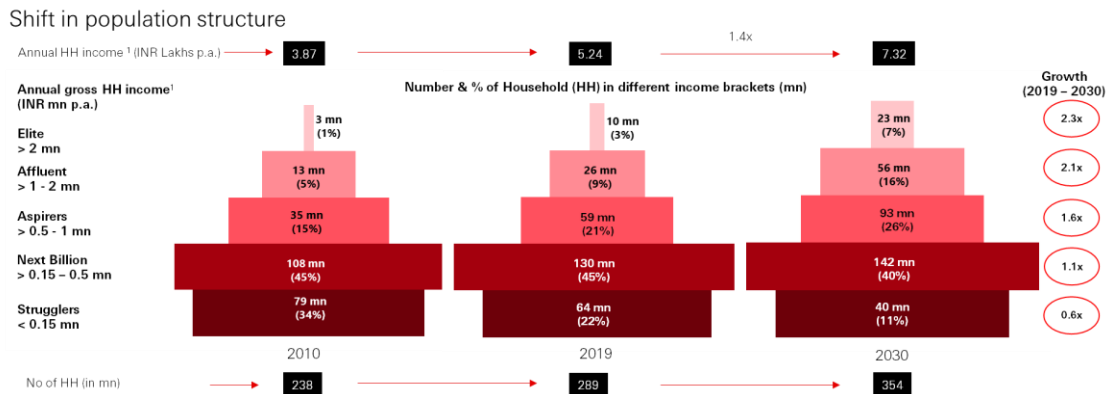


## Q & A: HSBC Consumption Fund

### 1. Why Consumption Theme?

China's per capita income has crossed USD 2,000 in CY06. China's growth in next 10 years (CY06-16) was 14.5%. During this period, China Car sales grew by 5x from 5mn to 24mn (India FY23 car sales was 4mn). China air passenger travel grew by 3x from 158mn to 488mn (India FY20 air passenger was 164mn). Other categories like Food & Beverage grew 3.6x, Medicines & Medical appliances 3.5x and Sports Equipment 7.4x. After crossing USD 2000 mark for per capita income countries such as Japan, South Korea and China have registered about 4X growth in per capita income over the next decade. India's per capita path is expected to be similar. India crossed this \$2000 per capita income mark in 2019 and expected to replicate China like consumption success story over the next 10-15 years.

India's current and expected future population breakup holds the key. 34 million new households (HH) likely to enter Aspirers category while 43 Mn HH to enter Affluent & Elite category by the end of this decade. India is clearly well positioned to reap benefits of demographic dividend over the next few decades.



India is expected to add 22% of the world's working population by 2031. India will have the youngest work force. In 2030, 77% of India's population will comprise Millennials & Gen Z. India is also experiencing reduced savings rate. As Information collateral replaces physical collateral in the new digital world and with ease of access to credit consumption is likely to grow multifold.

Along with this there is a change in spending pattern of Indians. Indian consumers' wallet share is moving towards discretionary spends. Consumer behavior moving towards everything, anywhere, anytime. There is also an emergence of new spending categories. Multiple non existing and niche segment of spends have emerged today.

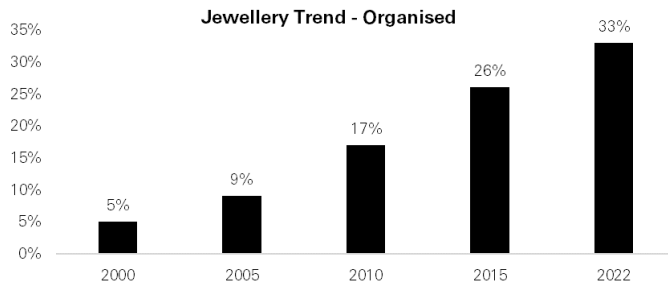
All these emerging trends along with the young and working population advantage, makes India the most attractive consumption story today.

## 2. What are the key Consumption Themes?

Major consumption themes are given below

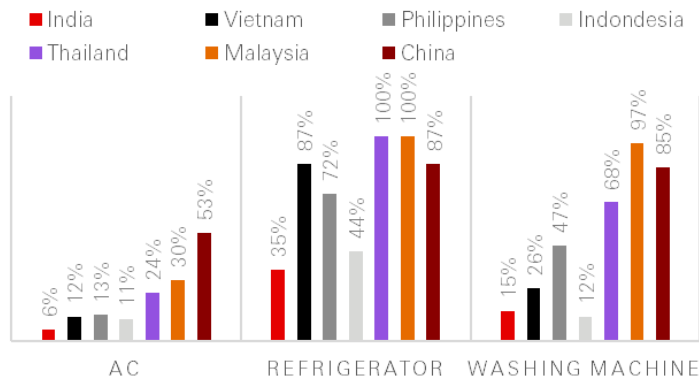
- Unorganised to Organised shift
- Penetration led growth
- Emerging categories
- Premiumisation
- Digitisation

### Unorganised to Organised shift









### Penetration led growth

Country wise penetration of select consumption products

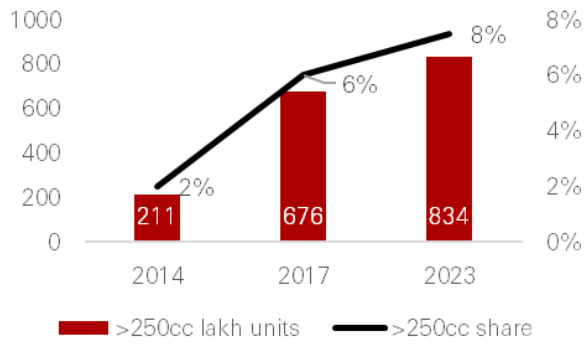


### Emerging categories

	Categories existed even a decade back	Category Expansion	Newer Disruption Categories
	Headphones & Earphones	Wireless Bluetooth, Sports	Truly Wireless, Earbuds, Bone Conducting
	Cable TV/In-house Entertainment	Android TV, Satellite TV	OTT Apps
	Accessories	Cell Phone Chargers, Wireless Charging	Power Bank
	Non-Home Food Consumption	Personal Takeaway	Home consumption replaced by outside food by aggregators
	Watches	Smart Watches	Health bands, fitness trackers
	Public Transportation	Taxi services	Motor Vehicle Aggregators

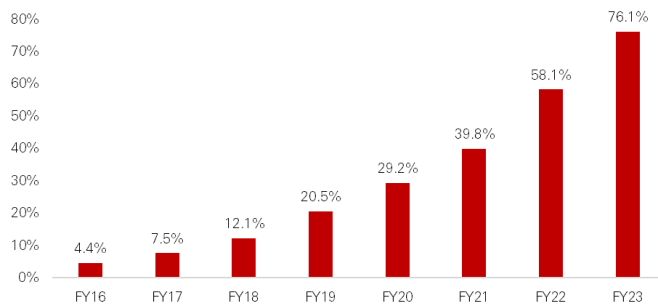
## Premiumisation

Rising share of premium motorcycles - Regulatory / Technology / Preference changes driving premiumization (leading to 2x to 3x price Jump)

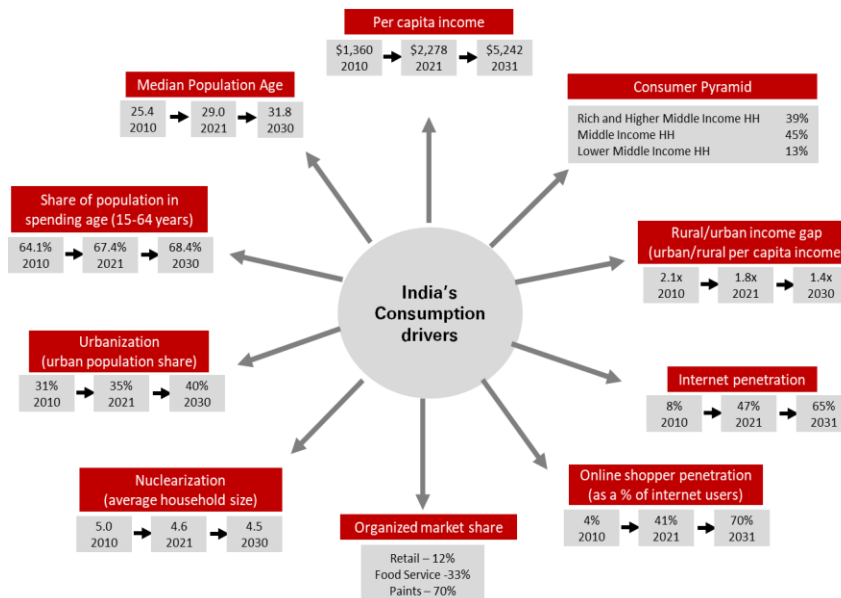


## Digitisation

Digital transactions (% of GDP) - In 6 years, India became the world's highest digital payments volume generator



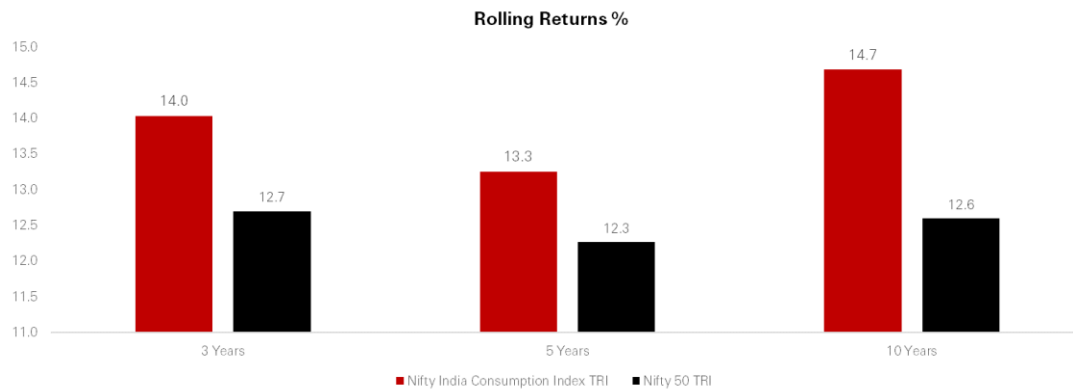
## Other Consumption themes and drivers



Source: Bloomberg, Morgan Stanley, BCG Rai 2022, Kantar, CLSA, Credit Suisse, Kalyan Jewellers RHP, Goldman, Axis Capital, for illustration purpose only.

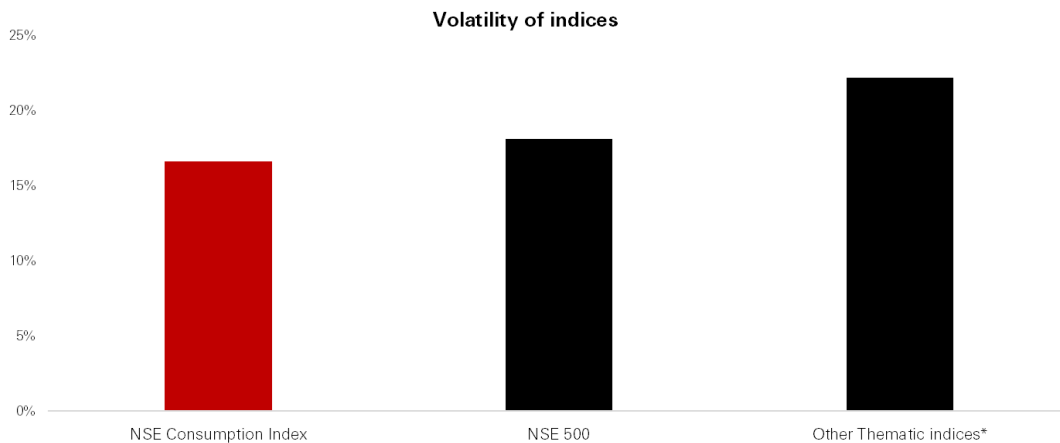
### 3. Why Consumption Thematic Funds?

Consumption theme strategy has potential to perform consistently across investment horizons as seen here in this performance track record.



Source: MFI ICRA, NSE, Daily rolling returns for respective periods using index values since Jun '13 till Jun '23, Data as on 30 June 2023, Compounded Annual Growth Rates (CAGR), Past performance may or may not be sustained in the future.

Consumption Index's volatility is lowest among other thematic indices as well as lower than Nifty 500



Consumption funds have potential to deliver better risk adjusted performance.

Source: Bloomberg,, Volatility = Standard Deviation, Data since 1 Jan '09 till 30 June '23, \* Average of other thematic indices, Other Thematic Indices list - NSE Nifty India Consumption Index TR, NSE Nifty Infrastructure Index TR, NSE Nifty Pharma Index TR, NSE Nifty Financial Services Index TR, Nifty IT TR Index, Nifty Housing TR index, NSE Nifty Media Index TR, NSE Nifty Commodities Index TR, NSE Nifty Services Sector Index TR, Nifty Transportation & Logistics TR index, NSE Nifty Private Bank Total Return Index, NSE Nifty CPSE Total Return Index, Nifty Transportation & Logistics TR index. Past performance may or may not be sustained in the future.

## Consumption Index is in Quartile 1/2 for eight out of thirteen years

Rank	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	Jun'23
1							Nifty India Consumption Index		Nifty India Consumption Index				
2	Nifty India Consumption Index				Nifty India Consumption Index								
3													Nifty India Consumption Index
4		Nifty India Consumption Index											
5			Nifty India Consumption Index										Nifty India Consumption Index
6													
7								Nifty India Consumption Index					
8					Nifty India Consumption Index							Nifty India Consumption Index	
9													
10													
11							Nifty India Consumption Index						
12										Nifty India Consumption Index			
13													

Source: HSBC Mutual Fund, Data period – Each Financial Year between 31 Mar 2011 to 30 Jun 2023

#### 4. Consumption Fund theme is expected to cover which sectors and companies?

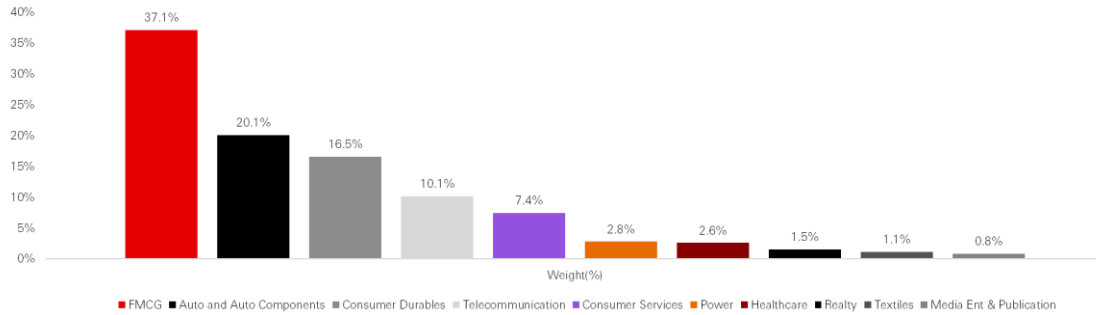
Consumption theme is a sizeable part of portfolio universe

NSE 500	Number of Companies	Market Cap (Rs crores)
Automobile and Auto Components	30	17,74,416
Capital Goods	10	2,89,780
Consumer Durables	28	10,74,001
Consumer Services	26	8,20,497
Fast Moving Consumer Goods	30	24,03,403
Financial Services	47	55,55,381
Healthcare	44	13,84,891
Media, Entertainment & Publication	6	65,751
Oil, Gas & Consumable Fuels	5	19,44,403
Realty	13	3,60,349
Telecommunication	6	6,51,443
Textiles	10	1,33,705
Others	2	2,32,394
<b>Total</b>	<b>257</b>	<b>1,66,90,415</b>
Large Cap	61	1,30,23,940
Mid Cap	78	25,19,395
Small Cap	118	11,47,080
<b>Total</b>	<b>257</b>	<b>1,66,90,415</b>

Note –257 companies out of NSE 500 belong to the consumption or consumption related theme, Source: Bloomberg, Data as on 31 May 2023

## Benchmark universe

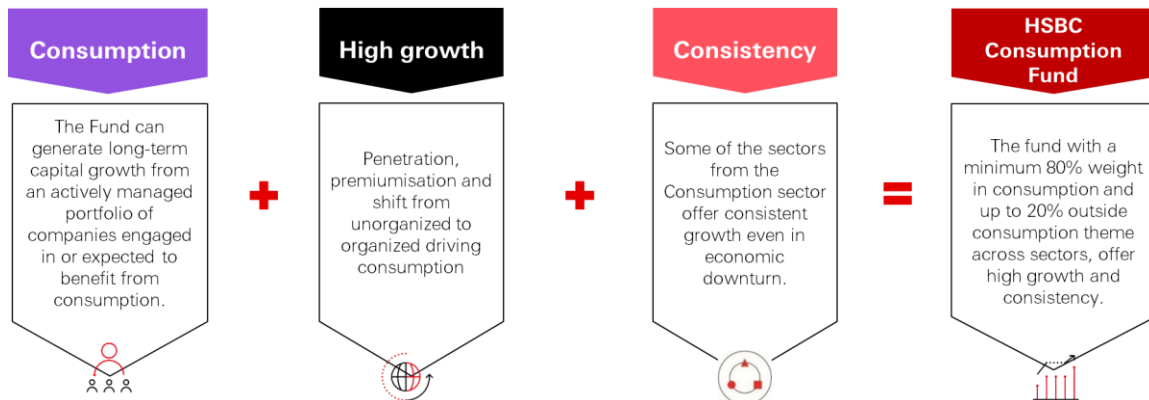
Consumption Index - Sector composition



Source: NSE, NSE Disclaimer: All information contained herewith is provided for reference purpose only. NSE Indices Limited (formerly known as India Index Services & Products Limited-IISL) ensures accuracy and reliability of the above information to the best of its endeavors. However, NSE Indices Limited makes no warranty or representation as to the accuracy, completeness or reliability of any of the information contained herein and disclaim any and all liability whatsoever to any person for any damage or loss of any nature arising from or as a result of reliance on any of the information provided herein. The information contained in this document is not intended to provide any professional advice. The Fund may or may not have positions in these stocks. The above statements analysis should not be construed as an investment advice or a research report or a recommendation to buy or sell any security covered under the respective sector/s Industry Leadership in terms of market share/ Sales/ Profitability considered. Data as on 30 Jun 2023.

## 5. What is HSBC Consumption Fund is all about?

The fund with a minimum 80% weight in consumption and up to 20% outside consumption theme across sectors, offer high growth and consistency.



## HSBC Consumption Fund

Thematic Fund - An open ended equity scheme following consumption theme

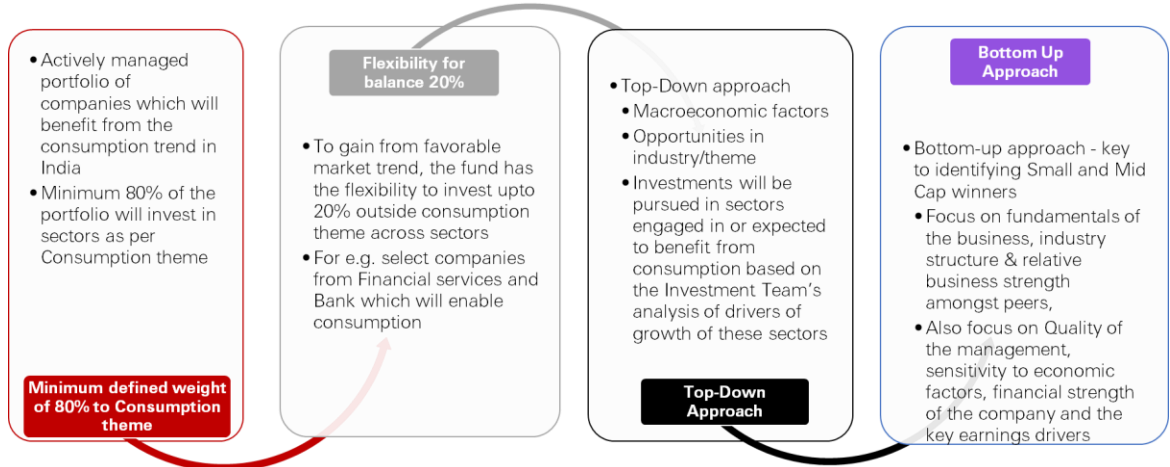
Product Label	Scheme Risk-o-meter	Benchmark Risk-o-meter Benchmark Index : NIFTY India Consumption Index TRI
<p><b>HSBC Consumption Fund</b> (An open ended equity scheme following consumption theme)</p> <p>This product is suitable for investors who are seeking*:</p> <ul style="list-style-type: none"> <li>To create wealth over long-term</li> <li>Investment predominantly in equity and equity related securities of companies engaged in or expected to benefit from Consumption and consumption related activities</li> </ul>	<p>Investors understand that their principal will be at Very High risk</p>	

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

Product labelling assigned during the NFO is based on internal assessment of the scheme characteristics or model portfolio and the same may vary post NFO when the actual investments are made.

Source – HSBC Mutual Fund, For illustration purpose only.

## 6. Which investment strategy will HSBC Consumption Fund will follow?

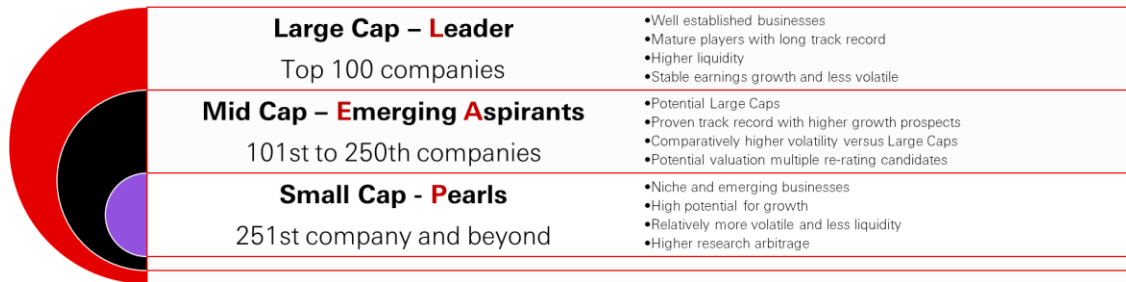


Source: HSBC Mutual Fund, Data

Focused themes

- Unorganized to organized shift
- Penetration
- Premiumisation
- Urbanisation

### Opportunity across sizes - LEAP



## 7. What will be the investment allocation of HSBC Consumption Fund?

HSBC Consumption Fund

The Fund Manager may invest in sector/industries which satisfy the consumption theme. The Fund Manager may also invest in other sectors as may be added in Nifty Consumption Index from time to time. Under normal circumstances, it is anticipated that the asset allocation of the Scheme will be as follows:

Instruments	Indicative Allocation (% of net assets)		Risk Profile
	Minimum	Maximum	
Equities & Equity related securities of companies engaged in or expected to benefit from consumption and consumption related activities	80%	100%	Very High
Equity and equity related securities of companies engaged in or expected to benefit from other than consumption and consumption related activities	0%	20%	Very High
Debt Securities & Money Market instruments (including Cash & cash equivalents, units of Liquid and Overnight mutual funds)	0%	20%	Low to Medium
Units of REITs and InvITs	0%	10%	Very High

An actively managed portfolio of companies engaged in or expected to benefit from consumption

## 8. In brief why should one invest in HSBC Consumption Fund?

- HSBC Consumption Fund will explore right opportunities arising out of broader trends/themes such as
  - Unorganised to Organised shift
  - Penetration led growth
  - Emerging categories
  - Premiumisation
  - Digitisation
- The Fund can generate long-term capital growth from an actively managed portfolio of companies engaged in or expected to benefit from consumption.
- Mid and Small Caps across consumption and consumption enablers expected to offer high growth.
- Some of the sectors from the Consumption sectors have potential to offer consistent growth even in economic downturn.
- The fund with a minimum 80% weight in consumption and up to 20% outside consumption theme across sectors, offers high growth and consistency.

## 9. What is the investment objective, benchmark of HSBC Consumption Fund and who will manage the fund?

<b>Investment Objective</b>	<ul style="list-style-type: none"><li>• The investment objective of the Fund is to generate long-term capital growth from an actively managed portfolio of equity and equity related securities of companies engaged in or expected to benefit from consumption and consumption related activities. However, there can be no assurance or guarantee that the investment objective of the scheme will be achieved.</li></ul>
<b>Benchmark (Tier 1)</b>	<ul style="list-style-type: none"><li>• Nifty India Consumption Index TRI</li></ul>
<b>Investment strategy</b>	<ul style="list-style-type: none"><li>• A top down and bottom up approach will be used to invest in equity and equity related instruments. Investments will be pursued in sectors engaged in or expected to benefit from consumption and consumption related activities based on the Investment Team's analysis of drivers of growth of these sectors. Selective stock picking will be done from these sectors. The fund manager in selecting scrips will focus on fundamentals of the business, industry structure &amp; relative business strength amongst peers, quality of the management, sensitivity to economic factors, financial strength of the company and the key earnings drivers. Valuation methods such as relative valuation, fundamental valuation, etc. will also be used for identifying the investment opportunities.</li></ul>
<b>Fund Manager</b>	<ul style="list-style-type: none"><li>• Gautam Bhupal</li><li>• Sonal Gupta (For Overseas investments)</li></ul>

Source – HSBC Mutual Fund, Refer to the SID of HSBC Consumption Fund for more details,

## 10. Why should one invest in equity markets and Consumption fund now?

Private consumption, which accounts for ~60% of GDP, is showing signs of pickup. Several indicators – such as GST Collections, E-way bills, Power consumption, Retail loan growth, PMI services, Air passengers flown, Auto sales – have shown an improving trend, indicating a pickup in discretionary consumption.

We expect consumption demand to be supported by the following factors:

- Rural demand, which has been range-bound, is now indicating early signs of a pickup
- RBI and Fed have paused rate hike cycle. India interest rate is still below historical average and supported with moderation in inflation
- Healthy household balance sheet with low level of debt
- Commodity prices and inflation have cooled off, better margins for corporates
- Improvement in consumer sentiment and purchasing power
- Expected rebound in rural demand as rural labour market data indicate improvement and slowdown in inflation improves terms of trade for the rural sector
- MNC Sentiment at multi-year high as number of MNCs like Amazon, Cisco, Microsoft, Mondelez are expected to start / expand operation in India



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