-----------------|--|
| Industrial Products              | 22.64%          |  |
| IT - Software                    | 8.83%           |  |
| Consumer Durables                | 6.09%           |  |
| Textiles & Apparels              | 5.90%           |  |
| Realty                           | 5.84%           |  |
| Auto Components                  | 5.38%           |  |
| Construction                     | 4.75%           |  |
| Electrical Equipment             | 4.36%           |  |
| Banks                            | 4.17%           |  |
| Finance                          | 3.94%           |  |

Diversification within a sector helps mitigate specific risks associated with individual companies, and it aligns with our strategy of bottom-up stock selection. This approach ensures that the portfolio is not overly concentrated on a single company, offering a more balanced exposure to the overall sector dynamics.

We monitor if a sector, especially if it's more cyclical, has played out its potential, and if not, we might reduce the weight. Conversely, if there are tailwinds for a newer sector, we gradually build a position over time to avoid excessive volatility.

Our commitment to identifying companies with promising growth trajectories and strong leadership sets the stage for sustainable success in the small-cap space. **Our low portfolio turnover ratio, typically below 0.4, reflects our commitment to staying invested in well-chosen companies for the long term. We deliberately avoid concentration, with a general rule not to exceed 5% exposure in any single stock.**

In summary, HSBC Small Cap Fund combines a disciplined investment approach, a focus on quality and growth, and an extensive research effort with an aim to deliver long-term value to our investors. Our small cap portfolio construction involves a diversified approach with conservative exposure limits, steering clear of high concentrations to navigate market uncertainties effectively.

### Sectoral overweight's

- **Overall Sector Positivity:** We maintain an optimistic view on Capital Goods, Real Estate, EPC, Cement, and Logistics sectors. These segments show resilience and potential for growth in the current market scenario.
- **Industrials - Focus on EPC:** In the industrials space, we foresee EPC companies benefiting from increased activity in Roads, Building Construction, Water, Power transmission, and distribution capex, along with Railway capex. Policy reforms, such as PLI and the emphasis on Make in India, coupled with a surge in manufacturing activities and higher capacity utilization in sectors like steel and cement, are expected to drive demand for the capital goods sector.
- **Materials - Cement Optimism:** Positive sentiments surround Cement companies, driven by heightened demand in the housing and infra segments. Improved demand, coupled with anticipated enhancements in pricing power due to increased utilization levels, is poised to benefit Cement companies. However, a cautious stance is taken on the metals space, anticipating that global commodity prices may remain restrained due to a slowdown in global growth.
- **Real Estate - Earnings Momentum:** The Real Estate sector's earnings momentum is anticipated to be steered by demand factors and industry consolidation, favouring larger listed players. Encouraging presales figures for organized real estate players reinforce our positive outlook.
- **Textiles & Apparels:** Against the backdrop of a challenging FY2023, the Indian textiles sector emerges with renewed vigour. Home textiles and readymade garments are carving a niche in global markets, capitalizing on the aftermath of the US-China trade war. The sector, having navigated through muted demand and supply hurdles, anticipates a resurgence in FY2024. Beyond the immediate horizon, the "China + 1" strategy, geopolitical shifts, and prospective FTAs signal a promising trajectory. With capex milestones achieved and favourable market conditions, the sector is poised for sustained earnings growth and heightened competitiveness on the international stage.
- **Consumer Durables:** (1) A resilient theme emerges within the housing and home improvement sector. (2) most product categories are yet to reach their full potential offering an under-penetrated landscape ripe for exploration and (3) As commodity prices ease, the anticipation is for a resurgence in price-elastic demand.

| Fund Category  | Fund Manager   | Benchmark <sup>1</sup>     | Inception Date | AUM <sup>2</sup> |
|----------------|--|----------------------------|----------------|------------------|
| Small Cap Fund | Venugopal Manghat,<br>Cheenu Gupta <sup>®</sup> and Sonal Gupta <sup>®</sup> | NIFTY Small Cap<br>250 TRI | 12 May 2014    | Rs. 13230.82 Cr  |



**Venugopal Manghat**

Chief Investment Officer (CIO) and Fund Manager – Equity - HSBC Mutual Fund.



Fund Manager - Venugopal Manghat Effective 17 Dec 2019. Total Schemes Managed – 7  
 Fund Manager - Cheenu Gupta Effective 01 Oct 2023. Total Schemes Managed – 9  
 Fund Manager - Sonal Gupta Effective 05 Jul 2021. Total Schemes Managed - 15

| Lump Sum Investment Performance                   |              |               |              |               |              |               |                 |               | Inception Date |
|---|--------------|---------------|--------------|---------------|--------------|---------------|-----------------|---------------|----------------|
| Fund / Benchmark<br>(Value of Rs 10,000 invested) | 1 Year       |               | 3 Years      |               | 5 Years      |               | Since Inception |               |                |
|   | Amount in Rs | PTP Returns % | Amount in Rs | PTP Returns % | Amount in Rs | PTP Returns % | Amount in Rs    | PTP Returns % |                |
| HSBC Small Cap Fund-Regular                       | 14605        | 46.21         | 25953        | 37.50         | 27674        | 22.59         | 64770           | 21.39         | 12-May-14      |
| Scheme Benchmark (NIFTY Small Cap 250 TRI)        | 14909        | 49.26         | 23710        | 33.42         | 27806        | 22.71         | 52871           | 18.86         |                |
| Additional Benchmark (Nifty 50 TRI)               | 1285         | 25.35         | 1855         | 17.28         | 2222         | 10.15         | 3622            | 12.35         |                |

PTP returns – Point to Point returns. | Past performance may or may not be sustained in the future and is not indicative of future results. The performance details provided herein are of Regular 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 2023 for the respective schemes. Returns for 1 year and above are Compounded Annualized. Returns for less than 1 year is Simple Annualized. 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 Regular Plan.

As per clause 5.9.1 of the SEBI Master Circular dated May 19, 2023, the scheme returns vis-à-vis the benchmark return (Total Return Index) shall be disclosed are provided from the date of allotment of units.

Post merger performance of the surviving scheme, arising out of merger of schemes with similar features, is computed as per the provisions of clause 13.4 of the SEBI Master Circular dated May 19, 2023, on Disclosure of Performance of Schemes post-merger using the weighted average performance of both transferor and transferee schemes. In other cases, performance is computed using the Applicable NAV of the surviving/continuing schemes.

| SIP Performance - HSBC Small Cap Fund - Regular        |         |         |           |                 | Inception Date: 12-May-14 |
|--|---------|---------|-----------|-----------------|---------------------------|
| Scheme Name & Benchmarks                               | 1 Year  | 3 Years | 5 Years   | Since Inception |                           |
| Total amount invested (₹)                              | 120000  | 360000  | 600000    | 1150000         |                           |
| Market Value as on December 31, 2023 (₹)               | 153,467 | 572,244 | 1,338,908 | 3,359,011       |                           |
| Scheme Returns (%)                                     | 56.11   | 32.66   | 32.85     | 21.31           |                           |
| NIFTY Small Cap 250 TRI - Scheme Benchmark (₹)         | 161,849 | 565,656 | 1,317,059 | 3,017,866       |                           |
| NIFTY Small Cap 250 TRI - Scheme Benchmark Returns (%) | 71.28   | 31.79   | 32.14     | 19.23           |                           |
| Nifty 50 TRI - Additional Benchmark (₹)                | 140,519 | 465,536 | 968,475   | 2,431,143       |                           |
| Nifty 50 TRI - Additional Benchmark Returns (%)        | 33.54   | 17.49   | 18.84     | 15.00           |                           |

Past performance may or may not be sustained in the future and is not indicative of future results. For SIP returns, monthly investment of Rs. 10,000/- invested on the 1st day of every month has been considered. SIP Return are calculated on XIRR basis. IDCW are assumed to be reinvested and bonus is adjusted. Load is not taken into consideration.

Sonal Gupta is dedicated fund manager for investments in foreign securities by all the schemes of HSBC Mutual Fund.

Source: HSBC Mutual Fund, data as on 31 December 2023

[Click here to check other funds' performance managed by the Fund Manager](#)

1 As per clause 1.9 of the SEBI Master Circular dated May 19, 2023, 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 effective from 01 December 2021.



@ Managing since October 01, 2023. Please refer notice cum addendum dated September 29, 2023.

# Sonal Gupta is dedicated fund manager for investments in foreign securities by all the schemes of HSBC Mutual Fund.

&For disclosure of quarterly AUM/AAUM and AUM by geography, please visit our website: <https://www.assetmanagement.hsbc.co.in/en/mutual-funds/investor-resources/information-library#&accordion1446811090=4>.

Note - 2 As on 31 December 2023 of Growth option regular plan. During the same period, scheme benchmark (NIFTY Small Cap 250 TRI) has moved by 5.2X to Rs 5,28,710 from Rs 100,000 and delivered return of 18.86% Please refer page no. 3 for detailed performance of HSBC Small Cap Fund.

3 During the same period, value of scheme benchmark (NIFTY Small Cap 250 TRI) has moved to 30,17,866

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**Past performance may or may not be sustained in the future and is not indicative of future results.**

Source – HSBC Mutual Fund, Bloomberg, Data as on Date: 31 Dec 2023

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