

Why equity?

A far-off investment goal can ride out market lows

An Investor Awareness & Education Initiative

Why make equities a part of your investment portfolio?



Let's look at a conversation between Rahul and Nakul.



Hi Nakul, did you observe the roller-coaster ride in equities in 2022?

Yeah, it was volatile. But, despite the Russia-Ukraine conflict and its impact on the global economy, the market remained positive overall.

Rahul and Nakul are old friends meeting after a long time. They discuss the equity market movement in 2022 and their plans to invest for **their kids' higher education**.

Traditional fixed-income instruments may offer the safety of capital and fixed returns.

Yes, I agree on the safety aspect to some extent. But fixed-income instruments may not be able to beat inflation in education costs.

I had thought of investing in equities for my kid's higher education, but this volatility has made me rethink. I would rather invest in traditional fixed-income instruments.

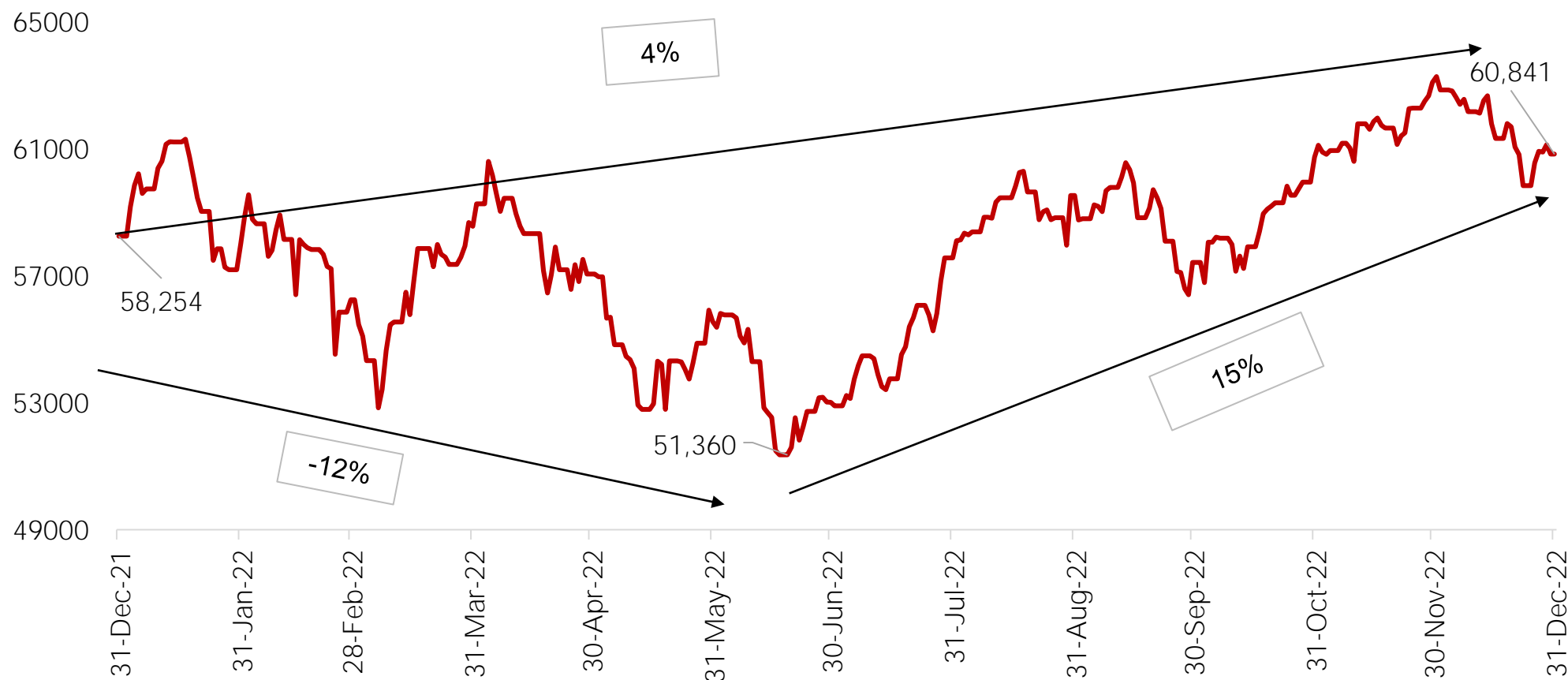
Volatility is a part of the equity market in the short term, but it pans out in the long term. Anyway, our kids' higher education is at least 15 years from now.

Hmm. But I don't have much expertise in equity investments.

Have you thought of investing in equities through mutual funds? You can not only reduce your investment amount, but also benefit from the asset class over a long-term investment horizon.

Systematic investments in equities provide optimum results for investors over the long term

After decline in the initial part of 2022, Sensex ended above the 60,000 mark



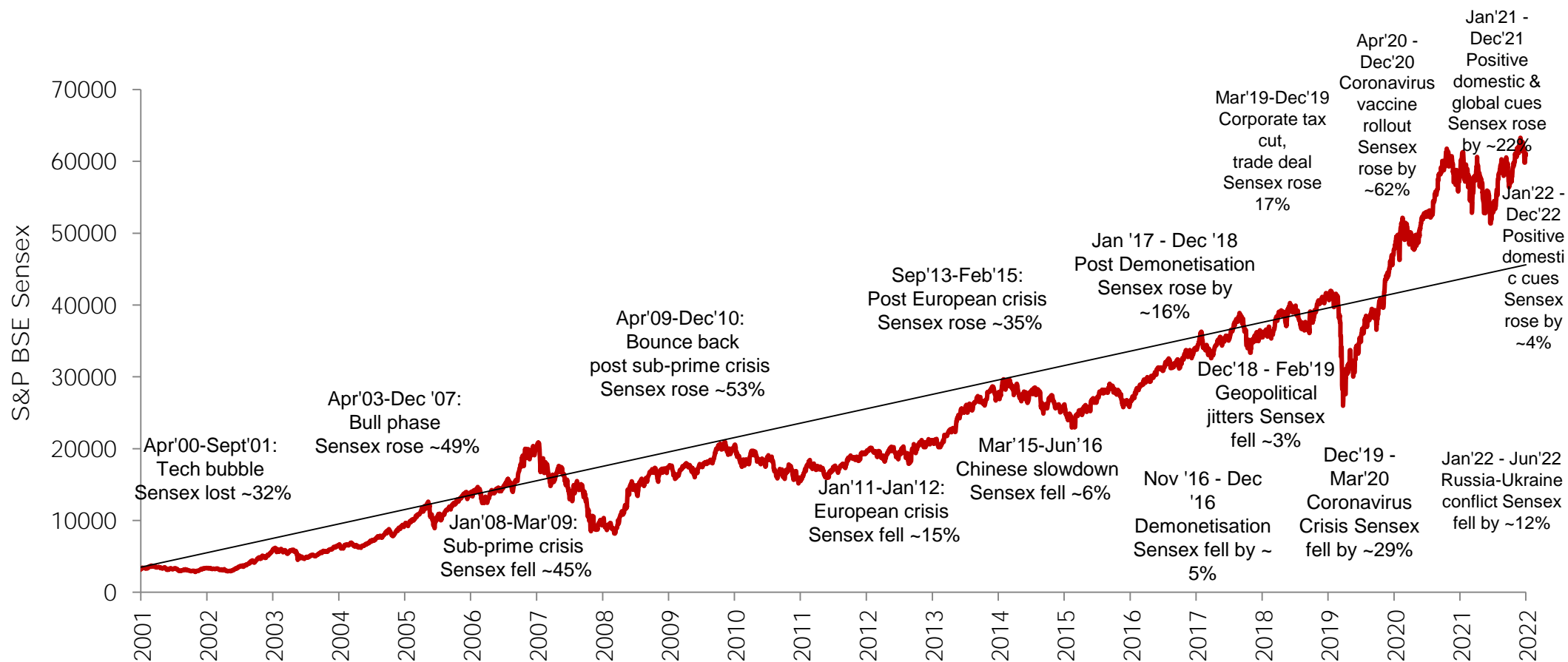
The effect of Russia-Ukraine crisis dragged down equities from January 2022 till June 2022. The S&P BSE Sensex fell 12% from the end of December 2021 till June 2022; however, after June it recovered 15% to return 4% for the year

Source: BSE, Data as at December 2022, S&P BSE Sensex as on 31 Jan 2023 - 59550

Note: Past performance may or may not sustain, past performance does not guarantee future performance

Equities tend to head up, however the ride may not be smooth

Highs interspersed with lows



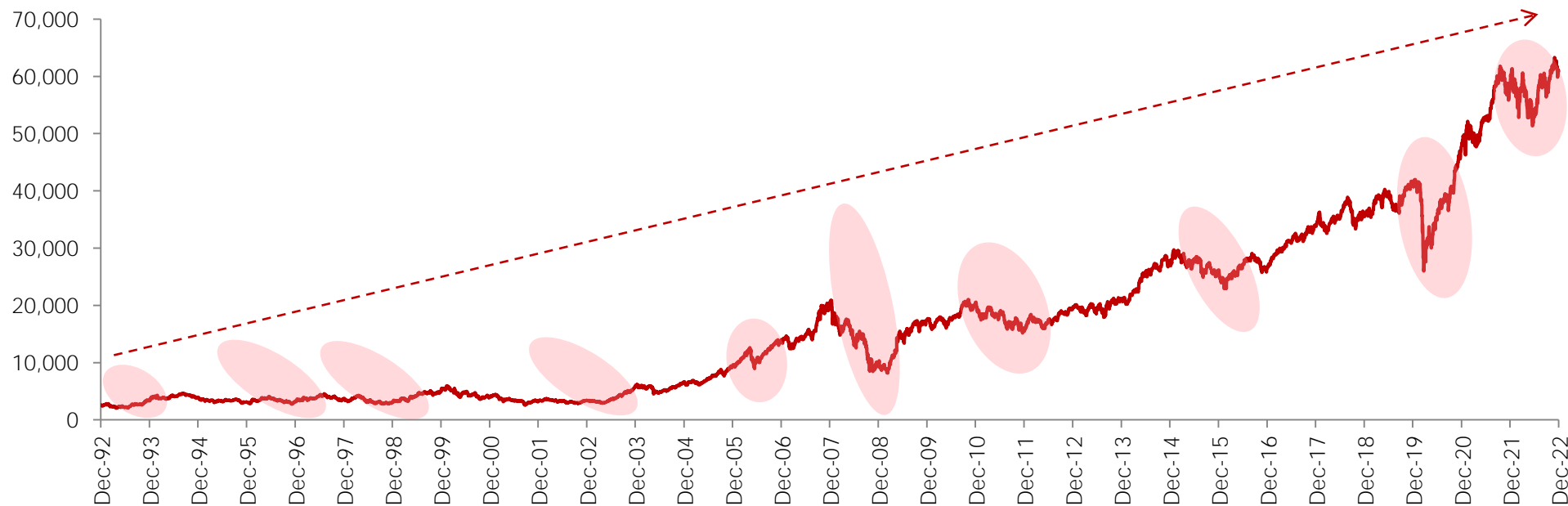
Source: BSE, CRISIL Research, S&P BSE Sensex as on 31 Jan 2023 - 59550

Data as at December 2022

Returns for period less than one year are absolute; otherwise, annualised. Past performance may or may not sustain, past performance does not guarantee the future performance

Sensex in past 30 years, grown at 11% CAGR

S&P BSE Sensex -- Anatomy of Corrections



Note: Highlighted circles represent correction in the market

Short-term volatility is an inherent part of equity investment

Source: BSE, Data as at December 2022, S&P BSE Sensex as on 31 Jan 2023 - 59550

Note: Past performance may or may not sustain, past performance does not guarantee future performance

Short-term volatility is an intrinsic part of equity investments

Long-term investment pays off

| BSE Sensex | 3-year rolling returns | 5-year rolling returns | 7-year rolling returns | 10-year rolling returns | 15-year rolling returns |
|--------------------------------------|------------------------|------------------------|------------------------|-------------------------|-------------------------|
| Average rolling period returns | 16.27% | 15.88% | 15.46% | 15.35% | 14.66% |
| Total time periods (monthly rolling) | 487 | 463 | 439 | 403 | 343 |
| Total number of positive returns* | 436 | 430 | 414 | 400 | 343 |
| Total number of negative returns^ | 51 | 33 | 25 | 3 | 0 |
| Positive investment periods | 90% | 93% | 94% | 99% | 100% |

The longer you stay invested, lower is the possibility of negative returns

In the long term, the probability of incurring losses is lower in equity investments

Notes:

Monthly rolling returns for respective holding periods since 30 June 1979. For instance, in case of 15-year monthly rolling returns, there will be 343 return periods. The first return period will be 30 June 1979- 30 June 1994 and the last return period will be 31 Dec 2007- 31 Dec 2022.

* Positive returns – The number of investment periods during which returns have been positive. For example, when investment returns have been computed for a 15-year rolling period, 343 months out of 343 instances offered positive returns (i.e. 100% positive investment periods).

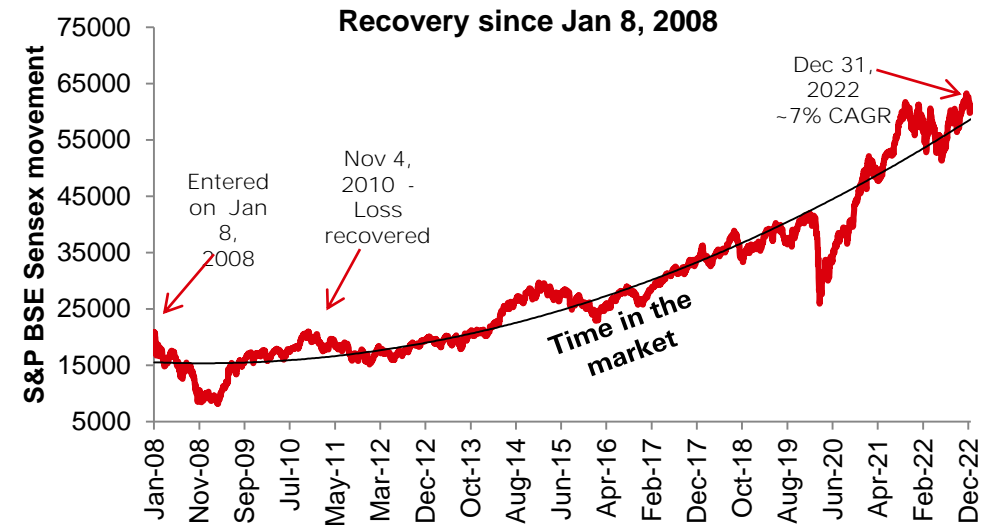
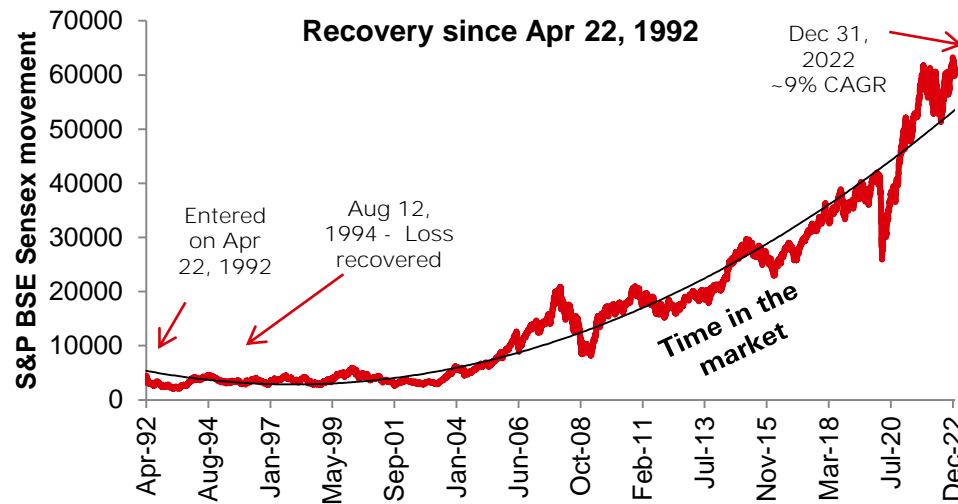
^ Negative returns – Number of investment periods during which returns have been negative. For example, where investment returns have been computed for a 5-year rolling period, 33 months offered negative returns (losses), the number of negative returns = 33

Source: BSE, CRISIL Research, Data as at December 2022

Past performance may or may not sustain, past performance does not guarantee future performance

A far-off investment goal can ride out market lows

Historical trend shows that after falling, markets have recovered in the medium term



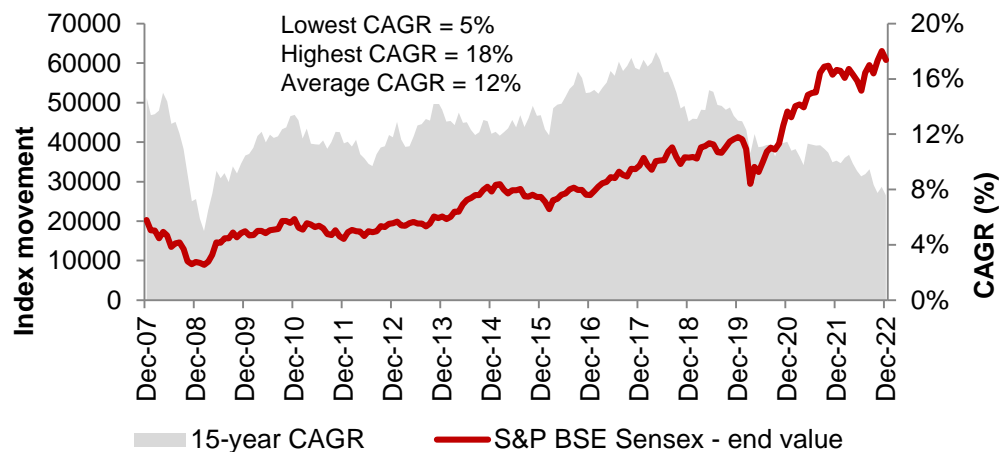
Equity losses are transitory – long-term outlook can earn better returns

Source: BSE, CRISIL Research, Data as at December 2022, S&P BSE Sensex as on 31 Jan '23 - 59550
Past performance may or may not sustain, past performance does not guarantee future performance

How investors can make more by losing less

Consistent, predictable behaviour over longer period

S&P BSE Sensex 15-year monthly rolling returns

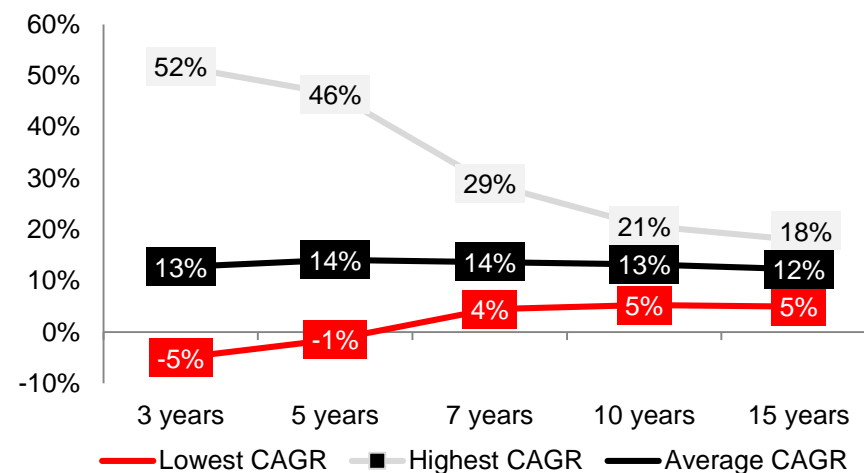


Period: Dec 2006–2021; Returns frequency: Monthly rolling

Difference between high and low returns reduces with increase in holding period

100% positive 15-year returns

S&P BSE Sensex monthly rolling returns by holding period



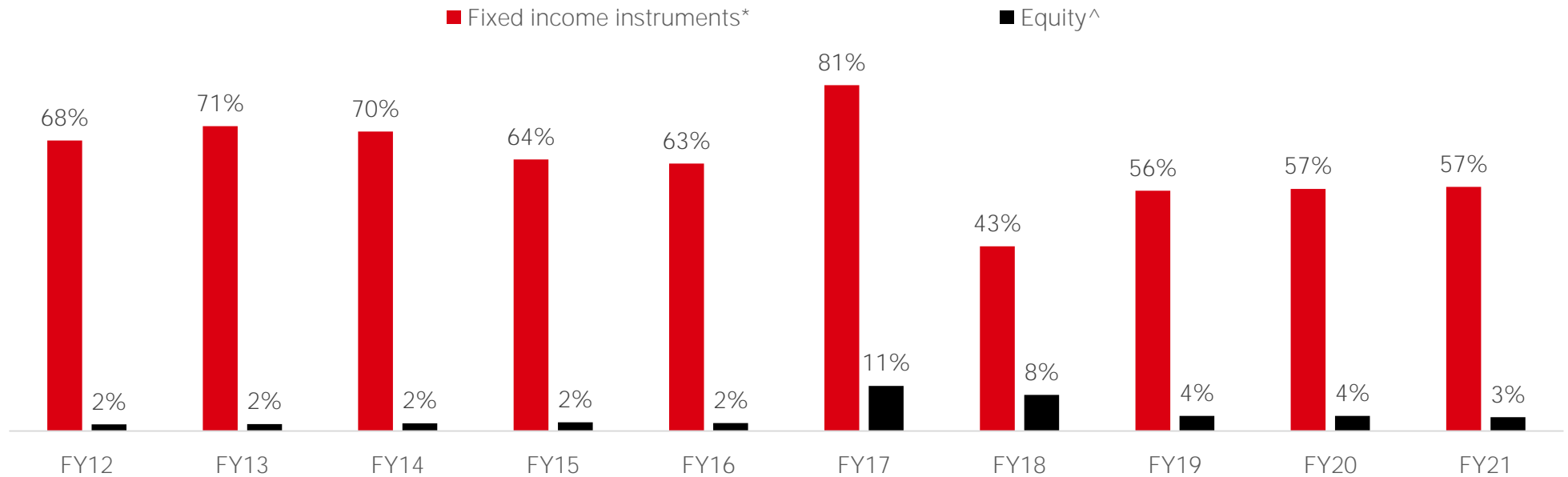
Period: Dec 2007–2022; Returns frequency: Monthly rolling

For illustration purposes only. Source: BSE, CRISIL Research, Data as at December 2022, S&P BSE Sensex as on 31 Jan '23 - 59550
Past performance may or may not sustain, past performance does not guarantee future performance

Fixed-income instruments are the traditional investment choice

Equity plays a marginal role

Share of Indian household gross financial savings (%)



Indian investments remain skewed towards debt

For illustration purposes only. Source: RBI, as per the latest data available, *Fixed-income instruments include deposits and investments in provident and pension funds

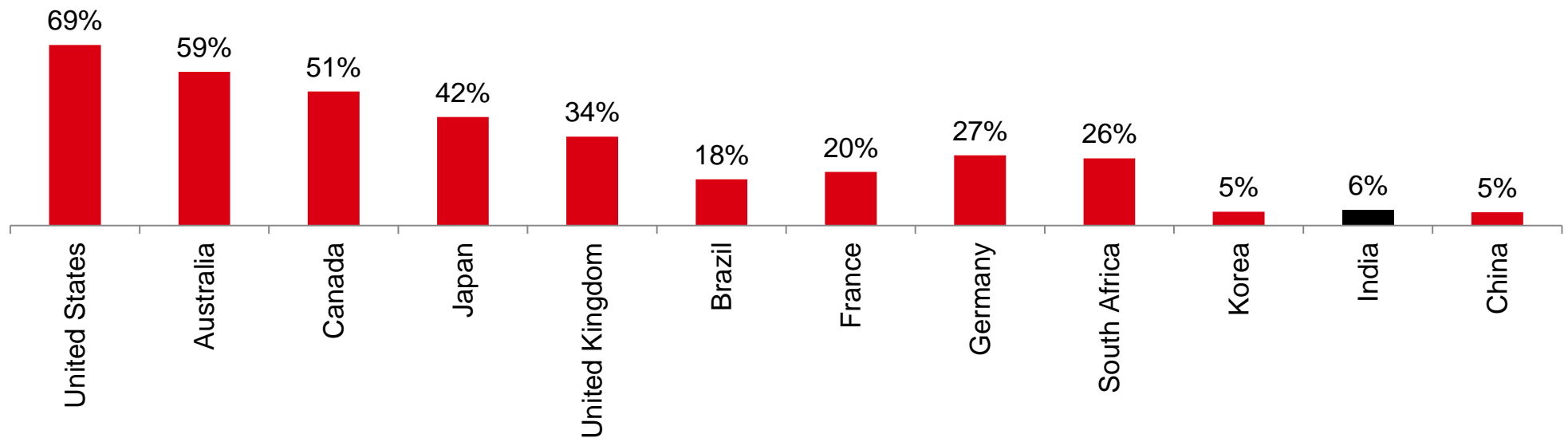
^Equity includes investments in shares and debentures

But equity is the most preferred investment avenue globally

Developed countries have higher affinity to equity

- Emerging economies are significantly under-exposed to the equity asset class compared with developed economies

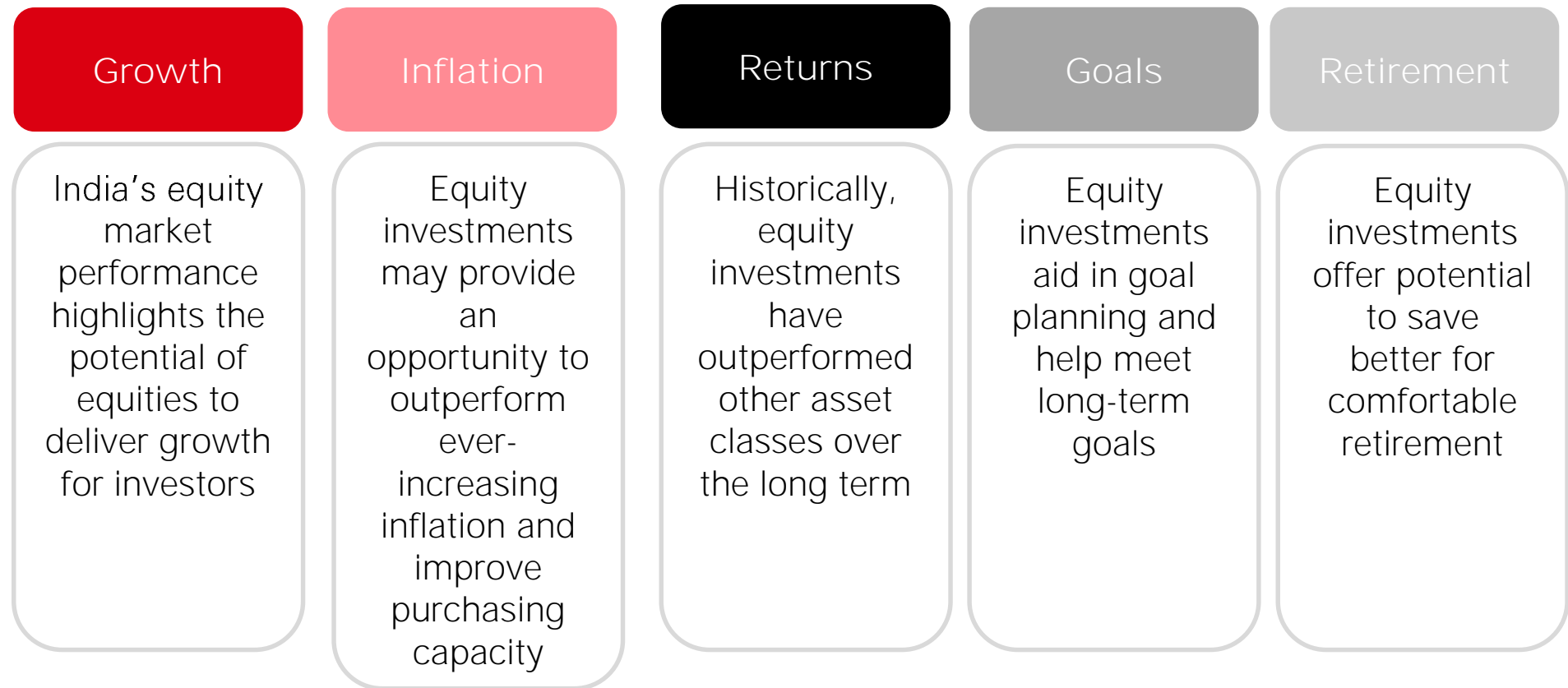
Equity Exposure as a % of GDP



India has one of the lowest equity exposures at only 6%

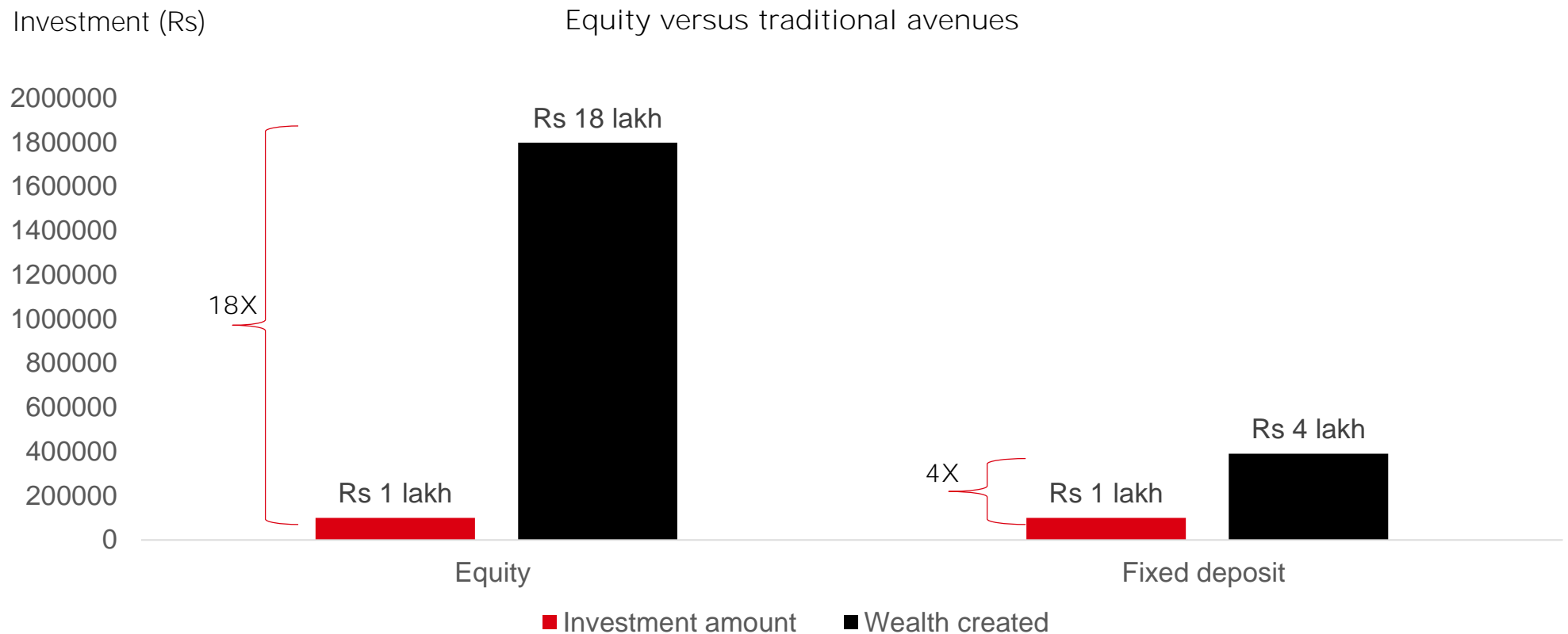
Source: CRISIL, IMF, IIFA, GDP Data as of October 2022; Assets data as at Q2, 2022 as per latest available data

Five reasons why you should invest in equities



Equity investment is relatively less explored in India compared with other options

Invest in equity and aim to create wealth in the long run



Rs 1 lakh invested in the S&P BSE Sensex grew to ~Rs 18 lakh versus invested in fixed deposit[^] grew to ~Rs 4 lakh in 20 years

For illustration purposes only. Source: BSE, CRISIL, [^]Fixed deposit is represented by 1-year FD index

* CAGR returns for S&P BSE Sensex and FD index (1 year period FD) for the period between 31 December 2002 and 31 December 2022 considered for analysis

Past performance may or may not sustain, past performance does not guarantee future performance

Equity well suited for India's young demography

Scope to increase equity allocation

- ◆ Young investors can have a higher equity exposure owing to higher risk appetite

India is likely to remain a young country in the future

| Share of 15-49-year-olds in the country's population | | | |
|--|------|------|------|
| Country/ region | 2020 | 2035 | 2050 |
| Australia | 47% | 46% | 42% |
| Brazil | 54% | 48% | 42% |
| China | 49% | 45% | 37% |
| India | 54% | 53% | 47% |
| Japan | 40% | 35% | 33% |
| Russian Federation | 46% | 45% | 41% |
| South Africa | 54% | 53% | 49% |
| UK | 44% | 44% | 40% |
| US | 46% | 45% | 42% |

Young investors can invest more in equity to benefit from long-term compounding

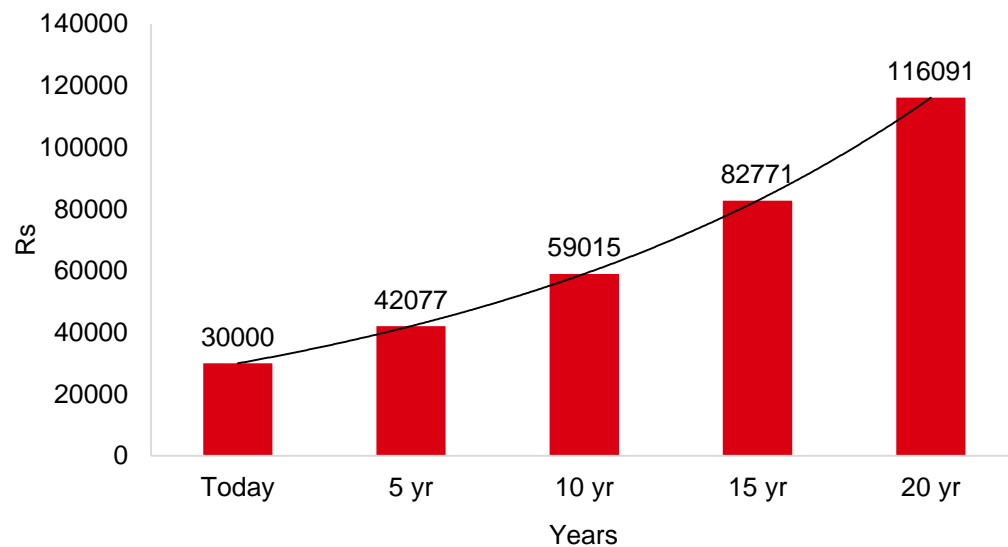
Source: CRISIL, UNCTAD. Data for 2035 and 2050 is based on estimation

Note: Past performance may or may not sustain, past performance does not guarantee future performance

Savings are not enough since inflation erodes the value of money

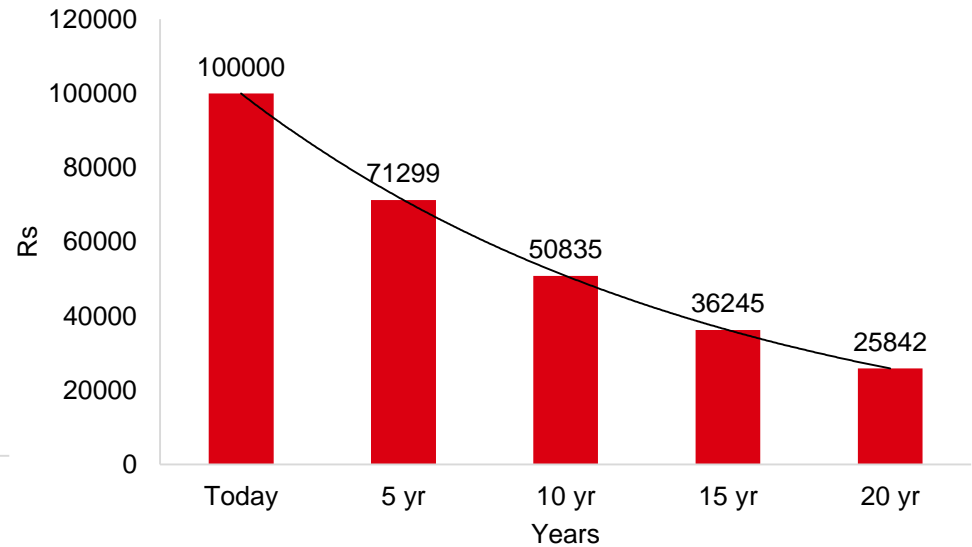
If our expenses are real, returns should also be real

Real cost of expense over time



At ~7% inflation

Value of Rs 100,000 over time



At ~7% inflation

Inflation not only increases the cost of products, but also reduces the value of money

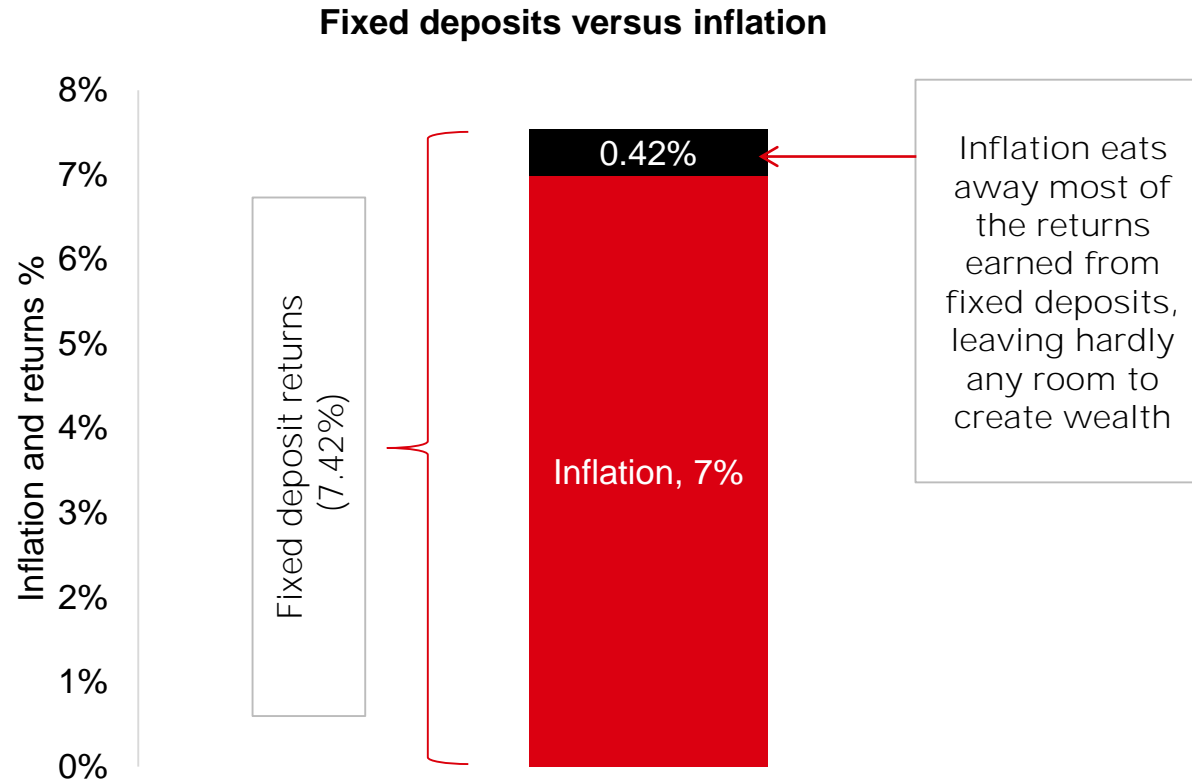
Source: Labour bureau.nic.in, as per the latest data available, Data as at December 2022

Inflation represented by the average of monthly inflation of industrial workers declared from January 1993 to December 2022

Past performance may or may not sustain, past performance does not guarantee future performance

Traditional saving avenues do not offer enough cushion...

Inflation generally consumes investment capital

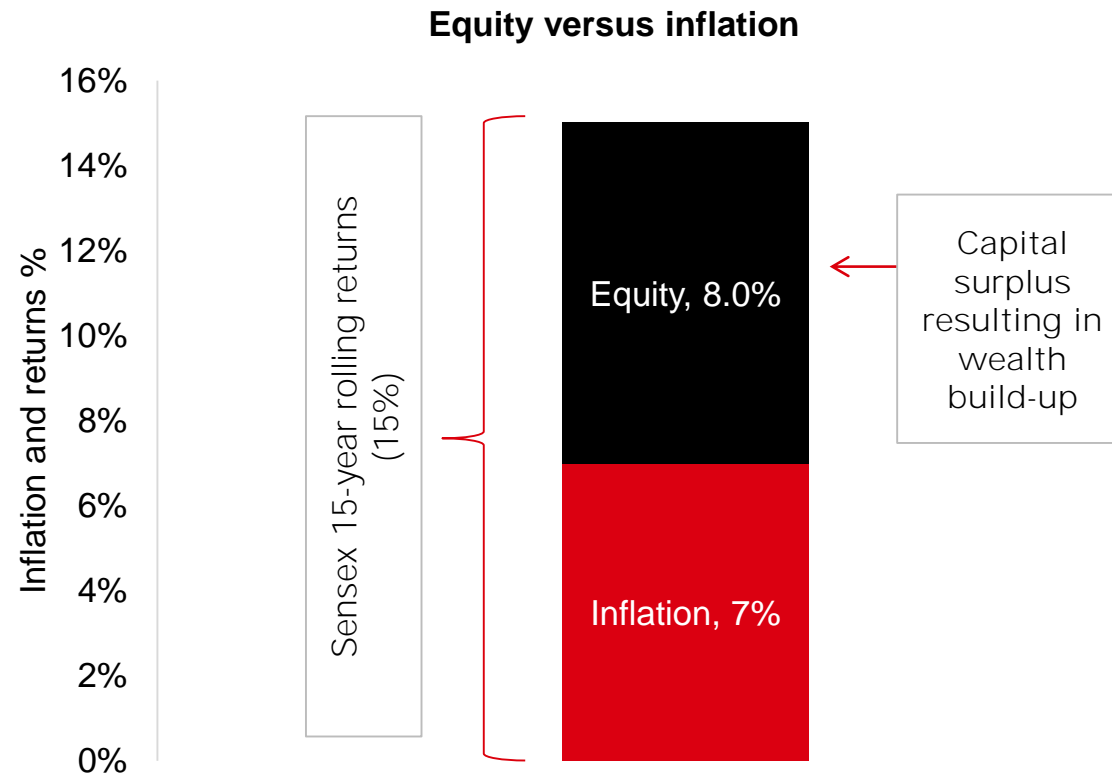


The difference between saving and investing is the ability to provide an affordability cushion by beating inflation consistently

For illustration purpose only Source: CRISIL Research, Labour bureau, RBI, Data as at December 2022
Fixed deposit rate represented by 1-year FD index's annualised returns since December 2007 till December 2022
Inflation represented by average of monthly inflation of industrial workers declared from January 1993 to December 2022
Past performance may or may not sustain, past performance does not guarantee future performance

... But equity does to combat the ever-increasing cost of living

The smartest way to create wealth



Regular equity investment helps tackle the rise in cost of living and plan for future goals

For illustration purpose only Source: BSE, Labour bureau, RBI, Data as at December 2022

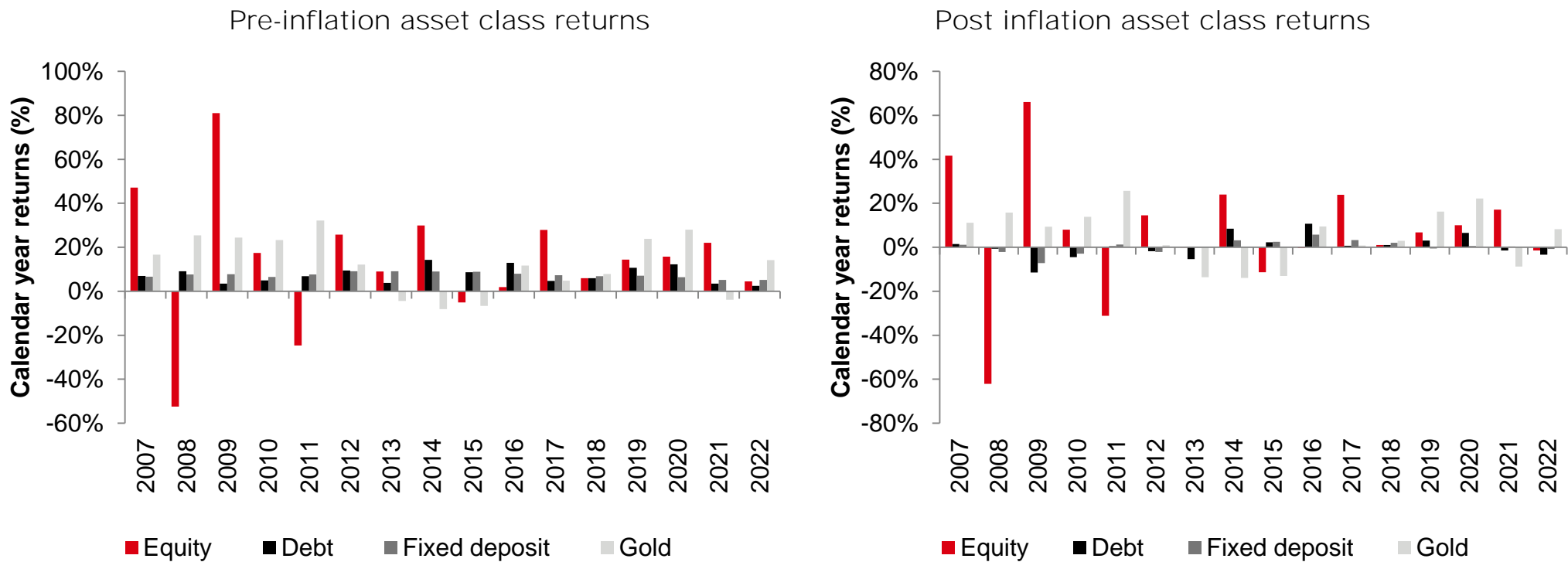
Equity returns represented by S&P BSE Sensex's average CAGR for 15-year holding period calculated on a daily rolling basis since 1979; data till December 2022

Inflation represented by average of monthly inflation of industrial workers declared from January 1993 to December 2022

Past performance may or may not sustain, past performance does not guarantee future performance

Calendar year returns show better performance by equity

Pre- and post-inflation returns

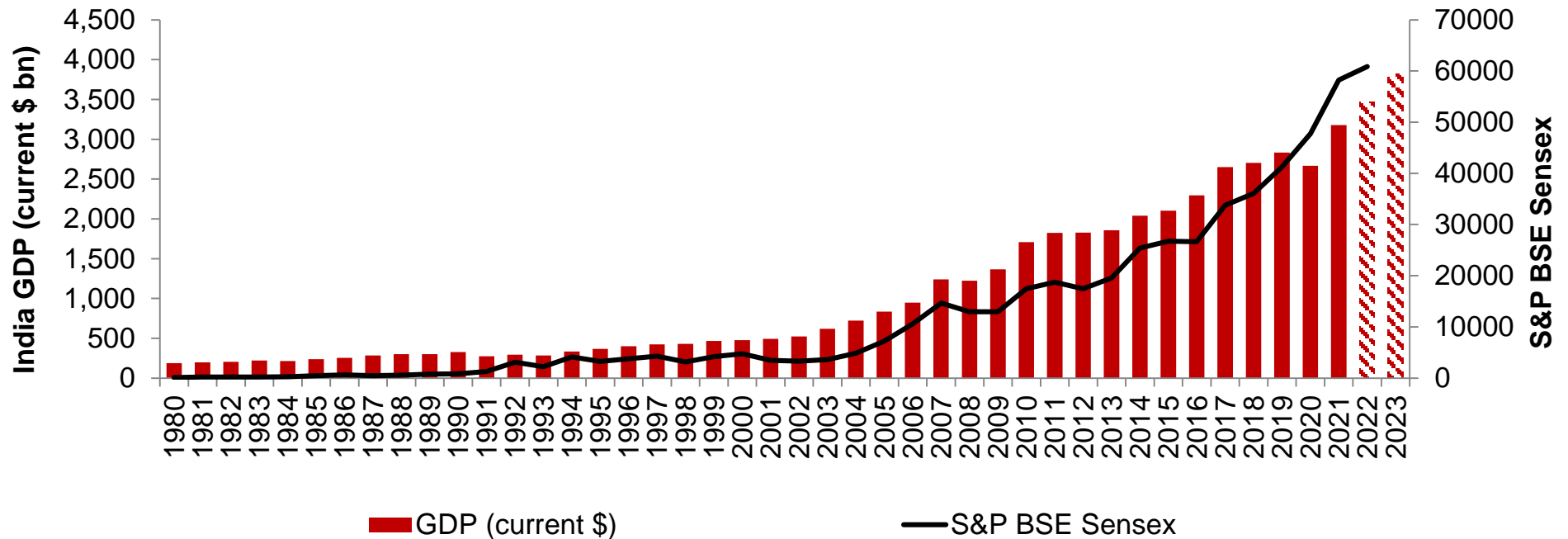


Equity outperformed other asset classes in most calendar years

For illustration purposes only. Source: BSE, CRISIL, Labour bureau, RBI, Data as of December 2022
Year-on-year returns for all asset classes
Equity represented by S&P BSE Sensex, debt by CRISIL Composite Bond Index, fixed deposit rate represented by 1-year FD index, gold by IBSA gold prices, and inflation by the annual CPI-Industrial worker. Past performance may or may not sustain, past performance does not guarantee future performance

Equity mirrors economic growth in the long term

India expected to remain on a long-term growth trajectory



GDP data after 2021 are projections

Equity offers the opportunity for long-term wealth creation

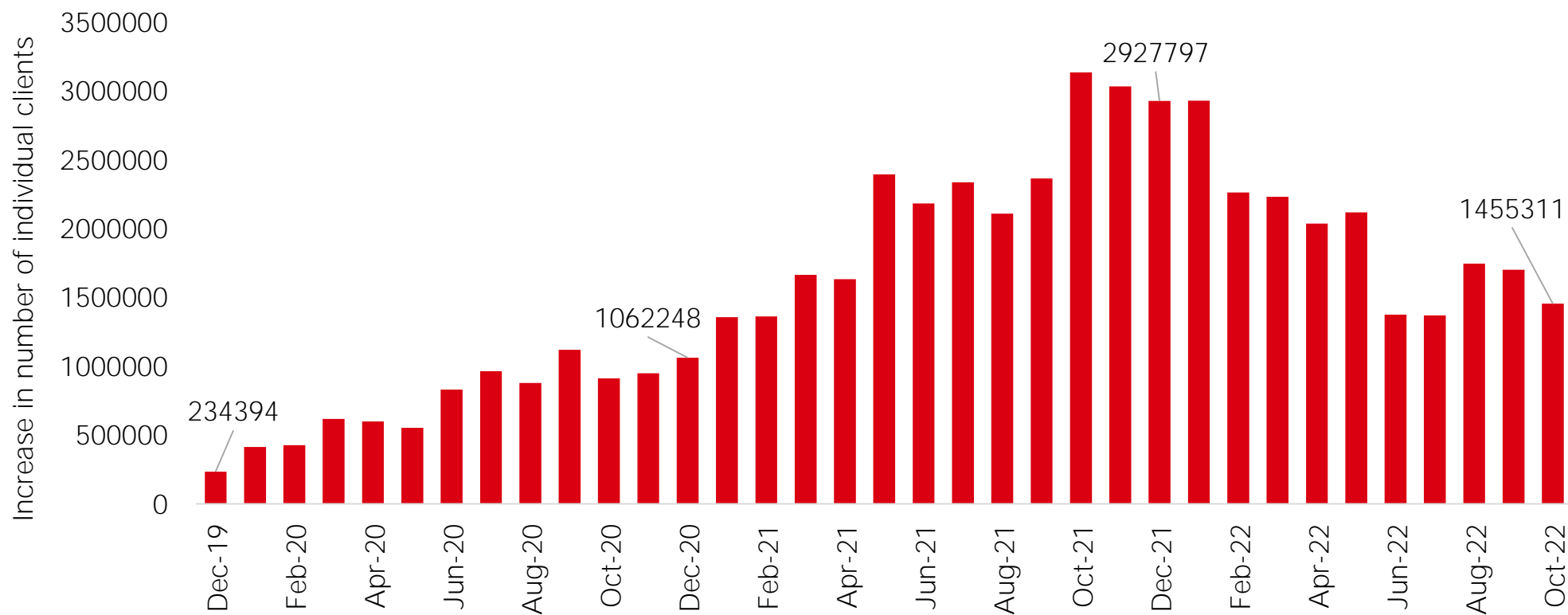
Source: BSE, IMF, Data as at December 2022, GDP projection starts after year 2021 and is shown shaded in this graph; it is for illustration purposes only and is not guaranteed, S&P BSE Sensex as on 31 Jan 2023 - 59550

The projection contained in this graph is for illustration purposes only and is not guaranteed

Past performance may or may not sustain, past performance does not guarantee future performance

Direct equity participation jumped in 2021

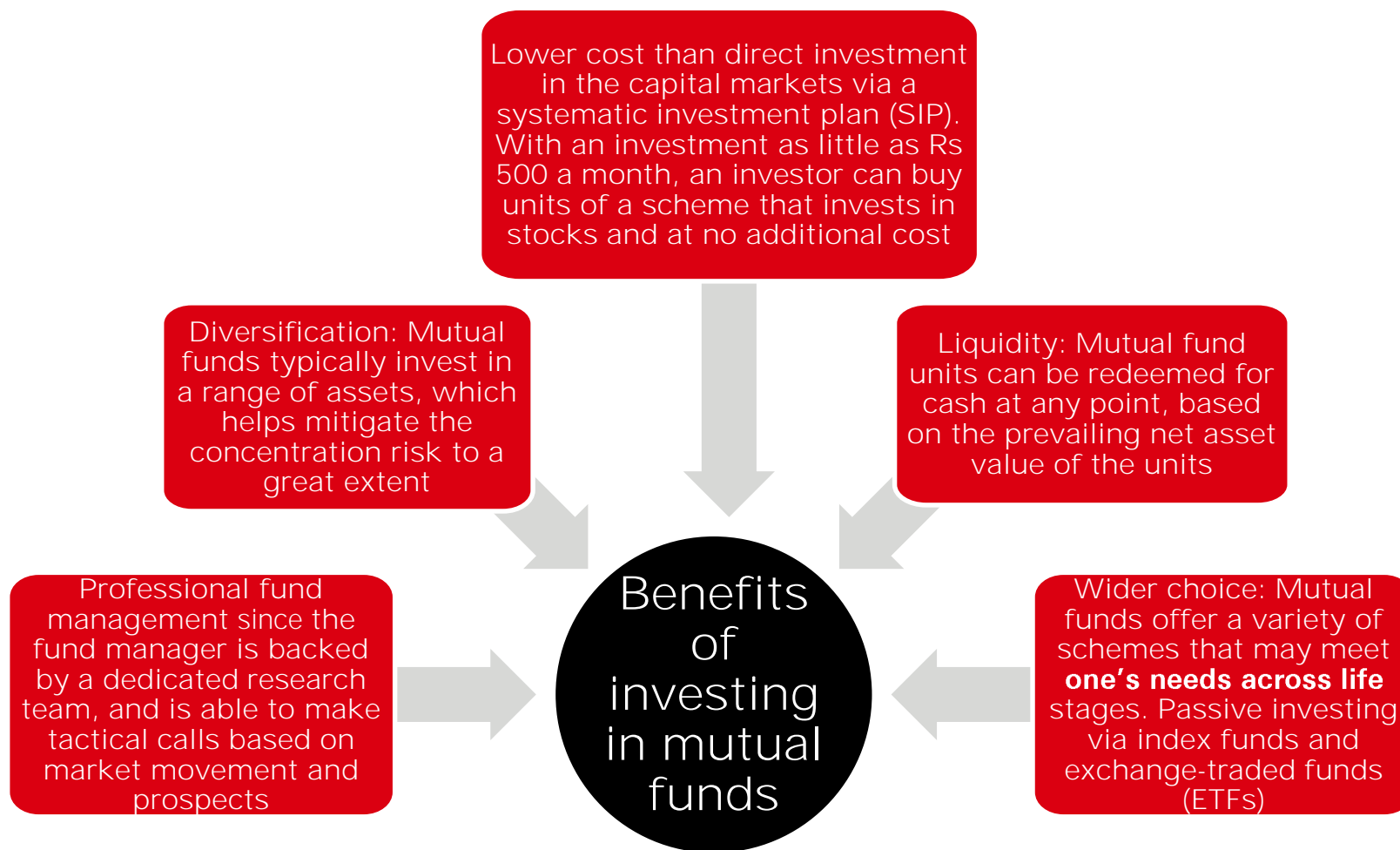
Surge in demat accounts as the equity market rallied to a record high



Despite the pandemic-triggered market volatility, the number of individual investors opening accounts for direct investments surged

Source: CDSL, Data available till October 2022 as per latest available data.

Equity mutual funds are an optimal way to invest in the asset class



Individual investors would be better off diversifying their investment through equity mutual funds to benefit from the capital markets in the long term

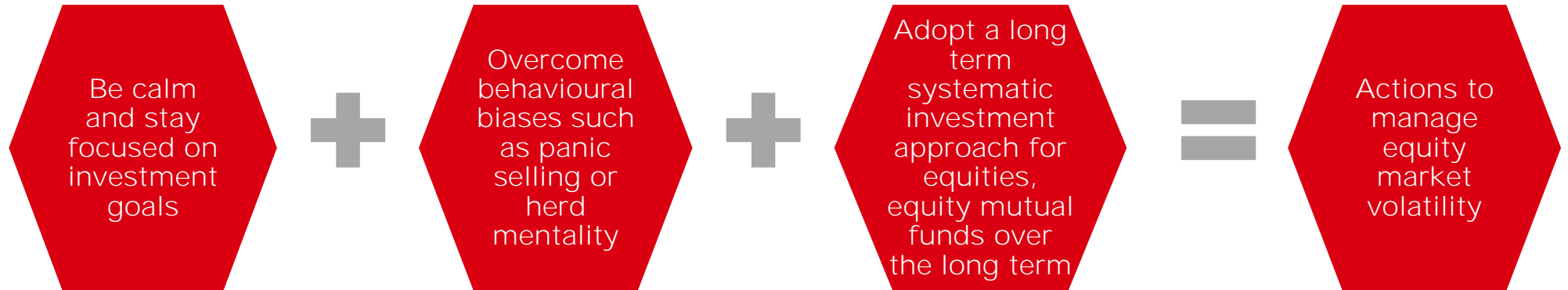
Equity funds provide an array of investment strategies and options

Raft of options available for both active and passive funds

| Actively managed | | Passively managed | |
|-------------------------|------------------------------------|-------------------|---------------------------------|
| Market cap-based | Flexi-cap | Index funds/ ETFs | Broad market tracking funds |
| | Multi-cap | | |
| | Large-cap | | |
| | Large & mid-cap | | Sectoral index tracking funds |
| | Mid-cap | | |
| | Small-cap | | |
| Strategy-based | Dividend yield fund | | Global index tracking funds |
| | Value fund | | |
| | Contra fund | | |
| | Focussed fund | | Smart beta index tracking funds |
| Thematic and tax saving | Sectoral/thematic fund | | |
| | Equity linked saving scheme (ELSS) | | |

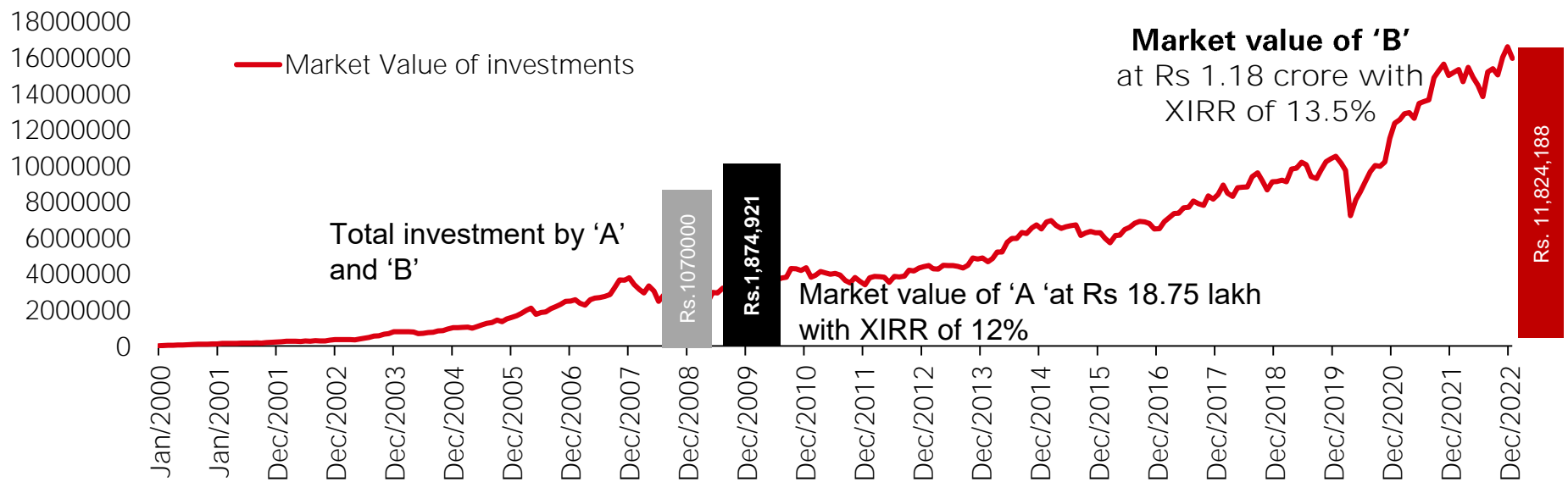
Equity MF investments offer a variety of options – active and passive – across market capitalisation, themes and strategies

Adopt systematic investment approach to tide over market volatility



Investors who redeem/stop investments lose out long-term opportunities

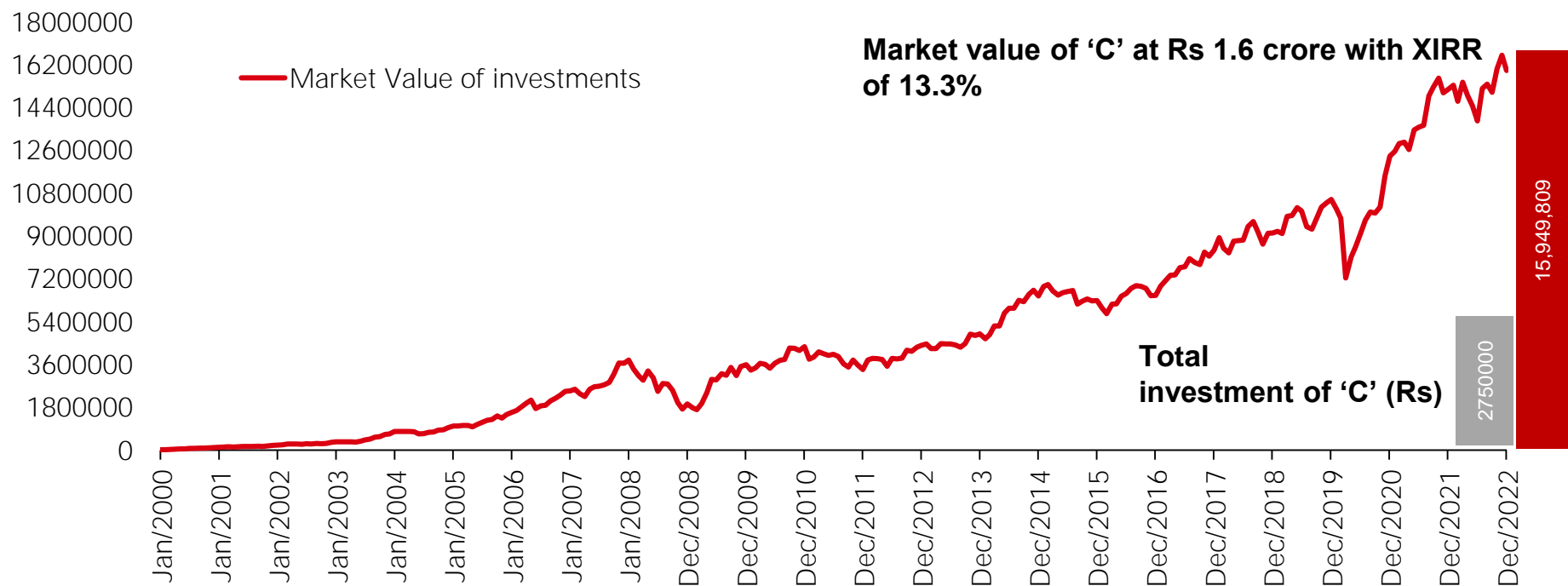
- ◆ A and B started their SIPs in January 2000, with both investing Rs 10,000 per month
- ◆ Everything was fine with their investments until the Global Financial Crisis (GFC) in 2008
- ◆ While A redeemed his investments, B stopped his investments (A & B's SIP investment stopped post Dec 2008), but did not withdraw his money
- ◆ A received ~Rs 18.75 lakh from his cumulative investment at an XIRR of ~12% at the end of 2008. B, who had not withdrawn his investments, and did not invest any more after the GFC, had a corpus of ~Rs 1.18 crore as of December 2022 and an XIRR of 13.5%



For illustration purpose only. Source: BSE, CRISIL Research, Data as at December 2022
Monthly SIP of Rs10,000 in S&P BSE Sensex from January 2000 on the first day of the month
Past performance may or may not sustain, past performance does not guarantee future performance

Investors who continue their SIPs gain from long-term opportunities

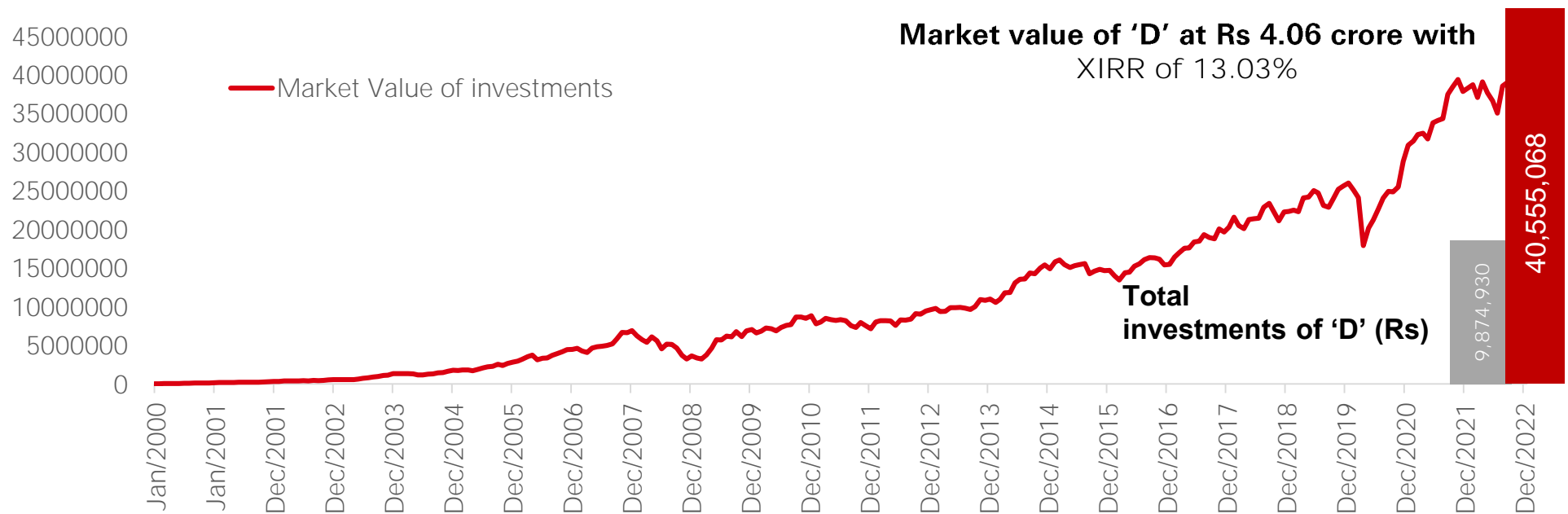
- ◆ C started investing Rs 10,000 per month in January 2000 and persisted with his investment over the years (SIP continued till Dec '22). His total investment of Rs 27.5 lakh had a market value of Rs 1.6 crore in December 2022 with an XIRR of ~13.3%



Source: BSE, CRISIL Research, Data as at December 2022
Monthly SIP of Rs 10,000 in S&P BSE Sensex from January 2000 on the first day of the month
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Investors derive higher benefits with incremental SIPs in market downturns

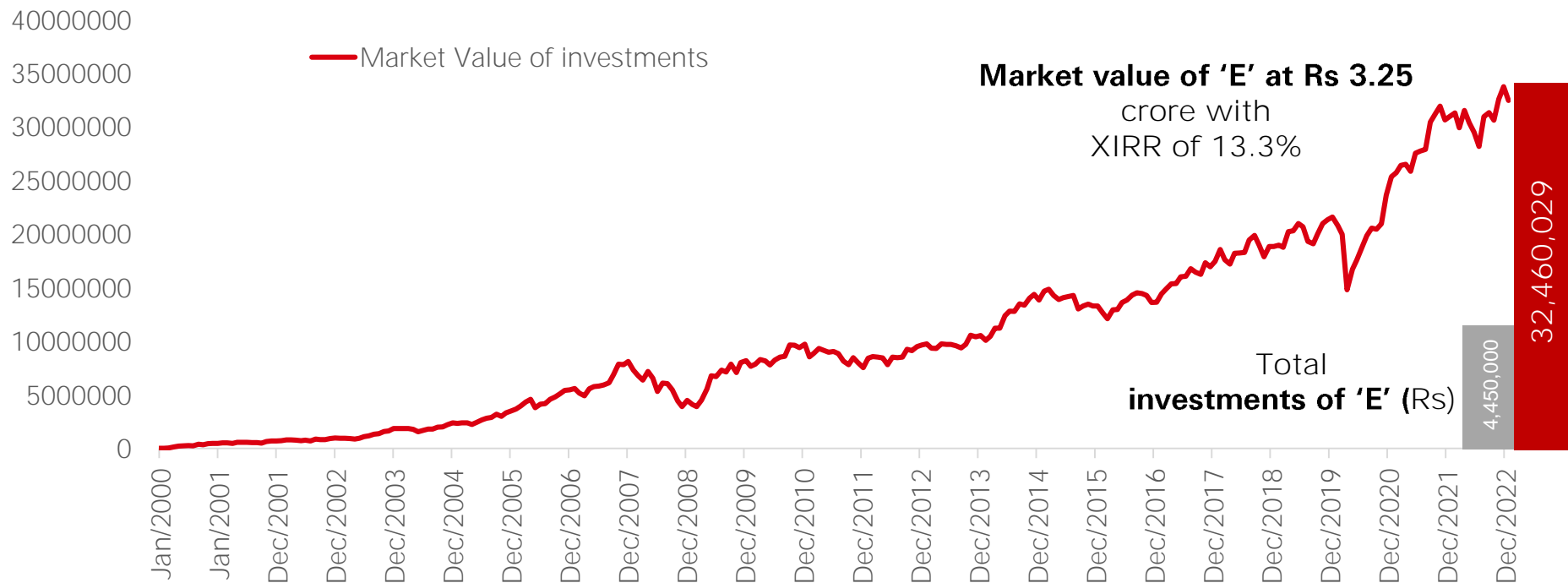
- ◆ D had a similar starting point in his investment journey by investing Rs 10,000 per month since January 2000 till Dec 2022
- ◆ However, he increased his monthly investment value by 10% every time the market fell 10% in a single month
- ◆ This increased SIP investment is retained till the next similar fall and the process continues
- ◆ The resultant impact on his investment of ~Rs 99 lakh is visible – his investment compounded to Rs 4.06 crore as of December 2022 at an XIRR of ~13%



Source: BSE, CRISIL Research, Data as at December 2022
Monthly SIP of Rs 10,000 in S&P BSE Sensex from January 2000 on the first day of the month
Past performance may or may not sustain, past performance does not guarantee future performance.

Investors gain from lump sum investment additions in market downturns

- ◆ E made lump sum investments during market downturns to derive higher benefits
- ◆ He invested Rs 1 lakh each month after markets fell 10% in a single month, in addition to his regular SIP amount of Rs 10,000 (total of Rs 1.1 lakh) (From Jan 2000 to Dec 2022)
- ◆ As a result, his investment of ~Rs 45 lakh grew to Rs 3.25 crore in December 2022 at an XIRR of 13.3%



Source: BSE, CRISIL Research, Data as at December 2022

Monthly SIP of Rs 10,000 in S&P BSE Sensex from January 2000 on the first day of the month

Past performance may or may not sustain, past performance does not guarantee future performance

Look beyond market downturns, stay invested in SIPs for long-term gains

- ◆ Staying invested for the long term as the market recovers gradually will increase the corpus value and overall SIP returns (as shown in this illustration from slide 22 to slide 26)
- ◆ We undertook a scenario analysis to understand the implications of various types of mutual fund investor behaviour during market volatility, and the associated benefits
- ◆ Investors A, B C, D and E began investing Rs 10,000 in an equity SIP in S&P BSE Sensex from January 2000 as below. However, their approach to market volatility differed:
 - A redeemed his investment after the GFC (Last SIP investment Dec 2008)
 - B stopped SIPs due to the volatility seen during the GFC, but retained his investments (Last SIP investment Dec 2008)
 - C continued his SIP at the same pace (Last SIP investment Dec 2022)
 - D increased his monthly SIP investment by 10% after every monthly fall of more than 10% (Last SIP investment Dec 2022)
 - E added a lump sum investment of Rs 1 lakh after every monthly fall of more than 10% (Last SIP investment Dec 2022)

| | A | B | C | D | E |
|--|------|-------|-------|-------|-------|
| Total amount invested (Rs lakh) | 10.7 | 10.7 | 27.5 | 98.7 | 44.5 |
| Total value at the end of Dec 2022 (~Rs lakh) | 18.7 | 118.2 | 159.5 | 405.6 | 324.6 |

Past performance may or may not be sustained, past performance does not guarantee future performance

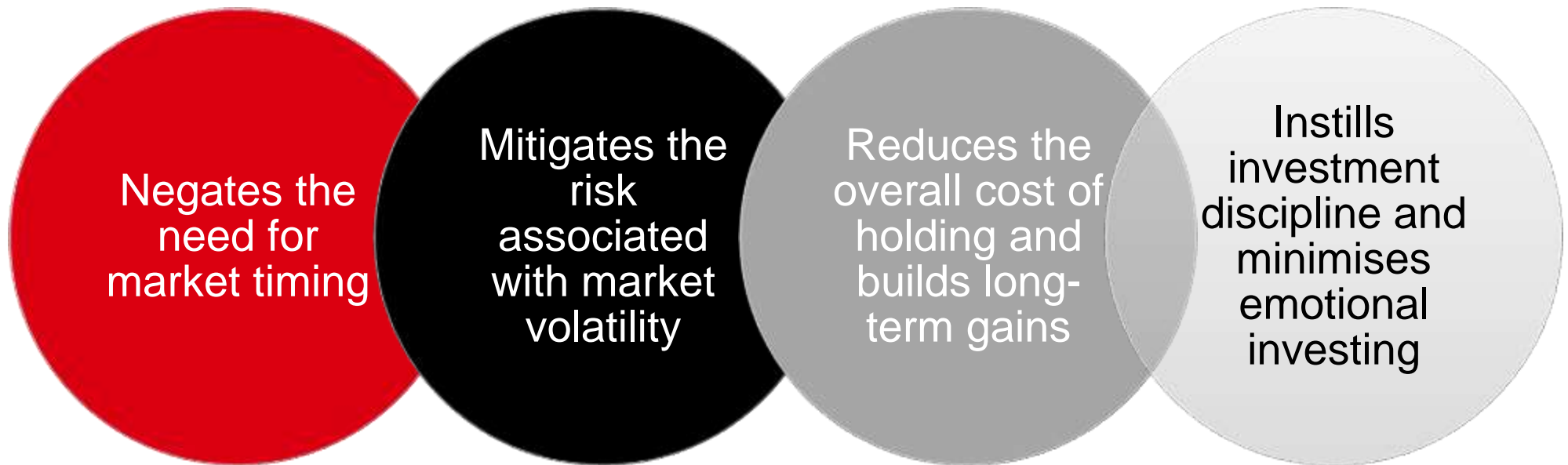
How they fared

- ◆ A missed out on accumulating more units and increasing his corpus, while B benefitted from retaining investments, but could not leverage gains in rupee terms
- ◆ C persevered and benefitted from his disciplined investments. D and E leveraged market downturns to invest more and boost their end-investment corpus

For illustration purpose only. Data as at December 2022

Rupee cost averaging beneficial for investors

- ◆ SIP ensures a regular fixed investment at different points of time, which ultimately results in investors buying more units when the market falls and fewer units when the market rises. This averages the cost per unit of investment (rupee cost averaging)
- ◆ Rupee cost averaging is beneficial for investors in many ways as shown below



Past performance may or may not sustain, past performance does not guarantee the future performance.

Aim to achieve your long-term goals with systematic investments

Rahul and Nakul can achieve their goals of funding their kids' higher education with a lower investment by investing systematically in equity mutual funds. The surplus can be used to target other life goals

| | Fixed income instruments | Equity |
|--|---|------------|
| Goal | Create corpus for child's higher education expenses | |
| Current cost of goal | Rs 10 lakh* | |
| Goal period | 15 years | |
| Future cost | Rs 27.59 lakh^ | |
| Monthly investment amount needed to achieve goal | ~Rs 8,705# | ~Rs 4,127@ |

Systematic investments in equity may provide optimum results for investors over the long term

Notes:

*approx. IIT Bombay fees

Assuming inflation of 7%, which was the average inflation rate of industrial workers since January 1993 till December 2022

@Grown at 15% represented by S&P BSE Sensex's average CAGR for 15-year holding period calculated on a daily rolling basis since 1979; data till December 2022

#Grown at 7.42% represented by 1-year FD index returns between December 2007 and December 2022

^Based on inflation represented by average of monthly inflation of industrial workers declared since January 1993 till December 2022

The projections in this graph are for illustration purposes only and not guaranteed

Past performance may or may not sustain, past performance does not guarantee future performance

In a nutshell

Equity is a long-term capital growth solution

- ◆ The future is uncertain; prediction is risky
- ◆ Preserve and, if possible, grow capital on a real-term basis over the long term
- ◆ Avoid permanent capital impairment through risk-averse capital allocation
- ◆ Target outperformance only over a full cycle
- ◆ Invest systematically in equity over the long term to derive optimum investment results

“Someone is sitting in the shade today because someone planted a tree a long time ago.”

– Warren Buffett

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