

# Power meets great potential

## HSBC Large and Mid Cap Equity Fund

(Large & Mid Cap Fund: An open ended equity scheme investing in both large cap and mid cap stocks)



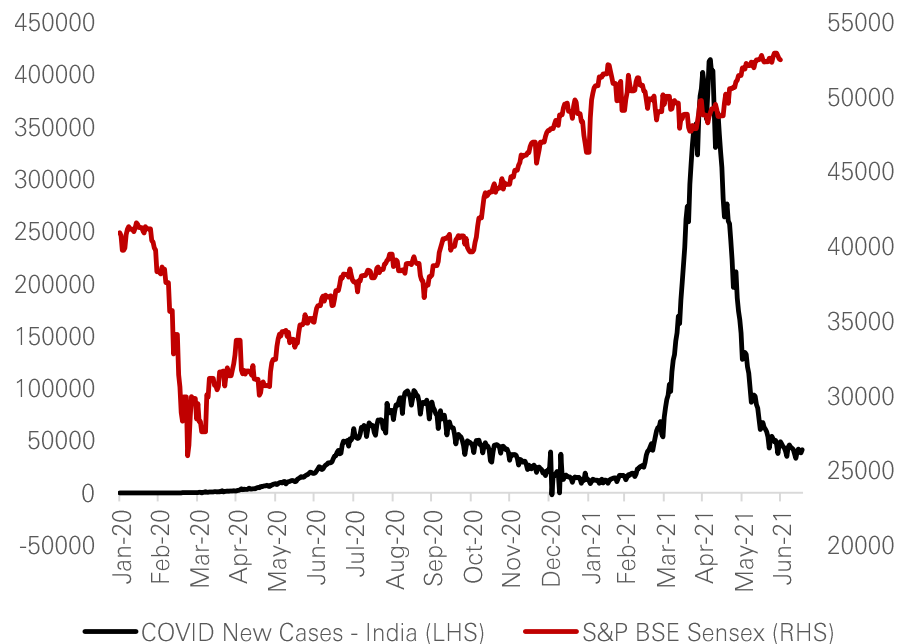
**HSBC**  
Asset Management

**Product Deck**  
25 July 2021

# Why equity now?

Earnings momentum continues to remain strong

## COVID daily new cases & BSE Sensex



## Positives for equity markets

- Declining COVID infections and vaccination drive
- **Earnings momentum** continues to remain strong
- Gradual **Recovery** in mobility & economic indicators
- Impact of **Fiscal** stimulus in FY22 manageable
- Trajectory of **GDP growth** from hereon should pick up
- The **Risk-reward** is balanced for equity markets in the near term.
- From a medium to long term perspective, **Outlook** for equity positive
- Expectation of **Cyclical revival** brings multi-year earnings visibility
- Benign **Cost of capital** environment to support equity performance
- Moving from restoration to “**expansion phase**” of the business cycle

Expectation of Cyclical revival brings multi-year earnings visibility

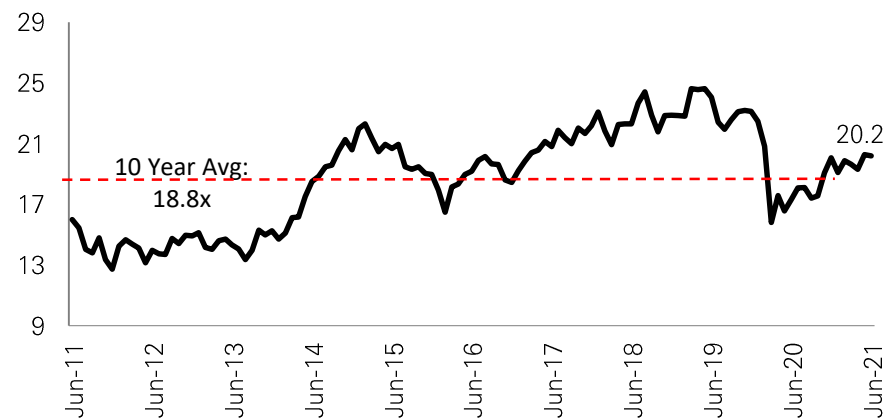
Source: Bloomberg, HSBC Asset Management India, Data as at June 2021

Source - <https://ourworldindata.org>, License: All the material produced by Our World in Data, including interactive visualizations and code, are completely open access under the Creative Commons BY license.

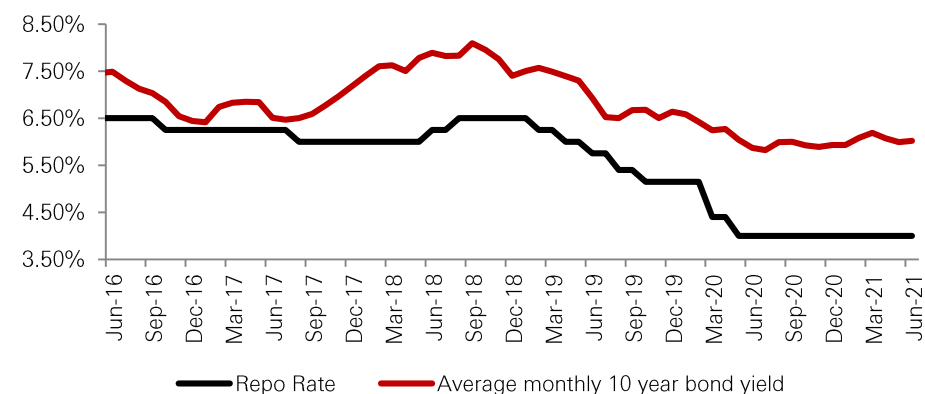
Past performance may or may not sustain in the future and does not guarantee or assure future returns. Any views expressed were held at the time of preparation and are subject to change without notice. While any forecast, projection or target where provided is indicative only and not guaranteed in any way. HSBC Asset Management India accepts no liability for any failure to meet such forecast, projection or target.

# Valuations slightly above long term averages

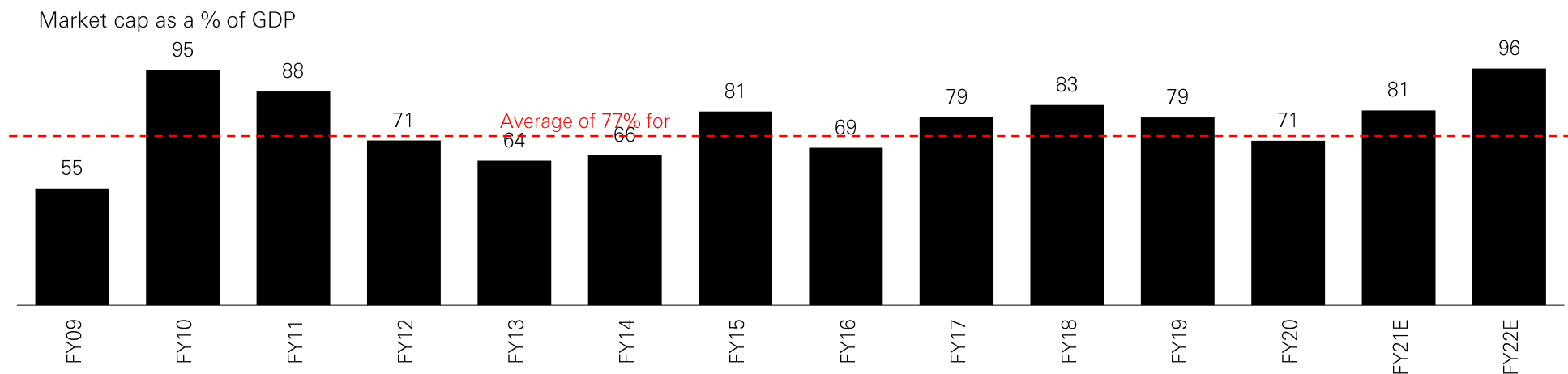
Nifty 50 – 1 year forward Price to Earnings ratio (P/E) (x)



India Repo rate remains unchanged at 4%



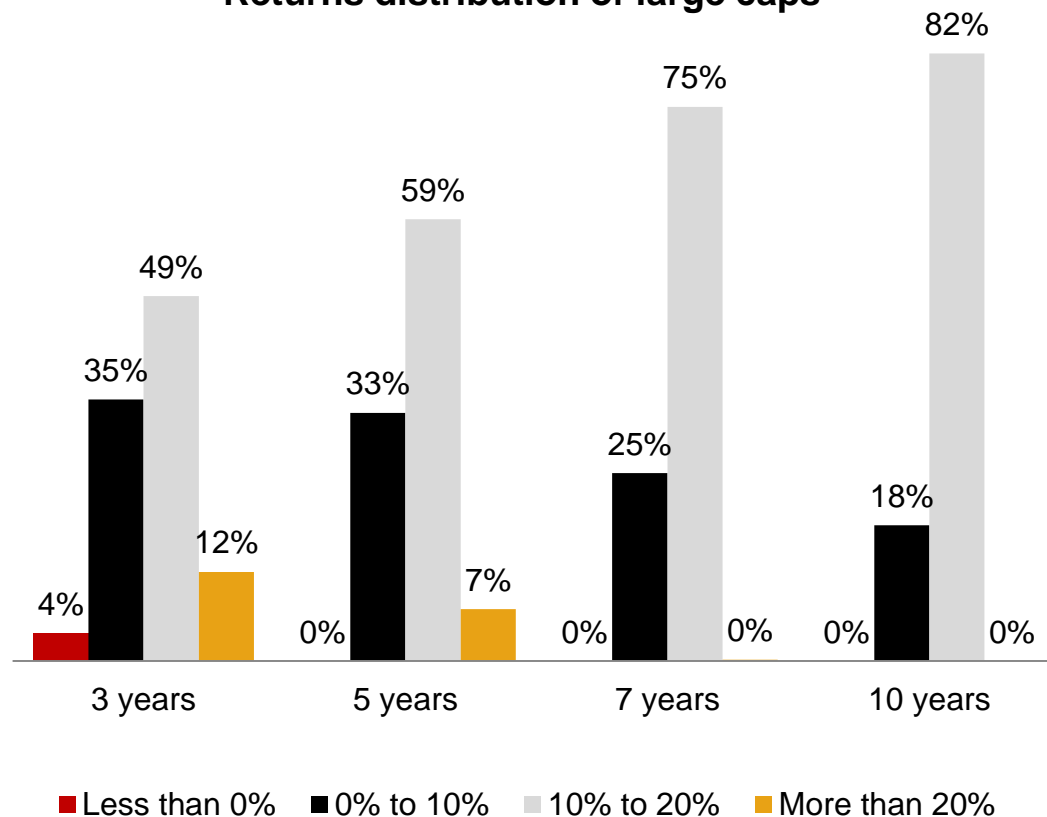
Trend in India's market cap-to-GDP (%)



Low cost of capital scenario makes equities attractive despite valuations

# Why Large Caps? – consistency is the key

Returns distribution of large caps



## Large Cap features



Lower volatility



Stable earnings growth



Well researched



Well-owned



Reasonable valuations

**Large Caps offer lower probability of delivering negative returns within equities**

For illustration purpose only.

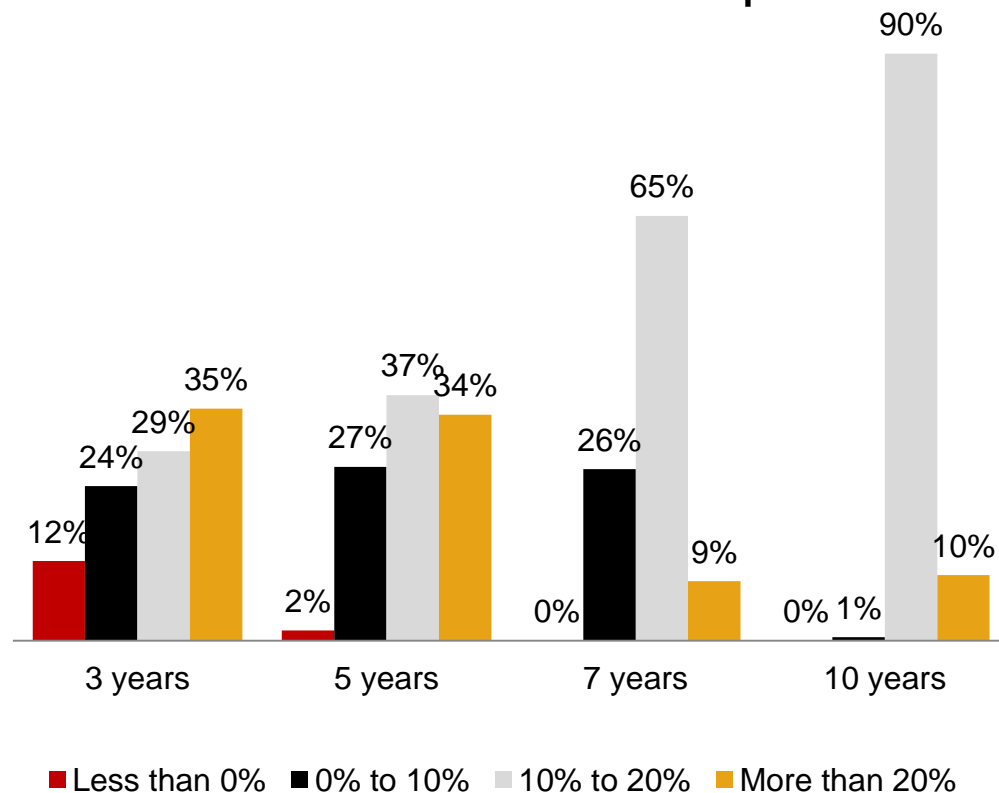
Source: NSE, CRISIL, CY data as at December 2020

Large Cap index is represented by Nifty 100 TRI, Return distribution based on a daily rolling returns of various holding periods. Period considered: CY January 2005 – December 2020

Past performance may or may not sustain and doesn't guarantee the future performance

# Why Mid Caps? – long term growth

Returns distribution of Mid Caps



## Mid Cap features



Above average performance



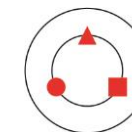
Earnings acceleration



Under-researched



Under- owned



Diversity and alpha

**Mid Caps offer more probability of delivering high growth**

For illustration purpose only.

Source: NSE, CRISIL, CY data as at December 2020

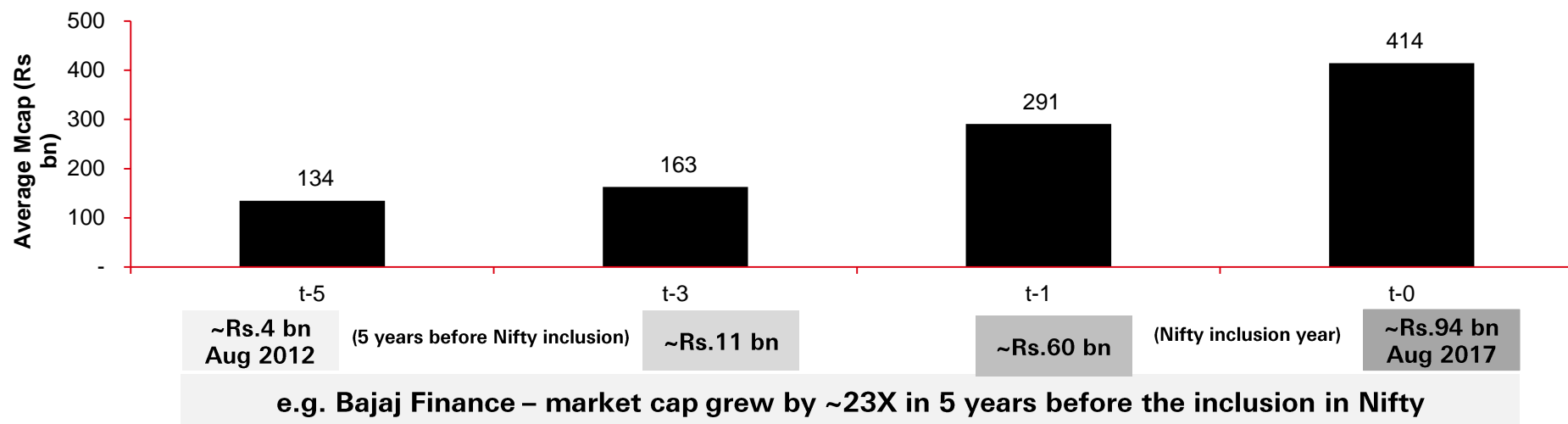
Mid Cap index represented by Nifty Midcap 150 TRI, Return distribution based on a daily rolling returns of various holding periods. Period considered: CY January 2005 – December 2020

Past performance may or may not sustain and doesn't guarantee the future performance

# Mid Caps progress in size before Nifty inclusion

- Current expansion phase has potential to offer significant investment opportunities in Midcaps segment
- Large caps of tomorrow
  - Historically, Nifty's constituents change by 50% every decade
  - Midcaps of today may graduate to become the large caps of tomorrow thereby, replacing the current Nifty constituents
  - Midcaps are an ideal way to gain exposure to some of the rapidly growing industries and business
- In last 10 years midcap stocks that have entered the Nifty, IndusInd, Lupin, UltraTech, Asian Paints, BOB and Eicher Motors
- But 5 years prior to their inclusion, they were midcaps, much smaller in size and much less discussed!

**Average progress of a midcap stocks market cap journey before Nifty50 inclusion (Rs bn)**



**Early exposure to Mid Caps provides access to rapidly growing businesses**

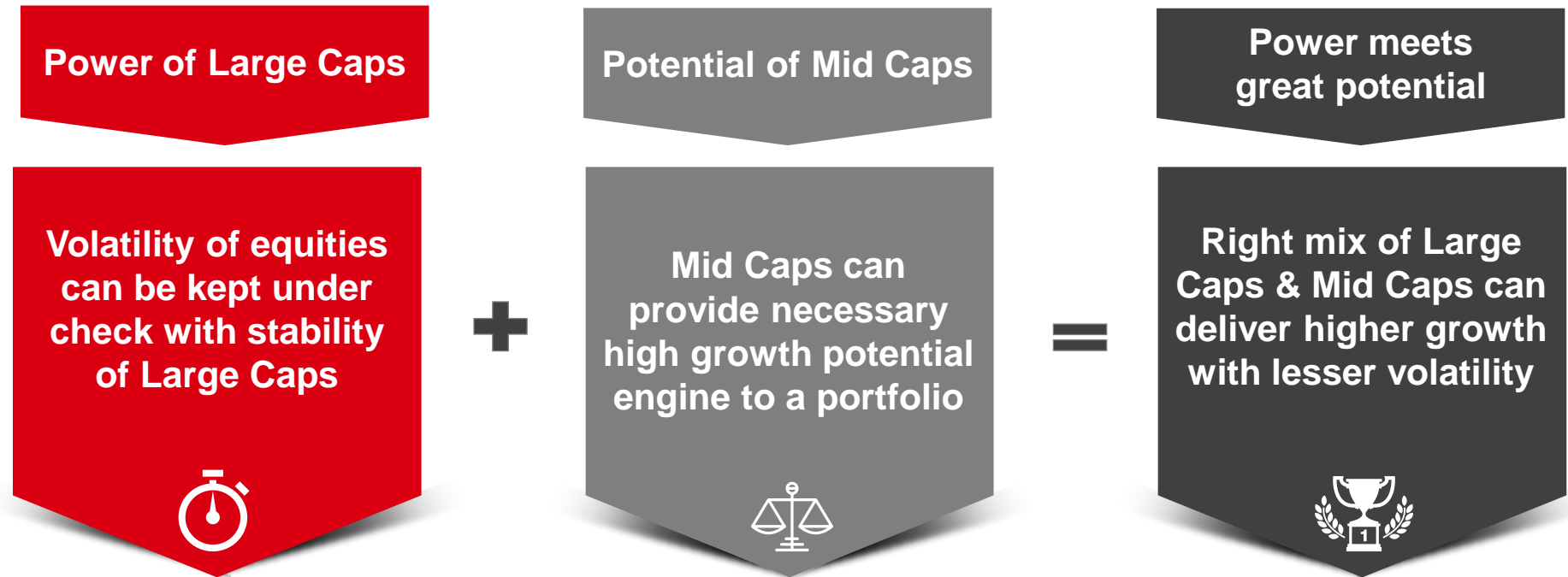
Source: AMBIT Capital, Bloomberg, data as on 30 June 2021

The above chart and names of the stock / companies are provided for illustration purpose only and represents historical data without having any regards to their future performance.

Source - Ambit Capital Research, The study has gathered a list of Mid Cap stocks which have entered Nifty. It has given a market cap journey of Mid Cap stocks for 5 years before the inclusion in Nifty index. t-0 represents the year in which the stock has been included in Nifty. t-1 is 1 year before the inclusion in Nifty. Similarly going down to t-5 indicates the market cap of Mid Cap stock 5 years before the inclusion in Nifty. The study has taken an average market cap of all such stocks for these 5 periods which is shown in the chart below. Past performance may or may not sustain and doesn't guarantee the future performance. Further, it does not constitute investment research, investment advice or a recommendation to any reader of this content to buy or sell investments.

Past performance may or may not sustain and doesn't guarantee the future performance

# When power meets great potential



**Large Caps complement Mid Caps and provide strength to a growth portfolio**



# Why invest in HSBC Large and Mid Cap Equity Fund (HLMEF)?



## **Power of consistency and stability**

- HLMEF offers consistency with an exposure to Large Cap stocks which are known to be stable compounders



## **Potential of high growth**

- HLMEF's allocation to Mid Cap stocks offers potential of above average growth



## **Power meets great potential**

- The fund offers power of consistent Large Caps and potential of growing Mid Caps with an optimal allocation



## **Benefit from discipline**

- Minimum 35% allocation in each (Large Cap and Mid Cap) helps in instilling discipline and gain from it



## **Subject to relatively lower volatility**

- Less volatile Large Caps can restrict funds downside and encourage investors to remain invested for longer timeframe

**Gain from the mix of power of Large Caps and growth potential of Mid Caps with HLMEF**



# Fund philosophy - HLMEF

- We prefer dominant and scalable businesses available at reasonable valuations.
- Profit pool consolidation with dominant players to continue and disruption to accelerate this shift.
- Focus on earnings growth trajectory and within that the emphasis lies on earnings surprises.
- Aim to have large caps where scale will be an advantage (like banks),
- Midcaps will be sector leaders or niche players in their respective business.  
e.g. specialty chemicals, tiles etc.
- In some cases, like real estate (which is a regional market share consolidation play), we have a large and mid-cap mix.

## Key portfolio themes

- Continue to maintain a pro-cyclical bias in the portfolio. This is driven by strong earnings growth outlook.
- Expect earnings growth to rebound sharply from 2QFY22 onwards and is expected to sustain in high-teens beyond FY22 as well.
- Multi-year earnings visibility driven by cyclical recovery on the back of revival in capex over the next 2-3 years (first government followed by private capex).
- Benign cost of capital environment to support equity performance.
- Prefer rate sensitives followed by domestic cyclical, exporters and domestic consumption.
- Predominantly regulated businesses come last in the pecking order.
- Preference dictated by assessment of sectors / segments leading contribution to the market earnings growth over the next 2-3 years.

# Portfolio themes

Portfolio View	Sector						
Preference order	1	2	3	4	5	6	7
Positive	Financials (Private Banks)	Healthcare	Industrials	Materials	Technology	Real Estate	Consumer Discretionary
Underweight	Consumer Staples	Energy	Utilities	Communication Services	-		

## Financials (Lenders)

- Maintain a positive view on large banks / NBFCs (with good parentage)
- As the economy normalizes, the larger lenders will gain market share
- The balance sheet will be in a healthy shape when the capex cycle returns, accelerate market share gains
- Large lenders will emerge stronger post crisis and ROAs will be near or cross previous peaks

## Industrials

- Positive view on the space as we see potential revival in the investment cycle
- Driven by govt's increased focus and outlay towards the Infrastructure sector
- Government's renewed focus would continue for the next few years
- Government capex to be followed by private capex
- Focus will remain on companies with strong balance sheet, execution capabilities and scale advantages

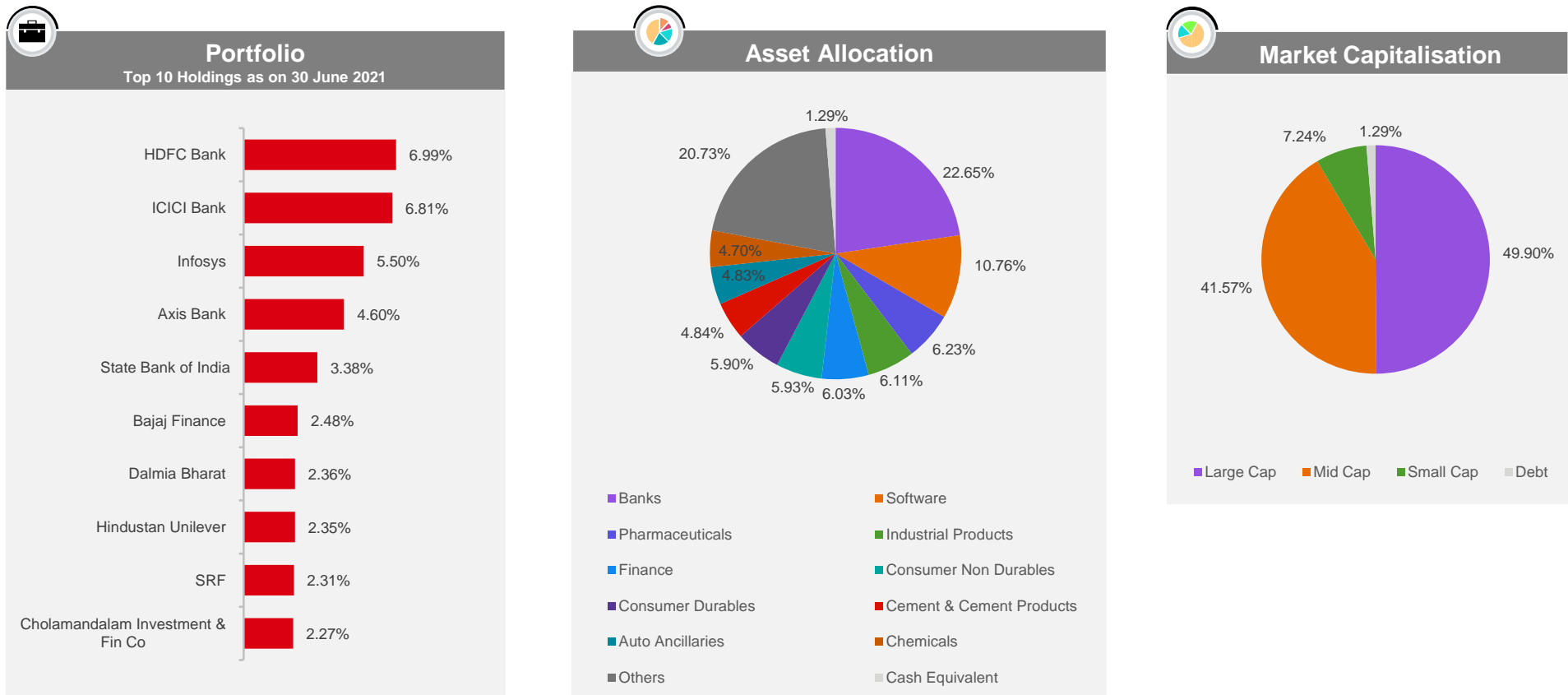
## Consumer Discretionary

- Prefer leaders within different sub-sectors.
- Within Auto we have a preference for CVs.
- Auto OEMs are currently facing margin headwinds due to higher commodity prices
- Impact of the second wave not to alter the medium term outlook for cyclical recovery
- Expect some earnings downgrades to playout in the short term
- Differentiate between permanent earnings dislocation as against short term earnings volatility.
- Continue to be with leaders in consumer durables and beneficiaries of PLI scheme.

## Positive view on the Industrials as we see potential revival in the investment cycle

Data as on 30 June 2021, OEMs – Original Equipment Manufacturer, CV - Commercial Vehicles, PLI - Production-Linked Incentive scheme, NBFCs – Non Banking Financial Companies, ROA – Return on Assets, Capex – Capital expenditure  
Past performance may or may not sustain and doesn't guarantee the future performance

# HLMEF - Portfolio & allocation



# HSBC Large and Mid Cap Equity Fund (HLMEF)



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.

<b>Fund Name</b>	HSBC Large and Mid Cap Equity Fund	<b>Type</b>	Large and Mid Cap - An open ended equity scheme investing in both large cap and mid cap stocks
<b>Benchmark</b>	NIFTY LargeMidcap 250 TRI	<b>Plans / Options / Sub options</b>	Regular, Direct plans/ Growth, Income Distribution cum capital withdrawal (IDCW) option (Payout of IDCW & Reinvestment of IDCW)
<b>Minimum Application Amount</b>	Rs 5,000/- per application	<b>Loads (including SIP / STP wherever applicable)</b>	Entry Load* : Nil
<b>Minimum Application Amount (SIP)</b>	Minimum Investment Amount - Rs. 500 (monthly)		Exit Load:- Any redemption / switch-out within 1 year from the date of allotment: 1%  No Exit Load will be charged, if units are redeemed/switched-out after 1 year from the date of allotment. ^
<b>SIP/STP/SWP</b>	Available	<b>Fund Managers</b>	Neelotpal Sahai and Amaresh Mishra

^The exit loads set forth above is subject to change at the discretion of the AMC and such changes shall be implemented prospectively

\*In terms of SEBI circular no. SEBI/IMD/CIR No.4/ 168230/09 dated June 30, 2009, no entry load will be charged by the Scheme to the investor effective August 1, 2009. No exit load (if any) will be charged for units allotted under bonus / dividend reinvestment option.

Note on Risk-o-meters: Please note that the above risk-o-meter is as per the product labelling of the scheme available as on the date of this communication/ disclosure. As per SEBI circular dated October 05, 2020 on product labelling (as amended from time to time), risk-o-meter will be calculated on a monthly basis based on the risk value of the scheme portfolio based on the methodology specified by SEBI in the above stated circular. The AMC shall disclose the risk-o-meter along with portfolio disclosure for all their schemes on their respective website and on AMFI website within 10 days from the close of each month. Any change in risk-o-meter shall be communicated by way of Notice cum Addendum and by way of an e-mail or SMS to unitholders of that particular scheme.

## HSBC Large & Mid Cap Equity Fund

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.

# Disclaimer

This document has been prepared by HSBC Asset Management (India) Private Limited (HSBC) for information purposes only and should not be construed as i) an offer or recommendation to buy or sell securities, commodities, currencies or other investments referred to herein; or ii) an offer to sell or a solicitation or an offer for purchase of any of the funds of HSBC Mutual Fund; or iii) an investment research or investment advice. It does not have regard to specific investment objectives, financial situation and the particular needs of any specific person who may receive this document. Investors should seek personal and independent advice regarding the appropriateness of investing in any of the funds, securities, other investment or investment strategies that may have been discussed or referred herein and should understand that the views regarding future prospects may or may not be realized. In no event shall HSBC Mutual Fund/HSBC Asset management (India) Private Limited and / or its affiliates or any of their directors, trustees, officers and employees be liable for any direct, indirect, special, incidental or consequential damages arising out of the use of information / opinion herein.

This document is intended only for those who access it from within India and approved for distribution in Indian jurisdiction only. Distribution of this document to anyone (including investors, prospective investors or distributors) who are located outside India or foreign nationals residing in India, is strictly prohibited. Neither this document nor the units of HSBC Mutual Fund have been registered under Securities law/Regulations in any foreign jurisdiction. The distribution of this document in certain jurisdictions may be unlawful or restricted or totally prohibited and accordingly, persons who come into possession of this document are required to inform themselves about, and to observe, any such restrictions. If any person chooses to access this document from a jurisdiction other than India, then such person do so at his/her own risk and HSBC and its group companies will not be liable for any breach of local law or regulation that such person commits as a result of doing so.

© Copyright. HSBC Asset Management (India) Private Limited 2021, ALL RIGHTS RESERVED.

HSBC Asset Management (India) Private Limited, 16, V.N. Road, Fort, Mumbai-400001  
Email: [hsbcmf@camsonline.com](mailto:hsbcmf@camsonline.com) | Website: [www.assetmanagement.hsbc.co.in](http://www.assetmanagement.hsbc.co.in)

**Mutual fund investments are subject to market risks, read all scheme related documents carefully.**