3 April 2020

Event update – add-on note

Portfolio strategy and update

To reflect the reality owing to the COVID-19 led disruption, we have made changes in the equity portfolios. Earnings estimates for FY21 will get revised downward for all sectors but the impact is not going to be uniform.

Our views

We are neutral on the sector/companies, where the markets believe that there would be huge dislocation.

However, we also believe that the Government and RBI will intervene to ensure that this dislocation is temporary and hence profitability of these sectors will rebound sharply after a pause.

Add-on note to Event update – Equity Overview

Equity portfolio strategy

The following points provide our broad thought process in the current environment across key portfolios.

- We are positive on companies/sectors that can demonstrate resilience in their earnings given the disruptive phase leading to lesser cut in earnings for FY21. This is likely to be demonstrated by segments that can retain consumption demand along with those providing basic and essential needs. Consistent with this thought process, we have increased exposure in Consumer Staples to the Healthcare sector. We continue to remain positive on the Telecom and added to the existing exposure taking advantage of the correction.
- We are also moderately positive on companies/sectors that can demonstrate faster recovery in case of an economic rebound. This would be demonstrated by sectors where there would pent up demand post the disruption phase. So, as and when the normalcy returns, so would the sales for those companies / sectors. We are using the correction to reorient the exposure within the Consumer Discretionary space which would be a beneficiary of this pent-up demand. We are more positive on Consumer Goods as against Consumer Services part of the discretionary basket at this juncture.
- We are also moderately positive on companies which would be beneficiaries of a benign crude oil price environment. Companies in the Cement and Paint segments will see improvement in margins on account of falling raw material costs linked to crude. We have also taken exposure to domestic Oil Marketing Companies which will benefit from a low crude price scenario.
- We are also positive on the beneficiaries of the global supply chain disruption that can happen on account of the crisis and the expected shift of manufacturing to India from China across sectors. Given the same, the exposure to specialty chemicals should bode well.
- We are not positive on sectors in Investment theme. It is unlikely to be a priority for either the government or the private sector in the interim. As a result, we have reduced our exposure to the theme with the larger exposure being to the market leader in this space.
- We are particularly not positive on labour intensive sectors. Labour market (especially contract labour) is dislocated more than financial market or the real economy. This is also a slow moving market and hence it will take time to repair itself. The reduction of exposure to Real Estate and Industrials reflect this thought process.
- We are neutral on the sector/companies, where the markets believe that there would be huge dislocation. However, we also believe that the Government / RBI will intervene to ensure that this dislocation is temporary and hence profitability of these sectors will rebound sharply after a pause. Thus, we have a neutral exposure to financials, primarily large Private Banks and select NBFCs (which have strong parentage and survived across cycles).

HSBC Global Asset Management

Update on focused equity funds

HSBC Large Cap Equity Fund (HLEF)

Sector allocation: In HLEF, consistent with the above thought process we have increased our exposure to Consumer Staples, Healthcare, Energy and Telecom. At the same time, we have reduced weights in Financials, Industrials and Information Technology. Also, within the Consumer Discretionary space where we are moderately positive, we have shifted our position away from Auto ancillaries and Hotels to Auto OEMs (on attractive valuations) and a leading Jewelry player (considering a faster rebound on pent up demand).

HSBC Large & Mid Cap Equity Fund (HLMEF)

Sector allocation: Given the expected market volatility in mind – we have cut exposure where we expect higher volatility to earnings and delayed recovery in the sector. In line with above, from a sectoral perspective, we cut our exposure in financials and industrials and increased exposure into staples, materials, communications services, energy and utilities. Consumer discretionary continues to be largest overweight for the fund and we continue to be positive in the same.

Market Capitalisation Mix: On account of the above changes, currently we are~ 55.4%/~36.3%/~4.2% in large/mid/small caps vs ~ 55%/~39%/~4% in Feb 2020. 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.

HSBC Equity Hybrid Fund (HEHF)

Asset allocation: Markets have seen a sharp correction along with high volatility. Beginning of March, we were closer to 73.5% in equity exposure and was subsequently brought down during the month. We were at the lower end of the equity allocation range for most part of the sharp correction phase in March 2020. After the sharp correction, valuations have become relatively more attractive. The Government and the RBI have announced fiscal measures and monetary actions to support the economy during this period of disruption. As a result, we have increased the equity allocation and currently have moved into a neutral weight (~70.9%).

Sector allocation: Given the expected volatility and disruption in mind we have made changes to the sectoral allocation in the portfolio. We have increased exposure to Consumer Staples, Healthcare while reduced exposure to Real Estate and Industrials. The Financials weight has also seen a reduction but we have also used the correction to re-position our exposure within Financials.

HSBC Large Cap Equity Fund

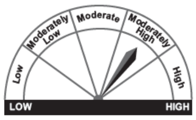
Large Cap Fund - An open ended equity scheme predominantly investing in large cap stocks.

Investment Objective: To generate long-term capital growth from an actively managed portfolio of equity and equity related securities of predominantly large cap companies. However, there can be no assurance or guarantee that the investment objective of the scheme would be achieved.

This product is suitable for investors who are seeking*:

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

Riskometer



Investors understand that their principal will be at Moderately High risk

HSBC Large and Mid Cap Equity Fund

Large and Mid Cap Fund - An open ended equity scheme investing in both large cap and mid cap stocks.

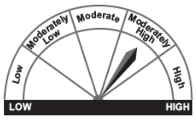
Investment Objective: To seek long term capital growth through investments in both large cap and mid cap stocks. However, there is no assurance that the investment objective of the Scheme will be achieved.

This product is suitable for investors who are seeking*:

- 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.**

Riskometer



Investors understand that their principal will be at Moderately High risk

HSBC Equity Hybrid Fund

Aggressive Hybrid fund – An open ended hybrid scheme investing predominantly in equity and equity related instruments.

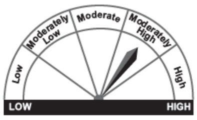
Investment Objective: To seek long term capital growth and income through investments in equity and equity related securities and fixed income instruments. However, there is no assurance that the investment objective of the Scheme will be achieved.

This product is suitable for investors who are seeking*:

- Long term wealth creation and income
- Invests in equity and equity related securities and fixed Income instruments

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

Riskometer



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