

# Multi Cap Funds

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Benefit from multi market caps in uncharted times

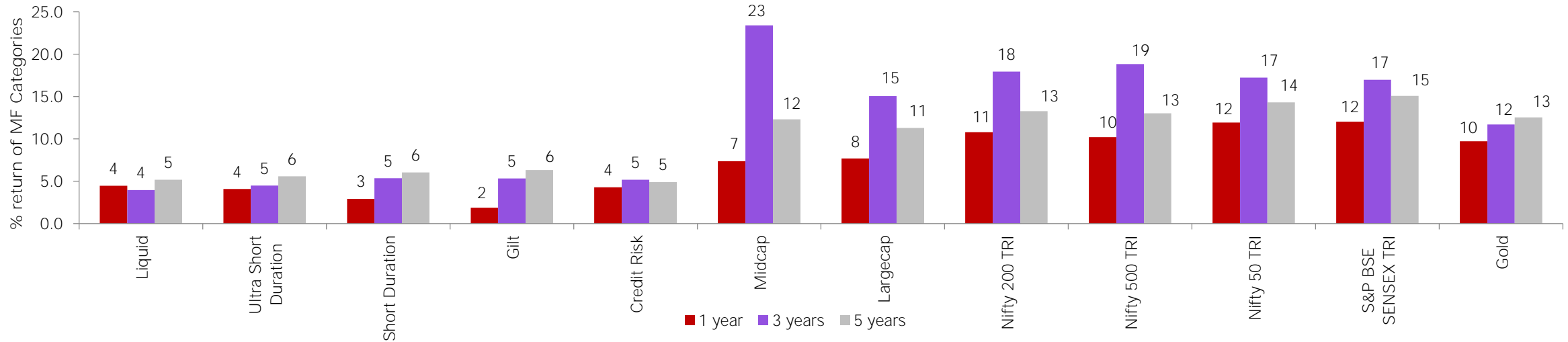


December 2022

An Investor Education & Awareness Initiative

# Why equities?

Beat inflation consistently with equities over the long run



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%	15.36%	14.68%
Positive investment periods	90%	93%	94%	99%	100%

Past performance may or may not be sustained in future

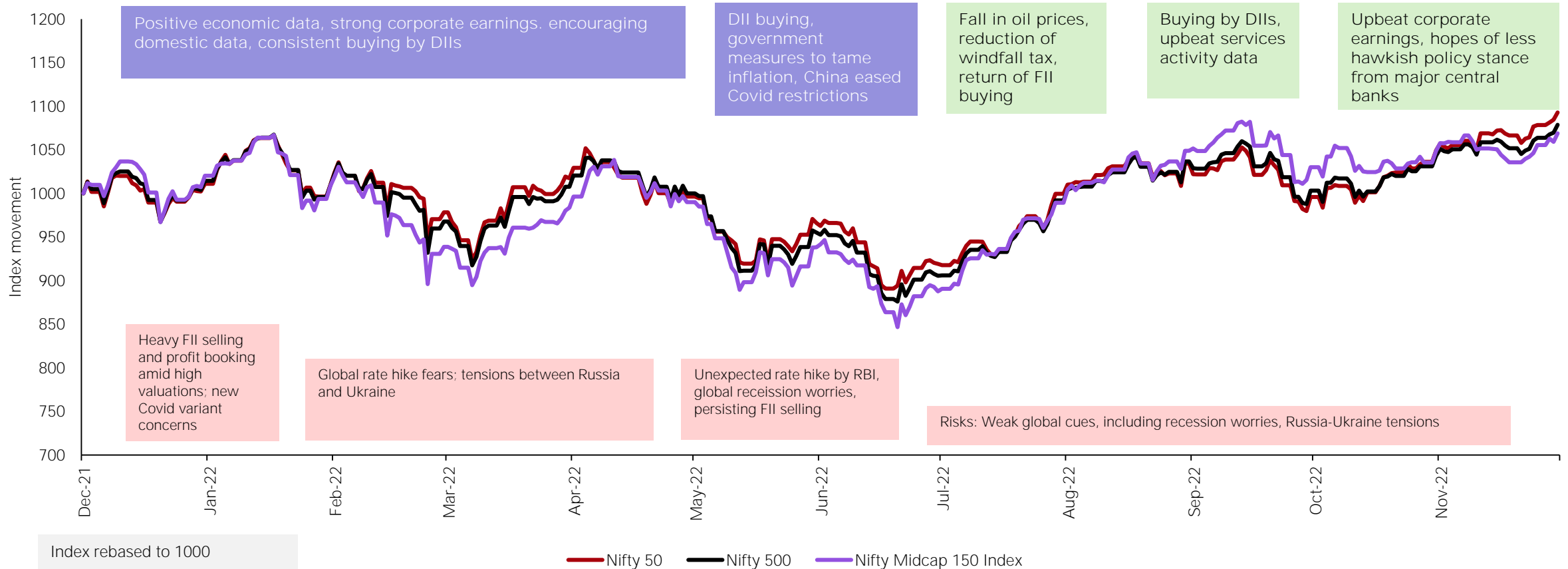
The longer you stay invested in equities, lower is the possibility of negative returns

Source: Crisil, Data ended November 2022 except otherwise mentioned, YTD, 1 year returns are absolute, 3 and 5 years annualised CAGR returns, Average performance of 23 Liquid, 17 Ultra Short Duration, 19 Short Duration, 16 Gilt, 11 Credit risk, 23 Mid cap and 28 Large cap funds of CRISIL ranked schemes from the respective fund categories, Gold returns are based on spot rates from India Bullion and Jewellers Association (IBJA),

Rolling performance - Monthly rolling returns for respective holding periods since 30 June 1979. For instance, in case of 15-year monthly rolling returns, there will be 342 return periods. The first return period will be 30 June 1979- June 1994 and the last return period will be 30 Nov 2007- 30 Nov 2022. Positive investment periods – 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, 342 months out of 342 instances offered positive returns (i.e. 100% positive investment periods). Past performance may or may not be sustained in the future

# Why equities now?

Gain from many upcoming market cycles



Improving earnings, hopes of less hawkish policy stance make equities across market caps attractive

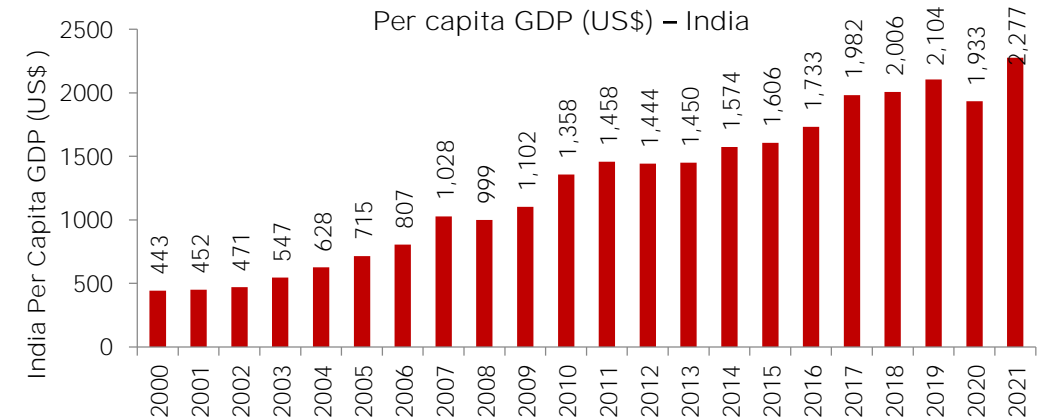
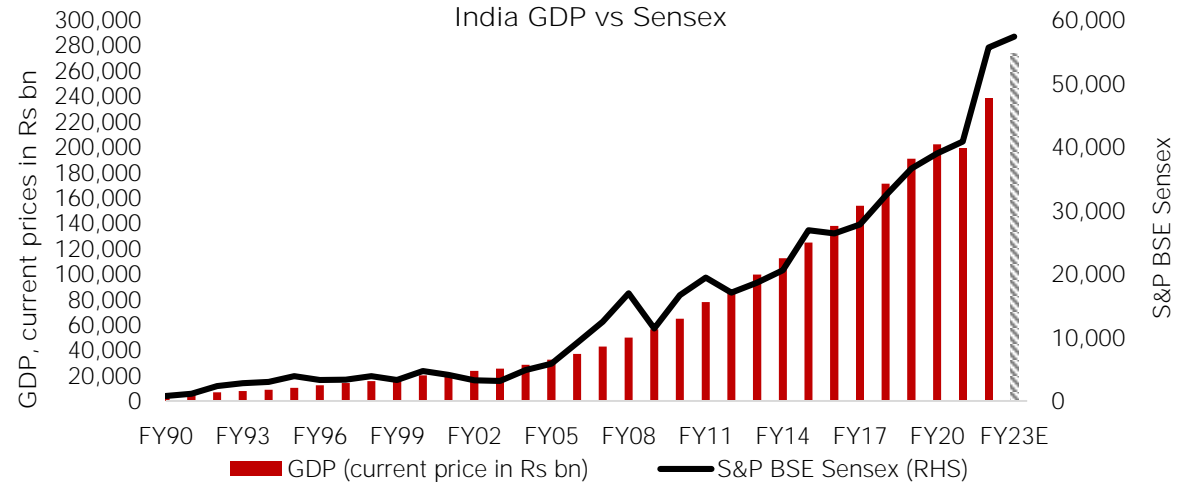
Source: CRISIL, Key events and performance of the Indian market (Nifty 50, Nifty Midcap150 and Nifty 500 index rebased to 1000) from 1 December 2021 – 30 November 2022. For illustration purposes only. Past performance may or may not be sustained in the future.

# Indian economy continues to show relative outperformance

Earning momentum continues

## Equity market outlook

- India earning momentum continues to be strong and in line with the expectations
- Trajectory of GDP growth looks promising
- India's GDP per capita grown at reasonably higher rate in the past and expected to show significant growth over the next decade due to GOI reforms
- GST collections continue to average at ~Rs.1.5 Lakh Cr in FY22-23
- Lower Crude prices at ~\$80 per barrel will support Indian economy
- Make in India, PLI and other GOI reforms are expected to show positive impact on equity markets over the long term
- GOI's total capital expenditure in H1 FY23 witnessed a 50% jump to Rs.3.4 Lakh crore, compared with Rs.2.2 Lakh crore in the same period of FY22.
- Cyclical revival likely to bring multi-year earnings visibility
- With rising per capita income, consumption can grow significantly in emerging new sectors and new age themes

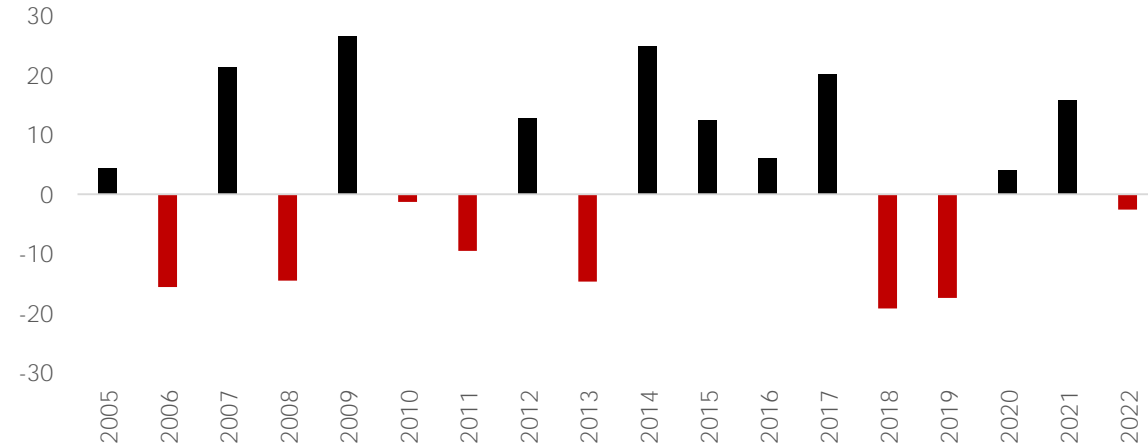


A long term outlook for Indian equities continue to grow stronger

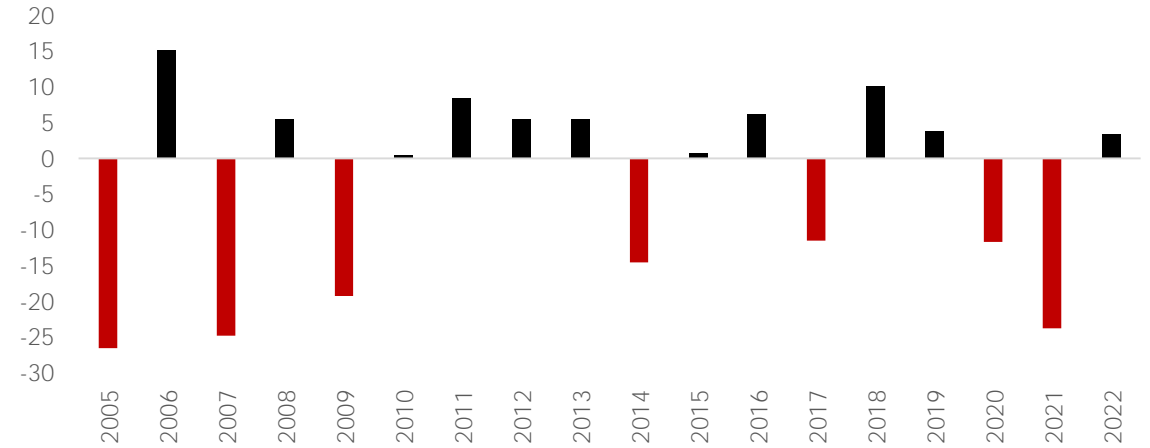
# Achieving performance balance in changing market cycles

## Need for the all season performance

Mid Caps outperformance / underperformance over Large Caps (CY%)



Small Caps outperformance / underperformance Mid Caps (CY%)

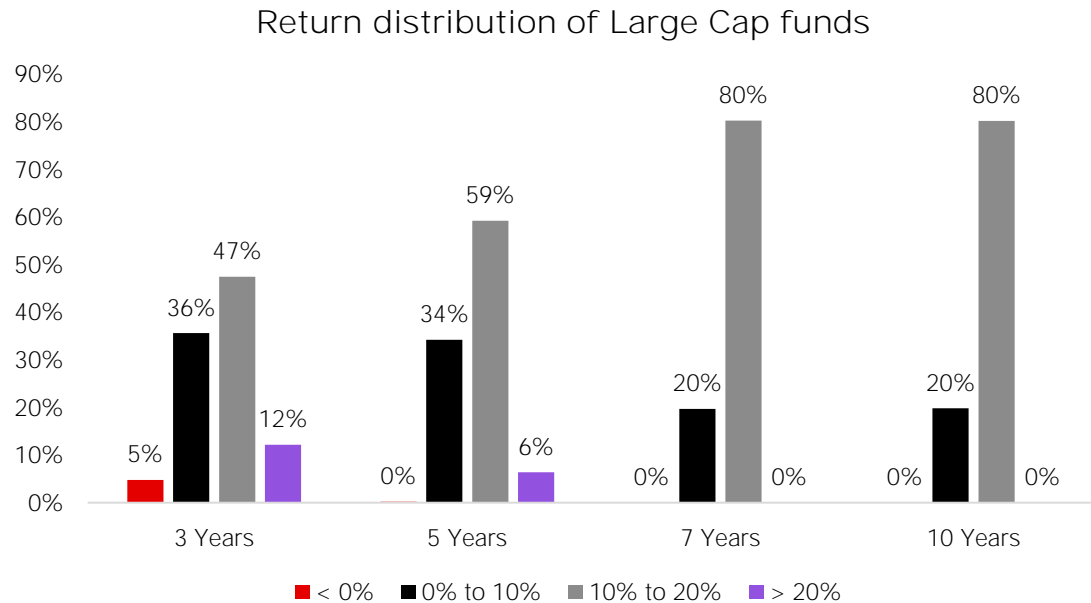


- Large Cap investment support the overall portfolio with stable growth, while Mid and Small Caps help to generate high alpha
- Large, Mid and Small Cap stocks typically may not perform in the same market cycles
- The need for all season performance could be achieved with the combination of Large-Mid-Small-Caps in the portfolio
- Frequent changes in market cycles call for constant allocation in Large, Mid and Small Caps
- Flexi cap asset allocation strategy for a part of assets help to go overweight in certain market cap companies based on favourable investment scenario

Large, Mid, Small Caps can outperform each other in the different time periods

# Why Large Caps?

Consistent performers



## Large Cap features



Lower volatility



Relatively stable earnings growth



Well researched



Well-owned



Reasonable valuations

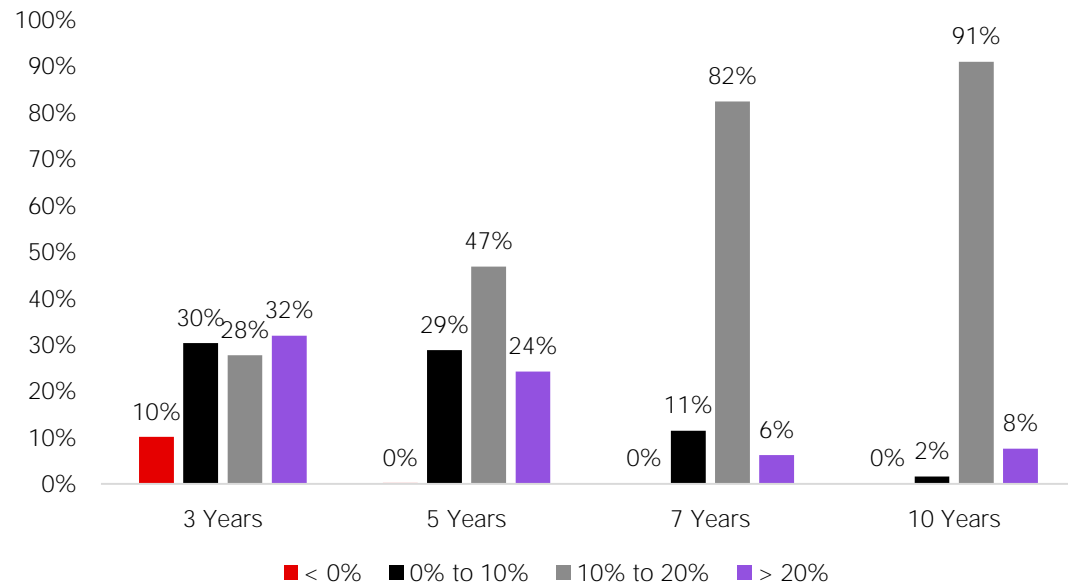
Large Caps offer lower probability of negative returns or limit downside within equities over the long term

For illustration purpose only. Source: CRISIL, Data as at November 2022, Large Cap Funds are represented by weighted average index of 28 Large cap funds representing the Large Cap category. Return distribution based on a daily rolling returns of various holding periods. Period considered: 1 January 2005 – 30 November 2022, Returns of Large cap funds is average of CRISIL ranked schemes of the respective category. Past performance may or may not be sustained in the future.

# Why Mid Caps?

Long term high growth

Return distribution of Midcap funds



## Mid Cap features



Historically above average performance



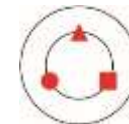
Earnings acceleration



Under-researched



Under-owned



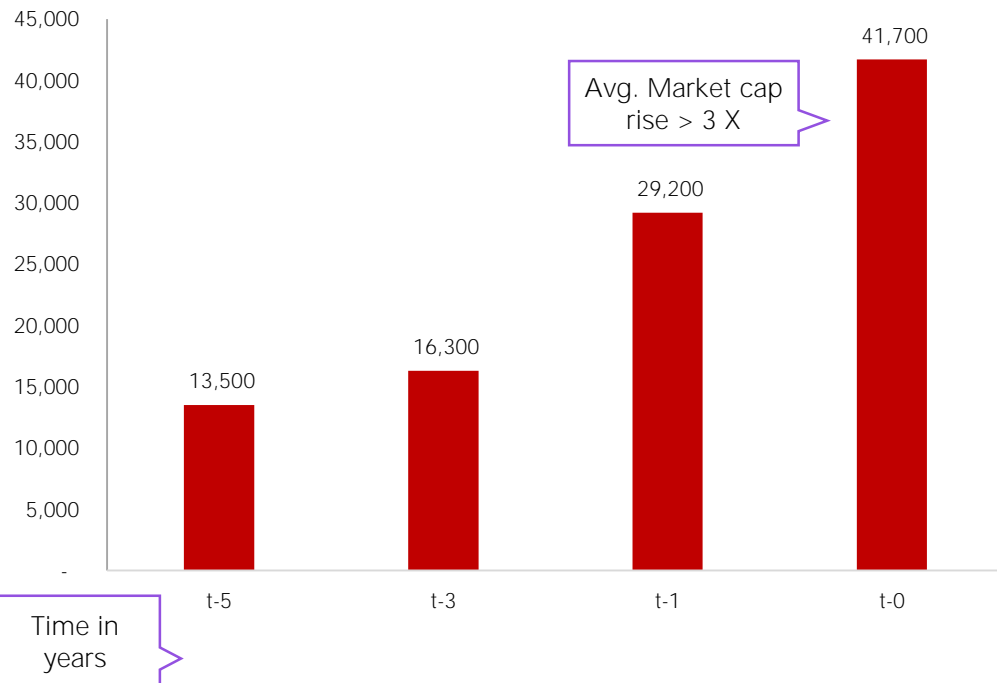
Diversity and alpha

Mid Caps offer more potential of delivering high growth

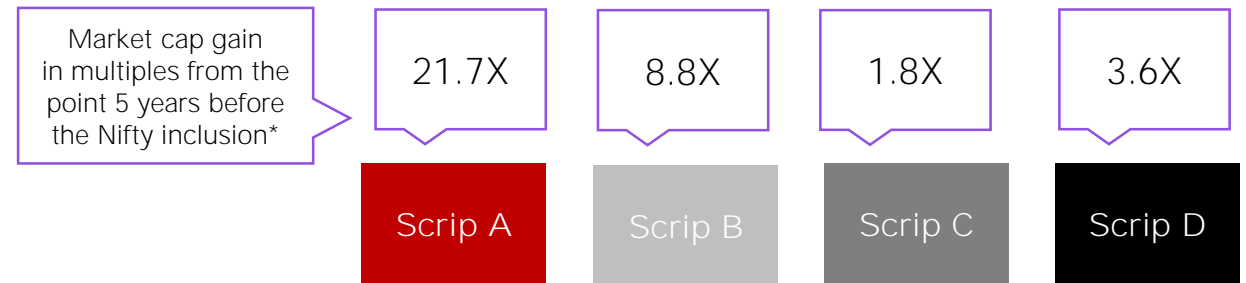
# Tracking Mid Cap stocks progression to Nifty50

Nifty's constituents changed over the last two decades

Journey of Nifty50 entrants (average market cap (Rs. Cr))



- Historically, Nifty's constituents change by 50% every decade
- Mid Caps can progress to large caps and replace current Nifty constituents
- Mid Caps: Best options to gain exposure to rapidly growing businesses
- In last 10 years, some Mid Cap stocks entered Nifty50
- 5 years prior to their inclusion, stocks were smaller in size and much less discussed!



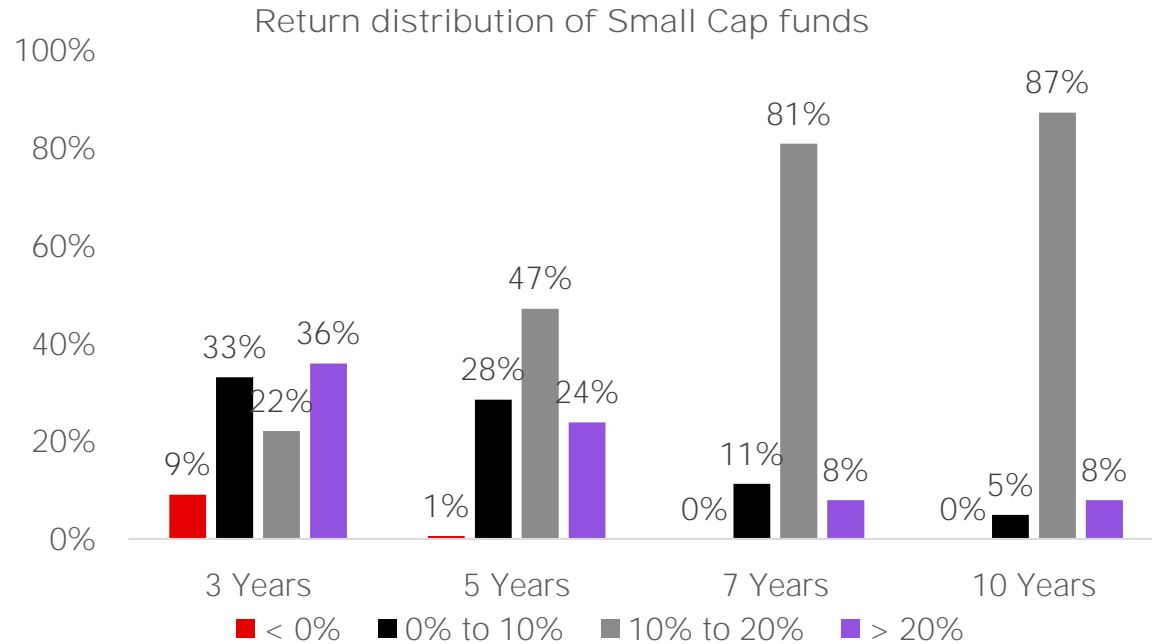
Mid Caps have potential to become the large caps of tomorrow

Source: AMBIT Capital Research, Data as at March 2022, Chart: Data used here belong to stocks entered into Nifty50 since Sep 1996, The chart has given an aggregate average market cap journey of all stocks for 5 years before the inclusion in Nifty50 index. Based on market cap data from the point of 5 years before entering Nifty50 to the date of Nifty50 entry. t-0 represents the year in which the stocks have been included in Nifty50. t-1 is 1 year before the inclusion in Nifty50. Similarly going down to t-5 indicates the average market cap of stocks 5 years before the inclusion in Nifty50. \* Market cap gain in multiples: The above information are for illustrative purpose only and it should not be considered as investment research, investment recommendation or advice to any reader of this content to buy or sell investments. The Fund may or may not have any future position in these stocks. Past performance may or may not be sustained in the future.



# Why Small Caps?

Potential alpha generators



## Small Cap features



Multi-baggers of tomorrow



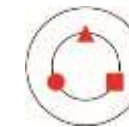
High earnings growth potential



Under-researched and under-owned



Opportunities to spot pricing anomalies



Diversity and alpha potential

Large under owned universe of around 750 stocks

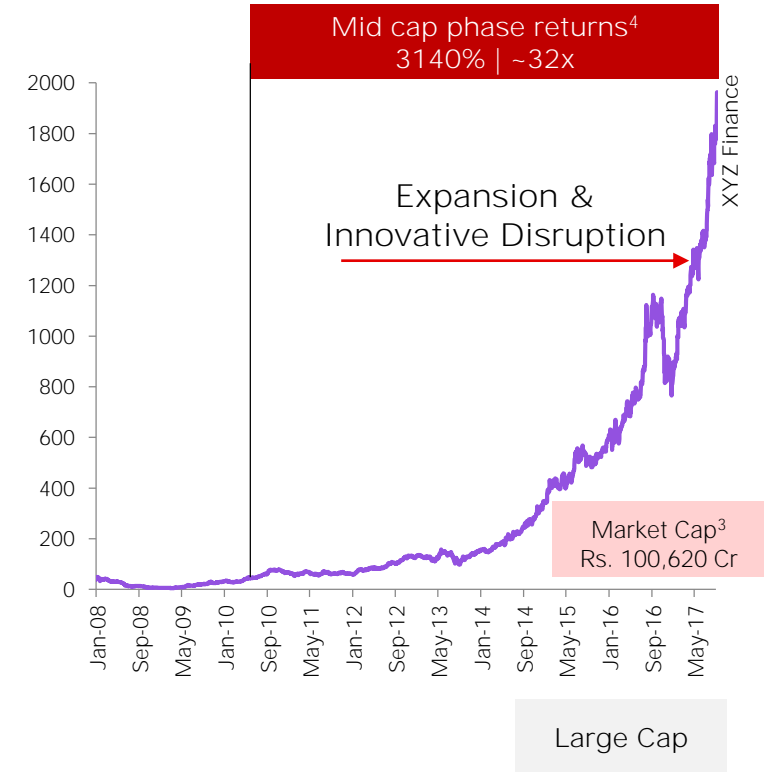
Small Caps offer more probability of delivering high alpha

For illustration purpose only. Source: NSE, CRISIL, Data as at November 2022, Small Cap Funds are represented by weighted average index of 23 Small Cap funds representing the Small Cap category, Return distribution based on a daily rolling returns of various holding periods. Period considered: 1 January 2005 – 30 November 2022, Returns of Small cap funds is average of funds from respective category. Past performance may or may not be sustained in the future.

# Small Cap to Large Cap progression

## Journey of an Small cap – XYZ Finance

### XYZ Finance stock progression

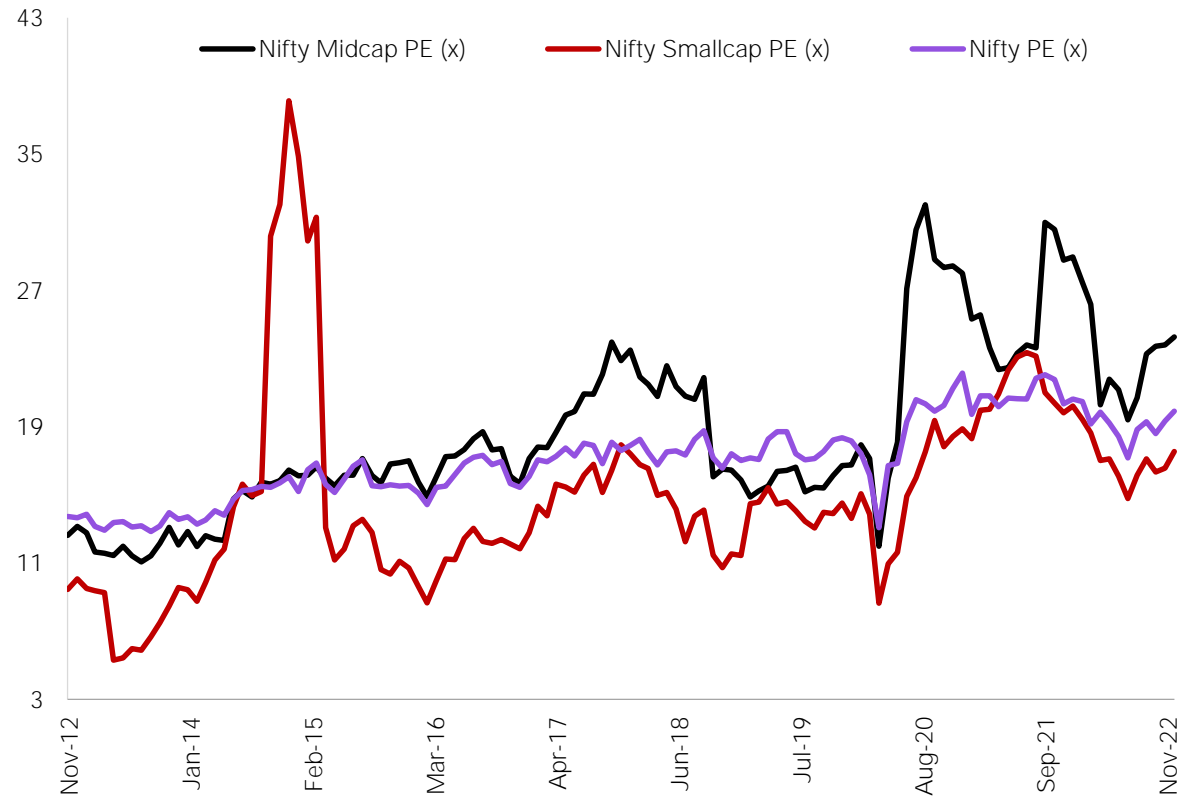


Benefit through the journey of Small Cap companies to Large Cap

Source: Bloomberg, The above chart and names of the stock is provided for illustration purpose only. Market Cap as on 1 : 9 Mar 09, 2: 31 Jul 10, 3 : 28 Aug 17, 4. Price movement is from 1 Aug 10 to 31 Aug 17, The above information is for illustrative purpose only and it should not be considered as investment research, investment recommendation or advice to any reader of this content to buy or sell investments. The Fund may or may not have any future position in these stocks. Past performance may or may not be sustained in the future.

# Why Mid and Small caps now?

## Mid and Small Caps - potential to outperform



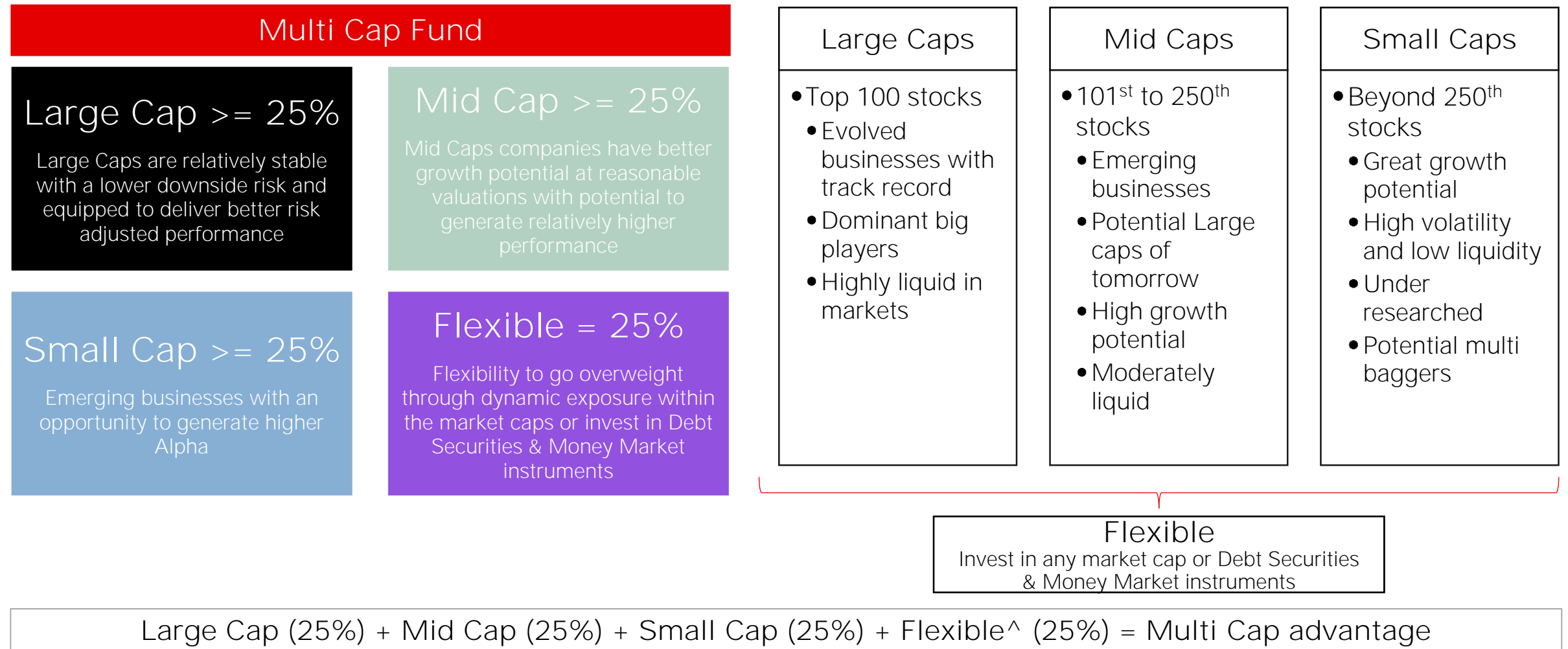
Past performance may or may not sustain in future

Time for investors to build Mid and Small Cap portfolio

- Apt time for investors to build their Mid and Small Cap portfolio considering strong growth momentum in the Indian economy
- Robust earning growth momentum cycle visible for companies across Mid and Small Caps, alongside Large Caps
- Small and Mid Caps at relatively reasonable valuations considering the better earnings growth expectations
- Historically, Mid and Small Caps have delivered reasonable performance over medium to long term
- Small and Mid Caps are best options to hold emerging business leaders
- Mid Cap stocks comprise of many market leaders from different sectors
- Usually, Large Caps show early gains and when market consolidates, Mid and Small Cap play catch up
- Mid Cap and Small Cap space has the potential to outperform over the next 3 to 5 years period

# What is a Multi Cap Fund?

Multi Cap Fund invest across market caps with defined allocation range



For illustration purpose only. ^ Flexible – The fund can invest in any market cap or Debt Securities & Money Market instruments. The asset allocation and investment strategy will be as per Scheme Information Document (SID). Large-caps are represented by the top 100 stocks on full market capitalisation basis & Mid caps are represented by the next 150 stocks based on full market capitalisation and Small Cap stocks beyond 1250<sup>th</sup> stock based on full market capitalisation basis .

# Bringing performance consistency with Multi Caps

Always keep winners on your side

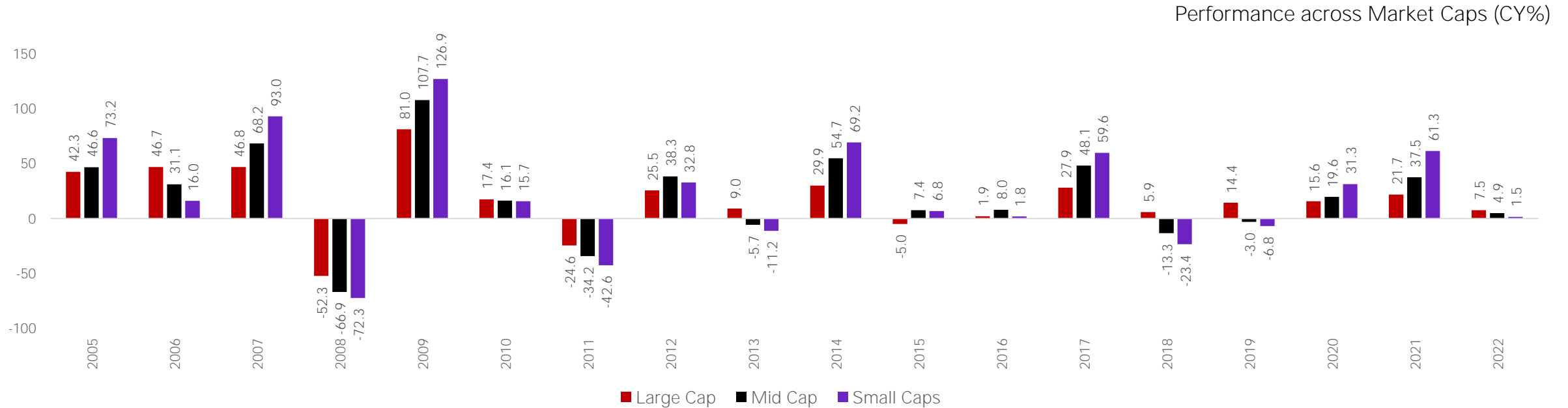


Chart representation - Large cap – S&PBSE Sensex, Mid Cap – S&P BSE Midcap, Small Cap – S&P BSE Small Cap index. Past performance may or may not be sustained in the future.

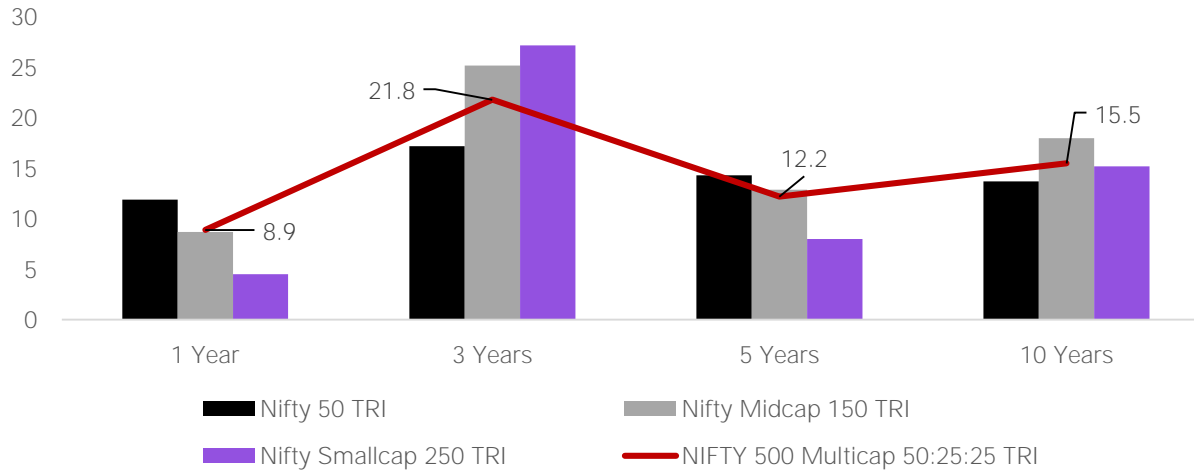
- It can be seen historically, winners may change based on favourable or unfavorable market cycle
- Large Cap stocks have outperformed / fallen less in 2006, 2008, 2010, 2011, 2013, 2018 and 2019
- Midcap stocks have outperformed in 2012, 2015 & 2016
- Small Cap stocks were the best performers in the year 2005, 2007, 2009, 2014, 2017 and 2020

Multi Cap strategy has potential to perform in the different market cycles

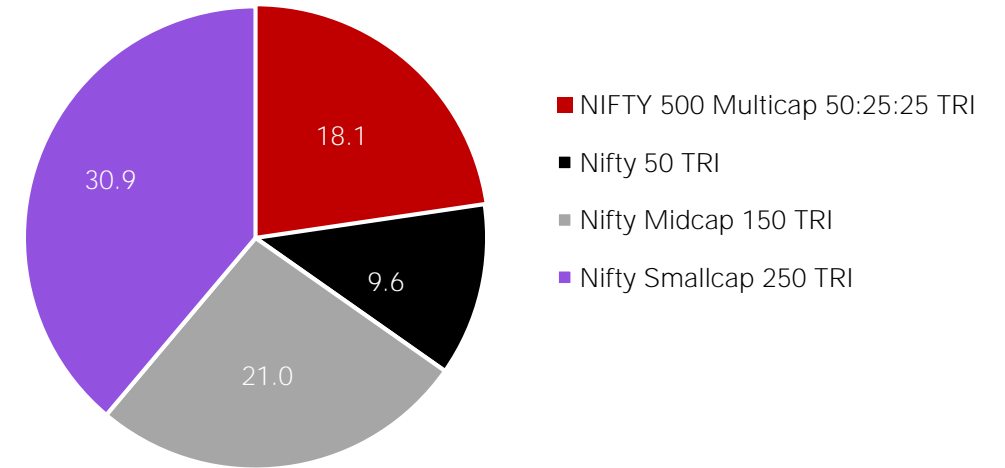
# Multi Caps subject to low volatility

For better performance with low volatility

Multi Cap vs Large, Mid & Small Cap Index performance



Volatility^



- Multi Cap index has delivered 21.8% CAGR over the 3 years and generated 15.5% CAGR over the last 10 years
- Historically, Multi Cap Funds have delivered above average returns while keeping volatility at relatively moderate levels
- Exposure towards small and mid cap companies can increase the portfolio volatility
- Large Cap stocks tend to display lesser volatility than Mid and Small Cap stocks
- Multi Cap Funds aim to reduce volatility with exposure to Large Cap companies

Multi Cap Funds have potential to deliver better risk adjusted performance

Source: MFI ICRA, Data as on 30 Nov 2022, Chart representation - Large cap – Nifty 50 TRI, Mid Cap – Nifty Midcap 150 TRI, Small Cap – Nifty Small Cap 250 TRI. Volatility = Standard Deviation for 1 year period, Index computation using the free-float market capitalisation weighted method. Past performance may or may not be sustained in the future.

# More appropriate benchmark vs that of Flexi Cap Funds

Nifty 500 is skewed towards Large Cap

Multi Cap portfolio benchmarked against Nifty 500 Multicap 50:25:25 offers more diversification



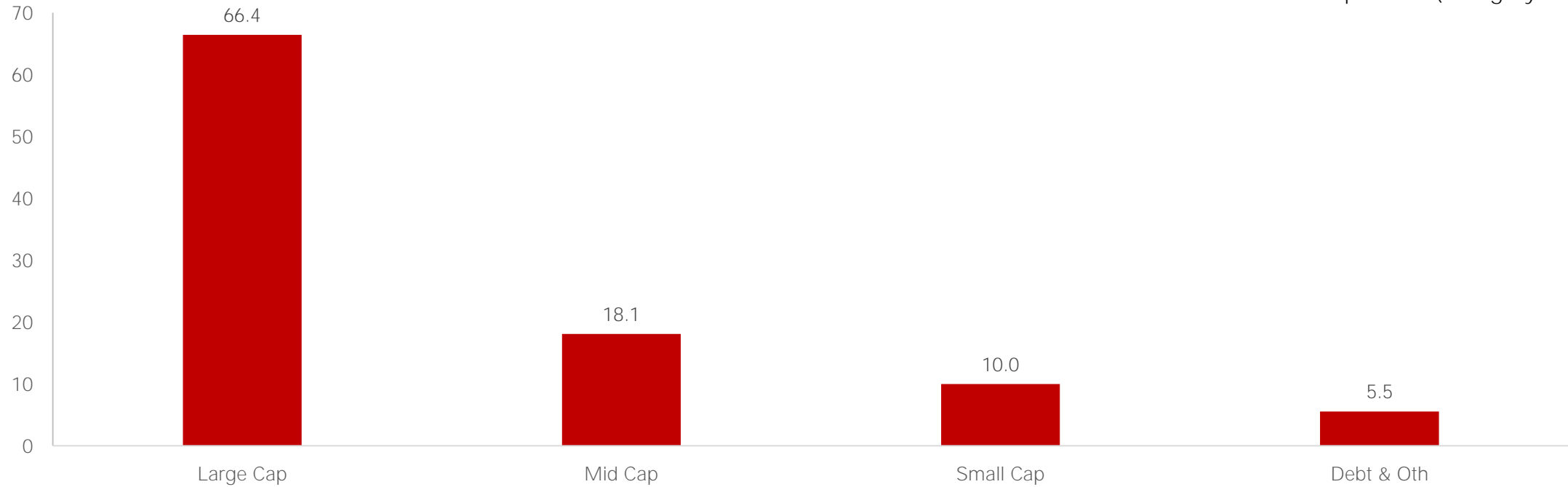
## Difference between Multi Cap and Flexi Cap Funds

Parameters	Multi-Cap Funds	Flexi-Cap Funds
Minimum Equity Exposure	75%	65%
Market cap exposure	Minimum 25% each in Small Cap, Mid Cap and Large Cap	Flexible
Asset Allocation flexibility^	Low	High

Multi Cap Funds offer relatively more diversification

# Flexi Cap Funds allocation

Asset Allocation for Flexi Cap Funds (Category average)

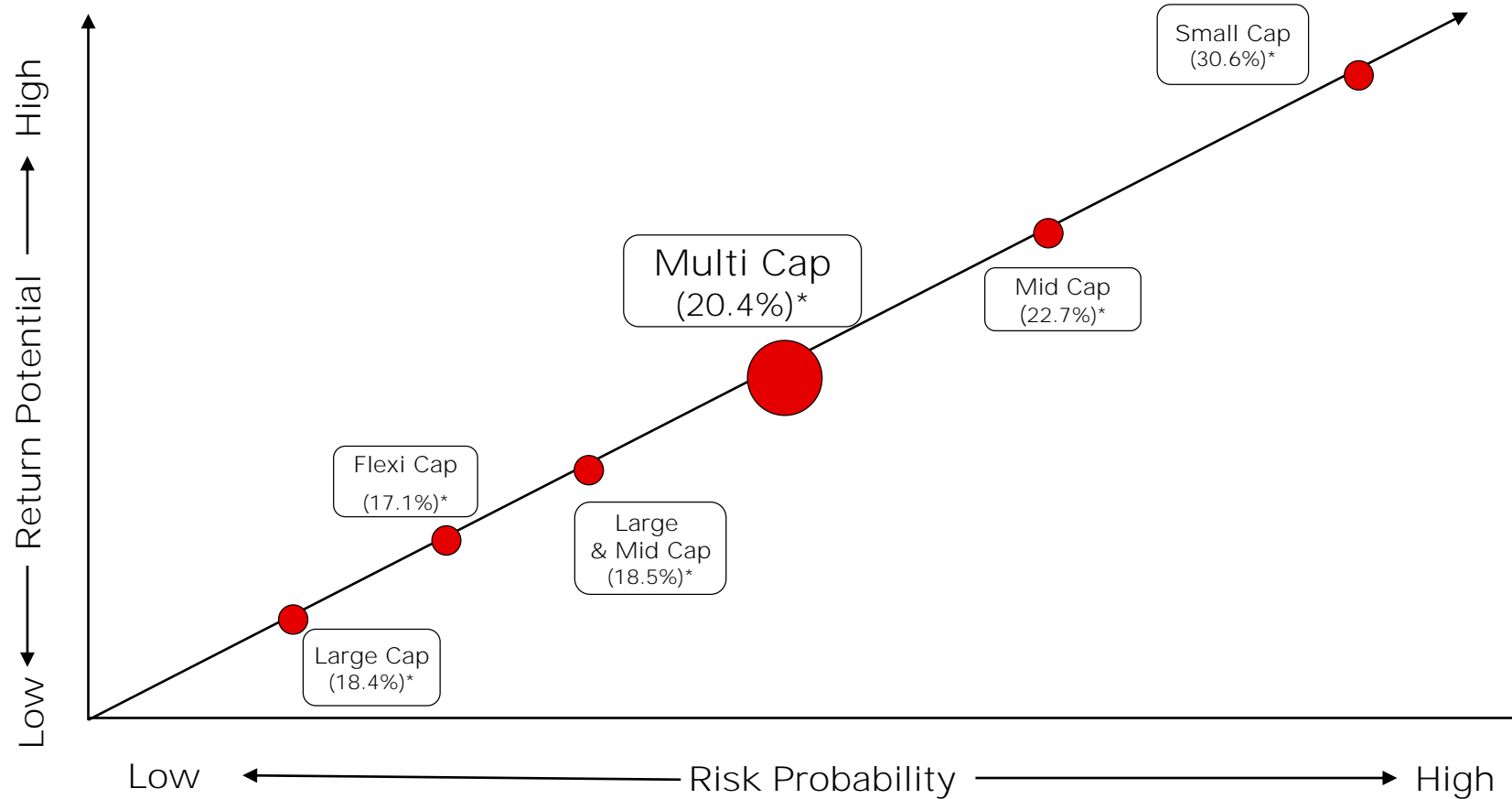


Flexi Cap Funds currently have average 66% allocation to Large Caps

Source – MFI Explorer, Data as on 30 Nov '22, For illustration purpose only. All Flexi Cap Fund category schemes are considered in above chart.



# Risk Return Profile

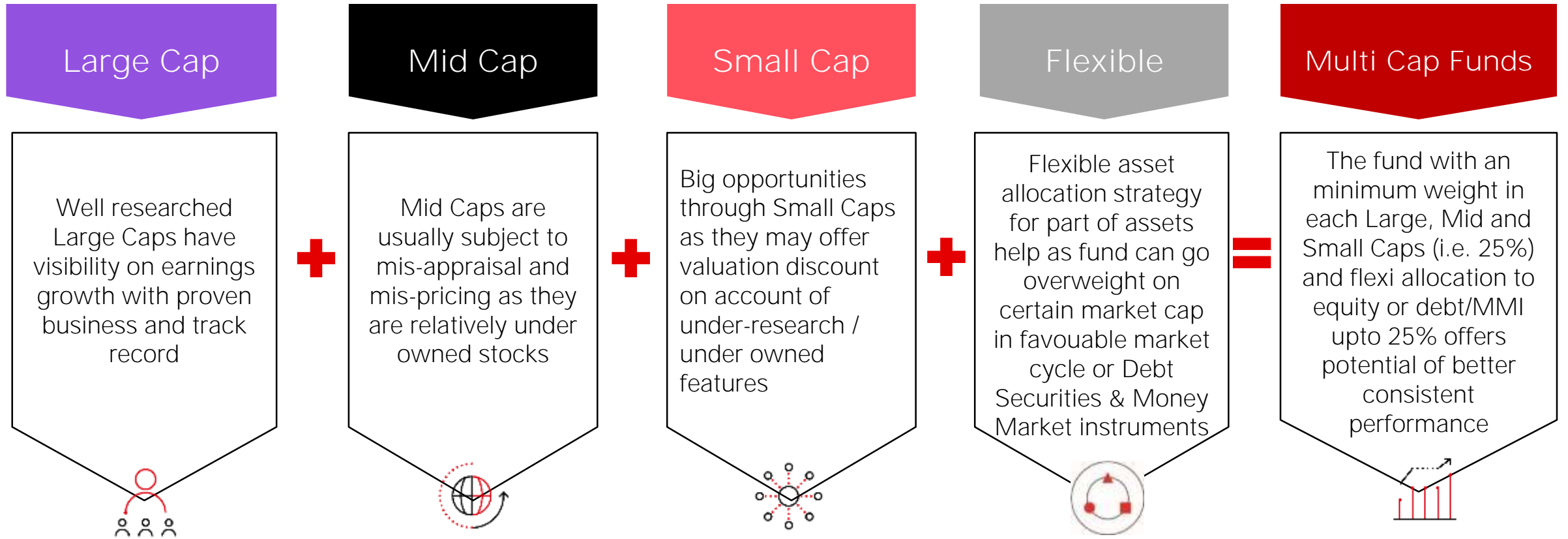


For illustration purpose only. Actual scenario may vary. Past performance may or may not be sustained in the future.

Multi Cap Funds offer better risk adjusted performance

Source: HSBC Mutual Fund, ICRA MFI, \* Category average return for 3 year CAGR as on 30 November 2022, Past performance may or may not be sustained in the future. All schemes from each category that have completed three years are included in above chart data. No of Funds in respective category – 30 Large Cap, 25 Flexi Cap, 26 Large & Mid Cap, 8 Multi Cap, 25 Mid Cap and 21 Small Cap funds.

# One fund four benefits



Access benefits in multiple market cycles through one fund

# Case for Multi Cap Funds

Multi Cap funds offer many advantages



Multi Cap Funds offer diversified proposition with investment in Large, Mid, Small Caps

# Disclaimer

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## An Investor Education & Awareness Initiative

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