Amplifying opportunities

HSBC Mutual Fund

January 2023

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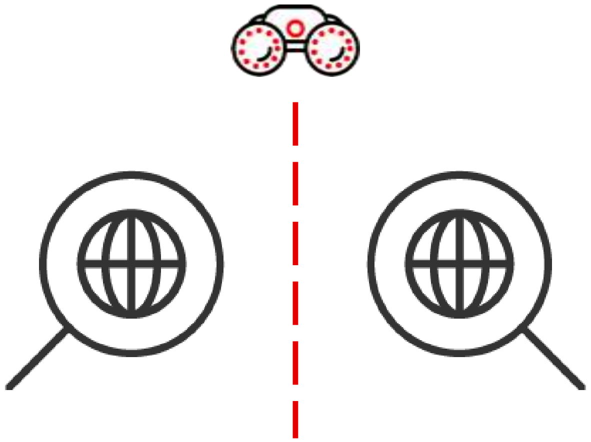
Today’s markets feel like a ‘parallel world’



- The past year of turmoil has been unnerving for investors, and there are many factors preventing a simple return to what we were used to.
- This new environment means a new approach is needed.

1 Investors have experienced a ‘poly-crisis’ of rolling economic and market shocks in 2022. During the year, it has often felt like a ‘parallel world’.

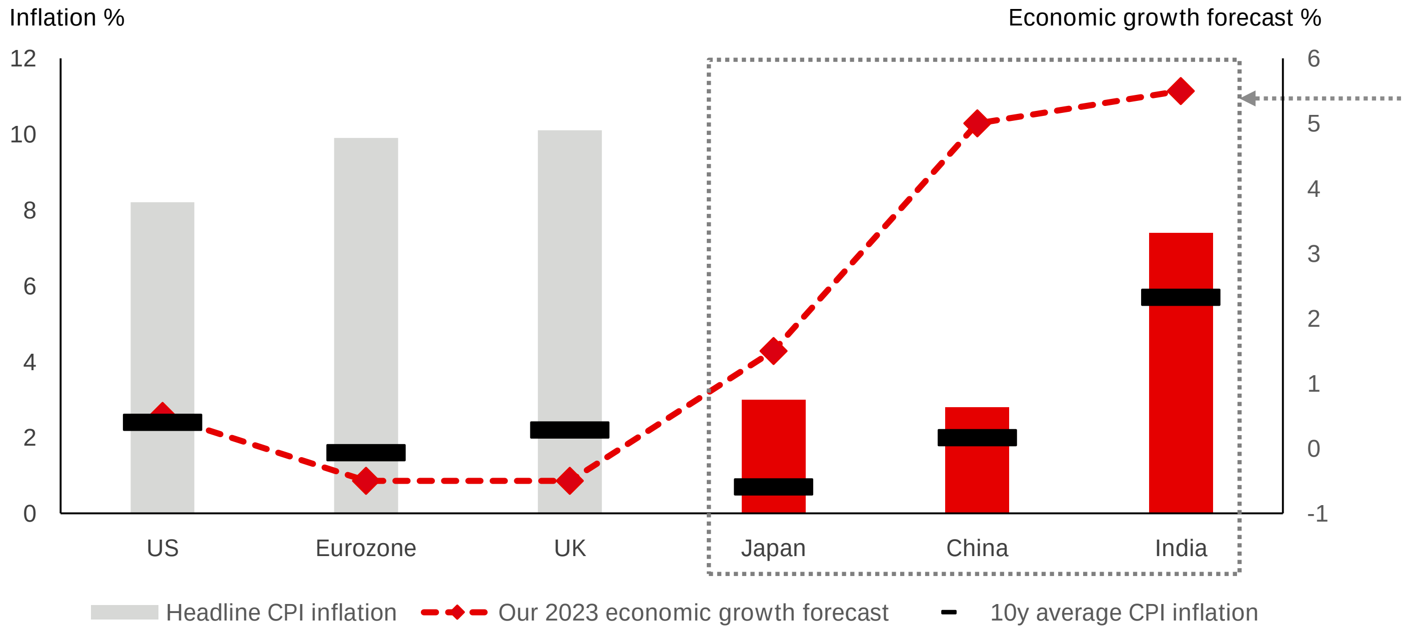
2 The 2023 economic outlook is ‘parallel’. Global inflation is slowing, and we are moving past the peak in interest rates, but while there is recession risk in the West, the East continues its recovery and re-opening.

Source: HSBC Asset Management, For illustration purposes only.

Parallel worlds – East and West

- The inflation crisis in the West has led central banks there to rapidly raise interest rates to slow their economies. Asia, on the other hand, is at a different stage of the economic cycle with less inflation pressures to worry about and a more positive growth outlook.
- This makes Asia's investment markets appealing not only for potential to outperform, but also as a **source of diversification given a much different environment.**

Consumer price inflation and economic growth

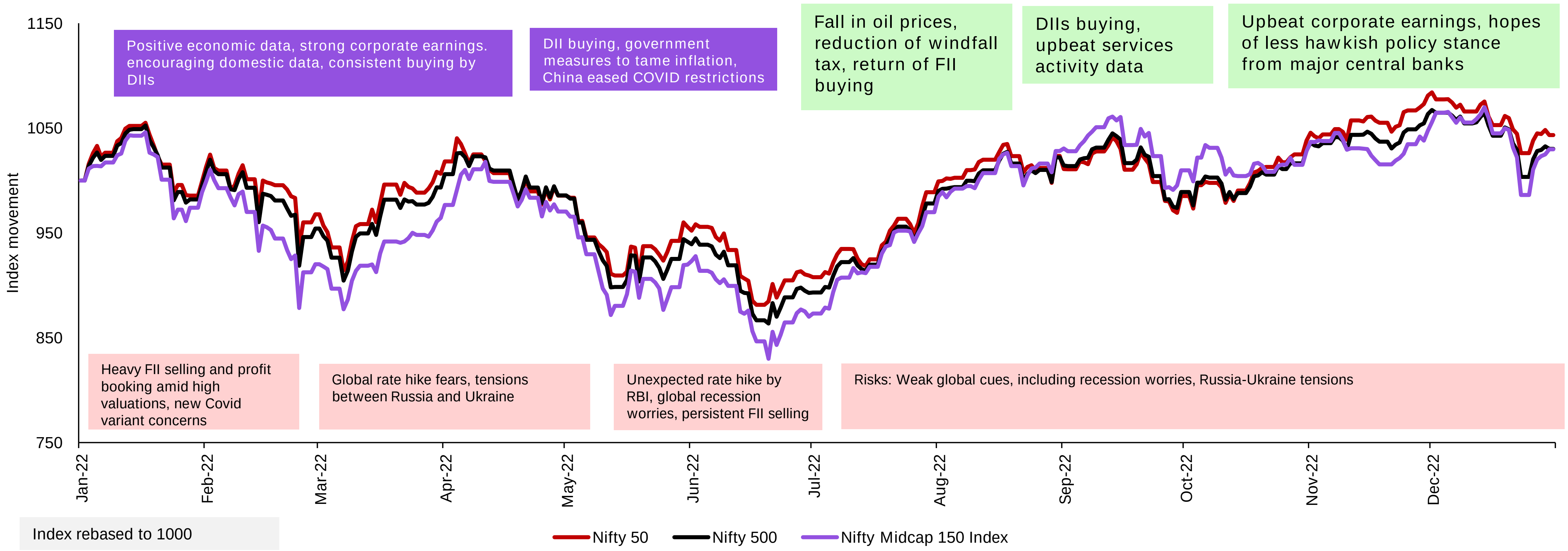


- India continues to expand, even as the rest of the world slows
- In China, an imminent recovery sets the stage for growth of around the 5 per cent mark next year
- Japan is set to be the only advanced economy not in recession next year

Source: HSBC Asset Management, For illustration purposes only.

2022 - Event update and impact

Gain from many upcoming market cycles – Why equities now?

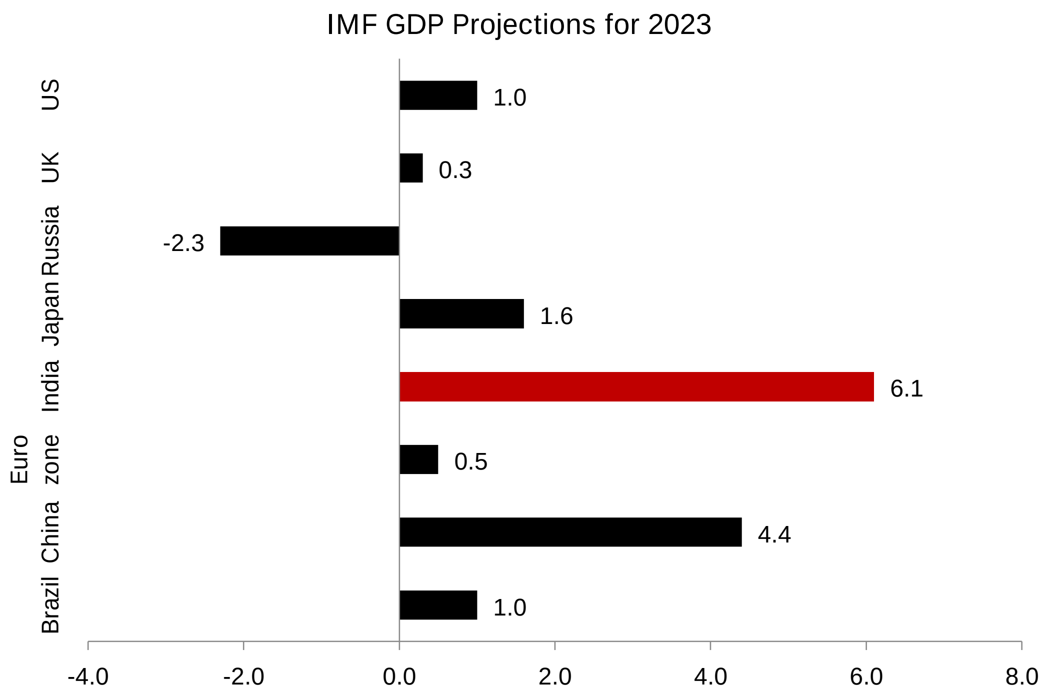


Improving earnings, hopes of less hawkish policy stance make equities attractive across market caps

Source: CRISIL, Key events and performance of the Indian market (Nifty 50, Nifty Midcap150 and Nifty 500 index rebased to 1000) from Jan 2022 – Dec 2022. Data as on 31 Dec '22, For illustration purposes only. Past performance may or may not be sustained in the future.

India leads with reasonable growth

	GDP		Inflation	
	Current	Previous	Current	Previous
US	3.2% Q3 2022	-0.6% Q2 2022	7.1% Nov'22	7.7% Oct'22
Eurozone	2.3% Q3 2022	4.2% Q2 2022	10.1% Nov'22	10.6% Oct'22
UK	1.9% Q3 2022	4.0% Q2 2022	10.7% Nov'22	11.1% Oct'22
China	3.9% Q3 2022	0.4% Q2 2022	1.6% Nov'22	2.1% Oct'22
Japan	-0.8% Q3 2022	4.6% Q2 2022	3.8% Nov'22	3.7% Oct'22
India	6.3% Q3 2022	13.5% Q2 2022	5.88% Nov'22	6.77% Oct'22



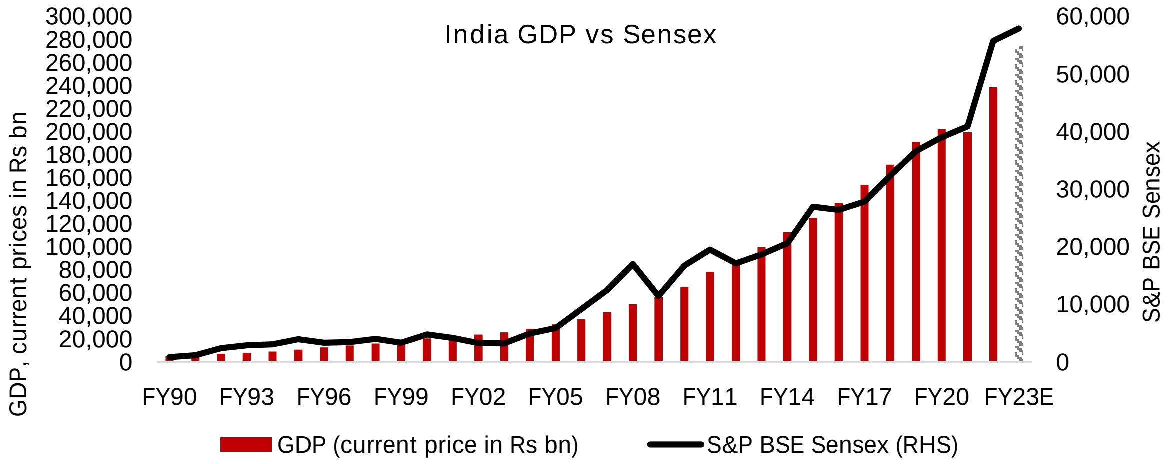
- GDP growth projections look relatively stronger and achievable
- Inflation fear continues to diminish by every passing month

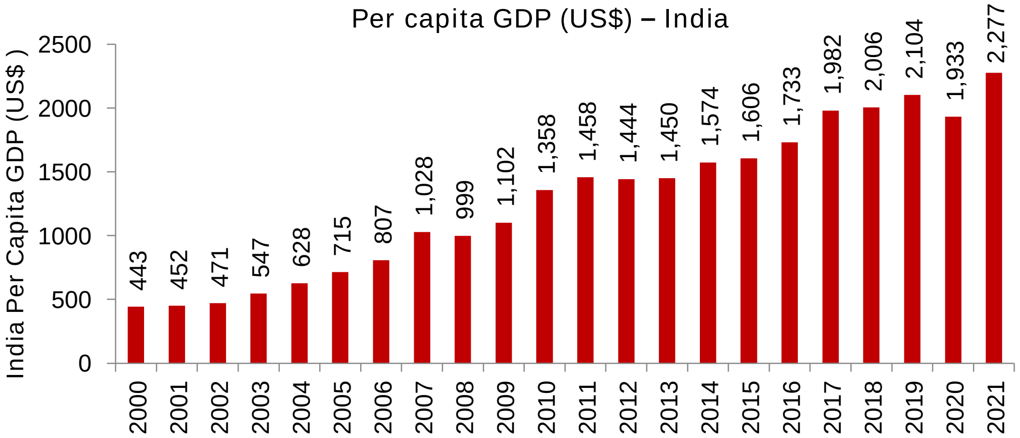
Russia-Ukraine crisis and rise in interest rates weighs on economic outlook

Source: CRISIL, Bloomberg, Respective Central Banks, IMF. Data ended December 2022 except otherwise mentioned

Indian economy continues to show relative outperformance

- Trajectory of GDP growth looks promising
- India's GDP per capita expected to show an improving trend.
- With rising per capita income, consumption can grow significantly in emerging new sectors and new-age themes
- GOI's capital expenditure in H1 FY23 witnessed a 50% jump to Rs.3.4 Lakh Cr
- GST collections continue to average at ~Rs.1.5 Lakh Cr in FY22-23
- Lower crude oil prices at ~$80 per barrel will support Indian economy
- Make in India, PLI, other GOI reforms to show a positive impact on equities
- India's earnings momentum continues to be strong
- Cyclical revival is likely to bring multi-year earnings visibility

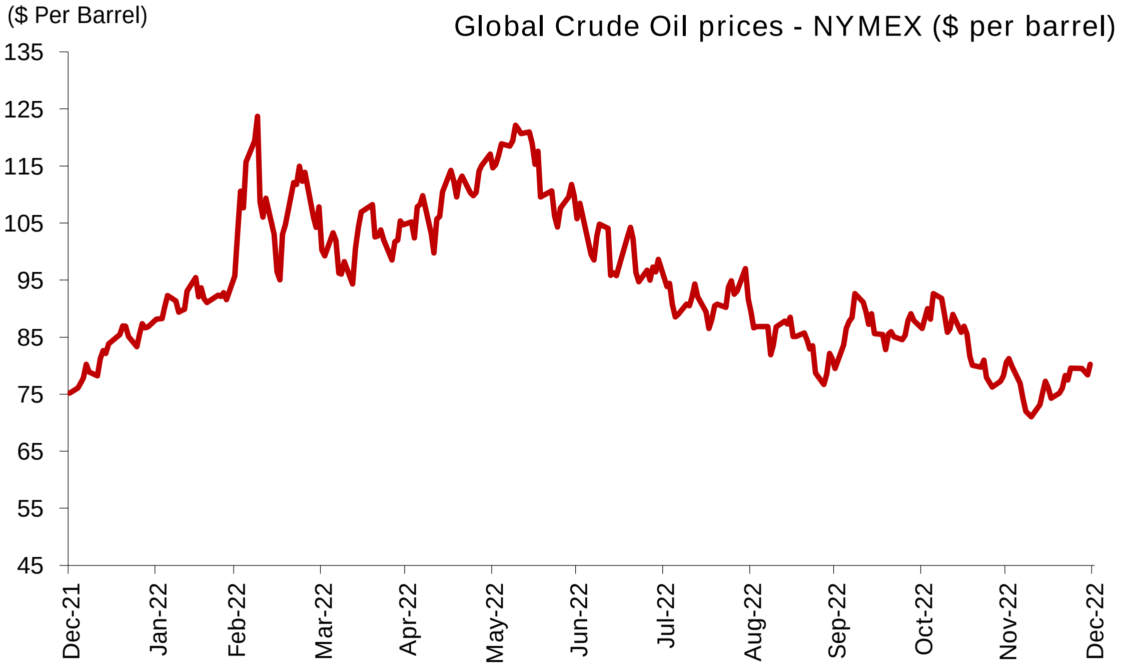


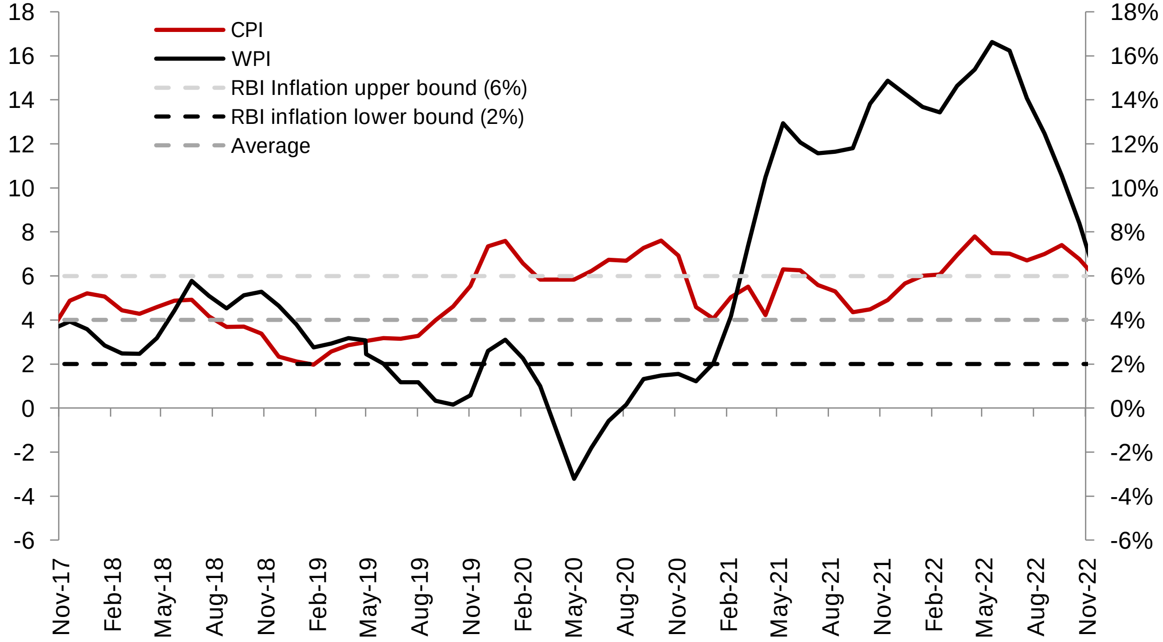


Long term outlook for Indian equities continue to grow stronger

Source: CRISIL, Bloomberg, World Bank, Crude prices – NYMEX, Data as at 31 Dec 2022

Demand growth concerns pulled down oil prices



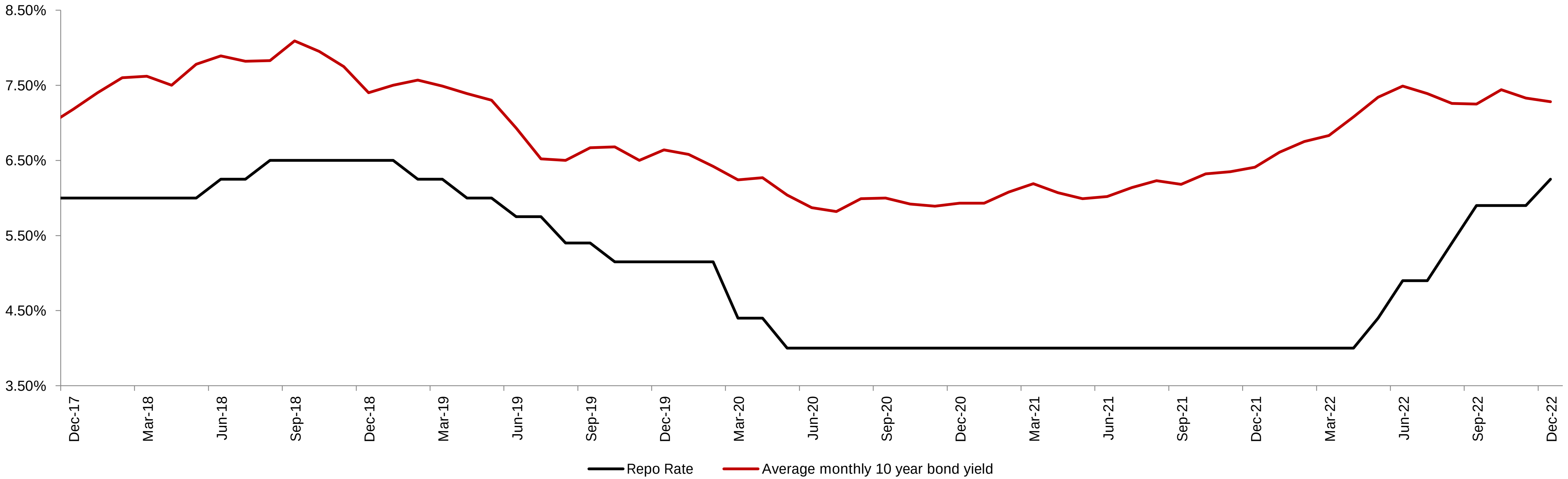


- The sequential fall in prices was because of persistent worries over demand growth amid fears of aggressive rate hike by the US Federal Reserve, disappointing services sector data, and rising Covid-19 cases in China.
- CPI inflation easing towards the RBI's max target range

India expected to benefit from lower oil prices and recent fall in inflation

Source: Crisil, NYMEX, MOSPL, RBI, Data ended December 2022 except otherwise mentioned, Past performance may or may not be sustained in future

RBI Repo Rate hiked to 6.25%

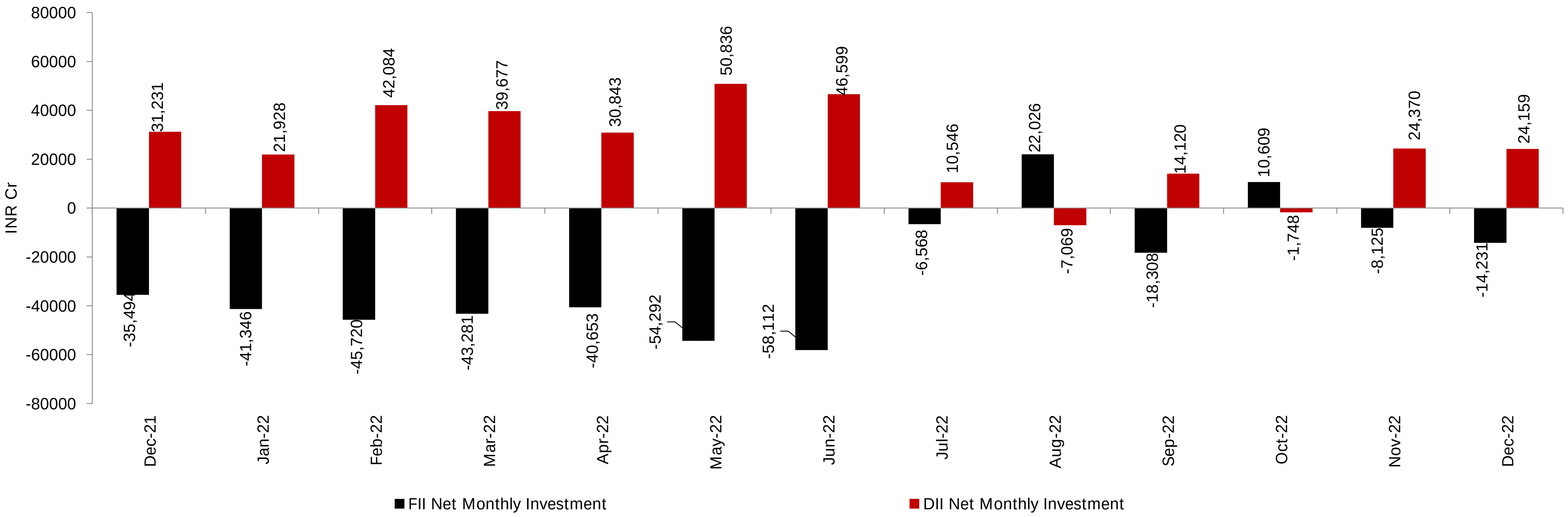


- RBI forecast for real gross domestic product (GDP) growth remains at 6.8% for the current fiscal
- RBI Monetary Policy Committee (MPC) raised the repo rate by 35 basis points to 6.25%
- Accordingly, the standing deposit facility rate, the marginal standing facility rate and the bank rate stood adjusted at 6.0%, 6.5% and 6.5%, respectively.

Hopes of less hawkish policy stance make equities attractive

Source: RBI, CRISIL Research, Data as of December 2022 except otherwise mentioned. Past performance is not indicative of future performance

Domestic inflows continue

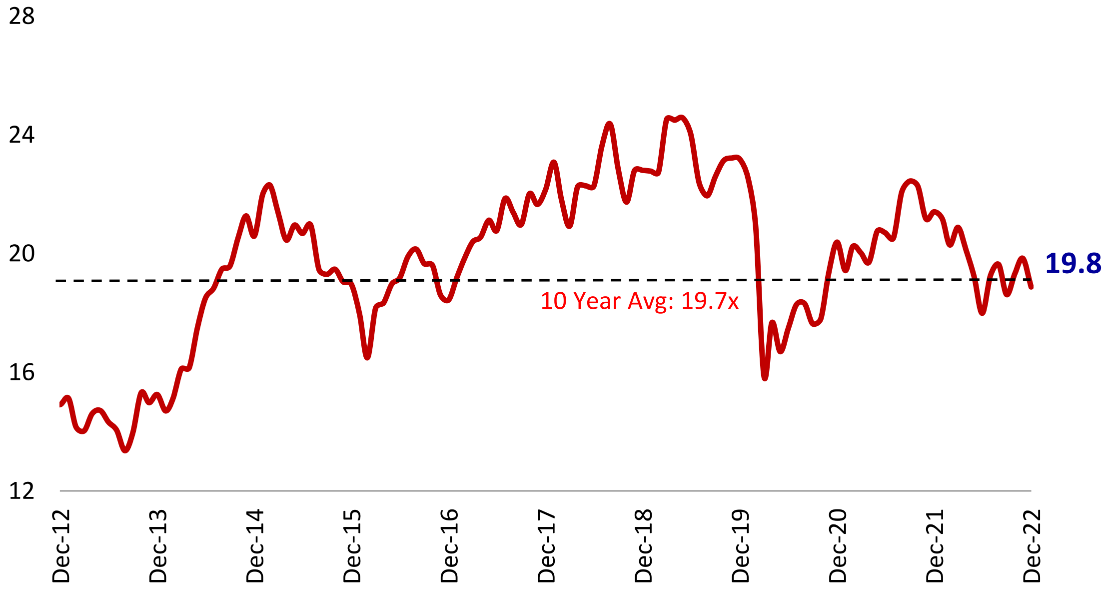


Buying by DIIs helped Indian markets in second half of 2022

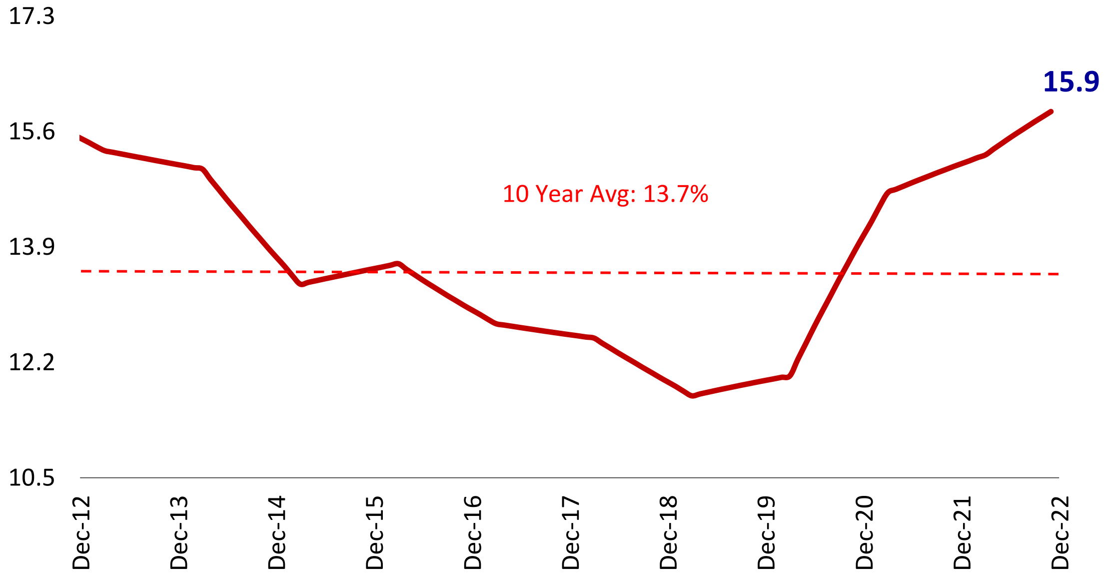
Source: Crisil, NSDL, NSE, Data ended December 2022 except otherwise mentioned

Valuations

Nifty 50 P/E



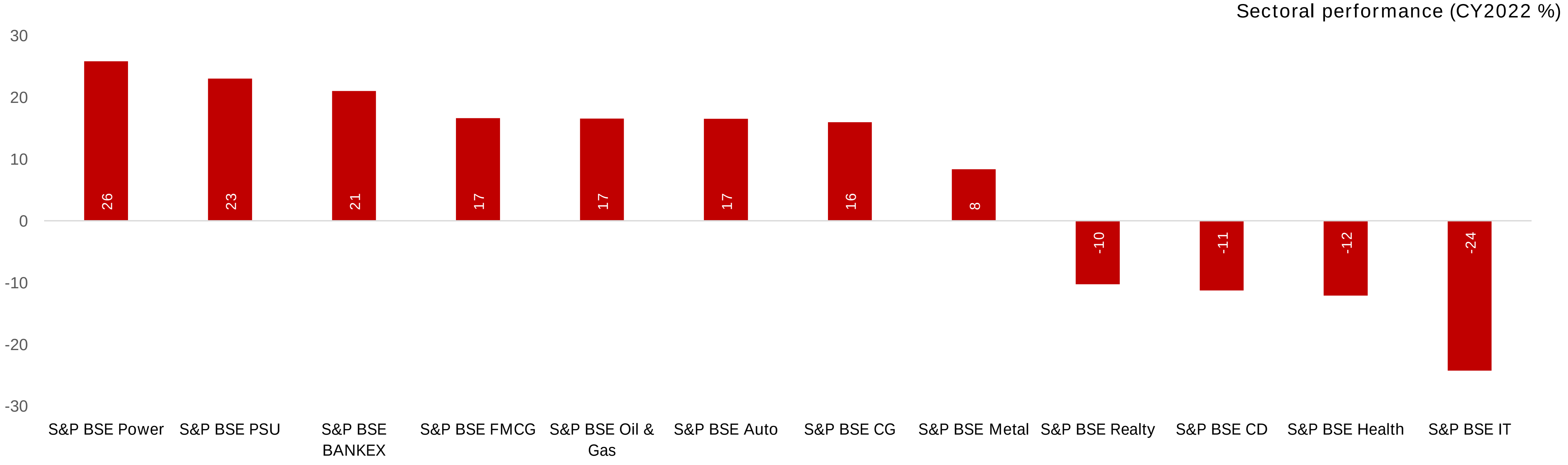
Nifty 50 ROE



Currently Nifty is trading in line with it historic long term averages

Source: MOSL, Data ended December 2022 except otherwise mentioned

Sectoral performance



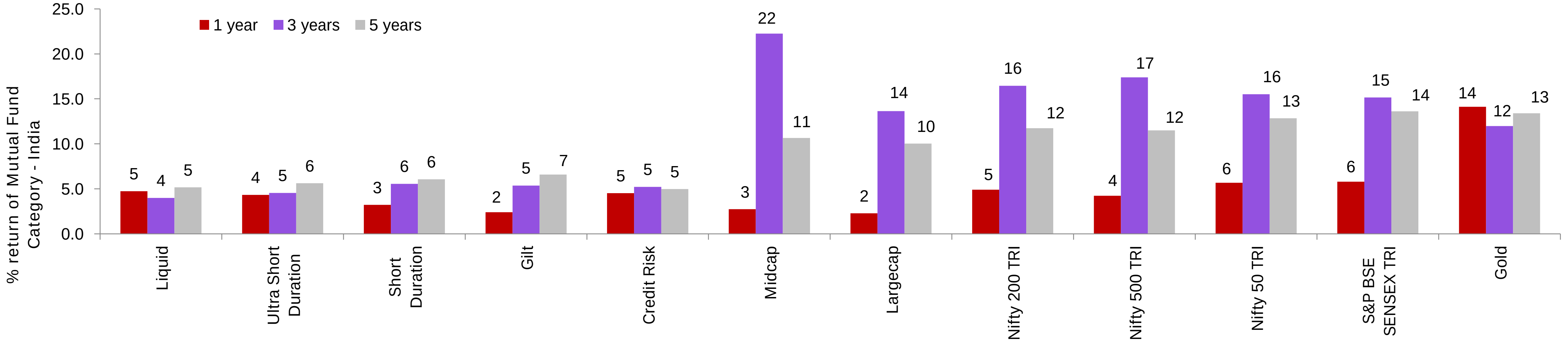
Past performance may or may not be sustained in future

PSU and Power sector themes ruled in CY2022

Source: Crisil, Data ended December 2022 except otherwise mentioned

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%	15.35%	14.66%
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

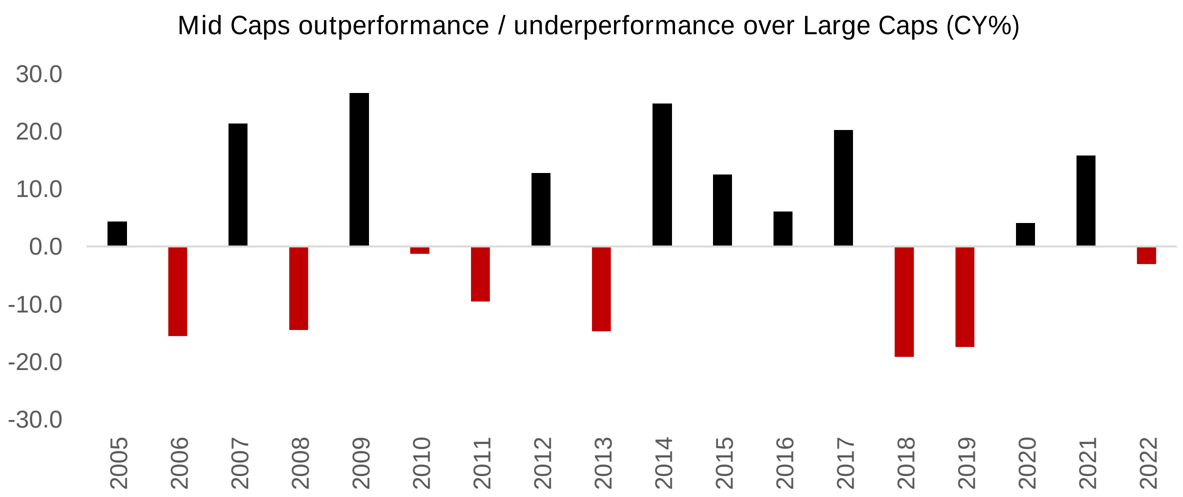
Source: Crisil, Data ended December 2022 except otherwise mentioned, YTD, 1 year returns are absolute, 3 and 5 years annualised CAGR returns, Average performance of 23 Liquid, 17 Ultra Short Duration, 19 Short Duration, 16 Gilt, 11 Credit risk, 23 Mid cap and 28 Large cap funds of CRISIL ranked schemes 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 31 Dec 2007- 31 Dec 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

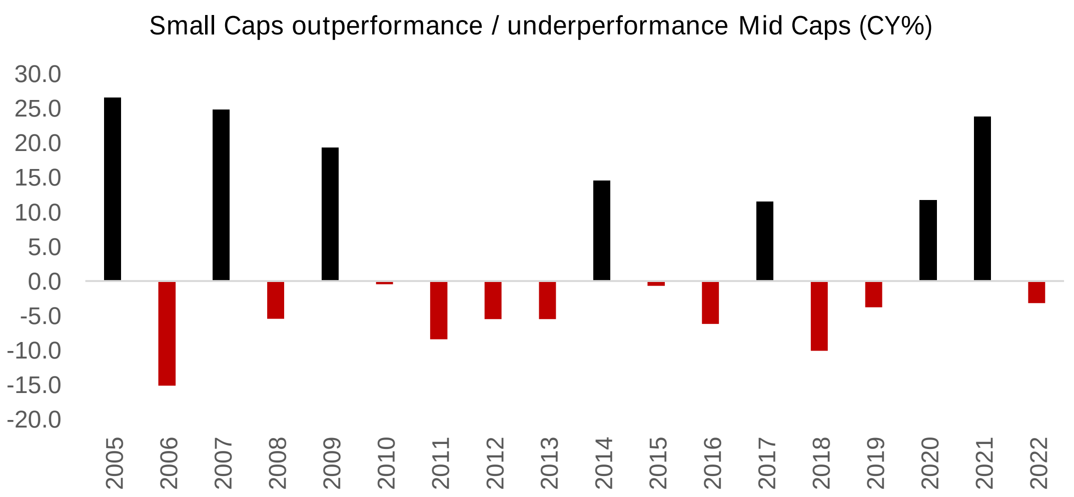
Multi Cap Funds

Benefit from multi market caps in uncharted times

Achieving performance balance in changing market cycles

Need for the all season performance





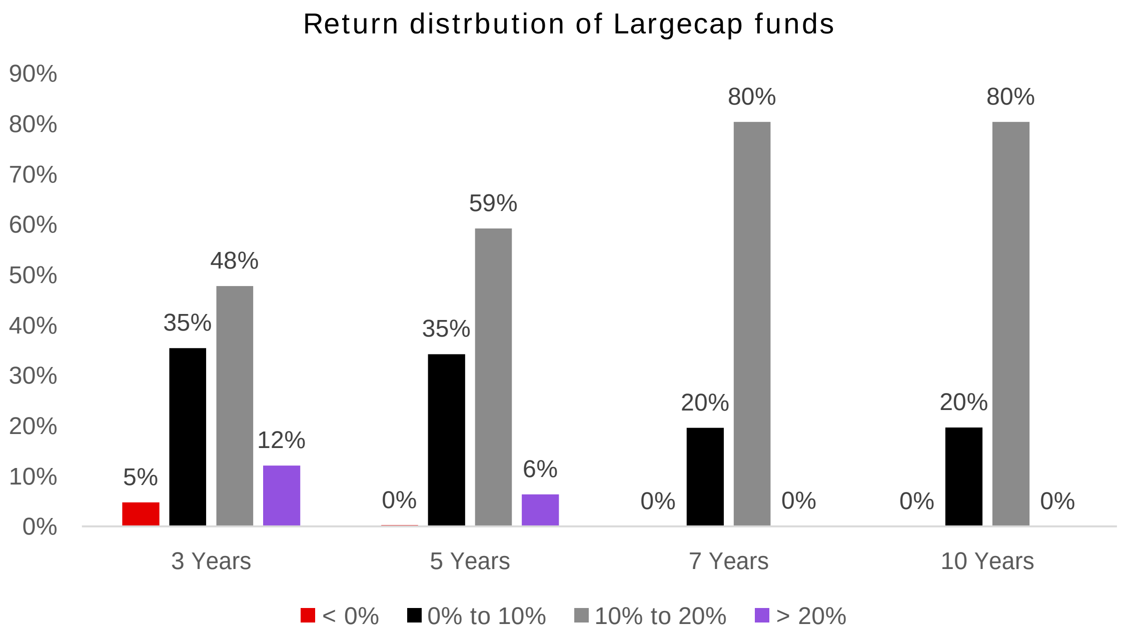
- Large, Mid and Small Cap stocks typically may not perform in the same market cycles
- The need for all season performance could be met with a combination of Large-Mid-Small-Caps in the portfolio
- Frequent changes in market cycles call for constant allocation in Large, Mid and Small Caps – A more disciplined approach
- Flexible market cap allocation strategy for a part of the assets helps to take advantage of favorable investment scenarios.

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

Source: ICRA MFI, Data as at Dec 2022, Index - Large Cap = S&P BSE Sensex, Mid Cap = S&P BSE Mid Cap and Small Cap = S&P BSE Small Cap, Past performance may or may not be sustained in the future.

Why Large Caps?

Consistent performers



Large Cap Features

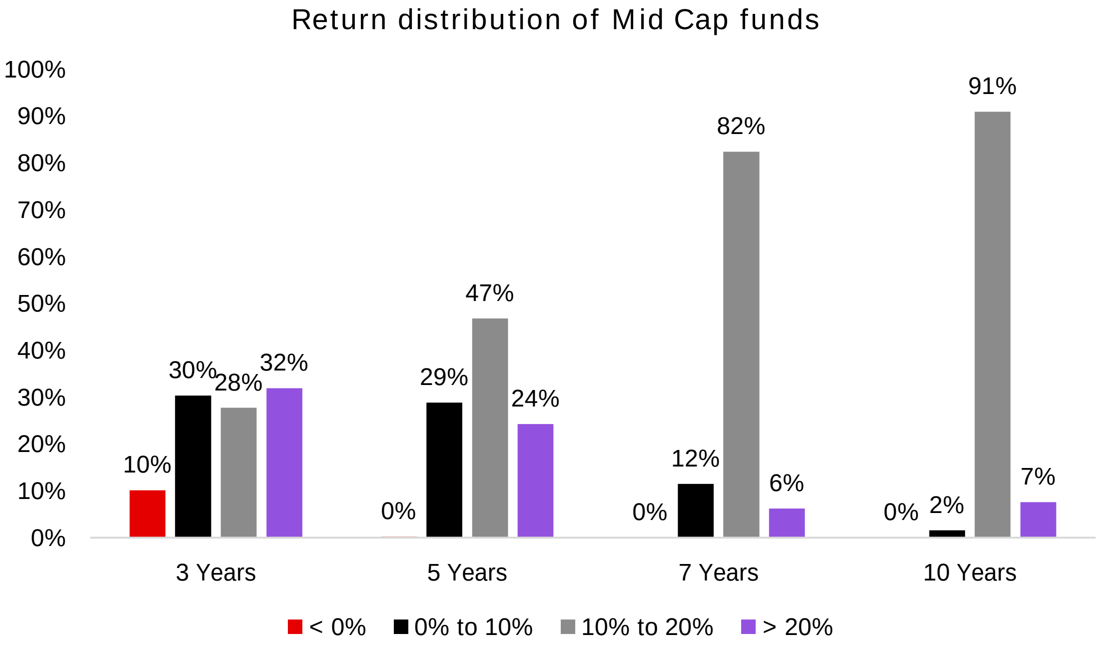
- Low volatility
- Relatively stable earnings growth
- Well-researched
- Well-owned
- Reasonable valuations

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 December 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 – 31 December 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



Mid Cap Features

- Historically above average performance
- Earnings acceleration
- Under-researched
- Under- owned
- Diversity and alpha

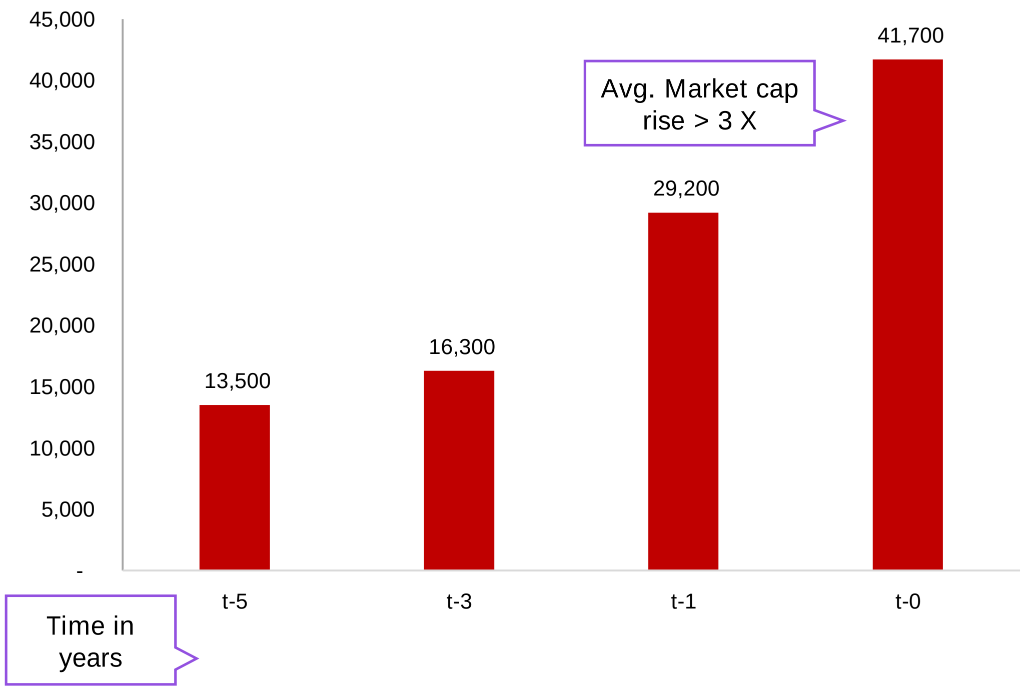
Mid Caps offer more potential of delivering high growth

For illustration purpose only. Source: NSE, CRISIL, Data as at December 2022, Return distribution based on a daily rolling returns of various holding periods. Period considered: 1 January 2005 – 31 December 2022. Mid Cap Funds are represented by weighted average index of 23 Mid cap funds representing the Mid Cap category. Returns of Mid cap funds is average of CRISIL ranked schemes. Past performance may or may not be sustained in the future.

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
- 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!

Market cap gain in multiples from the point 5 years before the Nifty inclusion*

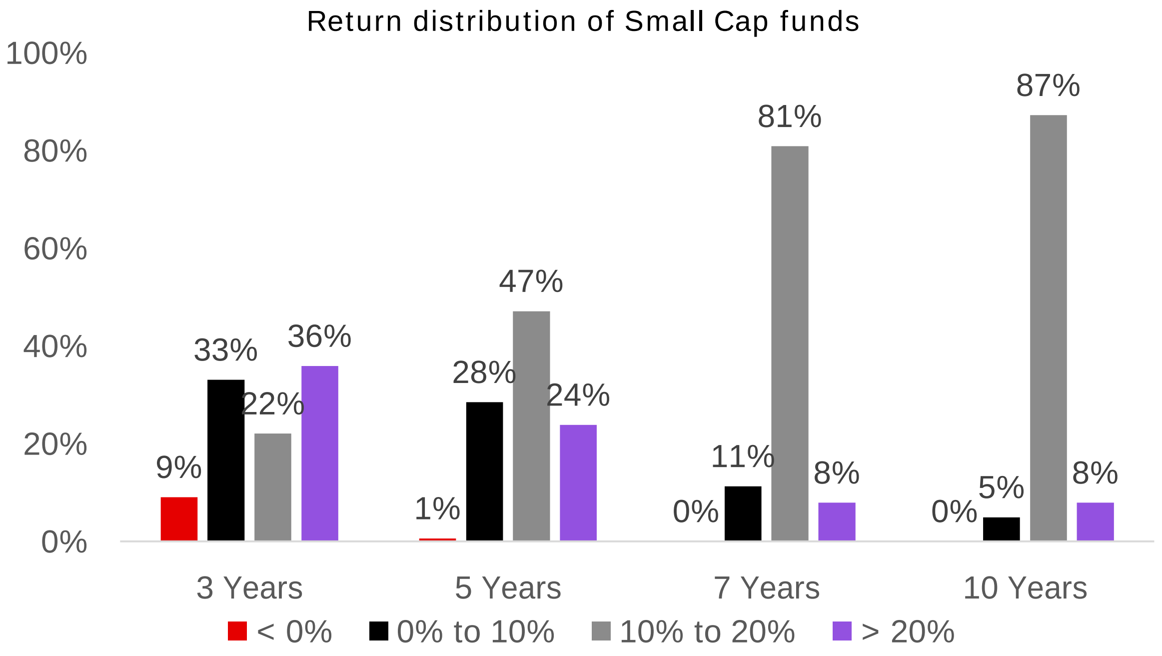
21.7X	8.8X	1.8X	3.6X
Scrip A	Scrip B	Scrip C	Scrip D

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



Large under owned universe of around 750 stocks

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

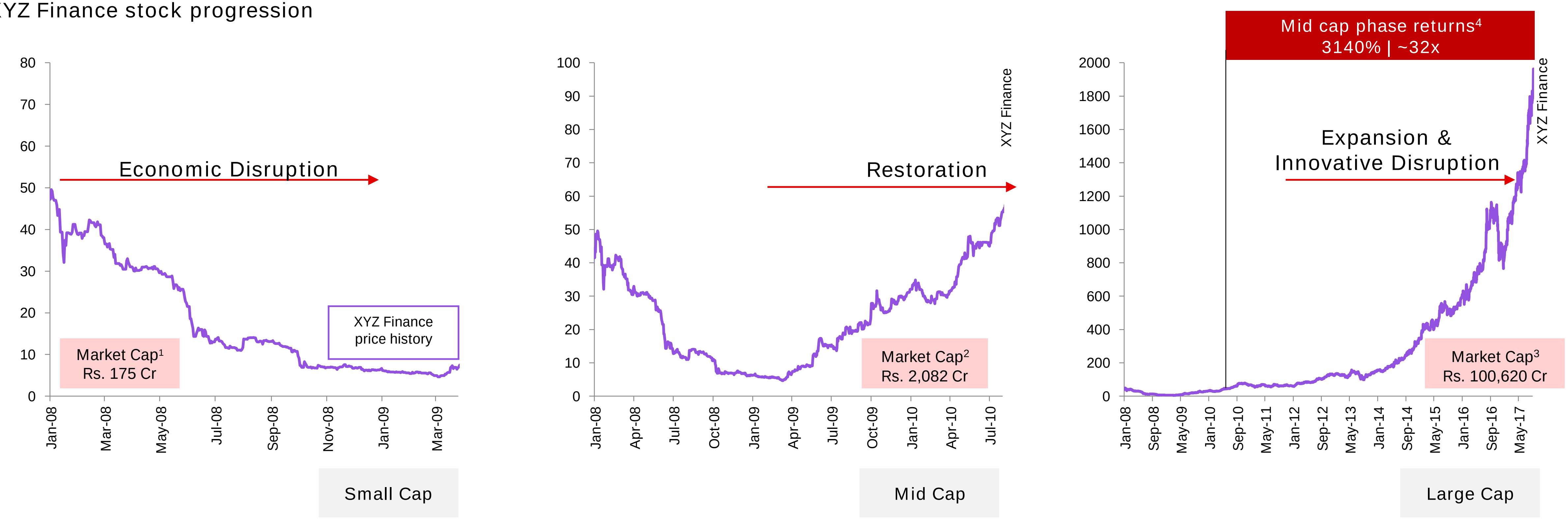
Small Caps offer more probability of delivering high alpha

For illustration purpose only. Source: NSE, CRISIL, Data as at December 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 – 31 December 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 a Small cap stock – XYZ Finance

XYZ Finance stock progression

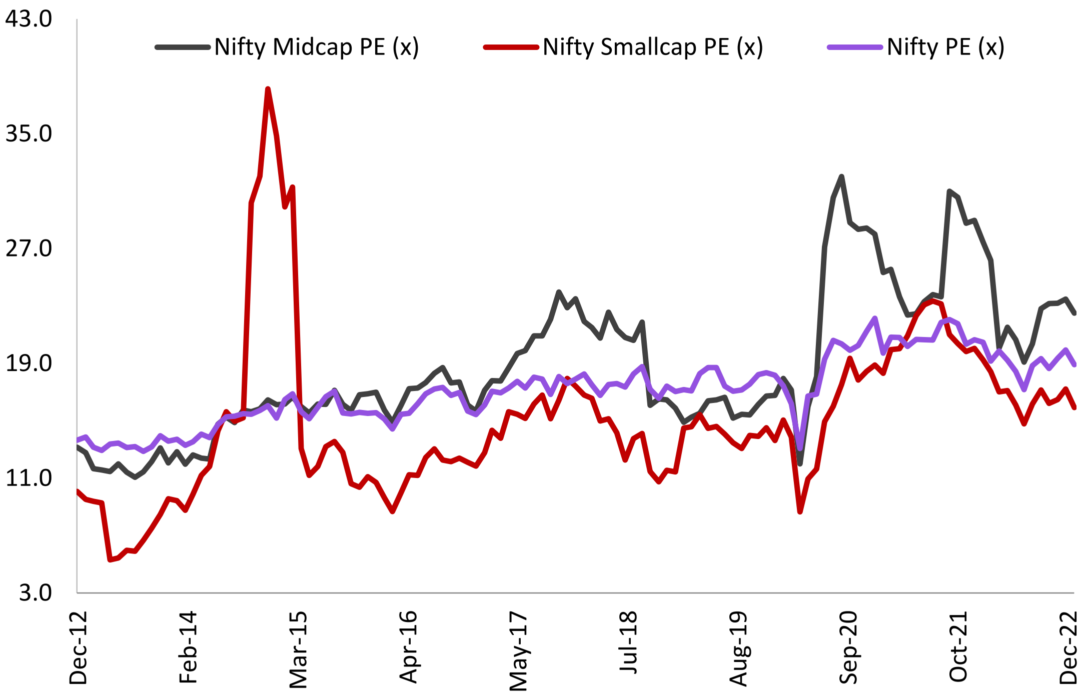


Benefit through the journey of Small Cap companies to Large Cap

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



- A good time for investors to build their Mid and Small Cap portfolio considering growth momentum in the Indian economy
- Stocks from relatively new sectors are getting listed and many of these are mid and small caps.
- Market share shift from unorganized to the organized sector is beneficial to well run companies of this size.
- India gaining traction as a manufacturing source would mean opportunities for a lot of ancillary sectors which would be smaller in size.
- 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.

Past performance may or may not sustain in future

Time for investors to build Mid and Small Cap portfolio

Source – MOSL, 1 year forward PE, Data as at 31 Dec '22

Large Cap – Leader Top 100 companies	• Well established businesses • Mature players with long track record • Higher liquidity • Stable earnings growth and less volatile
Mid Cap – Emerging Aspirants 101st to 250th companies	• Potential Large Caps • Proven track record with higher growth prospects • Comparatively higher volatility versus Large Caps • Potential valuation multiple re-rating candidates
Small Cap - Pearls 251st company and beyond	• Niche and emerging businesses • High potential for growth • Relatively more volatile and less liquidity • Higher research arbitrage

Source: HSBC Mutuall Fund

What is a Multi Cap Fund?

Multi Cap Fund invest across market caps with defined allocation range

Multi Cap Fund

Large Cap >= 25%

Large Caps are relatively stable with a lower downside risk and equipped to deliver better risk adjusted performance

Mid Cap >= 25%

Mid Caps companies have better growth potential at reasonable valuations with potential to generate relatively higher performance

Small Cap >= 25%

Emerging businesses with an opportunity to generate higher Alpha

Flexible <= 25%

Flexibility to go overweight through dynamic exposure within the market caps or invest in Debt Securities & Money Market instruments

Large Caps

- Top 100 stocks
  - Evolved businesses with track record
  - Dominant big players
  - Highly liquid in markets

Mid Caps

- 101^{st} to 250^{th} stocks
  - Emerging businesses
  - Potential Large caps of tomorrow
  - High growth potential
  - Moderately liquid

Small Caps

- Beyond 250^{th} stocks
  - Great growth potential
  - High volatility and low liquidity
  - Under researched
  - Potential multi baggers

Flexible

Invest in any market cap or Debt Securities & Money Market instruments

Large Cap (25%) + Mid Cap (25%) + Small Cap (25%) + Flexible^ (25%) = Multi Cap advantage

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 250^{th} stock based on full market capitalisation basis .

Bringing performance consistency with Multi Caps

Always keep winners on your side

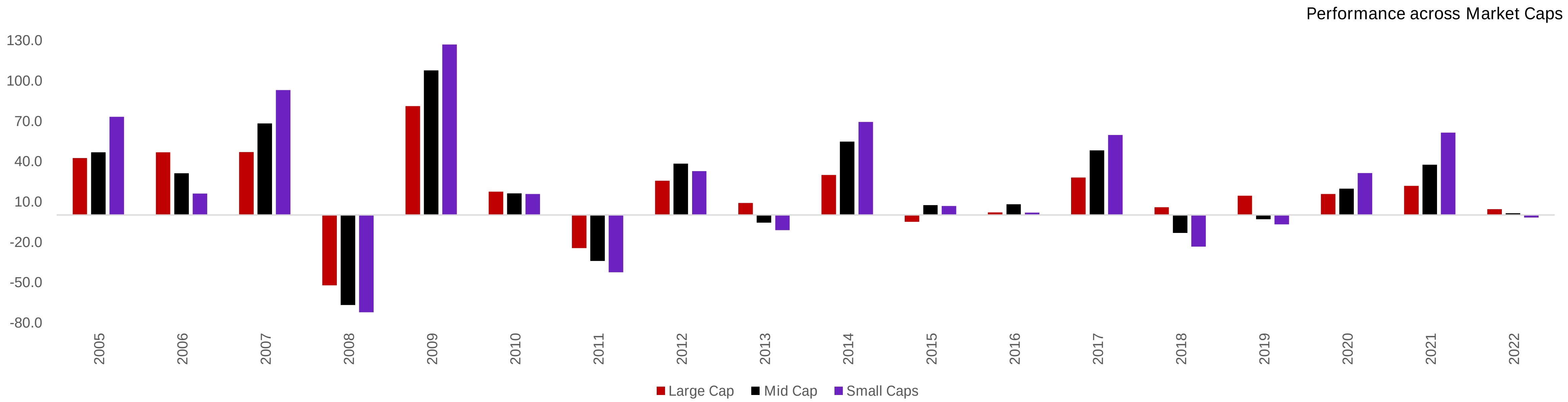


Chart representation - Large cap – S&PBSE Sensex, Mid Cap – S&P BSE Midcap, Small Cap – S&P BSE Small Cap index. Past performance may or may not be sustained in the future.

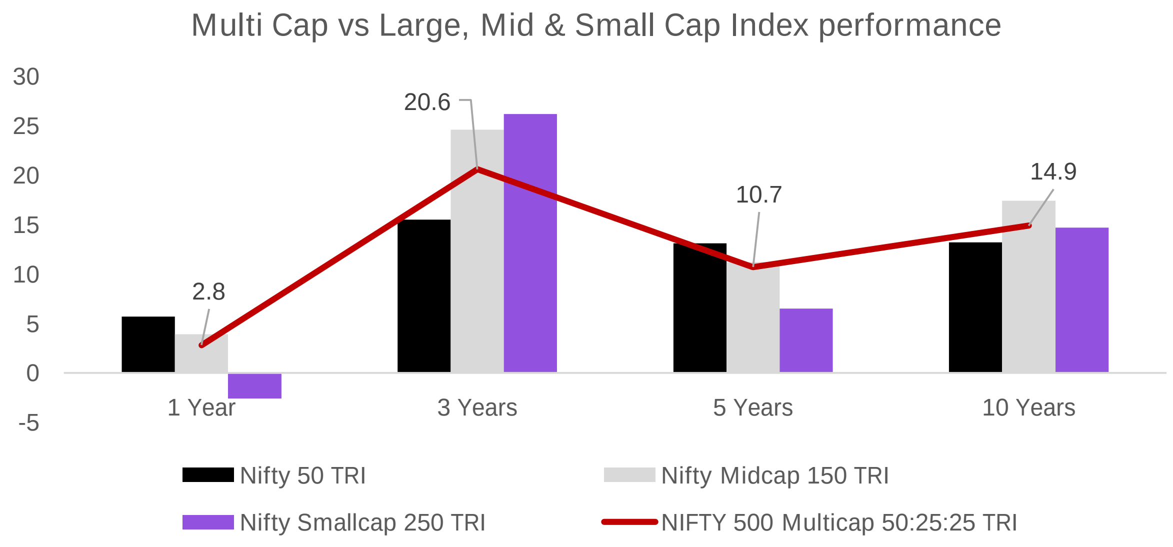
- It can be seen historically, winners may change based on favourable or unfavorable market cycle
- Large Cap stocks have outperformed / fallen less in 2006, 2008, 2010, 2011, 2013, 2018, 2019 and 2022
- Mid Cap stocks have outperformed in 2012, 2015 & 2016
- Small Cap stocks were the best performers in the year 2005, 2007, 2009, 2014, 2017, 2020 and 2021

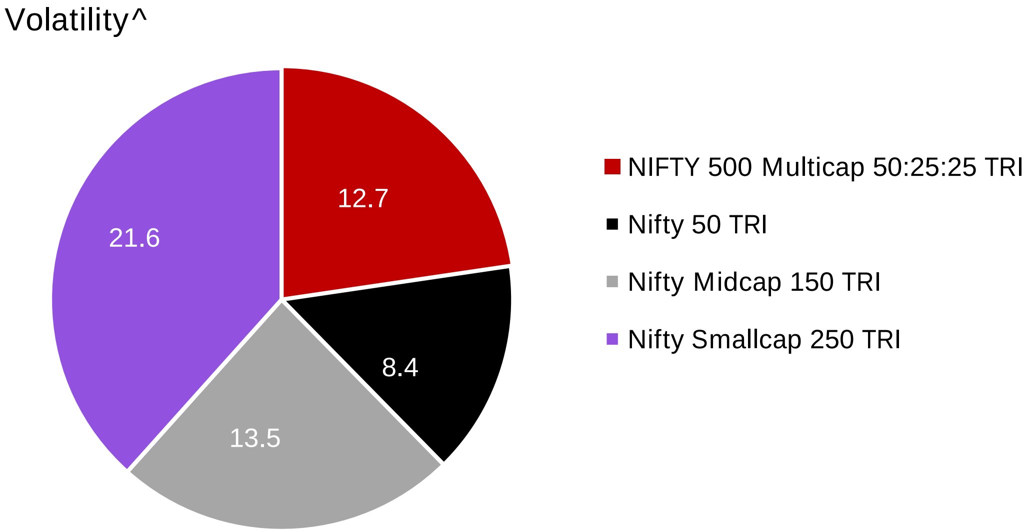
Multi Cap strategy has potential to perform in the different market cycles

Source: MFI ICRA, Data as on 31 Dec 2022

Multi Caps subject to low volatility

For better performance with low 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
- Multi Cap Funds aim to reduce volatility with exposure to Large Cap companies

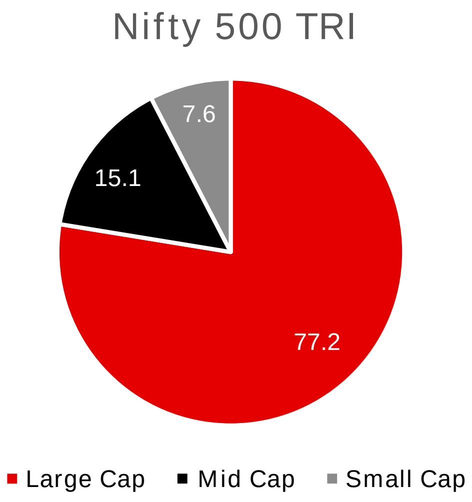
Multi Cap Funds have potential to deliver better risk adjusted performance

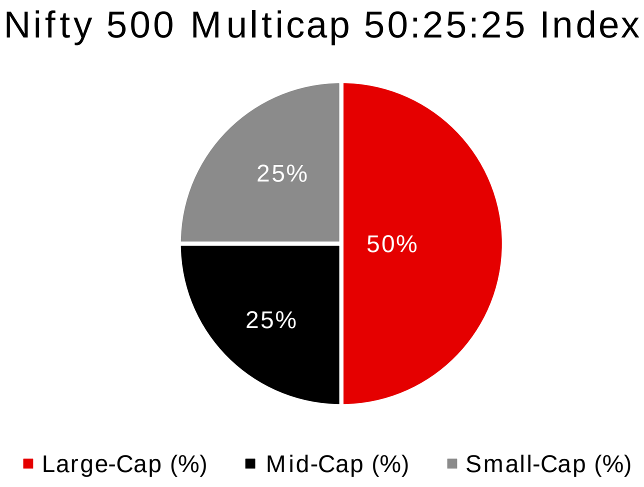
Source: MFI ICRA, Data as on 31 Dec 2022, Chart representation - Large cap – Nifty 50 TRI, Mid Cap – Nifty Midcap 150 TRI, Small Cap – Nifty Small Cap 250 TRI. Volatility = Standard Deviation for 1 year period, Index computation using the free-float market capitalisation weighted method. Past performance may or may not be sustained in the future.

More appropriate benchmark vs Flexi Cap Funds allows for a better mix

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

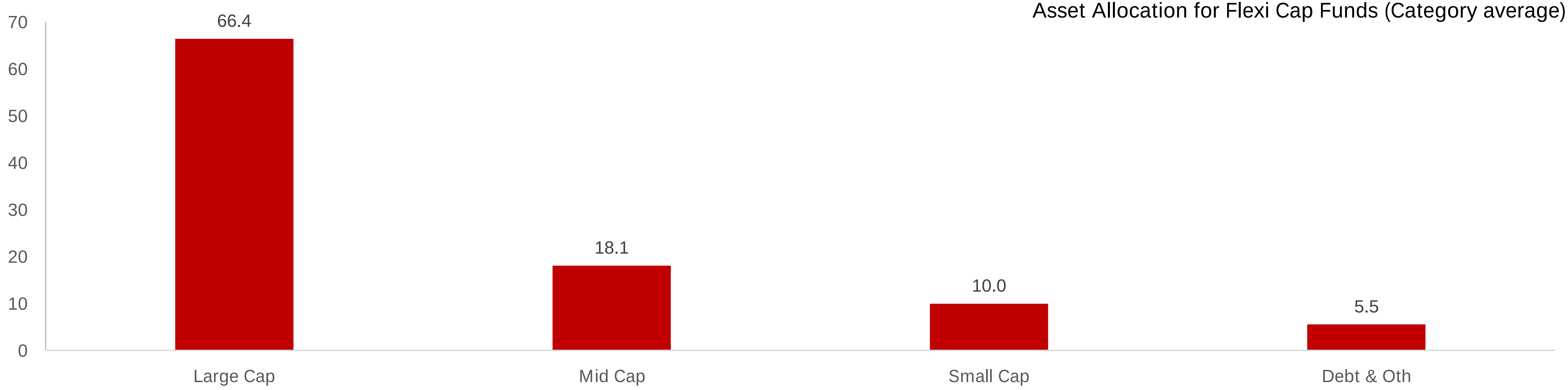
Parameters	Multi Cap Funds	Flexi Cap Funds
Minimum Equity Exposure	75%	65%
Market Cap Exposure	Minimum 25% each in Small Cap, Mid Cap and Large Cap	Flexible
Asset Allocation Flexibility^	Low	High

Multi Cap Funds offer relatively more diversification

Source: MFI ICRA, Data as on 31 Dec 2022, Asset Allocation flexibility – Flexibility to allocation assets across asset classes and market caps without predefined restrictions

Flexi Cap Funds allocation

Asset Allocation for Flexi Cap Funds (Category average)

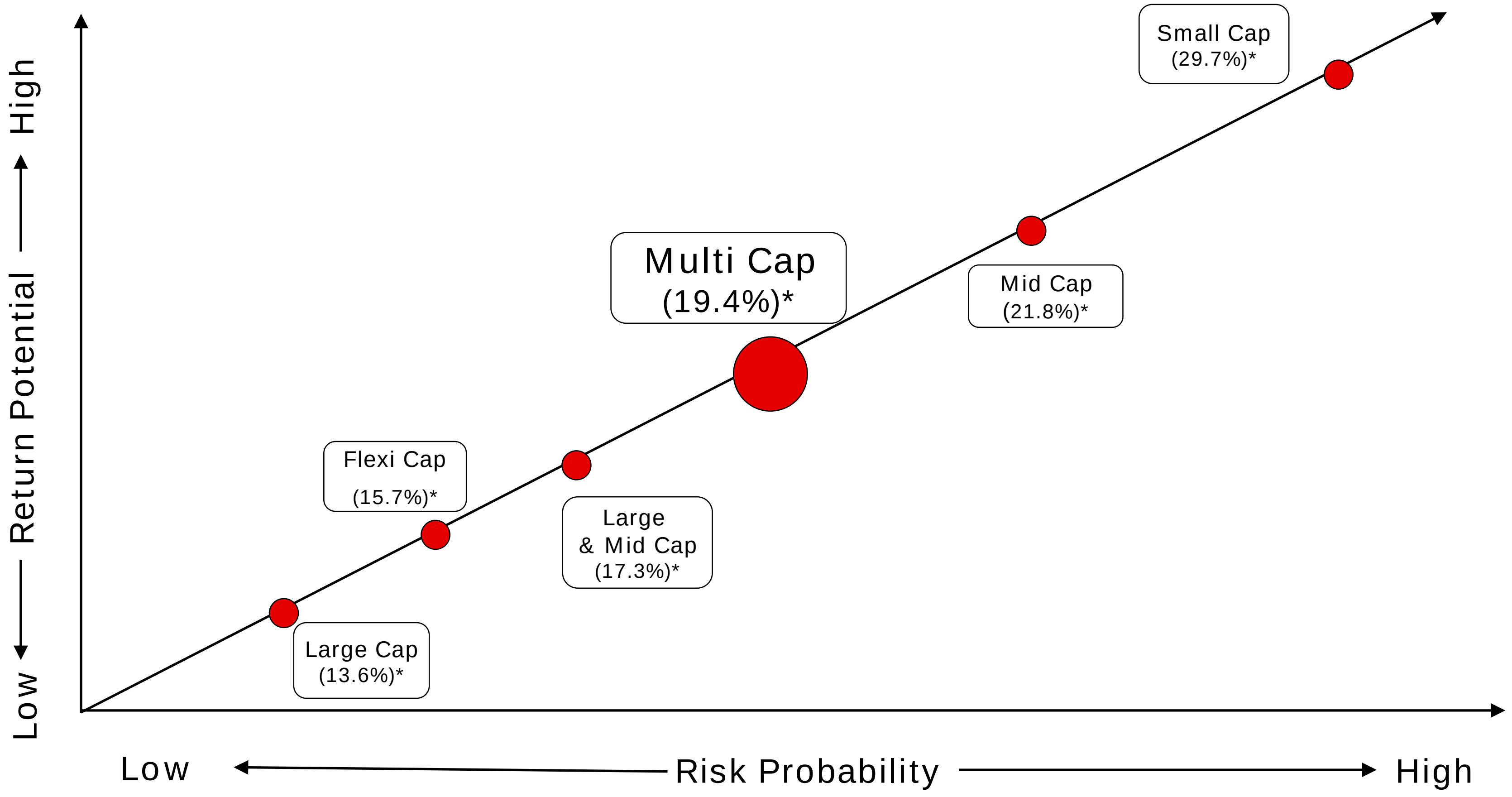


Asset Allocation for Multi Cap Funds (Category average)				
	LARGE CAP(%)	MID CAP(%)	SMALL CAP(%)	DEBT & OTHER (%)
Average	42	26	26	6

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. All Multi 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 31 Dec 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, 28 Large & Mid Cap, 8 Multi Cap, 25 Mid Cap and 21 Small Cap funds.

One fund four benefits

Large Cap

Well researched Large Caps have visibility on earnings growth with proven business and track record

\+

Mid Cap

Mid Caps are usually subject to mis-appraisal and mis-pricing as they are relatively under owned stocks

\+

Small Cap

Big opportunities through Small Caps as they may offer valuation discount on account of under-research / under owned features

\+

Flexible

Flexible asset allocation strategy for part of assets help as fund can go overweight on certain market cap in favouable market cycle or Debt Securities & Money Market instruments

=

Multi Cap Funds

The fund with an minimum weight in each Large, Mid and Small Caps (i.e. 25%) and flexi allocation to equity or debt/MMI upto 25% offers potential of better consistent performance

Access benefits in multiple market cycles through one fund

Source – HSBC Mutual Fund, For illustration purpose only.

Annexure

Case for Multi Cap Funds

Multi Cap funds offer many advantages

Performance

- Multi Cap positioning may bring in the performance consistency with the minimum constant combination of Large, Mid and Small Caps

Volatility

- Multi Caps show relatively moderate volatility due to allocation to Large Caps and aim for better risk adjusted performance

Earnings growth combo

- Multi Cap investments offer combination of steady and consistent earnings growth with flavor of accelerated earnings growth

Well-researched & Under-researched

- Well-researched Large Caps have visibility on earnings growth
- Mid & Small Caps may subject to the market mis-appraisal and mis-pricing as they are under researched stocks

Well-owned & under-owned

- Well-owned Large Caps support valuations relatively better in volatile times
- Under-owned Mid and Small caps offer opportunity to accumulate them at relatively lower valuations

Valuations

- Mid Caps and Small Caps may offer valuation discount on account of under-researched characteristics

Economies of scale and alpha

- While Large Caps may achieve robust economies of scale and stable performance, Mid & Small Caps may offer relatively higher growth / performance

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

Source: HSBC Mutual Fund For illustration purpose only. 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 250th stock based on full market capitalisation basis .

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HSBC Asset Management (India) Private Limited, 9-11 Floors, NESCO IT Park, Building no. 3, Western Express Highway, Goregaon (East), Mumbai – 400 063, India.
investor.line@mutualfunds.hsbc.co.in | Website: www.assetmanagement.hsbc.co.in