27 August 2020

Fund Overview

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.

Summary

We have followed a disciplined investment approach while selecting stocks in our portfolio across market capitalisations.

The primary thought process in the fund has been to strike the right balance between stability and growth since its inception. The portfolio construction aims at exploiting the relative strengths / weakness of both market cap segments (i.e. Large and Midcaps), especially from a sector allocation perspective. This is done with the discipline of maintaining a minimum of 35% each in large and midcap stocks.

1] HLMEF fund strategy and portfolio construction

As a part of our **disciplined investment strategy**, we look to invest in companies that are (a) **dominant** players (these companies would gain from profit pool consolidation), (b) gaining market share in respective businesses and at the same time having a relatively large market to address or **scalability** of the business, along with (c) **reasonable valuations**. This is the strategy that we adopted in a sector agnostic manner.

In-line with the above outlined strategy, the portfolio comprises of players of scale from the large cap space while in the midcap space, it is the niche players who are dominant in their respective sectors. For example, in staples and telecom sectors, we have exposure to large cap names as operating leverage, scale and distribution are key sustainable advantages required to be able to dominate in the sector. While in the specialty chemicals space, which is a niche sector, certain companies with some core capabilities are gaining as global supply chains undergo diversification. In this space, the midcap companies are at an advantage and our exposure has been only through midcaps.

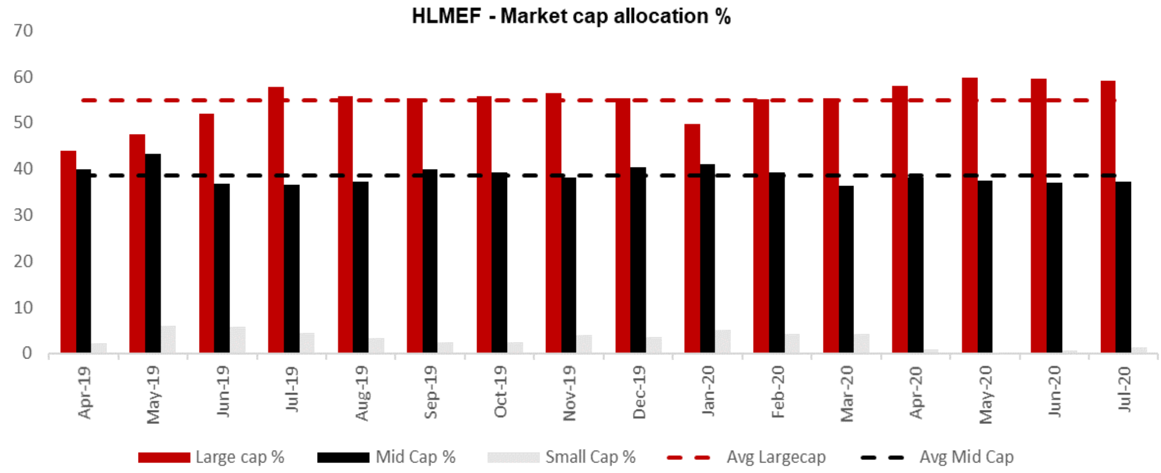
However, in financials sector, we prefer large private banks which shall benefit from their scalability, liability franchise, capital adequacy while at the same time our exposure to mid-sized NBFCs / regional banks are only on the basis of them being niche players and / or having a strong parentage leading to market share gains in their respective domains. Similarly, in pharma although our exposure has been mostly through the large cap drug manufacturers, we also have exposure to midcaps via a diagnostic company, which is a dominant player and would be a beneficiary of growing health consciousness among Indians. Thus, in such cases we have a mix of large and midcaps.

The fund also, has some small cap stocks following the same thought process, by having players which are dominant regionally like in cement and also, having dominant players in the industrial cables and wires, who could benefit from export opportunity arising from global diversification away from China.

HSBC
Global Asset
Management

2] Market cap allocation strategy

The fund will give 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. Hence, a key feature has been to maintain the discipline in terms of capitalisation allocation between large and midcap stocks. The fund has thus, maintained an average large, midcap and small cap allocation of 54.7%, 38.6% and 3.1% respectively (since inception). As of July 2020, the allocation towards large, mid and small cap is 59.2%/37.2%/1.2% respectively.



3] How is the mid cap exposure of the fund distributed?

As highlighted in the fund strategy section, we have followed a **disciplined investment approach** in terms of selecting stocks in our portfolio across market capitalisations.

Across our midcap stock selection of we have kept the themes **dominance in business or sector, scalability of business** and **reasonable valuations**. We expect these companies to gain market share in a scenario of gradual economic recovery and get faster revenue traction as and when growth normalises.

Currently, the fund has exposure to 25 midcap names, these players are across sectors as outlined in the table below. We do not have exposure to mid-caps in staples and telecom sector, which are sectors dominated by large caps as explained earlier.

Exposure to Mid Caps

	# of stocks	% weight
Consumer discretionary	8	10.79
Materials	5	7.79
Financials	3	4.13
Healthcre	3	5.99
Industrials	3	4.65
IT	1	0.99
Utilities	1	1.60
Real estate	1	1.35
Sum	25	37.29

as at July 2020

4] Fund performance and journey since inception to July 2020

The fund during the pre-COVID phase maintained a cyclical tilt by having positive view in financials, consumer discretionary, real estate and industrials which has helped fund as the economy was recovering driven by government announced corporate tax cuts, etc. This was being driven by stock selection within financials, industrials, healthcare and consumer discretionary sectors.

In the "post-COVID" disruption phase (i.e. from April 2020 onwards), we saw disruption and dislocation in the markets and economy.

We felt that the economic landscape was a bit uncertain and that the recovery would be gradual.

So into this phase, we focused on segments which would demonstrate **earnings resilience** and show a **faster rebound in earnings** when economy recovers. Also, from a medium to long term perspective, we saw that the current phase of disruption should also pave way for **accelerated digital adoption** by consumers as well as enterprises. We felt that telecom, internet economy, ecommerce, technology vendors, etc. will benefit from this disruption. Another long term theme was that of diversification of the global supply chain due to 'China + 1' strategy. Also, we thought that private sector as well as government capex will get delayed and we hold negative view on the sectors dependent on capex. Hence, we took a negative view on labour intensive sectors such as construction, travel, hospitality etc.

In line with the above thought process, we reduced the cyclical tilt of the portfolio as highlighted below:

a) We moderated our active bet size in the portfolio, by reducing the extent of overweight/underweight with respect to the benchmark across sectors.
b) We increased our exposure to telecom, healthcare, staples (sectors with earnings resilience), utilities and IT, while reducing exposure in financials, discretionary, industrials, and real estate.

However, we saw a rebound in markets in which the earning resilient sectors underperformed. This is because, during the lockdown phase, the market was initially gyrating to supply shock initially and later to potential demand contraction. During that time the focus of the market was on companies that would be able to **survive** the extended lockdown, which rebounded faster in terms of price performance. In the post lockdown phase, the markets begun to look forward to resumption in supply as well as recovery in demand. At the moment, the focus of the market was on companies which would **revive quickly**. Hence, reducing the cyclical tilt of the portfolio.

Now, we think that as the pandemic wanes and the economy gradually returns to normalcy, the focus of the market would be on companies that would **thrive in terms of demonstrating growth visibility**.

Also, from a portfolio construction perspective (given our outlook), we thought in order to create a portfolio which is "future-ready", and adaptive to the new normal post-COVID; it should have healthy mix of (a) players demonstrating earnings resilience and (b) players which would be a "launch pads" to play the gradual economic recovery by gaining market share. We as of now expect this to be gradual unless there is clarity around vaccine discovery or immunisation or we achieve herd immunity. Inline, with the above thought process the we have a below portfolio sector allocation.

6] Current Portfolio and Sector allocation strategy

If we go with the assumption that the current pandemic weaning away slowly, coupled with an optimistic scenario of no or limited second wave of virus, then in that scenario, normalcy should return by 2HFY21 and thus FY22 would be a normal year. If these assumptions turn out to be right, then FY21 corporate earnings would be similar to FY20 with sectors like Consumer Staples, Telecom, Healthcare, select Financials showing growth while sectors like Industrials, Metals, Real Estate, Technology could show declines. But with recovery process expected in 2HFY21, both the economy as well as the corporate earnings could show robust growth in FY22. In that scenario, the sectors that are expected to show meaningful earnings traction in FY22 would be the likes of Consumer Discretionary, Financials, and Industrials.

In line with above thought process, we have tried to maintain a balance between **earnings resilience** and **recovery**. This would make the portfolio future ready and create a launch pad for the next leg of growth by having companies which can gain market share even in a scenario of tepid economic growth or have potential to gain large revenue traction as economic growth normalises. Thus, our positioning as of July 2020 is as follows:

- **Overweight sectors**: Healthcare, Telecommunication and Consumer Discretionary.
- **Neutral sectors**: Consumer staples, Financials, Technology and Real estate
- **Underweight sectors**: Industrials, Energy, Materials and Utilities sectors

At the same time, we continue to **monitor corporate earnings trajectory and company commentary** in terms of on ground feedback and will continue to monitor for any deviation from our existing thought process or revisiting our current portfolio stance.

HLMEF's top three sectors

Sectors	Comments
Healthcare	We are overweight on account of the expected resilience in earnings and also ability to retain the demand in the current environment compared to other sectors. Recent approval of facilities by the US FDA will improve the prospects of US business of investee companies. We also believe that the focus of buyers in the US will also be to ensure steady supply of generic drugs, whereas in the past, price reduction was the only focus. This should ease pricing pressure for Indian companies as well as give them higher visibility of demand. Domestic business will see a modest growth as chronic segment will be stable but acute segment will show a decline. Stabilization of raw material supplies from China has eased pressure on raw material sourcing. We have increase our exposure to the sector, primarily through companies having US generic business as well as domestic business. Our exposure to hospitals/pathology labs is under anticipation that their demand would recover once lockdown is lifted as their services are largely non-discretionary.
Telecommunication Services	Telecom is one sector that will see very limited impact of the lock-down in the country owing to the essential nature of the service. Looking beyond this crisis period, the telecom sector continues to be a beneficiary of consolidation and tariff improvement. We see profitability of the sector coming back strongly and the post consolidation phase would benefit players who are better positioned on network / spectrum and also with better access and ability to deploy future capital. Our preference is for players with relatively stronger balance sheet and showing better execution on the ground.
Consumer Discretionary	The fund is overweight in sectors which can benefit from pent up demand, especially consumer goods (like durables, kitchen appliances, passenger vehicles etc.). Our exposure is through market leaders which should also benefit from market share gains. We also have exposure to tyre industry in the auto sector, which will also benefit from replacement demand.

Source - HSBC Asset Management India (HSBC AMC), Bloomberg
Data as at July 2020

Fund Manager - Neelotpal Sahai (For Equity) Total Schemes Managed - 5 Fund Manager - Amaresh Mishra (For Equity) Total Schemes Managed - 1					
HSBC Large and Mid Cap Equity Fund[1]					Inception Date : 28-Mar-19
Fund / Benchmark (Value of ₹10,000 invested)	1 Year		Since Inception		
	Amount in ₹	Returns (%)	Amount in ₹	Returns (%)	
HSBC Large and Mid Cap Equity Fund	10,006	0.06	9,431	-4.26	
Scheme Benchmark (NIFTY Large Midcap 250 TRI)	10,194	1.93	9,492	-3.80	
Additional Benchmark (Nifty 50 TRI)	10,068	0.68	9,735	-1.98	

Past performance may or may not be sustained in the future. Refer note below.
The said Fund is managed by Neelotpal Sahai Effective (28 March 2019)
The said Fund is managed by Amaresh Mishra Effective (23 July 2019)

[1] The said Fund has been in existence for more than 1 year but less than 3 years
Performance of the respective benchmark is calculated as per the Total Return Index (TRI)

Returns are of growth option. The returns for the respective periods are provided as on 31 July 2020. Returns above 1 year are Compounded Annualized. Standard benchmark is prescribed by SEBI and is used for comparison purposes. Returns on 10,000 are point-to-point returns for the specific time period, invested at the start of the period. The returns provided above have been rounded off and hence there may be minor differences between point-to-point returns vis-a-vis returns indicated above. Different plans shall have a different expense structure. The performance details provided herein are of other than Direct plan. Scheme count for the total schemes managed by the Fund Managers does not include closed ended scheme.

Performance of other funds managed by the Fund Manager

Funds Managed by Neelotpal Sahai (Total Schemes Managed 5)									
HSBC Large Cap Equity Fund									Inception Date: 10-Dec-02
Fund / Benchmark (Value of ₹10,000 invested)	1 Year		3 Years		5 Years		Since Inception		
	Amount in ₹	Returns (%)	Amount in ₹	Returns (%)	Amount in ₹	Returns (%)	Amount in ₹	Returns (%)	
HSBC Large Cap Equity Fund	10,011	0.11	10,600	1.96	13,456	6.11	207,392	18.74	
Scheme Benchmark (Nifty 50 TRI)	10,068	0.68	11,400	4.46	13,809	6.66	132,820	15.78	
Additional Benchmark (S&P BSE Sensex TRI)	10,147	1.47	11,980	6.20	14,249	7.33	148,855	16.53	

The said Fund is managed by Neelotpal Sahai Effective (27 May 2013)

Funds Managed by Neelotpal Sahai (Total Schemes Managed 5)									
HSBC Multi Cap Equity Fund									Inception Date: 24-Feb-04
Fund / Benchmark (Value of ₹10,000 invested)	1 Year		3 Years		5 Years		Since Inception		
	Amount in ₹	Returns (%)	Amount in ₹	Returns (%)	Amount in ₹	Returns (%)	Amount in ₹	Returns (%)	
HSBC Multi Cap Equity Fund	10,006	0.06	9,400	-2.04	11,954	3.63	79,652	13.45	
Scheme Benchmark (Nifty 500 TRI)	10,098	0.98	10,638	2.08	13,494	6.17	76,926	13.21	
Additional Benchmark (Nifty 50 TRI)	10,068	0.68	11,400	4.46	13,809	6.66	75,376	13.07	

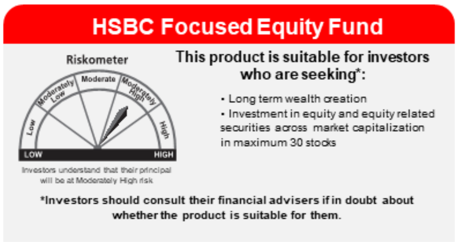
Past performance may or may not be sustained in the future. Refer note below.
The said Fund is managed by Neelotpal Sahai Effective (27 May 2013)

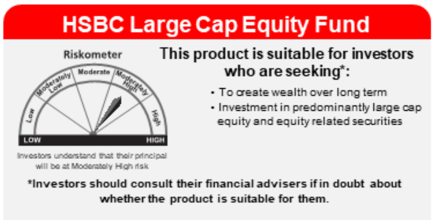
Fund Manager - Neelotpal Sahai (For Equity) Total Schemes Managed - 5 Fund Manager - Ranjithgopal K A (For Equity) Total Schemes Managed - 1 Fund Manager - Kapil Punjabi (For Debt) Total Schemes Managed - 9					
HSBC Equity Hybrid Fund[12]					Inception Date : 22-Oct-18
Fund / Benchmark (Value of ₹10,000 invested)	1 Year		Since Inception		
	Amount in ₹	Returns (%)	Amount in ₹	Returns (%)	
HSBC Equity Hybrid Fund	10,512	5.11	11,103	6.07	
Scheme Benchmark (30% of CRISIL Composite Bond Fund Index and 70% of S&P BSE 200 TRI)	10,387	3.86	11,269	6.96	
Additional Benchmark (Nifty 50 TRI)	10,068	0.68	11,043	5.75	

Past performance may or may not be sustained in the future. Refer note below.
The said Fund is managed by Neelotpal Sahai Effective (22 October 2018)
The said Fund is managed by Ranjithgopal K A Effective (23 July 2019)
The said Fund is managed by Kapil Punjabi Effective (18 February 2019)
Performance of the respective benchmark is calculated as per the Total Return Index (TRI)

[12] The said Fund has been in existence for more than 1 year but less than 3 years
The performance of HSBC Focused Equity Fund which is managed by Neelotpal Sahai is not given as it has not completed 1 year.

Source – Bloomberg, HSBC Asset Management, India, Data as at July 2020 except otherwise mentioned.
Returns are of growth option. The returns for the respective periods are provided as on 31 July 2020. Returns above 1 year are Compounded Annualized. Standard benchmark is prescribed by SEBI and is used for comparison purposes. Returns on 10,000 are point-to-point returns for the specific time period, invested at the start of the period. The returns provided above have been rounded off and hence there may be minor differences between point-to-point returns vis-a-vis returns indicated above. Different plans shall have a different expense structure. The performance details provided herein are of other than Direct plan. Scheme count for the total schemes managed by the Fund Managers does not include closed ended scheme.





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.

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

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